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*This announcement is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities. This announcement does not constitute or form a part of any offer of securities for sale in the United States. The securities referred to herein have not been and will not be registered under the U.S. Securities Act of 1933 (the “Securities Act”) or with any securities regulatory authority of any state of the United States or any other jurisdiction and may not be offered, sold or delivered in the United States (as such term is defined in Regulation S under the Securities Act) except pursuant to an exemption from the registration requirements of the Securities Act. No public offering of the Securities will be made in the United States.*

*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 (the “Listing Rules”) and do not constitute an offer to sell nor a solicitation of an offer to buy 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 Issuer (as defined below) for the purposes of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong nor shall it constitute an advertisement, invitation or document containing an invitation to the public to enter into or offer to enter into an agreement to acquire, dispose of, subscribe for or underwrite securities for the purposes of the Securities and Futures Ordinance (Cap. 571) of Hong Kong.*

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

## **PUBLICATION OF OFFERING CIRCULAR AND PRICING SUPPLEMENTS ON THE STOCK EXCHANGE OF HONG KONG LIMITED**



**交通銀行股份有限公司**

**Bank of Communications Co., Ltd.**

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

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

**交通銀行股份有限公司香港分行**

**Bank of Communications Co., Ltd. Hong Kong Branch**

**(the “Issuer”)**

**Issue of CNY1,420,000,000 3.05 per cent. Notes due 2024 (the “CNY Notes”) and issue of  
U.S.\$200,000,000 4.75 per cent. Notes due 2025 (the “USD Notes”, together with the CNY  
Notes, the “Notes”)**

**(Stock Code: 84416 for CNY Notes and 5628 for USD Notes)**

**under its**  
**U.S.\$12,000,000,000 Medium Term Note Programme (the “Programme”)**

This announcement is issued pursuant to Rule 37.39A of the Listing Rules.

Reference is made to the notices of listing of the Notes on the Hong Kong Stock Exchange dated 30 November 2022 published by the Issuer.

The offering circular dated 7 March 2022 in relation to the Programme, the supplemental offering circular dated 22 November 2022 and the pricing supplements dated 22 November 2022 in relation to the Notes are appended to this announcement.

**Hong Kong, 1 December 2022**

*As of the date of this announcement, the directors of the Bank are Mr. Ren Deqi, Mr. Liu Jun, Mr. Li Longcheng\*, Mr. Wang Linping\*, Mr. Chang Baosheng\*, Mr. Liao, Yi Chien David\*, Mr. Chan Siu Chung\*, Mr. Mu Guoxin\*, Mr. Chen Junkui\*, Mr. Luo Xiaopeng\*, Mr. Woo Chin Wan, Raymond<sup>#</sup>, Mr. Cai Haoyi<sup>#</sup>, Mr. Shi Lei<sup>#</sup>, Mr. Zhang Xiangdong<sup>#</sup>, Ms. Li Xiaohui<sup>#</sup> and Mr. Ma Jun<sup>#</sup>.*

*\* Non-executive directors*

*<sup>#</sup> Independent non-executive directors*

**Appendix 1**  
**Offering Circular dated 7 March 2022**

## IMPORTANT NOTICE

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

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

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “**SECURITIES ACT**”), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES, EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

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

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

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

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

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

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



## Bank of Communications Co., Ltd. Hong Kong Branch

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

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

### Medium Term Note Programme

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

The Notes may be issued on a continuing basis to one or more of the Dealers appointed under the Programme from time to time by the relevant Issuer (each a “**Dealer**” and together the “**Dealers**”), which appointment may be for a specific issue or on an ongoing basis. References in this Offering Circular to the “relevant Dealer” shall, in the case of an issue of Notes being (or intended to be) subscribed for by more than one Dealer, be to all Dealers agreeing to subscribe for such Notes.

**Investing in the Notes involves certain risks. See “Risk Factors” beginning on page 19.**

Application has been made to The Stock Exchange of Hong Kong Limited (“**HKSE**”) for the listing of the Programme by way of debt issues to Professional Investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange) (the “**Professional Investors**”) only. This document is for distribution to Professional Investors only.

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

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

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

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

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

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

#### Arranger and Dealer for the Programme

Bank of Communications Co., Ltd. Hong Kong Branch

Offering Circular dated 7 March 2022

## IMPORTANT NOTICE

**IMPORTANT - EEA RETAIL INVESTORS** – If the Pricing Supplement in respect of any Notes includes a legend entitled “Prohibition of Sales to EEA Retail Investors”, the Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“**EEA**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “**MiFID II**”); (ii) a customer within the meaning of Directive (EU) 2016/97 (the “**Insurance Distribution Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (the “**Prospectus Regulation**”). Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the “**PRIIPs Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

**IMPORTANT - UK RETAIL INVESTORS** – If the Pricing Supplement in respect of any Notes includes a legend entitled “Prohibition of Sales to UK Retail Investors”, the Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom (“**UK**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the “**EUWA**”); (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (the “**FSMA**”) and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; or (iii) not a qualified investor as defined in Article 2 of the Prospectus Regulation as it forms part of domestic law by virtue of the EUWA (the “**UK Prospectus Regulation**”). Consequently no key information document required by the PRIIPs Regulation as it forms part of domestic law by virtue of the EUWA (the “**UK PRIIPs Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

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

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

**UK MiFIR product governance / target market** – The Pricing Supplement in respect of any Notes may include a legend entitled “UK MiFIR Product Governance” which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a “**distributor**”) should take into consideration the target market

assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the “**UK MiFIR Product Governance Rules**”) is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

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

**Singapore SFA Product Classification:** In connection with Section 309B of the Securities and Futures Act 2001 (2020 Revised Edition) of Singapore, as modified or amended from time to time (the “**SFA**”) and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the “**CMP Regulations 2018**”), unless otherwise specified before an offer of Notes, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309(A)(1) of the SFA), that the Notes are ‘prescribed capital markets products’ (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

This Offering Circular includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) for the purposes of giving information with regard to the relevant Issuer and the Bank. The relevant Issuer accepts full responsibility for the accuracy of the information contained in this Offering Circular and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading. This Offering Circular is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see “*Documents Incorporated by Reference*”). This Offering Circular shall be read and construed on the basis that such documents are incorporated and form part of this Offering Circular.

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

- “the Bank” and “the Group” refer to Bank of Communications Co., Ltd. and, in the case of “the Bank” except as the context otherwise requires, the subsidiaries of Bank of Communications Co., Ltd.;
- the “branch outlets” include the head office, branches and outlets and other establishments of the Bank;
- a “business day” is a day that is not Saturday, Sunday or a public holiday in Hong Kong; and the terms “associate”, “subsidiary” and “substantial shareholder” shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.

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

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

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

### **Presentation of financial information**

Certain financial information in this Offering Circular has been derived from the audited consolidated financial statements of the Bank as at and for the year ended 31 December 2019 (the **"2019 Historical Financial Statements"**), which were published on 21 April 2020, on the website of the Hong Kong Stock Exchange, and the audited consolidated financial statements of the Bank as at and for the year ended 31 December 2020 (the **"2020 Historical Financial Statements"**), which were published on 22 April 2021, on the website of the Hong Kong Stock Exchange. The 2019 Historical Financial Statements and the 2020 Historical Financial Statements are incorporated by reference in the Offering Circular. The 2019 Historical Financial Statements and the 2020 Historical Financial Statements were prepared and presented in accordance with the International Financial Reporting Standards (the "IFRS") and have been audited by PricewaterhouseCoopers, Certificated Public Accountant, Hong Kong, in accordance with International Standards on Auditing (**"ISA"**).

Certain financial information in this Offering Circular has been derived from the unaudited condensed consolidated interim financial statements as at and for the six months ended 30 June 2021 (the **"2021 Interim Financial Information"**) of the Group, which were published on 10 September 2021, respectively, on the website of the Hong Kong Stock Exchange. Furthermore, certain financial information in this Offering Circular has been derived from the unaudited condensed consolidated third quarter financial statements as at and for the nine months ended 30 September 2021 (the **"2021 Third Quarter Financial Information"**) of the Group, which were published on 29 October 2021, respectively, on the website of the Hong Kong Stock Exchange. The 2021 Interim Financial Information and the 2021 Third Quarter Financial Information are incorporated by reference in the Offering Circular. The 2021 Interim Financial Information and the 2021 Third Quarter Financial Information have not been audited by PricewaterhouseCoopers. The 2021 Interim Financial Information has been reviewed by PricewaterhouseCoopers in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". Consequently, the 2021 Interim Financial Information and the 2021 Third Quarter Financial Information should not be relied upon by you to provide the same quality of information associated with information that has been subject to an audit, as appropriate. Investors must exercise caution when using such data to evaluate the Bank's financial condition and results of operations. The 2021 Interim Financial Information and the 2021 Third Quarter Financial Information should not be taken as an indication of the expected financial condition and results of operations of the Bank as at and for the full financial year ended 31 December 2021.

The 2019 Historical Financial Statements, the 2020 Historical Financial Statements, the 2021 Interim Financial Information and the 2021 Third Quarter Financial Information have been published on the Hong Kong Stock Exchange. Unless otherwise stated, all financial data contained herein which is stated as relating to the Bank are referring to the consolidated data of the Group.

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

Solely for the sake of convenience, this Offering Circular contains translations of certain Renminbi amounts into US dollar amounts. Unless indicated otherwise, the translation of Renminbi amounts into US dollar amounts has been made at the rate of RMB6.4566 to U.S.\$1.00, the noon buying rate as set forth in the H.10

statistical release of the Federal Reserve Bank of New York on 30 June 2021. These translations should not be construed as representations that the Renminbi amounts could actually be converted into any US dollar amounts at the rates indicated or at all.

### **Documents Incorporated by Reference**

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

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

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

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

### **Supplemental Offering Circular**

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

### **Forward-looking statements**

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

statements other than statements of historical facts included in this Offering Circular, including, but without limitation, those regarding the financial position, business strategy, prospects, capital expenditure and investment plans of the Group and the plans and objectives of the Group's management for its future operations (including development plans and objectives relating to the Group's operations), are forward-looking statements.

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

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## DEFINITIONS AND CONVENTIONS

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

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| <b>Accountholder</b>                      | each person who is for the time being shown in the records of the CMU operator as the holder of a particular principal amount of the Notes.  |
| <b>Additional Tier 1 Capital</b>          | has the meaning given to Additional Tier 1 Capital (其他一級資本) (or any equivalent or successor term) in the Capital Management Rules.   |
| <b>Bank and the Group</b>                 | Bank of Communications Co., Ltd. and its subsidiaries.   |
| <b>Bank of Communications (Hong Kong)</b> | Bank of Communications (Hong Kong) Limited.  |
| <b>Basel Committee</b>                    | the Basel Committee on Banking Supervision.  |
| <b>Basel II</b>                           | the revised Basel Capital Framework promulgated in June 2004.  |
| <b>Basel III</b>                          | the newest Basel Capital Accord promulgated in December 2010 and 13 January 2011.  |
| <b>Board</b>                              | the board of directors.  |
| <b>BoCom Insurance</b>                    | China BOCOM Insurance Co., Ltd.  |
| <b>BoCom International Holdings</b>       | BOCOM International Holdings Company Limited.  |
| <b>BoCom International Trust</b>          | Bank of Communications International Trust Co., Ltd.   |
| <b>BoCom Investment</b>                   | Bank of Communications Financial Asset Investment Co., Ltd.  |
| <b>BoCom Leasing</b>                      | Bank of Communications Financial Leasing Co., Ltd.   |
| <b>BoCom Fund</b>                         | Bank of Communications Schroder Fund Management Co., Ltd.  |
| <b>BoCommLife Insurance</b>               | BoCommLife Insurance Company, Ltd.   |
| <b>BOCOM Wealth Management</b>            | BOCOM Wealth Management Co., Ltd.  |
| <b>Capital Adequacy Measures</b>          | the Administrative Measures on the Capital Adequacy Ratio of Commercial Banks (商業銀行資本充足率管理辦法), which was promulgated by the CBRC on 23 February 2004, became effective on 1 March 2004 and was repealed on 1 January 2013. |
| <b>Capital Adequacy Ratio</b>             | has the meaning given to it in the Capital Management Rules.   |
| <b>Capital Management Rules</b>           | the Measures on Capital Management of Commercial Banks (Trial) (商業銀行資本管理辦法(試行)) issued by the CBRC on 7 June 2012, which became effective on 1 January 2013 (as amended from time to time).                                |
| <b>CBIRC</b>                              | China Banking and Insurance Regulatory Commission. (中國銀行保險監督管理委員會).  |
| <b>CBRC</b>                               | China Banking Regulatory Commission (中國銀行業監督管理委員會).  |

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| <b>China or PRC</b>                       | the People's Republic of China, but for the purpose of this Offering Circular only and except where the context requires, references in this Offering Circular to "China" and the "PRC" do not include Hong Kong, Macau and Taiwan.  |
| <b>Clearstream</b>                        | Clearstream Banking S.A.   |
| <b>CMU</b>                                | Central Moneymarkets Unit Service.   |
| <b>CNH HIBOR</b>                          | Offshore Renminbi Hong Kong Interbank Offered Rate, a daily reference rate published by the Hong Kong Association of Banks.  |
| <b>Core Tier 1 Capital</b>                | has the meaning given to Core Tier 1 Capital (核心一級資本) (or any equivalent or successor term) in the Capital Management Rules.   |
| <b>Core Tier 1 Capital Adequacy Ratio</b> | as at any date has the meaning given to Core Tier 1 Capital Adequacy Ratio (核心一級資本充足率) (or any equivalent or successor term) in the Capital Management Rules, being the ratio of Core Tier 1 Capital of the Bank as of such date to the Risk Weighted Assets of the Bank as of the same date, expressed as a percentage. |
| <b>CPPCC</b>                              | the Chinese People's Political Consultative Conference.  |
| <b>CSRC</b>                               | China Securities Regulatory Commission (中國證券監督管理委員會).  |
| <b>Dayi Bocom Xingmin Rural Bank</b>      | Dayi Bocom Xingmin Rural Bank Co., Ltd.  |
| <b>EURIBOR</b>                            | Euro Interbank Offered Rate, a daily reference rate published by Thomson Reuters.  |
| <b>Euroclear</b>                          | Euroclear Bank SA/NV.  |
| <b>FDI</b>                                | Foreign Direct Investment.   |
| <b>Fitch</b>                              | Fitch Ratings Ltd.   |
| <b>FSMA</b>                               | the Financial Services and Market Act 2000 of the United Kingdom.  |
| <b>GDP</b>                                | gross domestic product.  |
| <b>HIBOR</b>                              | Hong Kong Interbank Offered Rate, a daily reference rate published by the Hong Kong Association of Banks.  |
| <b>Hong Kong or HK</b>                    | the Hong Kong Special Administrative Region of the People's Republic of China.   |
| <b>HKMA</b>                               | Hong Kong Monetary Authority.  |
| <b>HKSE or Hong Kong Stock Exchange</b>   | The Stock Exchange of Hong Kong Limited.   |
| <b>LIBOR</b>                              | London Interbank Offered Rate, a daily reference rate published by Thomson Reuters.  |



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| <b>Listing Rules</b>                         | the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time).   |
| <b>Macau</b>                                 | the Macau Special Administrative Region of the PRC.  |
| <b>MOF</b>                                   | Ministry of Finance of the PRC (中華人民共和國財政部).   |
| <b>MOFCOM</b>                                | Ministry of Commerce of the PRC (中華人民共和國商務部).  |
| <b>Moody's</b>                               | Moody's Investors Service Limited.   |
| <b>NDRC</b>                                  | National Development and Reform Commission (中華人民共和國國家發展和改革委員會).  |
| <b>Notes</b>                                 | Notes issued under the U.S.\$12,000,000,000 Medium Note Programme.   |
| <b>Offering Circular</b>                     | this offering circular.  |
| <b>PBOC</b>                                  | People's Bank of China (中國人民銀行).   |
| <b>PRC</b>                                   | the People's Republic of China, excluding, for purposes of this Offering Circular, Hong Kong, the Macau Special Administrative Region of the People's Republic of China, and the region of Taiwan. |
| <b>PricewaterhouseCoopers</b>                | PricewaterhouseCoopers, Certified Public Accountants, Hong Kong and Registered Public Interest Entity Auditor.   |
| <b>QFII(s)</b>                               | qualified foreign institutional investor(s) licensed by the CSRC to invest in Renminbi-denominated shares listed on China's domestic securities exchanges.   |
| <b>Qingdao Laoshan Bocom Rural Bank</b>      | Qingdao Laoshan Bocom Rural Bank Co., Ltd.   |
| <b>Regulation S</b>                          | Regulation S under the U.S. Securities Act.  |
| <b>S&amp;P</b>                               | S&P Global Ratings.  |
| <b>SAFE</b>                                  | State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局).  |
| <b>Schroder BoCom Wealth</b>                 | Schroder BoCom Wealth Management Co., Ltd.   |
| <b>SFO</b>                                   | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (as amended from time to time).  |
| <b>State Council</b>                         | the PRC State Council (中華人民共和國國務院).  |
| <b>United States or U.S.</b>                 | the United States of America, its territories, its possessions and all areas subject to its jurisdiction.  |
| <b>U.S. Securities Act or Securities Act</b> | the U.S. Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.   |
| <b>WTO</b>                                   | World Trade Organisation.  |
| <b>Xinjiang Shihezi Bocom Rural Bank</b>     | Xinjiang Shihezi Bocom Rural Bank Co., Ltd.  |
| <b>Zhejiang Anji Bocom Rural Bank</b>        | Zhejiang Anji Bocom Rural Bank Co., Ltd.   |

## SUMMARY OF THE PROGRAMME

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

### **The Issuer**

Bank of Communications Co., Ltd. Hong Kong Branch and, in relation to any issue of Notes under the Programme, Bank of Communications Co., Ltd. Hong Kong Branch or any other branch of the Bank located outside the PRC that (i) accedes to the Programme in accordance with the relevant terms of the Dealer Agreement and (ii) is specified as an issuer in the applicable Pricing Supplement.

### **Description**

Euro Medium Term Note Programme.

### **Size**

Up to U.S.\$12,000,000,000 (or the equivalent in other currencies at the date of issue) aggregate nominal amount of Notes outstanding at any one time. Bank of Communications Co., Ltd. Hong Kong Branch may increase the amount of the Programme in accordance with the terms of the Dealer Agreement. The Dealer Agreement provides for the U.S.\$ equivalent of any Note denominated in another currency to be determined on or around the date agreement is reached to issue those Notes or, if the agreement date is not a date that commercial banks and foreign exchange markets are open for general business in London, on the preceding day on which commercial banks and foreign exchange markets are open for general business in London.

### **Risk Factors**

There are certain factors that may affect the relevant Issuer’s ability to fulfill its obligations under Notes issued under the Programme. These are set out under “*Risk Factors*” below. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme. These are set out under “*Risk Factors*” and include the fact that the Notes may not be a suitable investment for all investors, certain risks relating to the structure of particular Series of Notes and certain market risks.

### **Arranger and Dealer**

Bank of Communications Co., Ltd. Hong Kong Branch. Bank of Communications Co., Ltd. Hong Kong Branch may from time to time terminate the appointment of any dealer under the Programme and the Issuer may from time to time appoint additional dealers either in respect of one or more Tranches or in respect of the whole Programme. References in this Offering Circular to “Permanent Dealers” are to the persons listed above as Dealers and to such additional persons that are appointed as dealers in respect of the whole Programme (and whose appointment has not been terminated) and to “Dealers” are to

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

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

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|  | denomination of £100,000 (or its equivalent in other currencies).  |
| <b>Fixed Rate Notes</b>                    | Fixed interest will be payable in arrear on the date or dates in each year specified in the relevant Pricing Supplement.   |
| <b>Floating Rate Notes</b>                 | <p>Floating Rate Notes will bear interest determined separately for each Series as follows:</p> <ul style="list-style-type: none"> <li>(i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., as amended, supplemented or replaced; or</li> <li>(ii) by reference to LIBOR or EURIBOR or HIBOR or CNH HIBOR (or such other benchmark as may be specified in the relevant Pricing Supplement) as adjusted for any applicable margin.</li> </ul> <p>Interest periods will be specified in the relevant Pricing Supplement.</p> |
| <b>Zero Coupon Notes</b>                   | Zero Coupon Notes may be issued at their nominal amount or at a discount to it and will not bear interest.   |
| <b>Dual Currency Notes</b>                 | Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange as may be specified in the relevant Pricing Supplement.   |
| <b>Index Linked Notes</b>                  | Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula as may be specified in the relevant Pricing Supplement.  |
| <b>Interest Periods and Interest Rates</b> | The length of the interest periods for the Notes and the applicable interest rate or its method of calculation may differ from time to time or be constant for any Series. Notes may have a maximum interest rate, a minimum interest rate, or both. The use of interest accrual periods permits the Notes to bear interest at different rates in the same interest period. All such information will be set out in the relevant Pricing Supplement.   |
| <b>Redemption and Redemption Amounts</b>   | The relevant Pricing Supplement will specify the basis for calculating the redemption amounts payable. Unless permitted by then current laws and regulations, Notes (including Notes denominated in sterling) which must be redeemed before the first anniversary of their date of issue and in respect of which the issue proceeds are to be accepted by the relevant Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the Financial Services and   |

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| <b>Redemption by Instalments</b> | <p>Markets Act 2000 must have a minimum redemption amount of £100,000 (or its equivalent in other currencies).</p> <p>The Pricing Supplement issued in respect of each issue of Notes that are redeemable in two or more instalments will set out the dates on which, and the amounts in which, such Notes may be redeemed.</p>   |
| <b>Other Notes</b>               | <p>Terms applicable to high interest Notes, low interest Notes, step-up Notes, step-down Notes, reverse dual currency Notes, optional dual currency Notes, partly paid Notes and any other type of Note that the relevant Issuer and any Dealer or Dealers may agree to issue under the Programme will be set out in the relevant Pricing Supplement.</p>   |
| <b>Optional Redemption</b>       | <p>The Pricing Supplement issued in respect of each issue of Notes will state whether such Notes may be redeemed prior to their stated maturity at the option of the relevant Issuer (either in whole or in part) and/or the holders, and if so the terms applicable to such redemption.</p>  |
| <b>Status of the Notes</b>       | <p>The Notes issued by the relevant Issuer will constitute direct, unconditional, unsubordinated and unsecured obligations of the relevant Issuer and will rank <i>pari passu</i> without any preference among themselves and <i>pari passu</i> with all other present and future unsecured and unsubordinated obligations of the relevant Issuer other than any such obligations as are preferred by law, all as further described in Condition 4.</p> |
| <b>Events of Default</b>         | <p>See “<i>Terms and Conditions of the Notes — Events of Default</i>”.</p>  |
| <b>Cross Default</b>             | <p>See the relevant sub-condition under “<i>Terms and Conditions of the Notes — Events of Default</i>”.</p>   |
| <b>Ratings</b>                   | <p>The Programme is rated “A2” by Moody’s and “A” by Fitch. Tranches of Notes will be rated or unrated. Where a Tranche of Notes is to be rated, such rating will be specified in the relevant Pricing Supplement.</p> <p>A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.</p>  |
| <b>Early Redemption</b>          | <p>Except as provided in “Optional Redemption” above, Notes will be redeemable at the option of the Issuer prior to maturity only for tax reasons. See “<i>Terms and Conditions of the Notes — Redemption, Purchase and Options</i>”.</p>   |
| <b>Withholding Tax</b>           | <p>All payments of principal and interest in respect of the Notes will be made free and clear of withholding taxes of the relevant jurisdiction of Hong Kong, the PRC, or any other jurisdiction to which the Issuer becomes subject to tax in respect of payments made by it of principal and interest on the Notes, subject to customary exceptions, all as described in “<i>Terms and Conditions of the Notes — Taxation</i>”.</p>                   |

**Governing Law**

English law.

**Listing**

Application has been made to the Hong Kong Stock Exchange for the listing of the Programme, under which Notes may be issued, during the 12-month period after the date of this Offering Circular on the Hong Kong Stock Exchange by way of debt issues to Professional Investors only.

Separate application will be made for the listing of the Notes on the Hong Kong Stock Exchange.

Unlisted Notes may also be issued.

The applicable Pricing Supplement will state whether or not the relevant Notes are to be listed and, if so, on which stock exchange(s).

Notes listed on the HKSE will be traded on the HKSE in a board lot size of at least HK\$500,000 (or its equivalent in other currencies).

**Selling Restrictions**

For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of offering material in the United States, the European Economic Area, the United Kingdom, Hong Kong, Singapore, the PRC, Taiwan and Japan, see “*Subscription and Sale*” below.

**Legal Entity Identifier of the Bank**

549300AX1UM10U30HK09.

## SUMMARY FINANCIAL INFORMATION

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

The summary consolidated financial information as at and for the years ended 31 December 2018, 2019 and 2020 set forth below is derived from the Bank's published audited consolidated financial statements as at and for the years ended 31 December 2019 and 2020, which are prepared and presented in accordance with IFRS. The summary consolidated financial information as at and for the six months ended 30 June 2020 and 2021 and the summary consolidated financial information as at and for the nine months ended 30 September 2020 and 2021 set forth below are derived from the Bank's unaudited condensed consolidated interim financial statements as at and for the six months ended 30 June 2021 and the Bank's unaudited consolidated third quarter financial statements as at and for the nine months ended 30 September 2021 respectively, which are prepared and presented in accordance with IFRS. The Bank's unaudited consolidated interim financial statements as at and for the six months ended 30 June 2021 has been reviewed by PricewaterhouseCoopers in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". The Bank's unaudited condensed consolidated interim financial statements as at and for the six months ended 30 June 2021 and the Bank's unaudited condensed consolidated third quarter financial statements as at and for the nine months ended 30 September 2021 have not been audited by PricewaterhouseCoopers. Investors must exercise caution when using such data to evaluate the Bank's financial condition and results of operations. Such summary consolidated financial information should be read in conjunction with such published audited consolidated financial statements, the unaudited consolidated interim financial statements and the unaudited consolidated third quarter financial statements and the notes thereto. The Bank's published audited consolidated financial statements as at and for the years ended 31 December 2019 and 2020 have been audited by PricewaterhouseCoopers in accordance with IAS.

With effect from 1 January 2019, the Bank adopted IFRS 16 Leases ("IFRS 16") under which the Bank was required to adjust certain amounts recognised in the Bank's audited consolidated financial statements. Please refer to Note 2.1.2 of the Bank's consolidated financial statements for the year ended 31 December 2019 for the effects of the adoption of IFRS 16. The Bank adopted IFRS 16 from 1 January 2019 without restating the comparative figures of the prior period before 1 January 2019 as permitted under the specific transitional provisions in IFRS 16. The Bank's consolidated financial statements as of and for the year ended 31 December 2018 may not be directly comparable against the audited consolidated financial statements on or after 1 January 2019. Investors must therefore exercise caution when making comparisons of any financial figures on or after 1 January 2019 against the consolidated financial figures prior to 1 January 2019 and when evaluating the Bank's financial position and results of operations. The 2021 Interim Financial Information and the 2021 Third Quarter Financial Information should not be taken as an indication of the expected financial condition and results of operations of the Bank as at and for the full financial year ended 31 December 2021.



**Consolidated Statement of Comprehensive Income for the Years Ended 31 December 2018, 2019 and 2020**

*The consolidated statements of comprehensive income of the Group for the years ended 31 December 2018, 2019 and 2020 as set forth below is extracted from the 2019 and 2020 Audited Financial Statements prepared in accordance with IFRS and have been audited by PricewaterhouseCoopers in accordance with IAS.*

|  | Year ended 31 December                   |           |           |
|--|--|-----------|-----------|
|  | 2018                                     | 2019      | 2020      |
|  | (RMB in million unless otherwise stated) |           |           |
|  | (audited)                                |           |           |
| Interest income.....   | 348,864                                  | 367,453   | 369,101   |
| Interest expense .....   | (217,956)                                | (223,370) | (215,765) |
| Net interest income .....  | 130,908                                  | 144,083   | 153,336   |
| Fee and commission income.....   | 44,673                                   | 47,669    | 49,298    |
| Fee and commission expense.....  | (3,436)                                  | (4,044)   | (4,212)   |
| Net fee and commission income.....   | 41,237                                   | 43,625    | 45,086    |
| Net gains arising from trading activities.....   | 17,099                                   | 15,936    | 13,844    |
| Net gains arising from financial investments.....  | 290                                      | 313       | 1,177     |
| Including: Net gains/(losses) on derecognition of financial assets measured at amortised cost..... | (132)                                    | (281)     | 27        |
| Insurance business income.....   | 7,481                                    | 11,687    | 15,170    |
| Other operating income .....   | 15,813                                   | 16,799    | 17,889    |
| Net operating income.....  | 213,055                                  | 232,857   | 246,724   |
| Credit impairment losses .....   | (43,454)                                 | (51,954)  | (62,059)  |
| Other assets impairment losses .....   | (60)                                     | (270)     | (484)     |
| Insurance business expense .....   | (6,722)                                  | (11,432)  | (15,729)  |
| Other operating expense .....  | (76,752)                                 | (81,001)  | (82,027)  |
| Share of profits of associates and joint venture .....   | 227                                      | 414       | 222       |
| Profit before tax .....  | 86,067                                   | 88,200    | 86,425    |
| Income tax .....   | (11,902)                                 | (10,138)  | (6,855)   |
| Net profit for the period.....   | 74,165                                   | 78,062    | 79,570    |
| <b>Other comprehensive income</b>  |  |           |           |
| <b>Items that may be reclassified subsequently to profit or loss:</b>                              |  |           |           |
| Loans and advances to customers carried at FVOCI   |  |           |           |
| Amount recognised in equity.....   | 102                                      | (335)     | 19        |
| Amount reclassified to profit or loss.....   | -  | (378)     | (183)     |

|   | Year ended 31 December                   |               |               |
|---|--|---------------|---------------|
|   | 2018                                     | 2019          | 2020          |
|   | (RMB in million unless otherwise stated) |               |               |
|   | (audited)                                |               |               |
| Debt instruments at fair value through other comprehensive income   |  |               |               |
| Amount recognised in equity .....   | 2,086                                    | 3,715         | (920)         |
| Amount reclassified to profit or loss .....   | (171)                                    | (395)         | (825)         |
| Effective portion of gains or losses on hedging instruments in a cash flow hedge  |  |               |               |
| Changes in fair value recorded in equity .....  | 110                                      | (156)         | (1,362)       |
| Changes in fair value reclassified from equity to profit or loss .....  | (93)                                     | 147           | 815           |
| Others .....  | 18                                       | 18            | (8)           |
| Translation difference on foreign operations .....  | 1,998                                    | 1,141         | (4,776)       |
| Subtotal .....  | 4,050                                    | 3,757         | (7,240)       |
| <b>Items that will not be reclassified subsequently to profit or loss:</b>  |  |               |               |
| Changes in fair value of equity investments designated at fair value through other comprehensive income .....                               | 61                                       | (560)         | (1,204)       |
| Actuarial gains/(losses) on pension benefits .....  | (25)                                     | (20)          | (132)         |
| Changes in fair value attributable to change in the credit risk of financial liability designated at FVPL .....                             | (14)                                     | 25            | 7             |
| Others .....  | -  | -             | 20            |
| Subtotal .....  | 22                                       | (555)         | (1,309)       |
| Other comprehensive income for the year .....   | 4,072                                    | 3,202         | (8,549)       |
| Comprehensive income for the period .....   | <u>78,237</u>                            | <u>81,264</u> | <u>71,021</u> |
| Net profit attributable to:   |  |               |               |
| Shareholders of the Bank .....  | 73,630                                   | 77,281        | 78,274        |
| Non-controlling interests .....   | <u>535</u>                               | <u>781</u>    | <u>1,296</u>  |
| Total comprehensive income attributable to:   |  |               |               |
| Shareholders of the Bank .....  | 77,461                                   | 80,414        | 69,960        |
| Non-controlling interests .....   | <u>776</u>                               | <u>850</u>    | <u>1,061</u>  |
| Basic and diluted earnings per share for profit attributable to the shareholders of the Bank (in RMB yuan/U.S.\$ per share (Restated) ..... | <u>0.96</u>                              | <u>1.00</u>   | <u>0.99</u>   |

**Condensed Consolidated Statement of Comprehensive Income for the Six Months Ended 30 June 2020 and 2021 and Nine Months Ended 30 September 2020 and 2021**

*The condensed consolidated statements of comprehensive income of the Group for the six months ended 30 June 2020 and 2021 and the nine months ended 30 September 2020 and 2021 as set forth below is extracted from the 2021 Interim Financial Information prepared and presented in accordance with IFRS and reviewed by PricewaterhouseCoopers in accordance with International Standards on Review Engagements 2410, and from the 2021 Third Quarter Financial Statements prepared and presented in accordance with IFRS, respectively.*

|  | Six months ended 30 June                 |           | Nine months ended 30 September           |           |
|--|--|-----------|--|-----------|
|  | 2020                                     | 2021      | 2020                                     | 2021      |
|  | (RMB in million unless otherwise stated) |           | (RMB in million unless otherwise stated) |           |
|  | (unaudited)                              |           | (unaudited)                              |           |
| Interest income .....  | 186,229                                  | 183,952   | 278,001                                  | 279,879   |
| Interest expense .....   | (112,380)                                | (105,466) | (163,987)                                | (160,635) |
| Net interest income.....   | 73,849                                   | 78,486    | 114,014                                  | 119,244   |
| Fee and commission income.....   | 26,215                                   | 27,299    | 38,022                                   | 39,574    |
| Fee and commission expense.....  | (1,938)                                  | (2,333)   | (3,039)                                  | (3,425)   |
| Net fee and commission income.....   | 24,277                                   | 24,966    | 34,983                                   | 36,149    |
| Net gains arising from trading activities.....   | 7,353                                    | 10,169    | 8,758                                    | 17,286    |
| Net gains arising from financial investments.....  | 1,505                                    | 772       | 2,142                                    | 1,030     |
| Including: Net gains/(losses) on derecognition of financial assets measured at amortised cost..... | 68                                       | 40        | 71                                       | 45        |
| Insurance business income .....  | 10,936                                   | 11,022    | 12,522                                   | 13,306    |
| Other operating income .....   | 8,954                                    | 8,522     | 13,073                                   | 13,025    |
| Net operating income .....   | 126,959                                  | 134,051   | 185,635                                  | 200,210   |
| Credit impairment losses .....   | (33,333)                                 | (33,082)  | (51,914)                                 | (52,428)  |
| Other assets impairment losses.....  | (159)                                    | (418)     | (156)                                    | (418)     |
| Insurance business expense .....   | (11,022)                                 | (10,925)  | (12,901)                                 | (13,607)  |
| Other operating expense .....  | (42,487)                                 | (43,038)  | (63,149)                                 | (64,338)  |
| Share of profits of associates and joint venture .....   | 85                                       | 114       | 143                                      | 170       |
| Profit before tax.....   | 39,958                                   | 46,588    | 57,515                                   | 69,419    |
| Income tax.....  | (2,961)                                  | (3,715)   | (4,044)                                  | (3,927)   |
| Net profit for the period.....   | 36,997                                   | 42,873    | 53,471                                   | 65,492    |
| <b>Other comprehensive income</b>  |  |           |  |           |
| <b>Items that may be reclassified subsequently to profit or loss:</b>                              |  |           |  |           |
| Loans and advances to customers carried at FVOCI   |  |           |  |           |
| Amount recognised in equity.....   | 249                                      | 319       | 147                                      | 218       |
| Amount reclassified to profit or loss.....   | (198)                                    | (144)     | (147)                                    | (295)     |
| Debt instruments at fair value through other comprehensive income                                  |  |           |  |           |

|   | Six months ended 30 June                 |         | Nine months ended 30 September           |         |
|---|--|---------|--|---------|
|   | 2020                                     | 2021    | 2020                                     | 2021    |
|   | (RMB in million unless otherwise stated) |         | (RMB in million unless otherwise stated) |         |
|   | (unaudited)                              |         | (unaudited)                              |         |
| Amount recognised in equity.....  | (127)                                    | 211     | (2,078)                                  | 2,395   |
| Amount reclassified to profit or loss.....  | (1,062)                                  | (192)   | (1,536)                                  | (278)   |
| Effective portion of gains or losses on hedging instruments in a cash flow hedge  |  |         |  |         |
| Changes in fair value recorded in equity .....  | (659)                                    | 972     | (462)                                    | 952     |
| Changes in fair value reclassified from equity to profit or loss .....  | 4  | (740)   | (58)                                     | (640)   |
| Others.....   | 28                                       | 5       | 7  | 4       |
| Translation difference on foreign operations.....   | 1,093                                    | (1,344) | (1,428)                                  | (1,463) |
| Subtotal .....  | (672)                                    | (913)   | (5,555)                                  | 893     |
| <b>Items that will not be reclassified subsequently to profit or loss:</b>  |  |         |  |         |
| Changes in fair value of equity investments designated at fair value through other comprehensive income .....                               | (371)                                    | (455)   | (374)                                    | (802)   |
| Actuarial gains/(losses) on pension benefits.....   | (34)                                     | 58      | (188)                                    | 63      |
| Changes in fair value attributable to change in the credit risk of financial liability designated at FVPL ...                               | 44                                       | (36)    | 33                                       | (45)    |
| Others.....   | 26                                       | 7       | 20                                       | 2       |
| Subtotal .....  | (335)                                    | (426)   | (509)                                    | (782)   |
| Other comprehensive income for the year .....   | (1,007)                                  | (1,339) | (6,064)                                  | 111     |
| Comprehensive income for the period.....  | 35,990                                   | 41,534  | 47,407                                   | 65,603  |
| Net profit attributable to:   |  |         |  |         |
| Shareholders of the Bank.....   | 36,505                                   | 42,019  | 52,712                                   | 64,360  |
| Non-controlling interests .....   | 492                                      | 854     | 759                                      | 1,132   |
| Total comprehensive income attributable to:   |  |         |  |         |
| Shareholders of the Bank.....   | 35,403                                   | 40,799  | 46,778                                   | 65,594  |
| Non-controlling interests .....   | 587                                      | 735     | 629                                      | 1,009   |
| Basic and diluted earnings per share for profit attributable to the shareholders of the Bank (in RMB yuan/U.S.\$ per share (Restated) ..... | 0.46                                     | 0.54    | 0.65                                     | 0.80    |

# Consolidated Statement of Financial Position as at 31 December 2018, 2019 and 2020

The consolidated statements of financial position of the Group as at 31 December 2018, 2019 and 2020 as set forth below is extracted from the 2019 and 2020 Audited Financial Statements prepared in accordance with IFRS and have been audited by PricewaterhouseCoopers in accordance with IAS.

|  | As at 31 December |           |            |
|--|-------------------|-----------|------------|
|  | 2018              | 2019      | 2020       |
|  | (RMB in million)  |           |            |
|  | (audited)         |           |            |
| <b>Assets</b>  |                   |           |            |
| Cash and balances with central banks.....                                    | 840,171           | 760,185   | 817,561    |
| Due from and placements with banks and other financial institutions .....    | 848,067           | 648,488   | 571,130    |
| Derivative financial assets .....  | 30,730            | 20,937    | 54,212     |
| Financial investments at fair value through profit or loss                   | 376,386           | 406,498   | 482,588    |
| Financial investments at amortised cost.....                                 | 2,000,505         | 1,929,689 | 2,019,529  |
| Financial investments at fair value through other comprehensive income ..... | 445,018           | 669,656   | 735,220    |
| Loans and advances to customers .....  | 4,742,372         | 5,183,653 | 5,720,568  |
| Investment in associates and joint ventures .....                            | 3,653             | 4,600     | 4,681      |
| Property and equipment.....  | 153,286           | 171,179   | 169,471    |
| Deferred income tax assets .....   | 21,975            | 24,065    | 27,991     |
| Other assets .....   | 69,008            | 86,650    | 94,665     |
| Total assets.....  | 9,531,171         | 9,905,600 | 10,697,616 |
| <b>Liabilities</b>   |                   |           |            |
| Due to and placements from banks and other financial institutions .....      | 2,162,293         | 1,904,082 | 1,787,491  |
| Financial liabilities at fair value through profit or loss ....              | 23,109            | 26,980    | 29,279     |
| Derivative financial liabilities.....  | 28,105            | 26,424    | 55,942     |
| Due to customers .....   | 5,793,324         | 6,072,908 | 6,607,330  |
| Certificates of deposits issued.....   | 366,753           | 498,991   | 634,297    |
| Current income tax liabilities.....  | 2,279             | 7,086     | 3,786      |
| Deferred income tax liabilities.....   | 598               | 918       | 1,286      |
| Debt securities issued .....   | 317,688           | 403,918   | 497,755    |
| Other liabilities .....  | 131,714           | 163,381   | 201,822    |
| Total liabilities .....  | 8,825,863         | 9,104,688 | 9,818,988  |
| <b>Equity</b>  |                   |           |            |
| Share capital .....  | 74,263            | 74,263    | 74,263     |

|   | As at 31 December |                |                |
|---|-------------------|----------------|----------------|
|   | 2018              | 2019           | 2020           |
|   | (RMB in million)  |                |                |
|   | (audited)         |                |                |
| Other equity Instruments .....  | 59,876            | 99,870         | 133,292        |
| Including: Preference shares .....  | 59,876            | 59,876         | 44,952         |
| Perpetual bonds.....  | —                 | 39,994         | 88,340         |
| Capital surplus .....   | 113,663           | 113,663        | 111,428        |
| Other reserves .....  | 321,442           | 328,310        | 333,176        |
| Retained earnings.....  | 129,161           | 177,141        | 214,448        |
| <b>Equity attributable to shareholders of the Bank.....</b>                       | <b>698,405</b>    | <b>793,247</b> | <b>866,607</b> |
| Equity attributable to non-controlling interests of ordinary shares.....          | 6,903             | 7,665          | 8,763          |
| Equity attributable to non-controlling interests of other equity instruments..... | —                 | —              | 3,258          |
| Non-controlling interests .....   | 6,903             | 7,665          | 12,021         |
| Total equity .....  | 705,308           | 800,912        | 878,628        |
| Total equity and liabilities.....   | 9,531,171         | 9,905,600      | 10,697,616     |

### Consolidated Statement of Financial Position as at 31 December 2020, 30 June 2021 and 30 September 2021

The consolidated statements of financial position of the Group as at 31 December 2020, 30 June 2021 and 30 September 2021 as set forth below is extracted from the 2020 Audited Financial Statements prepared in accordance with IFRS and have been audited by PricewaterhouseCoopers in accordance with IAS, the 2021 Interim Financial Information prepared and presented in accordance with IFRS and reviewed by PricewaterhouseCoopers in accordance with International Standards on Review Engagements 2410, and from the 2021 Third Quarter Financial Statements prepared and presented in accordance with IFRS, respectively.

|   | As at 31<br>December | As at 30 June       | As at 30<br>September |
|---|----------------------|---------------------|-----------------------|
|   | 2020                 | 2021                | 2021                  |
|   | (RMB in<br>million)  | (RMB in<br>million) | (RMB in<br>million)   |
|   | (audited)            | (unaudited)         | (unaudited)           |
| <b>Assets</b>   |                      |                     |                       |
| Cash and balances with central banks.....                                 | 817,561              | 810,320             | 782,993               |
| Due from and placements with banks and other financial institutions ..... | 571,130              | 712,370             | 628,788               |
| Derivative financial assets.....  | 54,212               | 35,584              | 30,078                |

|  | As at 31<br>December | As at 30 June       | As at 30<br>September |
|--|----------------------|---------------------|-----------------------|
|  | 2020                 | 2021                | 2021                  |
|  | (RMB in<br>million)  | (RMB in<br>million) | (RMB in<br>million)   |
|  | (audited)            | (unaudited)         | (unaudited)           |
| Financial investments at fair value through profit or loss .....             | 482,588              | 575,837             | 579,252               |
| Financial investments at amortised cost .....                                | 2,019,529            | 2,050,282           | 2,133,730             |
| Financial investments at fair value through other comprehensive income ..... | 735,220              | 726,547             | 699,068               |
| Loans and advances to customers .....  | 5,720,568            | 6,208,293           | 6,317,333             |
| Investment in associates and joint ventures .....                            | 4,681                | 5,505               | 5,670                 |
| Property and equipment .....   | 169,471              | 167,054             | 167,814               |
| Deferred income tax assets .....   | 27,991               | 29,119              | 30,897                |
| Other assets .....   | 94,665               | 93,049              | 97,000                |
| Total assets .....   | 10,697,616           | 11,413,960          | 11,472,623            |
| <b>Liabilities</b>   |                      |                     |                       |
| Due to and placements from banks and other financial institutions .....      | 1,787,491            | 1,838,106           | 1,824,461             |
| Financial liabilities at fair value through profit or loss ..                | 29,279               | 20,532              | 23,068                |
| Derivative financial liabilities .....                                       | 55,942               | 33,702              | 27,710                |
| Due to customers .....   | 6,607,330            | 7,016,652           | 6,986,659             |
| Certificates of deposits issued .....  | 634,297              | 792,542             | 822,843               |
| Current income tax liabilities .....   | 3,786                | 3,326               | 3,977                 |
| Deferred income tax liabilities .....  | 1,286                | 1,491               | 1,622                 |
| Debt securities issued .....   | 497,755              | 541,597             | 576,347               |
| Other liabilities .....  | 201,822              | 230,097             | 249,076               |
| Total liabilities .....  | 9,818,988            | 10,478,045          | 10,515,763            |
| <b>Equity</b>  |                      |                     |                       |
| Share capital .....  | 74,263               | 74,263              | 74,263                |
| Other equity Instruments .....   | 133,292              | 174,790             | 174,790               |
| Including: Preference shares .....   | 44,952               | 44,952              | 44,952                |
| Perpetual bonds .....  | 88,340               | 129,838             | 129,838               |
| Capital surplus .....  | 111,428              | 111,428             | 111,428               |
| Other reserves .....   | 333,176              | 345,770             | 347,379               |
| Retained earnings .....  | 214,448              | 217,357             | 236,486               |
| <b>Equity attributable to shareholders of the Bank .....</b>                 | <b>866,607</b>       | <b>923,608</b>      | <b>944,346</b>        |
| Equity attributable to non-controlling interests of ordinary shares .....    | 8,763                | 9,086               | 9,289                 |

|  | As at 31<br>December | As at 30 June       | As at 30<br>September |
|--|----------------------|---------------------|-----------------------|
|  | 2020                 | 2021                | 2021                  |
|  | (RMB in<br>million)  | (RMB in<br>million) | (RMB in<br>million)   |
|  | (audited)            | (unaudited)         | (unaudited)           |
| Equity attributable to non-controlling interests of other equity instruments ..... | 3,258                | 3,221               | 3,225                 |
| Non-controlling interests .....  | 12,021               | 12,307              | 12,514                |
| Total equity .....   | 878,628              | 935,915             | 956,860               |
| Total equity and liabilities .....   | 10,697,616           | 11,413,960          | 11,472,623            |

## Financial Indicators

|   | As at/ for the years ended 31 December |        |        | As at/for<br>the six<br>months<br>ended 30<br>June | As at/for<br>the nine<br>months<br>ended 30<br>September |
|---|--|--------|--------|--|--|
|   | 2018                                   | 2019   | 2020   | 2021   | 2021   |
|   |  | (%)    |        | (%)  | (%)  |
| Return on average assets <sup>(1)</sup> .....           | 0.80                                   | 0.80   | 0.77   | 0.78   | 0.79   |
| Cost-to-income ratio <sup>(2)</sup> .....               | 31.50                                  | 30.11  | 28.29  | 27.78  | 27.88  |
| Non-performing loan ratio .....                         | 1.49                                   | 1.47   | 1.67   | 1.60   | 1.60   |
| Provision coverage ratio .....                          | 173.13                                 | 171.77 | 143.87 | 149.29   | 156.60   |
| Tier 1 capital adequacy ratio <sup>(3)</sup> .....      | 12.21                                  | 12.85  | 12.88  | 13.11  | 13.14  |
| Core Tier 1 capital adequacy ratio <sup>(3)</sup> ..... | 11.16                                  | 11.22  | 10.87  | 10.59  | 10.68  |
| Capital adequacy ratio <sup>(3)</sup> .....             | 14.37                                  | 14.83  | 15.25  | 15.29  | 15.75  |

### Notes:

- (1) Calculated by dividing annualised net profit of the reporting period by the average of total assets at the beginning and the end of the reporting period.
- (2) Calculated as business and management fees divided by net operating income after the deduction of other operating expenses, consistent with the financial report in accordance with China Accounting Standards.
- (3) Calculated pursuant to the Administrative Measures for the Capital Management of Commercial Banks (Trial Implementation) by the China Banking and Insurance Regulatory Commission.



## RISK FACTORS

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

### **Risks Relating to the Bank's Business**

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

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

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

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

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

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

Investors should be aware that there are recent historical financial crises and boom-bust cycles in multiple markets in both emerging and developed economies which leads to risks for all financial institutions, including the Group. In addition, the Group remains subject to the risks posed by the indirect economic effect of the global credit crisis, some of which cannot be anticipated and the vast majority of which are not under its control. The Group also remains subject to counterparty risk arising from financial institutions that can fail or are otherwise

unable to meet their obligations under their contractual commitment to the Group. If there is another global or regional financial crisis or a downturn in the economic condition of the Group's primary markets, this would likely have a material adverse effect on the Group's business, financial condition and results of operations.

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

Results of the Bank's operations may be negatively impacted by its impaired loans. Under IFRS, the accounting standards that are applicable to the Bank, loans are impaired if there is objective evidence that the Bank will not be able to collect all amounts due according to the original contractual terms of loans. In this regard, the Bank seeks to continue to improve its credit risk management policies, procedures and systems, and has been able to effectively control the level of its impaired loans in recent years, despite the ongoing weak macroeconomic environment. As at 31 December 2018 and 2019 and 2020 and 30 June 2021, the Bank's individually identified impaired loans were RMB72,512 million, RMB78,043 million, RMB97,698 million and RMB101,432 million, respectively, and its impaired loan ratios were 1.49 per cent., 1.47 per cent., 1.67 per cent. and 1.60 per cent., respectively. However, there can be no assurance that the Bank's credit risk management policies, procedures and systems are free from any deficiency. The occurrence of any deficiencies in the Bank's credit risk management policies, procedures and systems may result in an increase in the level of its impaired loans and adversely affect the quality of its loan portfolio. As a result, there can be no assurance you that the Bank will be able to continue to effectively control the level of impaired loans in its loan portfolio. In particular, the amount of the Bank's reported impaired loans and the ratio of its impaired loans to its loans and advances to customers may increase in the future as a result of deterioration in the quality of its loan portfolio. Such deterioration may occur for a variety of reasons, including factors which are beyond the Bank's control, such as a recent slowdown in economic growth and other adverse macroeconomic trends in China, the significant decline in market liquidity of China's interbank market or a deterioration in the financial condition or results of operations of the Bank's borrowers, which could impair the ability of the Bank's borrowers to service their debt. These include the Bank's corporate and individual loan borrowers, as well as the domestic and overseas commercial banks and non-bank financial institutions with whom the Bank engages in interbank lending activities. If such a deterioration occurs, it could materially and adversely affect the Bank's financial condition and results of operations.

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

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

As at 30 June 2021, approximately 11.16 per cent., 3.37 per cent., 11.94 per cent., 10.23 per cent., 5.91 per cent. and 6.02 per cent. of the Bank's loans were concentrated in the manufacturing sector, the wholesale and retail trade sector, the transportation, storage and postal services sector, the leasing and commercial services sector, the water conservancy, environmental and other public utilities sector and the real estate sector, respectively. Although the Bank follows credit risk management policies with respect to extensions of credit to different industry sectors, including credit extension guidelines for different industry sectors, closely monitors its credit risks in different industries and has recently enhanced its guidelines in extending credit, any significant or extended downturn in any of these sectors may reduce the borrowing activities in these sectors, increase the

level of the Bank's impaired loans and related provision for impaired loans, reduce the Bank's net profit and adversely affect its financial condition and results of operations.

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

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

As at 30 June 2021, 21.86 per cent. of the Bank's loans were mortgage loans and 6.02 per cent. of its loans were lent to real estate development companies, which together accounted for 27.88 per cent. of the Bank's total outstanding loans before impairment allowance. The PRC government has in recent years, from time to time, imposed macroeconomic control measures that are aimed at preventing the real estate market and certain other industries from over-heating. Such measures may adversely affect the growth and quality of the Bank's loans related to real estate and such other industries. In accordance with the PRC government's macroeconomic policy and the guidance and compliance requirements of the CBIRC, the Bank aims to maintain a cautious approach to real estate development loans, and has further adopted industry-specific risk management procedures with respect to the real estate sector. The Bank has also adopted a rigorous mortgage evaluation system to ensure the quality of its mortgage customers. In addition, the Bank regularly subjects its assets to multi-factor stress tests, including movements in housing prices, which the Bank's loans have been able to withstand without significant deterioration.

Under prevailing PRC banking regulations, the total outstanding credit exposure to a single group customer may not exceed 15 per cent. of the net capital base of a bank and the total outstanding loans to the same borrower shall not exceed 10 per cent. of the net capital base of a bank. The Bank is currently in compliance with these regulatory requirements.

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

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

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

With respect to its real estate loans, the Bank follows strictly its credit risk management procedures, including ongoing credit monitoring of borrowers' financial information, and strict enforcement of repayment schedules.

In addition, the Bank has established a regional risk alert system and loan policy adjustment mechanism applicable to the real estate sector. The Bank has instructed its branches to strengthen research of regional and local real estate market conditions, adjust credit guidelines applicable to real estate loans and implement different credit limits to reflect different levels of risk for these loans. However, the real estate market may be affected by factors beyond the Bank's control, including cyclical economic volatility and downturns. In addition, the PRC government has in recent years, from time to time, imposed macroeconomic control measures that are aimed at preventing the real estate market from over-heating. Such factors may adversely affect the growth and quality of the Bank's loans to the real estate industry and its financial condition and results of operations.

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

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

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

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

As at 30 June 2021, approximately 27.42 per cent., 14.49 per cent. and 12.54 per cent. of the Bank's loans and advances were concentrated in the Yangtze River Delta, the Bohai Rim Economic Zone and the Pearl River Delta, respectively. In addition, a substantial portion of the Bank's corporate customers and the majority of its branches, sub-branches and self-service centres are located in the Yangtze River Delta, the Bohai Rim Economic Zone and the Pearl River Delta. The Bank currently expects that the future growth of its corporate and personal finance businesses, especially its corporate and individual loan businesses, will continue to be concentrated in these areas. Any significant economic downturn in any of these regions may adversely affect the Bank's financial condition and results of operations. Moreover, any inaccurate assessment of the credit risks regarding the borrowers in any of these regions may adversely affect the Bank's asset quality, financial condition and results of operations.

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

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

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

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

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

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

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

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

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

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

- the Bank may not have sufficient experience or expertise in certain new products and services and may not compete effectively in these areas;
- the Bank's new products and services may not be accepted by its customers or meet its expectations for profitability;
- the Bank may need to hire additional qualified personnel who may not be available on commercially viable terms;
- the Bank may not have sufficient financial, operational, management and other human resources to support the expanded range of its products and services;
- the Bank may have disagreements with the joint venture partners and other entities with which the Bank offers certain of its new financial products and services, and they may be unable or unwilling to continue their arrangements with the Bank due to financial difficulties or other reasons;
- the Bank may be faced with risks in integrating the acquired businesses with which the Bank offers certain of these new products and services;
- the Bank may fail to obtain regulatory approval for its new products or services;

- a slowdown in China’s economic development could adversely affect the ability of personal borrowers and credit card holders to make payments, thereby increasing the probability of defaults and reducing the demand for personal loans and credit cards; and
- the Bank may not be successful in enhancing its risk management and internal control capabilities and information technology systems to support a broader range of products and services.

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

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

The Bank is required to comply with applicable anti-money-laundering, anti-terrorism laws and other regulations in the PRC, Hong Kong and other jurisdictions where the Bank has operations. These laws and regulations require the Bank, among other things, to adopt and enforce “know your customer” policies and procedures and to report suspicious and large transactions to the applicable regulatory authorities in different jurisdictions. While the Bank has adopted policies and procedures aimed at detecting and preventing the use of its banking network for money laundering activities or by terrorists and terrorist-related organisations and individuals generally, such policies and procedures may not completely eliminate instances where the Bank may be used by other parties to engage in money laundering or other illegal or improper activities. To the extent the Bank may fail to fully comply with applicable laws and regulations, the relevant government agencies to whom the Bank reports have the power and authority to impose fines and other penalties on the Bank, which could harm its business and reputation, which in turn may negatively affect the Bank’s ability to service the Notes and to satisfy its other obligations under the Notes.

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

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

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

In its operations as a commercial bank, the Bank is subject to a number of risks inherent in the Bank’s business, including credit risk, liquidity risk and operational risk. One of the principal risks inherent in the Bank’s business is credit risk. The Bank may not be able to effectively implement its credit risk management system or continue to improve it so that it can function effectively. The Bank’s credit rating system process involves detailed analysis of the borrower’s credit risk, taking into account both quantitative and qualitative factors. The qualitative factors are, by their nature, subject to the individual judgment of the Bank’s employees. In exercising their judgment, if the Bank’s employees are not able to assign an accurate credit rating to a borrower, the Bank may be exposed to risks associated with the inaccurate assessment. In addition, the Bank may not be able to timely detect potential risks associated with particular industries or types of customers, such as affiliated entities or groups of customers, or, due to limited resources or tools available to the Bank, its employees may not be able to effectively implement them. With respect to market risk, the Bank’s methods to manage market risks, including observing historical market behaviour, may not be able to timely or precisely predict future market

risk exposures, which could be significantly greater than those indicated by historical measures. Liquidity risk is inherent in banking operations and can be heightened by a number of factors, including changes in credit ratings or market-wide phenomena such as financial market instability. While it is the Bank's policy to manage its liquidity prudently, exceptional market events may materially and adversely affect its financial condition and results of operations. The Bank may also be exposed to the risk of unexpected increases in the cost of funding its asset portfolio at appropriate maturities and the risk of being unable to liquidate a position in a timely manner and/or at a reasonable price. With respect to operational risk, the Bank's internal control system is the essential means to maintain the integrity of its business, financial condition and results of operation. Although the Bank has significantly enhanced its risk management and internal control policies and procedures in recent years in an effort to improve its risk management capabilities and enhances its internal control, including its internal audit function, there can be no assurance that the Bank's staff will be able to consistently follow these policies and guidelines at all times.

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

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

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

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



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

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

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

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

The Bank's total loans and advances to customers have grown significantly in recent years, increasing from RMB4,854,228 million as at 31 December 2018 to RMB5,304,275 million as at 31 December 2019, representing an increase of 9.27 per cent. and increased further to RMB5,848,424 million as at 31 December 2020, representing an increase of 10.26 per cent. The Bank's total loans and advances to customers has further increased to RMB6,346,703 million as at 30 June 2021, representing an increase of 8.52 per cent. The growth of the Bank's loan portfolio may be affected by various factors, such as China's macroeconomic policies and capital constraints. In the future, the growth rate of the Bank's loan portfolio may slow down, or the Bank's loan portfolio may not grow or may even decline. In addition, due to the constraints from the amount of its regulatory capital, the Bank may adopt strategies to reduce its reliance on its loan portfolio or expand its activities in other lower risk businesses that have relatively lower capital requirements. Any of the foregoing factors could impact the growth of the Bank's loan portfolio and thereby adversely affect the Bank's business and future prospects.

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

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

The Basel Committee on Banking Supervision formally promulgated Basel III in December 2010. The CBRC promulgated the CBIRC Capital Regulations on 7 June 2012 based on the reform of the banking industry and

the existing regulatory framework of the PRC, taking into account the effect of and requirements set out in Basel II and Basel III. The CBIRC Capital Regulations came into effect as of 1 January 2013; and on the same date the Measures on the Administration of the Capital Adequacy Ratio of Commercial Banks, which was promulgated by the CBRC on 23 February 2004 and amended on 3 July 2007, was revoked. The CBIRC Capital Regulations establish a unified regulatory system in respect of the capital adequacy ratio, clarify the definition of capital, expand the range of capital risk coverage, raise the bottom line for the capital adequacy ratio and set a six-year transition period (from 2013 to 2018) for banks to comply with capital adequacy ratio requirements. On 30 November 2012, the CBRC issued the Notice on Matters in relation to the Implementation of Transition Period Arrangements in the (Trial) Measures on the Administration of the Capital of Commercial Banks, which provides the regulatory standards and implementation course for the transition period. As a result, the Bank is required to maintain a minimum core tier one capital adequacy of 5 per cent., a minimum tier one capital adequacy of 6 per cent. and a minimum capital adequacy of 8 per cent. The capital conservation buffer requirement for the Bank is 2.5 per cent., which should be satisfied through core tier one capital. In addition, the Bank is a domestic systemically important bank and is required to maintain a further 1 per cent. capital surcharge above prevailing core tier 1 capital requirements. The relevant regulatory authorities are also able to impose countercyclical capital buffer requirements on an individual bank from time to time. As at 30 June 2021, the Group's core tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio were 10.59 per cent., 13.11 per cent. and 15.29 per cent., respectively, which satisfy the regulation requirements. Although the Bank was in compliance with the regulatory requirements as at 30 June 2021, future developments could affect the Bank's ability to continue to satisfy applicable capital adequacy requirements, including:

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

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

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

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

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

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

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

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

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

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

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

Most aspects of the Bank's business are dependent on the quality of its staff. The Bank devotes considerable resources to recruiting, training and compensating these personnel. However, the Bank faces increased competition in recruiting and retaining these individuals as other banks are competing for the same pool of potential employees. In addition, the Bank's employees may choose to resign at any time to pursue other

opportunities and may seek to divert customer relationships that they have developed while working for the Bank. The majority of the Bank's employees are not subject to non-compete agreements.

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

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

As at 30 June 2021, the Bank's top three shareholders, MOF, HKSCC Nominees Limited (ultimately held by all institutional and individual investors who maintained an account with it) and The Hongkong and Shanghai Banking Corporation Limited, collectively own, directly and indirectly, 62.75 per cent. of the Bank's outstanding shares. Accordingly, the Bank's largest shareholders may have the ability to individually or collectively exercise significant influence over the Bank's business, including matters relating to:

- the issuance of new securities;
- the election of the Bank's directors and supervisors;
- the Bank's management, especially the composition of its senior management, due to their significant influence over the Bank's Board;
- the Bank's business strategies and policies;
- the timing and amount of the distribution of dividends;
- any plans relating to mergers, acquisitions, joint ventures, investments or divestitures; and
- amendments to the Bank's articles of association (the "**Articles of Association**").

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

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

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

In addition, the Bank must continually make significant investments, upgrades and improvements in its information technology infrastructure in order to remain competitive. The quality and timing of information

available to and received by the Bank's management through its existing information systems may not be sufficient to manage risks or to plan for and respond to changes in market conditions and other developments in the Bank's operations. The Bank may experience difficulties in upgrading, developing and expanding its information technology systems quickly enough to accommodate its growing customer base.

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

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

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

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

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

The PRC Commercial Banking Law, which became effective in July 1995 and last amended in 2015, prohibits any investment by a PRC financial institution in a non-financial institution. The Bank's holdings or investments were completed prior to the enactment of the 1995 PRC Commercial Banking Law. The Bank has been unable to completely dispose of these investments primarily because: (1) certain of these institutions are undergoing bankruptcy or liquidation; (2) the Bank's investments in certain institutions is small, making it difficult to find a buyer for these investments; and (3) the Bank is unable to find buyers for some of the investments due to their poor market liquidity and low rates of return. The Bank has been active in its efforts to terminate these

investments, including making provisions for impairment; writing off or disposing of these investments in accordance with relevant rules and policy changes; actively seeking purchasers for its shareholdings in these institutions; and otherwise disposing of these investments in accordance with reasonable market terms. While the Bank has not been subject to any material administrative sanctions, fines or other penalties for such investments, there can be no assurance that the relevant regulatory authorities would not take additional actions against the Bank in the future. Any future administrative sanctions, fines or other penalties, including those discussed above, may have a material adverse effect on the Bank's business, financial condition and results of operations.

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

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

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

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

The Bank acts primarily as an intermediary in domestic and international foreign exchange and derivative markets, and the Bank currently has foreign currency forward and swap arrangements with a number of domestic and international banks, financial institutions and other entities. The Bank also has interest rate swap arrangements. The Bank does not typically enter into foreign currency or interest rate derivative arrangements for its own account but are subject to credit risk from its various counterparties. As at 30 June 2021, the fair values of the Bank's outstanding derivative assets and liabilities amounted to RMB35,584 million and RMB33,702 million, respectively. Although the Bank believes that the overall credit quality of its counterparties is adequate, there can be no assurances that parties which the Bank has significant exposures to will not face difficulty in paying amounts on derivative contracts when due.

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

In recent years, the Bank has continued to expand its international operations. As at 30 June 2021, the Bank had overseas subsidiaries branches and representative offices in Hong Kong, New York, Tokyo, Singapore, Seoul, Frankfurt, Macau, Ho Chi Minh City, San Francisco, Sydney, Taipei, London, Luxembourg, Brisbane, Paris, Rome, Brazil, Melbourne, Toronto, Prague and Johannesburg (excluding the representative office). As at 30 June 2021, the Bank had established 23 overseas branches (sub-branches) and representative offices with 69 operating outlets in 18 countries and regions. The Bank's international expansion into multiple jurisdictions

exposes it to a variety of regulatory and business challenges and risks and has increased the complexity of the Bank's risks in a number of areas, including currency risk, interest rate risk, credit risk, regulatory and compliance risk, reputational risk and operational risk. The loan portfolio of the Bank's international branches includes foreign currency-denominated loans to PRC companies engaged in international trade. This exposes the Bank to additional risks including default risk resulting from the failure in the performance of the import or export agreements by any party, trade protectionist measures or other factors, and the Bank's inexperience in various aspects of the economic and legal framework in overseas markets. Adverse market conditions in these international jurisdictions may result in mark-to-market and realised losses on the investment assets held by the Bank's overseas branches and subsidiaries and increase their cost of funding. Furthermore, despite the Bank's best efforts to comply with all applicable regulations in all the jurisdictions in which the Bank operates, there may be incidents of its failure to comply with the regulations in certain jurisdictions. Regulators have the power to bring administrative or judicial proceedings against the Bank or its employees, representatives, agents and third party service providers, which could result, among other things, in suspension or revocation of one or more of the Bank's licenses, cease and desist orders, fines, civil penalties, criminal penalties or other disciplinary actions. In addition, the recent global financial crisis is expected to lead to significant regulatory changes in various jurisdictions, including those in which the Bank has operations. These changes may include changes with respect to capital and liquidity ratios, cross-border capital flows and consumer protection.

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

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

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

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

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

The Bank determines a level of allowance for impairment losses and recognises any related provisions made in a year using the concept of impairment under IFRS 9. The Bank's provisioning policies may be different in certain respects from those of banks incorporated in certain other countries or regions which do not assess loans under IFRS 9. As a result, the Bank's allowance for impairment losses, as determined under the provisioning policies, may differ from those that would be reported if it was incorporated in those countries or regions.

As at 31 December 2018, 2019 and 2020 and 30 June 2021, the Bank's impairment allowances for loans and advances were RMB123,861 million (expected credit loss allowance, "ECL Allowance", under IFRS 9), RMB132,719 million (ECL Allowance), RMB139,274 million (ECL Allowance) and RMB150,273 million (ECL Allowance), respectively. As at 31 December 2018, 2019 and 2020 and 30 June 2021, the Bank's provision coverage ratio, calculated by dividing the outstanding balance of its impairment allowances by the outstanding balance of impaired loans, was 173.13 per cent., 171.77 per cent., 143.87 per cent. and 149.29 per cent., respectively. The Bank's business, financial position and results of operations may be affected by its policies regarding provisioning. If the Bank's approach to provisioning policies proves not to be adequate, the Bank's business, financial position and results of operations may be negatively affected, which in turn may negatively affect the Bank's ability to service the Notes and to satisfy its other obligations under the Notes.

## **Risks Relating to the PRC Banking Industry**

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Some of the facts and statistics in this Offering Circular relating to the PRC, its economy and its banking industry are derived from various official and other publicly available sources generally believed to be reliable. However, the Bank cannot guarantee the quality and reliability of such sources. In addition, these facts and statistics have not been independently verified by the Bank and therefore the Bank makes no representation as to the accuracy of such facts and statistics, which may not be consistent with other information compiled within or outside the PRC and may not be complete or up-to-date. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics

herein may be inaccurate or may not be comparable from period to period or to statistics produced for other economies and should not be unduly relied upon.

### **Risk Relating to Hong Kong**

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

Civil unrest, protests, demonstrations or rioting causing mass disruption to businesses and transportation may result in a decrease in consumer spending and reduced usage of the services that the Bank provides. Consumers may avoid areas affected by social upheaval or are unable to reach these areas due to a disruption in transportation. There is no assurance that any unforeseeable interruptions to the business and operations of the Bank's stores and wider business can be mitigated or avoided. Moreover, prolonged civil unrest and an uncertain political environment, including any declaration by the Chief Executive of Hong Kong of a state of emergency pursuant to the Emergency Regulations Ordinance (Cap. 241 of the laws of Hong Kong) (the "ERO") which confers on the Chief Executive power to make any regulations whatsoever which he/she may consider desirable in the public interest in an occasion of emergency or public danger, may impact the Hong Kong economy and result in an economic slowdown. With fewer tourists travelling to Hong Kong, inbound tourism may be affected which in turn may negatively affect the Hong Kong retail and hospitality industries. Civil unrest and instability may also dampen market confidence and sentiments. Political or economic instability, or a sustained slowdown in domestic economic activities may adversely affect the Bank's investments in the retail, transport and finance sectors as well as the return of the Bank's other strategic investments. Civil unrest is outside the control of the Bank. Any demonstrations, protests or riots causing disruption to the city, the authorities' reaction to any such protests or riots if they recur, the Chief Executive's decision to make any declaration of a state of emergency and the instability of the political and economic conditions in the region, could adversely impact the Bank's business, financial condition and results of operations and the price of the Notes traded in the secondary market.

### **Risks Relating to the PRC**

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

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

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

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

The PRC government has the power to implement macroeconomic control measures affecting China's economy. The PRC economy has grown significantly in recent years. However, since the global financial crisis, China's

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

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

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

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

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

The Bank is a company incorporated under the laws of the PRC, and substantially all of the Bank's business, assets and operations are located in China. In addition, a majority of the Bank's directors, supervisors and executive officers reside in China, and substantially all of the assets of such directors, supervisors and executive officers are located in China. Therefore, it may be difficult for investors to effect service of process upon the Bank or those persons inside China. China has not entered into treaties or arrangements providing for the recognition and enforcement of judgments made by courts of most other jurisdictions. Hong Kong and the PRC have entered into certain arrangements on the reciprocal recognition and enforcement of judgments in civil and commercial matters (the "Reciprocal Arrangements") which allow for a final court judgment (relating to the payment of money or other civil or commercial proceeding) rendered by a Hong Kong court or PRC court (as the case may be) to be recognised and enforced in the PRC or Hong Kong (as the case may be), provided certain conditions are met. However, certain matters may be excluded under the Reciprocal Arrangements and a judgment may be refused to be recognised and enforced by the requested place in certain circumstances such

as for public policy reasons or where the judgment was obtained by fraud. As a general matter, a judgment of a court of another jurisdiction may be reciprocally recognised or enforced if the jurisdiction has a treaty with the PRC or if judgments of the PRC courts have been recognised before in that jurisdiction, subject to the satisfaction of other requirements. The PRC signed the Hague Convention on Choice of Court Agreements (the “**Hague Convention**”) in September 2017 which is intended to promote the use of exclusive choice of court agreements in international contracts and facilitate the creation of a recognition and enforcement regime for court judgements between contracting States. However, the signing of the Hague Convention does not have currently have any legal effect until it is ratified by the PRC government.

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

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

Since 2020, the pandemic of COVID-19 has spread around the world, becoming the most severe shock to hit the global economy after the 2008 global financial crisis. With the normalisation of domestic pandemic prevention and control and gradual improvements in domestic demand, China’s economy is recovering. Overall, both opportunities and challenges exist in the banking industry. On 12 March 2020, the World Health Organisation declared COVID-19 as a global pandemic. The COVID-19 pandemic has resulted in many countries, including China, Japan, the United States, members of the European Union and the United Kingdom, declaring a state of emergency and imposing extensive business and travel restrictions with a view to containing the pandemic. Widespread reductions in consumption, industrial production and business activities arising from the COVID-19 pandemic will significantly disrupt the global economy and global markets and is likely to result in a global economic recession. In addition, COVID-19 has led to significant volatility in the global markets across all asset classes, including stocks, bonds, oil and other commodities and this volatility may persist for some time. Continued spread of the pandemic globally and the rise in new variations of the pandemic, such as Delta and Omicron continue to exert uncertainties on the global economy and global markets. As the COVID-19 pandemic continues to adversely affect business activities globally, governments and central banks across the world have introduced or are planning fiscal and monetary stimulus measures including direct subsidies, tax cuts, interest rates cuts, quantitative easing policies and suspension or relaxation of capital requirements on the banks. These measures aim to reduce the economic impact of the COVID-19 pandemic, stabilise the capital markets and increase market liquidity. In addition, the PRC regulators have promulgated a series of measures to encourage PRC financial institutions to increase financial support to business and consumers to overcome challenges resulting from COVID-19.

In response, the Bank will continue to uphold the new concept of development, focus on value creation and adhere to stable operations while making full use of the geographical advantage of its presence in Shanghai and Fintech services in the second half of 2020 to ensure stable income. After the outbreak of the epidemic of COVID-19, the Group strictly followed the regulatory policies and requirements and prudently evaluates the repayment ability of the clients who apply for extension for repayment. The Group has taken certain methods such as providing extensions to qualified clients to help them overcome financial challenges due to COVID-19 on the basis that such measures would not enlarge subsequent risks or affect future collection. There was an obvious pressure on the Bank’s quality of credit assets. As at 30 June 2021, the non-performing loans of the Group amounted to RMB101,432 billion and its non-performing loan ratio was 1.60 per cent., representing an increase of RMB3,734 billion and a decrease of 0.07 per cent., respectively, over the end of the previous year.

Any occurrence of a similar epidemic with a severe domestic or global impact could restrict the level of economic activities generally and/or slow down or disrupt the Bank's business activities including, but not limited to, a decline in demand for residential mortgage advances, a reduction in the number of customers visiting the Bank's branches and an adverse impact on asset quality due to a weakened economy and higher unemployment rate which could in turn adversely affect the Bank's business or financial condition or results of operations.

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

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

### **Risk Relating to the Notes issued under the Programme**

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

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

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

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

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

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

- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Notes and the impact such investment will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant Notes, including where principal or interest is payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- understand thoroughly the terms of the relevant Notes and be familiar with the behaviour of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

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

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

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

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

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

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

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

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

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

The Terms and Conditions of the Notes and the Programme documents are governed by English law, whereas parties to these documents have submitted to the exclusive jurisdiction of the Hong Kong courts. In order to hear English law governed matters, Hong Kong courts may require certain additional procedures to be taken. Hong Kong and the PRC have entered into certain Reciprocal Arrangements which allow for a final court judgment (relating to the payment of money or other civil or commercial proceedings) rendered by a Hong Kong court or PRC court (as the case may be) to be recognised and enforced in the PRC or Hong Kong (as the case may be), provided certain conditions are met. However, recognition and enforcement of a Hong Kong court judgment could be refused if the PRC courts consider that the enforcement of such judgment is contrary to the social and public interest of the PRC or meets other circumstances specified by the Reciprocal Arrangements. While it is expected that the PRC courts will recognise and enforce a judgment given by Hong Kong courts governed by English law, there can be no assurance that the PRC courts will do so for all such judgments as there is no established practice in this area. Compared to other similar debt securities issuances in the international capital markets where the relevant holders of the debt securities would not typically be required to submit to an exclusive jurisdiction, the Noteholders will be deemed to have submitted to the exclusive jurisdiction of the Hong Kong courts, and thus the holder's ability to initiate a claim outside of Hong Kong will be limited.

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

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

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

Notes may be issued with a minimum denomination. The Pricing Supplement of a Tranche of Notes may provide that, for so long as the Notes are represented by a Global Note and the relevant Clearing System(s) so permit, the Notes will be tradable in nominal amounts (i) equal to, or integral multiples of, the minimum denomination, and (ii) the minimum denomination plus integral multiples of an amount lower than the minimum denomination. Definitive Notes will only be issued if the relevant Clearing System(s) is/are closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announce(s) an intention to permanently cease business. The Pricing Supplement may provide that, if Definitive Notes are issued, such Notes will be issued in respect of all holdings of Notes equal to or greater than the minimum denomination.



However, Noteholders should be aware that Definitive Notes that have a denomination that is not an integral multiple of the minimum denomination may be illiquid and difficult to trade. Definitive Notes will in no circumstances be issued to any person holding Notes in an amount lower than the minimum denomination and such Notes will be cancelled and holders will have no rights against the Issuer (including rights to receive principal or interest or to vote) in respect of such Notes.

### **Risks Relating to the Structure of a Particular Issue of Notes**

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

#### ***The relevant Issuer may redeem outstanding notes for tax reasons.***

Unless in the case of any particular Tranche of Notes the relevant Pricing Supplement specifies otherwise, in the event that the relevant Issuer would be obliged to increase the amounts payable in respect of any Notes due to any withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Hong Kong, PRC, or any other jurisdiction to which the Issuer becomes subject in respect of payments made by it of principal and interest on the Notes or any political subdivision thereof or any authority therein or thereof having power to tax, the Issuer may redeem all outstanding Notes in accordance with the Conditions.

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

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

#### ***Index linked Notes and dual currency Notes.***

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

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

- the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

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

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

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

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

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

***Inverse floating rate Notes are typically more volatile than conventional floating rate debt.***

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

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

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

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

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

Regulation (EU) 2016/1011 (the "EU Benchmarks Regulation") applies, subject to certain transitional provisions, to the provision of benchmarks, the contribution of input data to a benchmark and the use of a

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

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

More broadly, any of the international or national reforms, or the general increased regulatory scrutiny of benchmarks, could increase the costs and risks of administering or otherwise participating in the setting of a benchmark and complying with any such regulations or requirements.

Specifically, the sustainability of LIBOR has been questioned as a result of the absence of relevant active underlying markets and possible disincentives (including possibly as a result of benchmark reforms) for market participants to continue contributing to such benchmarks. The United Kingdom Financial Conduct Authority (“**FCA**”) has indicated through a series of announcements that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. 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).

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

Separate workstreams are also underway in Europe to reform EURIBOR using a hybrid methodology and to provide a fallback by reference to a euro risk-free rate (based on a euro overnight risk-free rate as adjusted by a methodology to create a term rate). On 13 September 2018, the working group on euro risk-free rates recommended Euro Short-term Rate (“**€STR**”) as the new risk free rate. €STR is expected to be published by the European Central Bank by October 2019. In addition, on 21 January 2019, the euro risk free-rate working group published a set of guiding principles for fallback provisions in new euro denominated cash products

(including bonds). The guiding principles indicate, among other things, that continuing to reference EURIBOR in relevant contracts may increase the risk to the euro area financial system.

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

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

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

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

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

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

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

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

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

***Notes issued at a substantial discount or premium.***

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

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

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

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

***Credit ratings may not reflect all risks.***

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

### **Risks Relating to the Market Generally**

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

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

Notes issued under the Programme will be new securities which may not be widely distributed and for which there is currently no active trading market (unless in the case of any particular Tranche, such Tranche is to be consolidated with and form a single series with a Tranche of Notes which is already issued). There can be no assurance as to the liquidity of the Notes or that an active trading market will develop. The liquidity of the Notes could be affected by various factors, and in particular, if a limited number of investors subscribes for a significant portion of the Notes. Such investors may include the Issuer and entities affiliated with the Issuer. If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer. If the Notes are trading at a discount, investors may not be able to receive a favourable price for their Notes, and in some circumstances investors may not be able to sell their Notes at all

or at their fair market value. Although an application will be made for the Notes issued under the Programme to be admitted to listing on the HKSE, there is no assurance that such application will be accepted, that any particular Tranche of Notes will be so admitted or that an active trading market will develop. In addition, the market for investment grade and crossover grade debt has been subject to disruptions that have caused volatility in prices of securities similar to the Notes that may be issued under the Programme. Accordingly, there can be no assurance as to the development or liquidity of any trading market, or that disruptions will not occur, for any particular Tranche of Notes.

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

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

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

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

***Changes in market interest rates may adversely affect the value of fixed rate Notes.***

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

***Legal investment considerations may restrict certain investments.***

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

**Risks Relating to Renminbi-denominated Notes**

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

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

Renminbi is not completely freely convertible at present. The PRC government continues to regulate conversion between Renminbi and foreign currencies, including the Hong Kong dollar, despite significant reduction in control by it in recent years over trade transactions involving the import and export of goods and services as well as other frequent routine foreign exchange transactions. These transactions are known as current account items. However, remittance of Renminbi by foreign investors into the PRC for settlement of capital account items, such as capital contributions, is generally only permitted upon obtaining specific approvals from or completing specific registrations or filing with the relevant authorities on a case-by-case basis and subject to a strict monitoring system. Regulations in the PRC on the remittance of Renminbi into the PRC for settlement of capital account items are being developed.

Although the Renminbi was added to the Special Drawing Rights basket created by the International Monetary Fund in 2016 and policies further improving accessibility to Renminbi to settle cross-border transactions in foreign currencies were implemented by the PBOC in 2018, there is no assurance that the PRC government will continue to gradually liberalise control over cross-border remittance of Renminbi in the future, that any pilot schemes for Renminbi cross-border utilisation will not be discontinued or that new regulations in the PRC will not be promulgated in the future which have the effect of restricting or eliminating the remittance of Renminbi into or outside the PRC.

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

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

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

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

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

There are restrictions imposed by the PBOC on Renminbi business participating banks in respect of cross-border Renminbi settlement, such as those relating to direct transactions with PRC enterprises. Furthermore, Renminbi business participating banks do not have direct Renminbi liquidity support from the PBOC. The Renminbi Clearing Banks only have access to onshore liquidity support from the PBOC to square open positions

of participating banks for limited types of transactions and are not obliged to square for participating banks any open positions resulting from other foreign exchange transactions or conversion services. In such cases, the participating banks will need to source Renminbi from the offshore market to square such open positions.

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

***Investment in RMB Notes is subject to exchange rate risks.***

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

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

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

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

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

***Investment in the RMB Notes is subject to interest rate risks***

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



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

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

## TERMS AND CONDITIONS OF THE NOTES

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

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

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

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

### 1 Form, Denomination and Title

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

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

Bearer Notes are serially numbered and are issued with Coupons (and, where appropriate, a Talon) attached, save in the case of Zero Coupon Notes in which case references to interest (other than in relation to interest

due after the Maturity Date), Coupons and Talons in these Conditions are not applicable. Instalment Notes are issued with one or more Receipts attached.

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

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

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

## **2 No Exchange of Notes and Transfers of Registered Notes**

- (a) **No Exchange of Notes:** Registered Notes may not be exchanged for Bearer Notes. Bearer Notes of one Specified Denomination may not be exchanged for Bearer Notes of another Specified Denomination. Bearer Notes may not be exchanged for Registered Notes.
- (b) **Transfer of Registered Notes:** One or more Registered Notes may be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate representing such Registered Notes to be transferred, together with the form of transfer endorsed on such Certificate, (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of Registered Notes represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfers of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Noteholders. A copy of the current regulations will be made available by the Registrar to any Noteholder upon request.
- (c) **Exercise of Options or Partial Redemption in Respect of Registered Notes:** In the case of an exercise of an Issuer’s or Noteholders’ option in respect of, or a partial redemption of, a holding of Registered Notes represented by a single Certificate, a new Certificate shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Registered Notes of the same holding having different terms, separate Certificates shall be issued in respect of those Notes of that holding that have the same terms. New Certificates shall only be issued against surrender of the existing Certificates to the Registrar or any Transfer Agent. In the case of a transfer of Registered Notes to a person who is already a holder of Registered Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.

- (d) **Delivery of New Certificates:** Each new Certificate to be issued pursuant to Conditions 2 (b) or (c) shall be available for delivery within five business days of receipt of the form of transfer or Exercise Notice (as defined in Condition 6(e)) and surrender of the Certificate for exchange. Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer, Exercise Notice or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the form of transfer, Exercise Notice or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Agent (as defined in the Agency Agreement) the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2(d), “business day” means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).
- (e) **Transfer Free of Charge:** Transfers of Notes and Certificates on registration, transfer, partial redemption or exercise of an option shall be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agents, but upon payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require).
- (f) **Closed Periods:** No Noteholder may require the transfer of a Registered Note to be registered (i) during the period of 15 days ending on the due date for redemption of, or payment of any Instalment Amount in respect of, that Note, (ii) during the period of 15 days before any date on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 6(d), (iii) after any such Note has been called for redemption or (iv) during the period of 15 days ending on (and including) any due date for any payment of principal or interest.

### 3 Covenants

Reporting Covenants: The Issuer undertakes to report or cause to be reported the relevant information in connection with each Tranche of Notes, to the National Development and Reform Commission of the PRC (“NDRC”), within 10 business days after the relevant Issue Date of such Tranche of Notes and in accordance with the Notice on Promoting the Reform of the Filing and Registration System for Issuance of Foreign Debt by Enterprises (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知) promulgated by the NDRC effective from 14 September 2015.

### 4 Status

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

### 5 Interest and other Calculations

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

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

- (i) *Interest Payment Dates:* Each Floating Rate Note and Index Linked Interest Note bears interest on its outstanding nominal amount from and including the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(h). Such Interest Payment Date(s) is/are either shown hereon as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown hereon, Interest Payment Date shall mean each date which falls the number of months or other period shown hereon as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.
- (ii) *Business Day Convention:* If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.
- (iii) *Rate of Interest for Floating Rate Notes:* The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined in the manner specified hereon and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified hereon.

(A) ISDA Determination for Floating Rate Notes

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

- (x) the Floating Rate Option is as specified hereon
- (y) the Designated Maturity is a period specified hereon and
- (z) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified hereon.

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

(B) Screen Rate Determination for Floating Rate Notes

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

- (1) the offered quotation; or
- (2) the arithmetic mean of the offered quotations,

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

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

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

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

(C) Benchmark Replacement

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

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

Rate or an Alternative Reference Rate prior to the IA Determination Cut-off Date, the Issuer (acting in a reasonable manner) may determine a Successor Rate or, if there is no Successor Rate, an Alternative Reference Rate;

- (iii) if a Successor Rate or, failing which, an Alternative Reference Rate (as applicable) is determined in accordance with the preceding provisions, such Successor Rate or, failing which, an Alternative Reference Rate (as applicable) shall be the Reference Rate for each of the future Interest Periods (subject to the subsequent operation of, and to adjustment as provided in, this Condition 5(b)(iii)(C); provided, however, that if sub-paragraph (ii) applies and the Issuer (acting in a reasonable manner) is unable to or does not determine a Successor Rate or an Alternative Reference Rate prior to the relevant Interest Determination Date, the Rate of Interest applicable to the next succeeding Interest Period shall be equal to the Rate of Interest last determined in relation to the Notes in respect of the preceding Interest Period (or alternatively, if there has not been a first Interest Payment Date, the rate of interest shall be the initial Rate of Interest) (subject, where applicable, to substituting the Margin, Maximum Rate of Interest or Minimum Rate Interest that applied to such preceding Interest Period for the Margin, Maximum Rate of Interest or Minimum Rate Interest that is to be applied to the relevant Interest Period); for the avoidance of doubt, the proviso in this sub-paragraph (iii) shall apply to the relevant Interest Period only and any subsequent Interest Periods are subject to the subsequent operation of, and to adjustment as provided in, this Condition 5(b)(iii)(C);
- (iv) if the Independent Adviser or the Issuer (acting in a reasonable manner) determines a Successor Rate or, failing which, an Alternative Reference Rate (as applicable) in accordance with the above provisions, the Independent Adviser or the Issuer (acting in good faith and in a commercially reasonable manner) (as applicable), may also specify changes to these Conditions, including but not limited to the Day Count Fraction, Relevant Screen Page, Business Day Convention, business days, Interest Determination Date and/or the definition of Reference Rate applicable to the Notes, and the method for determining the fallback rate in relation to the Notes, if such changes are necessary to ensure the proper operation of such Successor Rate, Alternative Reference Rate and/ or Adjustment Spread (as applicable). If the Independent Adviser (in consultation with the Issuer) or the Issuer (acting in a reasonable manner) (as applicable), determines that an Adjustment Spread is required to be applied to the Successor Rate or the Alternative Reference Rate (as applicable) and determines the quantum of, or a formula or methodology for determining, such Adjustment Spread, then such Adjustment Spread shall be applied to the Successor Rate or the Alternative Reference Rate (as applicable). If the Independent Adviser or the Issuer (acting in a reasonable manner) (as applicable) is unable to determine the quantum of, or a formula or methodology for determining, such Adjustment Spread, then such Successor Rate or Alternative Reference Rate (as applicable) will apply without an Adjustment Spread. For the avoidance of doubt, the Fiscal Agent shall, at the direction and expense of the Issuer, effect such consequential amendments to the Agency Agreement and these Conditions as may be required in order to give effect to this Condition 5(b)(iii)(C). Noteholder or Couponholder consent shall not be required in connection with effecting the Successor Rate or Alternative Reference Rate (as applicable) or such



other changes, including for the execution of any documents or other steps by the Fiscal Agent (if required); and

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

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

In these Conditions:

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

- (1) in the case of a Successor Rate, is formally recommended in relation to the replacement of the Reference Rate with the Successor Rate by any Relevant Nominating Body; or
- (2) in the case of a Successor Rate for which no such recommendation has been made or in the case of an Alternative Reference Rate, the Independent Adviser (in consultation with the Issuer) or the Issuer (acting in a reasonable manner) (as applicable) determines is recognised or acknowledged as being in customary market usage in international debt capital markets transactions which reference the Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Reference Rate (as applicable); or
- (3) (if the Independent Adviser (in consultation with the Issuer) or the Issuer (acting in a reasonable manner) (as applicable) determines that no such customary market usage is recognised or acknowledged, the Independent Adviser (in consultation with the Issuer) or the Issuer in its discretion (as applicable), determines (acting in a reasonable manner) to be appropriate, having regard to the objective, so far as is reasonably practicable in the circumstances and solely for the purposes of this sub-paragraph (iii) only, of reducing or eliminating any economic prejudice or benefit (as the case may be) to the Noteholders and Couponholders.

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

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

- (1) such Reference Rate ceasing to be published for a period of at least five Business Days or ceasing to exist;
- (2) a public statement by the administrator of such Reference Rate that it has ceased or will cease publishing such Reference Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of such Reference Rate);
- (3) a public statement by the supervisor of the administrator of such Reference Rate that such Reference Rate has been or will be permanently or indefinitely discontinued;
- (4) a public statement by the supervisor of the administrator of such Reference Rate that means such Reference Rate will be prohibited from being used either generally or in respect of the Notes or that its use will be subject to restrictions or adverse consequences;
- (5) a public statement by the supervisor of the administrator of such Reference Rate that, in the view of such supervisor, such Reference Rate is no longer representative of an underlying market or the methodology to calculate such Reference Rate has materially changed; or
- (6) it has become unlawful for any Paying Agent, Calculation Agent, the Issuer or other party to calculate any payments due to be made to any Noteholder or Couponholder using such Reference Rate,

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

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

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

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

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

- (iv) *Rate of Interest for Index Linked Interest Notes:* The Rate of Interest in respect of Index Linked Interest Notes for each Interest Accrual Period shall be determined in the manner specified hereon and interest will accrue by reference to an Index or Formula as specified hereon.
- (c) **Zero Coupon Notes:** Where a Note the Interest Basis of which is specified to be Zero Coupon is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Note. As from the Maturity Date, the Rate of Interest for any overdue principal of such a Note shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield (as described in Condition 6(b)(i)).
- (d) **Dual Currency Notes:** In the case of Dual Currency Notes, if the rate or amount of interest falls to be determined by reference to a Rate of Exchange or a method of calculating Rate of Exchange, the rate or amount of interest payable shall be determined in the manner specified hereon.
- (e) **Partly Paid Notes:** In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified hereon.
- (f) **Accrual of Interest:** Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (both before and after judgment) at the Rate of Interest in the manner provided in this Condition 5 to the Relevant Date (as defined in Condition 8).
- (g) **Margin, Maximum/Minimum Rates of Interest, Instalment Amounts and Redemption Amounts and Rounding:**
  - (i) If any Margin is specified hereon (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Condition 5(b) above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin subject always to the next paragraph.
  - (ii) If any Maximum Rate of Interest, Minimum Rate of Interest, Instalment Amount or Redemption Amount is specified hereon, then any Rate of Interest, Instalment Amount or Redemption Amount shall be subject to such maximum or minimum, as the case may be.
  - (iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 of a percentage point being rounded up), (y) all figures shall be rounded to seven significant figures (provided that if the eighth significant figure is a 5 or greater, the seventh significant figure shall be rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with half a unit being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes “unit” means the lowest amount of such currency that is available as legal tender in the country of such currency.
- (h) **Calculations:** The amount of interest payable per Calculation Amount in respect of any Note for any Interest Accrual Period shall be equal to the product of the Rate of Interest, the Calculation Amount specified hereon, and the Day Count Fraction for such Interest Accrual Period, unless an Interest Amount (or a formula for its calculation) is applicable to such Interest Accrual Period, in which case the amount of interest payable per Calculation Amount in respect of such Note for such Interest Accrual Period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable per Calculation

Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Interest Accrual Periods. In respect of any other period for which interest is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be for the period for which interest is required to be calculated.

(i) **Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts and Instalment Amounts:**

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

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

**“Business Day”** means:

- (i) in the case of Notes denominated in a currency other than euro and Renminbi, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency; and/or
- (ii) in the case of Notes denominated in euro, a day on which the TARGET System is operating (a **“TARGET Business Day”**); and/or
- (iii) in the case of Notes denominated in Renminbi, a day (other than a Saturday, Sunday or public holiday) on which commercial banks in Hong Kong are generally open for business and settlement of Renminbi payments in Hong Kong; and/or
- (iv) in the case of Notes denominated in a currency and/or one or more Business Centres, a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is indicated, generally in each of the Business Centres.

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

- (i) if “Actual/Actual” or “Actual/Actual — ISDA” is specified hereon, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365)
- (ii) if “Actual/365 (Fixed)” is specified hereon, the actual number of days in the Calculation Period divided by 365
- (iii) if “Actual/365 (Sterling)” is specified hereon, the actual number of days in the Calculation Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366
- (iv) if “Actual/360” is specified hereon, the actual number of days in the Calculation Period divided by 360
- (v) if “30/360”, “360/360” or “Bond Basis” is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

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

where:

“Y<sub>1</sub>” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“Y<sub>2</sub>” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“M<sub>1</sub>” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“M<sub>2</sub>” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“D<sub>1</sub>” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D<sub>1</sub> will be 30; and

“D<sub>2</sub>” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D<sub>1</sub> is greater than 29, in which case D<sub>2</sub> will be 30.

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

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

where:

“Y<sub>1</sub>” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“Y<sub>2</sub>” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M<sub>1</sub>**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M<sub>2</sub>**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D<sub>1</sub>**” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case **D<sub>1</sub>** will be 30; and

“**D<sub>2</sub>**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case **D<sub>2</sub>** will be 30.

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

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

where

“**Y<sub>1</sub>**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y<sub>2</sub>**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M<sub>1</sub>**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M<sub>2</sub>**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D<sub>1</sub>**” is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case **D<sub>1</sub>** will be 30; and

“**D<sub>2</sub>**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case **D<sub>2</sub>** will be 30.

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

- (a) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and
- (b) if the Calculation Period is longer than one Determination Period, the sum of:
- (x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and
- (y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year

where:

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

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

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

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

**“Interest Amount”** means:

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

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

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

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

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

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

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

**“Reference Banks”** means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and, in the case of a determination of

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

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

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

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

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

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

## **6 Redemption, Purchase and Options**

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

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



(b) **Early Redemption:**

(i) *Zero Coupon Notes:*

- (A) The Early Redemption Amount payable in respect of any Zero Coupon Note, the Early Redemption Amount of which is not linked to an index and/or a formula, upon redemption of such Note pursuant to Condition 6(c), Condition 6(d) or Condition 6(e) or upon it becoming due and payable as provided in Condition 10 shall be the Amortised Face Amount (calculated as provided below) of such Note unless otherwise specified hereon.
- (B) Subject to the provisions of sub-paragraph (C) below, the Amortised Face Amount of any such Note shall be the scheduled Final Redemption Amount of such Note on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is shown hereon, shall be such rate as would produce an Amortised Face Amount equal to the issue price of the Notes if they were discounted back to their issue price on the Issue Date) compounded annually.
- (C) If the Early Redemption Amount payable in respect of any such Note upon its redemption pursuant to Condition 6(c), Condition 6(d) or Condition 6(e) or upon it becoming due and payable as provided in Condition 10 is not paid when due, the Early Redemption Amount due and payable in respect of such Note shall be the Amortised Face Amount of such Note as defined in sub-paragraph (B) above, except that such sub-paragraph shall have effect as though the date on which the Note becomes due and payable were the Relevant Date. The calculation of the Amortised Face Amount in accordance with this sub-paragraph shall continue to be made (both before and after judgment) until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Final Redemption Amount of such Note on the Maturity Date together with any interest that may accrue in accordance with Condition 5(c).

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

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

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

Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.

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

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

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

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

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

- (f) **Partly Paid Notes:** Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the provisions specified hereon.
- (g) **Purchases:** The Issuer and its Subsidiaries (as defined in Condition 10) may at any time purchase Notes (provided that all unmatured Receipts and Coupons and unexchanged Talons relating thereto are attached thereto or surrendered therewith) in the open market or otherwise at any price.
- (h) **Cancellation:** All Notes purchased by or on behalf of the Issuer or any of its Subsidiaries may be surrendered for cancellation, in the case of Bearer Notes, by surrendering each such Note together with all unmatured Receipts and Coupons and all unexchanged Talons to the Fiscal Agent and, in the case of Registered Notes, by surrendering the Certificate representing such Notes to the Registrar and, in each case, if so surrendered, shall, together with all Notes redeemed by the Issuer, be cancelled forthwith

(together with all unmatured Receipts and Coupons and unexchanged Talons attached thereto or surrendered therewith). Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Notes shall be discharged.

## 7 Payments and Talons

- (a) **Bearer Notes:** Payments of principal and interest in respect of Bearer Notes shall, subject as mentioned below, be made against presentation and surrender of the relevant Receipts (in the case of payments of Instalment Amounts other than on the due date for redemption and provided that the Receipt is presented for payment together with its relative Note), Notes (in the case of all other payments of principal and, in the case of interest, as specified in Condition 7(f)(vi)) or Coupons (in the case of interest, save as specified in Condition 7(f)(vi)), as the case may be:
- (i) in the case of Notes denominated in a currency other than Renminbi, at the specified office of any Paying Agent outside the United States by a cheque payable in the relevant currency drawn on, or, at the option of the holder, by transfer to an account denominated in such currency with, a Bank; and
  - (ii) in the case of Notes denominated in Renminbi, by transfer to a Renminbi account maintained by or on behalf of the Noteholder with a bank in Hong Kong.
  - (iii) In this Condition 7(a), “**Bank**” means a bank in the principal financial centre for such currency or, in the case of euro, in a city in which banks have access to the TARGET System.
- (b) **Registered Notes:**
- (i) Payments of principal (which for the purposes of this Condition 7(b) shall include final Instalment Amounts but not other Instalment Amounts) in respect of Registered Notes shall be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in paragraph (ii) below.
  - (ii) Interest (which for the purpose of this Condition 7(b) shall include all Instalment Amounts other than final Instalment Amounts) on Registered Notes shall be paid to the person shown on the Register at the close of business on the fifth (in the case of Notes denominated in Renminbi) and fifteenth (in the case of Notes denominated in a currency other than Renminbi) day before the due date for payment thereof (the “**Record Date**”). Payments of interest on each Registered Note shall be made:
    - (x) in the case of Notes denominated in a currency other than Renminbi, in the relevant currency by cheque drawn on a Bank and mailed to the holder (or to the first-named of joint holders) of such Note at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a Bank; and
    - (y) in the case of Notes denominated in Renminbi, by transfer to the registered account of the Noteholder.
  - (iii) In Condition 7(b)(ii), “**registered account**” means the Renminbi account maintained by or on behalf of the Noteholder with a bank in Hong Kong, details of which appear on the Register at the close of business on the fifth business day before the due date for payment.

- (c) **Payments in the United States:** Notwithstanding the foregoing, if any Bearer Notes are denominated in U.S. dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if (i) the Issuer shall have appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Notes in the manner provided above when due, (ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts and (iii) such payment is then permitted by United States law, without involving, in the opinion of the Issuer, any adverse tax consequence to the Issuer.
- (d) **Payments subject to Fiscal Laws:** All payments are subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 8, and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the “Code”) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, official interpretations thereof, or (without prejudice to the provisions of Condition 8) any law implementing an intergovernmental approach thereto. No commission or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.
- (e) **Appointment of Agents:** The Fiscal Agent, the CMU Lodging and Paying Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent initially appointed by the Issuer and their respective specified offices are listed below. The Fiscal Agent, the CMU Lodging and Paying Agent, the Paying Agents, the Registrars, Transfer Agents and the Calculation Agent(s) act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Noteholder or Couponholder. The Issuer reserves the right at any time to vary or terminate the appointment of the Fiscal Agent, the CMU Lodging and Paying Agent, any other Paying Agent, the Registrar, any Transfer Agent or any Calculation Agent and to appoint additional or other Paying Agents or Transfer Agents, provided that the Issuer shall at all times maintain (i) a Fiscal Agent, (ii) a Registrar in relation to Registered Notes, (iii) a Transfer Agent in relation to Registered Notes, (iv) a CMU Lodging and Paying Agent in relation to Notes accepted for clearance through the CMU, (v) one or more Calculation Agent(s) where the Conditions so require and (vi) such other agents as may be required by any other stock exchange on which the Notes may be listed.

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

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

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

- (ii) Upon the due date for redemption of any Bearer Note comprising a Floating Rate Note, Dual Currency Note or Index Linked Note, unmatured Coupons relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of them.
  - (iii) Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.
  - (iv) Upon the due date for redemption of any Bearer Note that is redeemable in instalments, all Receipts relating to such Note having an Instalment Date falling on or after such due date (whether or not attached) shall become void and no payment shall be made in respect of them.
  - (v) Where any Bearer Note that provides that the relative unmatured Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unmatured Coupons, and where any Bearer Note is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.
  - (vi) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Bearer Note or Certificate representing it, as the case may be. Interest accrued on a Note that only bears interest after its Maturity Date shall be payable on redemption of such Note against presentation of the relevant Note or Certificate representing it, as the case may be.
- (g) **Talons:** On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Bearer Note, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Fiscal Agent in exchange for a further Coupon sheet (and if necessary another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 9).
- (h) **Non-Business Days:** If any date for payment in respect of any Note, Receipt or Coupon is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this Condition 7, “business day” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the relevant place of presentation, in such jurisdictions as shall be specified as “Financial Centres” hereon and:
- (i) (in the case of a payment in a currency other than euro and Renminbi) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency; or
  - (ii) (in the case of a payment in euro) which is a TARGET Business Day; or
  - (iii) (in the case of a payment in Renminbi) on which banks and foreign exchange markets are open for business and settlement of Renminbi payments in Hong Kong.

## 8 Taxation

All payments of principal and interest by or on behalf of the Issuer in respect of the Notes, the Receipts and the Coupons shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or

within any of the Relevant Jurisdictions, unless such withholding or deduction is required by law. In that event, the Issuer shall pay such additional amounts as shall result in receipt by the Noteholders and the Couponholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable with respect to any Note, Receipt or Coupon:

- (a) held by or on behalf of a holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note, Receipt or Coupon by reason of its having some connection with the jurisdiction by which such taxes, duties, assessments or charges have been imposed levied, collected, withheld or assessed other than the mere holding of the Note, Receipt or Coupon; or,
- (b) where (in the case of a payment of principal or interest on redemption) the relevant Certificate is surrendered for payment more than 30 days after the Relevant Date except to the extent that the relevant holder would have been entitled to such additional amounts if it had surrendered the relevant Certificate on the last day of such period of 30 days; or
- (c) held by or on behalf of a holder who would not be liable for or subject to such withholding or deduction by making a declaration of identity, non residence or other similar claim for exemption to the relevant tax authority if, after having been requested to make such declaration or claim, such holder fails to do so within any applicable period prescribed by such relevant tax authority.

As used in these Conditions:

- (a) “**Relevant Date**” in respect of any Note, Receipt or Coupon means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders that, upon further presentation of the Note (or relative Certificate), Receipt or Coupon being made in accordance with these Conditions, such payment will be made, provided that payment is in fact made upon such presentation; and
- (b) “**Relevant Jurisdiction**” means Hong Kong, the PRC (as defined in Condition 10) or any political subdivision or any authority thereof or therein having power to tax or any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer becomes subject in respect of payments made by it of principal and interest on the Notes.

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

## 9 Prescription

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

## 10 Events of Default

If any of the following events (“**Events of Default**”) occurs and is continuing, the holder of any Note may give written notice to the Fiscal Agent at its specified office that such Note is immediately repayable, whereupon the

Early Redemption Amount of such Note together (if applicable) with accrued interest to the date of payment shall become immediately due and payable:

- (a) **Non-Payment:** the Issuer fails to pay the principal of or any premium (if any) or interest on any of the Notes when due and such failure continues for a period of 30 days; or
- (b) **Breach of Other Obligations:** the Issuer does not perform or comply with any one or more of its other obligations in the Notes, the Deed of Covenant or the Agency Agreement which default continues for a period of 45 days after notice of such default shall have been given to the Fiscal Agent at its specified office by any Noteholder; or
- (c) **Cross-Default:** (A) any other present or future Public External Indebtedness of the Issuer or any of its Subsidiaries becomes due and payable prior to its stated maturity by reason of any default, event of default or the like (howsoever described) in respect of the terms thereof, or (B) any such Public External Indebtedness is not paid when due or, as the case may be, within any applicable grace period, provided that the aggregate amount of the relevant Public External Indebtedness in respect of which one or more of the events mentioned above in this Condition 10(c) have occurred equals or exceeds U.S.\$25,000,000 or its equivalent; or
- (d) **Insolvency:** the Issuer or any of its Material Subsidiaries is insolvent or bankrupt or unable to pay its debts, stops or suspends payment of all or a material part of its debts, proposes or makes any agreement for the deferral, rescheduling or other readjustment of all or a material part of its debts, proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared in respect of or affecting all or a material part of the debts of the Issuer or any of its Material Subsidiaries; or
- (e) **Winding-up:** an order is made or an effective resolution passed for the winding-up or dissolution or administration of the Issuer or any of its Material Subsidiaries, or the Issuer ceases to carry on all or a material part of its business or operations, except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by an Extraordinary Resolution (as defined in the Agency Agreement) of the Noteholders or (ii) in the case of a Material Subsidiary, whereby the undertaking and assets of the Material Subsidiary are transferred to or otherwise vested in the Issuer or another of its Material Subsidiaries; or
- (f) **Illegality:** it is or will become unlawful for the Issuer to perform or comply with any one or more of its obligations under any of the Notes, the Deed of Covenant or the Agency Agreement.

In these Conditions:

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

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

**“Public External Indebtedness”** means any indebtedness of the Issuer or any of its Subsidiaries, or any guarantee or indemnity by such entity of indebtedness, for money borrowed which, (i) is in the form of or represented by any bond, note, debenture, debenture stock, loan stock, certificate or other instrument which is, or is capable of being listed, quoted or traded on any stock exchange or in any securities market (including,

without limitation, any over-the-counter market) outside the People's Republic of China (for the purposes hereof not including the Hong Kong and Macau Special Administration Regions or Taiwan) ("PRC") (without regard, however, to whether or not such instruments are sold through public offerings or private placements); and (ii) has an original maturity of more than 365 days, which, for the avoidance of doubt, shall exclude any asset-backed securities offered or issued by the Issuer or any of its Subsidiaries to investors where payments made under such securities are serviced primarily by the cash flows of certain assets of the Issuer; and

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

## 11 Meeting of Noteholders and Modifications

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

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

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

- (b) **Modification of Agency Agreement:** The parties to the Agency Agreement may agree to modify any provision thereof, but the Issuer shall not agree, without the consent of the Noteholders, to any such



modification unless it is of a formal, minor or technical nature, it is made to correct a manifest error or it is, in the opinion of such parties, not materially prejudicial to the interests of the Noteholders.

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

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

## **13 Further Issues**

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

## **14 Notices**

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

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

## **15 Contracts (Rights of Third Parties) Act 1999**

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

## 16 Governing Law and Jurisdiction

- (a) **Governing Law:** The Notes, the Receipts, the Coupons and the Talons and any non— contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.
- (b) **Jurisdiction:** The courts of Hong Kong are to have exclusive jurisdiction to settle any disputes that may arise out of or in connection with any Notes, Receipts, Coupons or Talons and accordingly any legal action or proceedings arising out of or in connection with any Notes, Receipts, Coupons or Talons and any non-contractual obligations arising out of or in connection with them (“**Proceedings**”) may be brought in such courts. The Issuer irrevocably submits to the exclusive jurisdiction of the courts of Hong Kong and waives any objection to Proceedings in such courts on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum.
- (c) **Waiver of immunity:** To the extent that the Issuer may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Issuer, or its assets or revenues, the Issuer agrees not to claim and irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction.

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

### **Initial Issue of Notes**

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

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

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

### **Relationship of Accountholders with Clearing Systems**

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

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

### **Exchange**

#### ***Temporary Global Notes***

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

- (i) if the relevant Pricing Supplement indicates that such Global Note is issued in compliance with the C Rules or in a transaction to which TEFRA is not applicable (as to which, see “*Summary of the Programme — Selling Restrictions*”), in whole, but not in part, for the Definitive Notes defined and described below; and
- (ii) otherwise, in whole or in part upon certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement for interests in a permanent Global Note or, if so provided in the relevant Pricing Supplement, for Definitive Notes.

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

### ***Permanent Global Notes***

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

- (i) if the permanent Global Note is held on behalf of Euroclear or Clearstream or the CMU or any other clearing system (an “**Alternative Clearing System**”) and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or in fact does so or
- (ii) if principal in respect of any Notes is not paid when due, by the holder giving notice to the Fiscal Agent (or, in the case of Notes lodged with the CMU, the CMU Lodging and Paying Agent) of its election for such exchange.

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

### ***Global Certificates***

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

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

- (i) if the relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so;
- (ii) if principal in respect of any Notes is not paid when due; or
- (iii) with the prior consent of the Issuer,

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

### ***Partial Exchange of Permanent Global Notes***

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

### ***Delivery of Notes***

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

### ***Exchange Date***

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

### ***Amendment to Conditions***

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

### ***Payments***

No payment falling due after the Exchange Date will be made on any Global Note unless exchange for an interest in a permanent Global Note or for Definitive Notes or Registered Notes is improperly withheld or refused. Payments on any temporary Global Note issued in compliance with the D Rules before the Exchange Date will only be made against presentation of certification as to non-U.S. beneficial ownership in the form set

out in the Agency Agreement. All payments in respect of Notes represented by a Global Note (except with respect to Global Note held through the CMU) will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of that Global Note to or to the order of the Fiscal Agent as shall have been notified to the Noteholders for such purpose. A record of each payment so made will be endorsed on each Global Note, which endorsement will be prima facie evidence that such payment has been made in respect of the Notes.

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

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

### **Prescription**

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

### **Meetings**

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

### **Cancellation**

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

### **Purchase**

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

### **The Option of the Issuer**

Any option of the Issuer provided for in the Conditions of any Notes while such Notes are represented by a permanent Global Note or Global Certificate shall be exercised by the Issuer giving notice to the Noteholders within the time limits set out in and containing the information required by the Conditions, except that the notice shall not be required to contain, in the case of Bearer Notes, the certificate numbers of Notes drawn or, in the case of Registered Notes, the holder of the Notes in respect of a partial exercise of an option and accordingly no drawing of Notes shall be required. In the event that any option of the Issuer is exercised in respect of some

but not all of the Notes of any Series, the rights of accountholders with a clearing system in respect of the Notes will be governed by the standard procedures of Euroclear, Clearstream, the CMU or any other clearing system (as the case may be).

### **Noteholders' Options**

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

### **Notices**

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

### **Partly Paid Notes**

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

## FORM OF PRICING SUPPLEMENT

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

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

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

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

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

**UK MIFIR product governance / Professional investors and ECPs only target market** – Solely for the purposes of [the/each] manufacturer’s product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook (“**COBS**”), and professional clients, as defined in Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the European Union (Withdrawal)



Act 2018 (“**UK MiFIR**”); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a “**distributor**”) should take into consideration the manufacturer[’s/s’] target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the “**UK MiFIR Product Governance Rules**”) is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer[’s/s’] target market assessment) and determining appropriate distribution channels.] / *[appropriate target market legend to be included]*

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

**Pricing Supplement dated [●]**

**Bank of Communications Co., Ltd. [Hong Kong/[●]] Branch**

**Legal Entity Identifier of Bank of Communications Co., Ltd.: 549300AX1UM10U30HK09**

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

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

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

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

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the “**Conditions**”) set forth in the Offering Circular dated [*original date*]. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Offering Circular dated [*current date*] [and the supplemental Offering Circular dated [*date*]], save in respect of the Conditions which are extracted from the Offering Circular dated [*original date*] and are attached hereto. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of the Offering Circular[, the supplemental Offering Circular dated [*date*]] and this Pricing Supplement.]

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

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

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

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

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

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

- |   |   |  |
|---|---|--|
| 1 | Issuer:   | Bank of Communications Co., Ltd.<br>[Hong Kong/[●]] Branch   |
| 2 | [(i)] Series Number:  | [●]  |
|   | [(ii)] Tranche Number:]   | [●]  |
|   | [(iii)] Date on which the Notes will be consolidated and form a single Series:] | The Notes will be consolidated and form a single Series with <i>[identify earlier Tranches]</i> on [the Issue Date/the date that is 40 days after the Issue Date/exchange of the temporary Global Note for interests in the permanent Global Note, as referred to in paragraph 27 below, which is expected to occur on or about <i>[date]</i> ][Not Applicable] <sup>(1)</sup> |
| 3 | Specified Currency or Currencies:   | [●]  |
| 4 | Aggregate Nominal Amount:   | [●]  |
|   | [(i)] Series:   | [●]  |
|   | [(ii)] Tranche:   | [●]  |
| 5 | [(i)] Issue Price:  | [●] per cent. of the Aggregate Nominal Amount [plus accrued interest from <i>[insert date]</i> ( <i>in the case of fungible issues only, if applicable</i> )]  |
|   | [(ii)] Net proceeds:  | [●] ( <i>Required only for listed issues</i> )   |

|    |  |   |
|----|--|---|
| 6  | Use of Proceeds  | [●] (If applicable, include relevant disclosure if proceeds are used to repay indebtedness of relevant Dealer(s))   |
| 7  | (i) Specified Denominations:   | [●] <sup>(2)</sup>  |
|    | (ii) Calculation Amount <sup>(5)</sup> :                                 | [●]   |
| 8  | (i) Issue Date:  | [●]   |
|    | (ii) Interest Commencement Date:   | [Specify/Issue date/Not Applicable]   |
| 9  | Maturity Date:   | [specify date (for Fixed Rate Notes) or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year] <sup>(3)</sup>                                      |
| 10 | Interest Basis:  | [[●] per cent. Fixed Rate]<br>[specify reference rate] +/- [●] per cent. Floating Rate]<br>[Zero Coupon]<br>[Index Linked Interest]<br>[Other (specify)]<br>(further particulars specified below) |
| 11 | Redemption/Payment Basis:  | [Redemption at par]<br>[Index Linked Redemption] [Dual Currency]<br>[Partly Paid] [Instalment]<br>[Other (specify)]   |
| 12 | Change of Interest or Redemption/Payment Basis:                          | [Specify details of any provision for convertibility of Notes into another interest or redemption/payment basis]  |
| 13 | Put/Call Options:  | [Put]<br>[Call]<br>[(further particulars specified below)]  |
| 14 | (i) Status of the Notes:   | Senior Notes  |
|    | (ii) Regulatory approval for issuance of Notes obtained <sup>(6)</sup> : | [[●]/None required] <sup>(6)</sup>  |
| 15 | Listing:   | [●]/Other (specify)/None]   |
| 16 | Method of distribution:  | [Syndicated/Non-syndicated]   |
| 17 | Private Bank Rebate/Commission:  | [Applicable/Not Applicable]   |

#### **PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

|    |   |  |
|----|---|--|
| 18 | Fixed Rate Note Provisions                    | [Applicable/Not Applicable] (If not applicable, delete the remaining subparagraphs of this paragraph)            |
|    | (i) Rate [(s)] of Interest:                   | [●] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrear]                           |
|    | <del>(ii)</del> (i) Interest Payment Date(s): | [●] in each year <sup>(4)</sup> [adjusted in accordance with [specify Business Day Convention and any applicable |

|    |  |  |
|----|--|--|
|    |  | <i>Business Centre(s) for the definition of "Business Day"]/not adjusted]</i>  |
|    | <del>(iii)</del> (ii) Fixed Coupon Amount[(s)]:  | [●] per Calculation Amount <sup>(5)</sup>  |
|    | <del>(iv)</del> (iii) Broken Amount:   | [●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●] <i>[Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount[(s)] and the Interest Payment Date(s) to which they relate]</i> |
|    | <del>(v)</del> (iv) Day Count Fraction (Condition 5(j)):   | [30/360/Actual/Actual (ICMA/ISDA)/Other] <i>(Day count fraction should be Actual/Actual-ICMA for all fixed rate issues other than those denominated in US dollars or Hong Kong dollars, unless the client requests otherwise)</i>  |
|    | <del>(vi)</del> (v) Determination Date(s) (Condition 5(j)):  | [●] in each year. <i>[Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon]</i> <sup>(7)</sup>  |
|    | <del>(vii)</del> (vi) Other terms relating to the method of calculating interest for Fixed Rate Notes:                 | [Not Applicable/give details]  |
| 19 | Floating Rate Note Provisions  | [Applicable/Not Applicable] <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>  |
|    | (i) Interest Period(s):  | [●]  |
|    | (ii) Specified Interest Payment Dates:   | [●]  |
|    | (iii) Interest Period Date(s):   | [Not Applicable/specify dates] <i>(Not applicable unless different from Interest Payment Date)</i>   |
|    | (iv) Business Day Convention:  | [Floating Rate Business Day<br>Convention/Following Business Day<br>Convention/Modified Following Business Day<br>Convention/Preceding Business Day<br>Convention/other <i>(give details)</i> ]  |
|    | (v) Business Centre(s) (Condition 5(j)):   | [●]  |
|    | (vi) Manner in which the Rate(s) of Interest is/are to be determined:  | [Screen Rate Determination/ISDA Determination/<br>other <i>(give details)</i> ]  |
|    | (vii) Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Calculation Agent): | [●]  |
|    | (viii) Screen Rate Determination (Condition 5(b)(iii)(B)):   |  |
|    | — Reference Rate:  | [●]  |

|    |  |   |
|----|--|---|
|    | — Interest Determination Date:   | [●] [TARGET] Business Days in [specify city] for [specify currency] prior to [the first day in each Interest Accrual Period/each Interest Payment Date] |
|    | — Relevant Screen Page:  | [●]   |
|    | (ix) ISDA Determination (Condition 5(b)(iii)(A)):  |   |
|    | — Floating Rate Option:  | [●]   |
|    | — Designated Maturity:   | [●]   |
|    | — Reset Date:  | [●]   |
|    | — ISDA Definitions: (if different from those set out in the Conditions)  | [2000/2006]   |
|    | (x) Margin(s):   | [+/-] [●] per cent. per annum   |
|    | (xi) Minimum Rate of Interest:   | [●] per cent. per annum   |
|    | (xii) Maximum Rate of Interest:  | [●] per cent. per annum   |
|    | (xiii) Day Count Fraction (Condition 5(j)):  | [●]   |
|    | (xiv) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions: | [●]   |
| 20 | Zero Coupon Note Provisions  | [Applicable/Not Applicable] <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>   |
|    | (i) Amortisation Yield (Condition 6(b)):   | [●] per cent. per annum   |
|    | (ii) Day Count Fraction (Condition 5(j)):  | [●]   |
|    | (iii) Any other formula/basis of determining amount payable:   | [●]   |
| 21 | Index Linked Interest Note Provisions  | [Applicable/Not Applicable] <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>   |
|    | (i) Index/Formula:   | [Give or annex details]   |
|    | (ii) Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the [Agent]):   | [●]   |
|    | (iii) Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable:   | [●]   |

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

## PROVISIONS RELATING TO REDEMPTION

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

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

#### GENERAL PROVISIONS APPLICABLE TO THE NOTES

|    |   |   |
|----|---|---|
| 27 | Form of Notes:  | [Bearer Notes/Registered Notes/Dematerialised Registered Notes]<br>[Delete as appropriate]<br>[temporary Global Note exchangeable for a permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the permanent Global Note] [temporary Global Note exchangeable for Definitive Notes on [●] days' notice] [permanent Global Note/Certificate exchangeable for Definitive Notes/Certificates on [●] days' notice/at any time/in the limited circumstances specified in the permanent Global Note/Certificate] <sup>(8)</sup> |
| 28 | Financial Centre(s) (Condition 7(h)) or other special provisions relating to payment dates:   | [Not Applicable/Give details. Note that this item relates to the date and place of payment, and not interest period end dates, to which item 17(ii), 18(iv) and 20(vii) relate]   |
| 29 | Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):   | [Yes/No. If yes, give details]  |
| 30 | Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment: | [Not Applicable/give details]   |

|    |  |   |
|----|--|---|
| 31 | Details relating to Instalment Notes:                            | [Not Applicable/ <i>give details</i> ]  |
|    | (i) Instalment Amount(s):  | [•]   |
|    | (ii) Instalment Date(s):   | [•]   |
|    | (iii) Minimum Instalment Amount:                                 | [•]   |
|    | (iv) Maximum Instalment Amount:                                  | [•]   |
| 32 | Redenomination, renominatisation and reconventioning provisions: | [Not Applicable/The provisions annexed to this Pricing Supplement apply]  |
| 33 | Consolidation provisions:  | [Not Applicable/The provisions annexed to this Pricing Supplement apply]  |
| 34 | Other terms or special conditions:                               | <p>[Not Applicable/<i>give details</i>]<sup>(9)</sup></p> <p>[The definition of the “Relevant Jurisdiction” as set out in Condition 8 shall be deemed to be deleted in its entirety and replaced with the following:</p> <p>“<b>“Relevant Jurisdiction”</b> means [jurisdiction where the relevant branch is located], the PRC (as defined in Condition 10) or any political subdivision or any authority thereof or therein having power to tax or any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer becomes subject in respect of payments made by it of principal and interest on the Notes.”]<sup>(10)</sup></p> <p>[Condition 1 (<i>Form, Denomination and Title</i>) and Condition 2 (<i>No Exchange of Notes and Transfers of Registered Notes</i>) — no definitive Certificates shall be issued, and all references to “Noteholders” shall mean the accountholders at [the relevant clearing system] as from time to time certified by [the relevant clearing system] (the “[the relevant clearing system] Accountholders”).</p> <p>Condition 7 (<i>Payments and Talons</i>) — all payments shall be made to [the relevant clearing system] Accountholders.</p> <p>Condition 11 (<i>Meeting of Noteholders and Modifications</i>) — the persons entitled to attend and vote at a meeting shall be [the relevant clearing system] Accountholders.</p> <p>Condition 14 (<i>Notices</i>) — notices shall be given to [the relevant clearing system] for communications purposes in accordance with rules and procedures of [the relevant clearing system] for the time being.</p> <p>All Conditions requiring presentation or surrender of Certificate are not applicable.</p> |



A deed poll dated the Issue Date has been executed by the Issuer and delivered to the Fiscal Agent.](<sup>11</sup>)

## DISTRIBUTION

- |    |   |  |
|----|---|--|
| 35 | (i) If syndicated, names of Managers:         | [Not Applicable/ <i>give names</i> ]   |
|    | (ii) Stabilisation Manager (if any):          | [Not Applicable/ <i>give name</i> ]  |
| 36 | If non-syndicated, name of Dealer:            | [Not Applicable/ <i>give name</i> ]  |
| 37 | U.S. Selling Restrictions:                    | [Reg. S Category 1/2; TEFRA D/TEFRA C/TEFRA Not Applicable]  |
| 38 | Additional selling restrictions:              | [Not Applicable/ <i>give details</i> ]   |
| 39 | Prohibition of Sales to EEA Retail Investors: | [Applicable/Not Applicable]<br><i>(If the Notes clearly do not constitute “packaged” products, “Not Applicable” should be specified. If Notes may constitute “packaged” products and no KID will be prepared in the EEA, “Applicable” should be specified.)</i>    |
| 40 | Prohibition of Sales to UK Retail Investors:  | [Applicable/Not Applicable]<br><i>(If the Notes clearly do not constitute “packaged” products, “Not Applicable” should be specified. If the Notes may constitute “packaged” products and no KID will be prepared in the UK, “Applicable” should be specified.)</i> |

## OPERATIONAL INFORMATION

- |    |   |  |
|----|---|--|
| 41 | ISIN Code:  | [●]  |
| 42 | Common Code:  | [●]  |
| 43 | CMU Instrument Number:  | [●]  |
| 44 | Any clearing system(s) other than Euroclear, Clearstream and the CMU Service and the relevant identification number(s): | [Not Applicable/ <i>give name(s) and number(s)</i> ] |
| 45 | Delivery:   | Delivery [against/free of] payment                   |
| 46 | Additional Paying Agents (if any):  | [●]  |

## GENERAL

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

49            In the case of Bearer Notes, specify the            [Not Applicable/Hong Kong]  
                 location of the office of the Fiscal Agent  
                 if other than London:

## [LISTING APPLICATION]

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

## [STABILISATION]

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

## [MATERIAL ADVERSE CHANGE STATEMENT]

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

## RESPONSIBILITY

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

Signed on behalf of the Issuer:

By: \_\_\_\_\_  
Duly authorised

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Notes:

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

Notes (including Notes denominated in sterling) in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the FSMA and

which have a maturity of less than one year must have a minimum redemption value of £100,000 (or its equivalent in other currencies).

- (2) If the specified denomination is expressed to be €100,000 or its equivalent and multiples of a lower principal amount (for example €1,000), insert the additional wording set out in the Guidance Note published by ICMA in November 2006 (or its replacement from time to time) as follows: “€100,000 and integral multiples of €1,000 in excess thereof up to and including €199,000. No notes in definitive form will be issued with a denomination above €199,000”.
- (3) Note that for Renminbi or Hong Kong dollar denominated Fixed Rate Notes where the Interest Payment Dates are subject to modification it will be necessary to use the second option here.
- (4) Note that for certain Renminbi or Hong Kong dollar denominated Fixed Rate Notes the Interest Payment Dates are subject to modification and the following words should be added: “provided that if any Interest Payment Date falls on a day which is not a Business Day, the Interest Payment Date will be the next succeeding Business Day unless it would thereby fall in the next calendar month in which event the Interest Payment Date shall be brought forward to the immediately preceding Business Day.”
- (5) For Renminbi or Hong Kong dollar denominated Fixed Rate Notes where the Interest Payment Dates are subject to modification the following alternative wording is appropriate: “Each Fixed Coupon Amount shall be calculated by multiplying the product of the Rate of Interest and the Calculation Amount by the Day Count Fraction and rounding the resultant figure to the nearest CNY0.01, CNY0.05 in the case of Renminbi denominated Fixed Rate Notes or to the nearest HK\$0.01, HK\$0.005 in the case of Hong Kong dollar denominated Fixed Rate Notes, being rounded upwards.”
- (6) State the date of the Pre-Issuance NDRC Registration.
- (7) Only to be completed for an issue where the Day Count Fraction is Actual/Actual-ICMA.
- (8) If the temporary Global Note is exchangeable for definitives at the option of the holder, the Notes shall be tradeable only in amounts of at least the Specified Denomination (or if more than one Specified Denomination, the lowest Specified Denomination) provided in paragraph 6 and multiples thereof.
- (9) If full terms and conditions are to be used, please add the following here:

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

The first set of bracketed words is to be deleted where there is a permanent global Note instead of Notes in definitive form. The full Conditions should be attached to and form part of the Pricing Supplement.
- (10) Required only for an Issuer other than Bank of Communications Co., Ltd. Hong Kong Branch.
- (11) Required only for dematerialised Registered Notes.
- (12) If any change is disclosed in the Pricing Supplement, it may require approval by the Stock Exchange(s). Consideration should be given as to whether or not such disclosure should be made by means of a supplemental Offering Circular rather than in a Pricing Supplement.

## CAPITALISATION AND INDEBTEDNESS

### Capitalisation and Indebtedness of the Bank

The following table sets forth the actual consolidated debt and capitalisation of the Bank as at 30 June 2021. Investors should read this table in conjunction with the Bank's unaudited condensed consolidated interim financial statements as at and for the six months ended 30 June 2021 and the notes thereto included in this Offering Circular.

Except for the translation amount shown in U.S.\$, the Bank's unaudited condensed consolidated interim financial statements as at 30 June 2021 set forth below are derived from the published unaudited consolidated interim financial statements as at and for the six months ended 30 June 2021.

|   | As at 30 June 2021      |                            |
|---|-------------------------|----------------------------|
|   | <i>(RMB in million)</i> | <i>(U.S.\$ in million)</i> |
|   | <i>(unaudited)</i>      | <i>(unaudited)</i>         |
| <b>Debt</b>                               |                         |                            |
| Debt securities issued .....              | 541,597                 | 83,883                     |
| Other borrowings <sup>(1)</sup> .....     | 8,854,758               | 1,371,427                  |
| Total debt .....                          | <u>9,396,355</u>        | <u>1,455,310</u>           |
| <b>Equity</b>                             |                         |                            |
| Share capital .....                       | 74,263                  | 11,502                     |
| Other equity instruments .....            | 174,790                 | 27,072                     |
| Capital surplus .....                     | 111,428                 | 17,258                     |
| Other reserves .....                      | 345,770                 | 53,553                     |
| Retained earnings .....                   | 217,357                 | 33,664                     |
| Non-controlling interests .....           | 12,307                  | 1,906                      |
| Total equity .....                        | <u>935,915</u>          | <u>144,955</u>             |
| Total capitalisation <sup>(2)</sup> ..... | <u>10,332,270</u>       | <u>1,600,265</u>           |

Notes:

- (1) Other borrowings include amounts due to and placements from banks and other financial institutions and amounts due to customers.
- (2) Total capitalisation equals the sum of total debt and total equity.

In October, the Bank exercised its right to redeem all of its EUR500,000,000 Tier-2 capital bonds due 2026.

In September 2021, the Bank issued RMB30 billion 3.65 per cent. 10-year fixed rate Tier-2 capital bonds in the national inter-bank bond market.

In February 2022, the Bank issued RMB30 billion 3.45 per cent. 10-year fixed rate Tier-2 capital bonds in the national inter-bank bond market.

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

## **USE OF PROCEEDS**

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

## DESCRIPTION OF THE HONG KONG BRANCH

### Business Activities

Established in 1934, the Hong Kong branch of the Bank is the largest overseas branch of the Bank. As at 30 June 2021, it had 45 outlets in Hong Kong.

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

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

Bank of Communications (Hong Kong) was a wholly-owned subsidiary of the Bank through establishing a complete corporate governance structure in accordance with the Ordinance and other relevant regulatory requirements. The establishment of Bank of Communications (Hong Kong) aimed to expand and intensify the Bank’s retail and private banking business by building on its strong foundation in Hong Kong. The establishment demonstrated the Bank’s long-term commitment to Hong Kong customers, employees and business partners and signifies a clearer and more focused separation in the serving of different customer groups. The Hong Kong branch of the Bank continues to exist and hold a full banking licence under the Ordinance to operate its banking business as a licensed bank in Hong Kong. As at 31 December 2021, the Hong Kong branch of the Bank had 943 employees and Bank of Communications (Hong Kong) had 872 employees.

### Hong Kong Banking Industry Regulatory Regime

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

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

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

- the HKMA may order a licensed bank, any of its subsidiaries, its holding company or any subsidiaries of its holding company to provide such further information (either specifically or periodically) as it may reasonably require for the exercise of its functions under the Banking Ordinance or as it may consider necessary in the interests of the depositors or potential depositors of the licensed bank concerned. Such information shall be submitted within such period and in such manner as the HKMA may require. The HKMA may also require a report by a licensed bank's auditors (approved by the HKMA for the purpose of preparing the report) confirming whether or not such information or return is correctly compiled in all material respects;
- licensed banks may be required to provide information to the HKMA regarding companies in which they have an aggregate of 20 per cent. or more direct or indirect shareholding or with which they have common directors or managers (as defined in the Banking Ordinance), the same controller (as defined in the Banking Ordinance), with common features in their names or a concert party arrangement to promote the licensed bank's business;
- licensed banks are obliged to report to the HKMA immediately of their likelihood of becoming unable to meet their obligations;
- the HKMA may direct a licensed bank to appoint an auditor to report to the HKMA on the state of affairs and/or profit and loss of the licensed bank or the adequacy of the systems of control of the licensed bank or other matters as the HKMA may reasonably require; and
- the HKMA may, at any time, with or without prior notice, examine the books, accounts and transactions of any licensed bank, and in the case of a licensed bank incorporated in Hong Kong, any local branch, overseas branch, overseas representative office or subsidiary, whether local or overseas, of such licensed bank. Such inspections are carried out by the HKMA on a regular basis.



## DESCRIPTION OF THE BANK

### OVERVIEW

Founded in 1908, the Bank is one of the note-issuing banks with the longest history in modern China. In 1986, the State Council of the PRC decided to reorganise the Bank. The Bank reopened after reorganisation on 1 April 1987. It is the first nationwide state-owned joint-stock commercial bank in China, with the head office located in Shanghai. The Bank made its first public offering of its H shares and listing on the Hong Kong Stock Exchange in June 2005, and its first public offering of its A shares and listing on the Shanghai Stock Exchange in May 2007. The Bank was the sixth largest commercial bank in the PRC based on total assets as at 31 December 2020. The Group was ranked in Fortune 500 for twelve consecutive years, and ranked No. 162 in 2020. The Group ranked No.11 among the global Top 1000 banks rated by *The Banker*.

Substantially all of the Bank's operations are located in the PRC and the Bank is headquartered in Shanghai. As at 31 December 2020, the Group had 245 domestic branches, including 37 provincial branches and directly-managed branches and 208 branches managed by provincial branches, most of which are concentrated in the Yangtze River Delta, Pearl River Delta and Bohai Rim Economic Zone, as well as large cities in other areas. Through this network and other distribution channels, the Group provides a broad range of financial products and services to its corporate and personal finance customers. As at 30 June 2021, in addition to its PRC operations, the Bank has branches or subsidiaries which are located in Hong Kong, New York, San Francisco, Tokyo, Singapore, Seoul, Frankfurt, Macau, Ho Chi Minh City, Sydney, Brisbane, Melbourne, Taipei, London, Luxembourg, Paris, Rome, Brazil, Prague and Johannesburg, and its representative office in Toronto commenced operations in November 2014.

The Group is engaged predominantly in banking and related financial activities. It comprises corporate banking, personal banking, treasury and other business. Corporate banking mainly comprises corporate loans, bills, trade financing, corporate deposits and remittance. Personal banking mainly comprises personal loans, personal deposits, credit cards and remittance. Treasury mainly comprises money market placements and takings, financial investment, and securities sold under repurchase agreements. The "Others Business" segment mainly comprises items which cannot be categorised in the above business segments.

For the years ended 31 December 2018, 2019 and 2020 and for the six months ended 30 June 2021, the Group's profit before tax were RMB86,067 million, RMB88,200 million, RMB86,425 million and RMB46,588 million, respectively. As at 31 December 2018, 2019 and 2020 and 30 June 2021, the Group had total assets of RMB9,531,171 million, RMB9,905,600 million, RMB10,697,616 million and RMB11,413,960 million, respectively, gross amount of loans and advances to customers before allowance for impairment of RMB4,854,228 million, RMB5,304,275 million, RMB5,848,424 million and RMB6,346,703 million, respectively, total amounts due to customers of RMB5,793,324 million, RMB6,072,908 million, RMB6,607,330 million and RMB7,016,652 million, respectively, and total equity attributable to equity holders of the parent company of RMB698,405 million, RMB793,247 million, RMB866,607 million and RMB923,608 million, respectively. As at 31 December 2018, 2019 and 2020 and 30 June 2021, the Group's non-performing loan ratios were 1.49 per cent., 1.47 per cent., 1.67 per cent. and 1.60 per cent., respectively. As at 31 December 2018, 2019 and 2020 and 30 June 2021, the Group's provision coverage ratios were 173.13 per cent., 171.77 per cent., 143.87 per cent. and 149.29 per cent., respectively.

### RECENT DEVELOPMENTS

#### Highlights of third quarter 2021 results

The 2021 Third Quarter Financial Information was published on 29 October 2021 on the website of the Hong Kong Stock Exchange. During the third quarter of 2021, the Group insisted on the target of high-quality

development and firmly grasped the macroeconomic trends and the business development patterns. By intensively focusing on the “One-Four-Five” Strategy and the principal theme of structure adjustment, the Group further consolidated the operating status of making ongoing progress and quality improvement while maintaining stability. As at 30 September 2021, the total assets of the Group increased by 7.24 per cent. over the end of the previous year to RMB11,472.623 billion. As at 30 September 2021, the total liabilities of the Group increased by 7.10 per cent. over the end of the previous year to RMB10,515.763 billion. As at 30 September 2021, the shareholders’ equity (attributable to shareholders of the Bank) of the Group increased by 8.97 per cent. over the end of the previous year to RMB944,346 billion. For the nine months ended 30 September 2021, the net operating income of the Group increased by 7.85 per cent. on a year-on-year basis to RMB200,210 billion. For the nine months ended 30 September 2021, the net profit (attributable to shareholders of the Bank) of the Group increased by 22.10 per cent. on a year-on-year basis to RMB64,360 billion. The annualised return on average assets and the annualised return on weighted average net assets were 0.79 per cent. and 10.72 per cent., representing year-on-year increases of 0.10 per cent. and 1.40 per cent., respectively.

## THE BANK’S AWARDS

The Bank believes the brand of “Bank of Communications” is one of the most recognised financial service brand names in China. The Bank ranked No. 11 among the Top 1000 World Banks 2020 by *The Banker*. The Bank was honoured in Fortune 500 for twelve consecutive years and was ranked No. 162 in 2020. The Bank was awarded “Outstanding Corporate Social Responsibility Award or Chinese Enterprises in 2020” and “Excellent Corporate Social Responsibility Cases in 2020” by *Xinhuanet* and “Best Bank for Poverty Alleviation Support in 2020” by *Financial Times*. Besides, the Bank was awarded “Best Brand Image Bank of the Year” and “Best Innovative FinTech Bank of the Year” by *Sina Finance*, and “Mobile Banking with Best User Experience Award” and “Best Open Bank Award” by China Financial Certification Authority (CFCA). The Bank was awarded “2020 Gamma Award for Best Comprehensive Bank in Undertaking Investment Bank Business” by the *Securities Times* and “Best Green Bond 2020 (China)” by *The Asset*. In 2019, the Bank was awarded “2019 Best Bank for Poverty Alleviation” (最佳脫貧攻堅銀行) by *Financial Times*, “2019 Excellent Green Bank” by the Green Credit Business Committee of China Banking Association (“CBA”), A Level for 2019 in consumer protection by the PBOC, “Annual Financial Institution” (年度金融機構) by 2019 TOP Financial List, “Award for Achievement on Implementing the Belt and Road Initiative” (積極踐行「一帶一路」倡議成效獎) by CBA, and “Top 10 Cases of Financial Innovation Serving the Real Economy in 2019” (2019 金融創新服務實體經濟十大案例) by *Hong Kong Commercial Daily*. Besides, the Bank was awarded “Best Wealth Management Bank in China” (最佳銀團項目獎) by CBA. In 2018, the Bank also won numerous other awards, including “Annual Banker – Peng Chun” (年度銀行家 – 彭純) by CBN, “China Top 100 Excellent Secretary of the Board of Directors – Gu Sheng” (中國百強優秀董秘獎 – 顧生) by China Business Top 100, “Caixin ESG Excellent 50 Index Winner” (財新 ESG 美好 50 指數獲獎企業) by Caixin, “First Class Bank on the Assessment and Evaluation of the Protection of Consumer Rights in the Banking Industry” (銀行業消費者權益保護工作考核評價一級行) by CBIRC, 135 network outlets were awarded “Top 1,000 Outlets with Civilised and Standardised Services in the Banking Industry” (銀行業文明規範服務千佳單位), ranking first in the industry in terms of the number; “Best Corporate Social Responsibility Financial Enterprises” (最具社會責任金融機構) by CBA, “Best Local Bank” (最佳本地銀行) by *The Asset*, “‘Jin Li Cai’ Top Award of Wealth Management Bank of the Year, ‘Jin Li Cai’ Outstanding Award of Personal Bank of the Year” (「金理財」年度銀行財富管理品牌卓越獎、「金理財」年度私人銀行卓越獎) by *Shanghai Securities News*, “Best Wealth Management of the Year” (年度最佳財富管理銀行) by *Financial Times*, “Jun Ding Award of Excellent Wealth Management Institution of the Year” (年度優秀財富管理機構君鼎獎) by *Securities Times*, “Best Comprehensive Bank, Best Innovative Bank” (最佳綜合性銀行、最具創新力銀行) by *Eastmoney.com*,

“Best Asset-backed Securitisation Award in China”, “China Best Cash Management Service Bank” (中國區最佳資產證券化獎、中國最佳現金管理服務銀行) by The Asset, “Corporate Banking with Competitiveness of Excellence of the Year” (年度卓越競爭力對公業務銀行) by *China Business Journal*, “Premier Platinum Credit Card of the Year” (年度卓越白金信用卡) by 21st Century Media, “Excellent Credit Card of the Year (Go Pay APP)” (年度卓越信用卡 APP (買單吧)) by Organizing Committee of the 21st Century Asian Financial Annual Conference, “Best Green Bonds Bank” (最佳綠色債券銀行) by *Asia Money*, “Top 10 Financial Innovation Award (Credit Card Center Intelligent Robots)” (信用卡中心智慧型機器人坐席獲十佳金融產品創新獎) by *The Banker*.

## THE BANK’S COMPETITIVE ADVANTAGES

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

Known as a “centuries-old bank”, the Bank established its time-honoured financial brand with a long-standing history and accumulative competitive advantages. As at 30 June 2021, the total assets of the Group amounted to approximately RMB11,413,960 million. As at 30 June 2021, the deposit balances of the Group reached RMB7,016,652 million and the loans and advances balances of the Group amounted to RMB6,346,703 million. The Bank enjoys high recognition and reputation nationwide. The Bank was ranked in Fortune 500 for twelve consecutive years, and ranked No. 162 in 2020. The Bank ranked No. 11 among the Top 1000 World Banks 2020 by *The Banker*.

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

The Bank is one of the first banks to initiate the concept of wealth management services in the industry. The brand and characteristics of wealth management became more and more prominent with the continuous development of the Bank’s wealth management service system. The Bank has also obtained various licenses relating to trust, leasing, fund, insurance, securities and financial investment, to develop its wealth management business. In 2019, the Bank set up and continuously expanded its asset management subsidiary and fund management subsidiary. The Bank has built up a product and service system categorised by wealth preservation and incrementation, financial planning and risk hedging in order to provide online and offline financial services in relation to on-and-off balance sheet and debt and equity investment. Targeting retail customers, the Bank also integrated certain retail services into the system with respect to wealth management, family trust, insurance broker and asset management. As at 30 June 2021, the personal financial assets under management of the Group was nearly RMB4.4 trillion, representing an increase of 6.26 per cent. over the end of the previous year.

The Group maintains constant and steady growth in terms of its business scale. The Group’s corporate banking businesses routinely increased. As at 30 June 2021, the Group’s corporate deposit balance increased by 4.86 per cent. over the end of the previous year to RMB4,552,470 million, among which demand deposits increased by 4.10 per cent. over the end of the previous year; and its corporate loan balance increased by 9.51 per cent. over the end of the previous year to RMB4,059.876 billion. As at 30 June 2021, the Group’s total accumulated number of qualified industrial chain networks developed by domestic branches reached 5,034 and the balance of key products of industrial value chain financing increased by 18.66 per cent. to over RMB180.0 billion on a

year-on-year basis. As at 30 June 2021, the balance of loans of inclusive loans for small and micro enterprises increased by RMB66.525 billion or 29.3 per cent. over the end of the previous year to RMB293.568 billion. The number of customers with loan balance increased by 35,700 over the end of the previous year to 183,600, representing an increase of 24.13 per cent. The Group's personal banking business also showed an upward trend. As at 30 June 2021, the Group's balance of personal deposits increased by 8.72 per cent. over the end of the previous year to RMB2,383,481 million, and its balance of personal loans increased by 6.87 per cent. over the end of the previous year to RMB2,116,957 million, of which personal mortgage loans increased by 7.23 per cent. over the end of the previous year. As at 30 June 2021, there were 73.77 million registered domestic credit cards, within which customers acquired online accounted for 51.48 per cent. As at 30 June 2021, the credit card overdraft balance in domestic branches was RMB463.242 billion. The credit card overdraft non-performing ratio was 2.24 per cent. As at 30 June 2021 the accumulated consumption of debit cards amounted to RMB1,282.185 billion. The accumulated number of debit cards issued amounted to 161.5987 million, representing a net increase of 2.3597 million over the end of the previous year. The Group also focused on developing consumer finance, optimising its online application named "Benefit Loan" (namely online credit consumption loans launched by the Bank for qualified customers), leveraging its FinTech services and improving its intelligent risk management capabilities during the same period. In addition, the Group's interbank and financial market businesses progressed steadily. As at 30 June 2021, the Group's balance of due to and placements from banks and other financial institutions increased by RMB50.615 billion or 2.83 per cent. over the end of the previous year, which accounted for 17.54 per cent. of total liabilities and represented a decrease of 0.66 per cent. over the end of the previous year. The financial investment reached RMB3,352.666 billion, representing an increase of 3.56 per cent. over the end of the previous year.

### **Committed to building the international and comprehensive financial service platform**

The Bank is committed to becoming a first-class international bank with advantages in international businesses and delivering global financial services. The Bank is one of the most internationalised domestic banks in China and its international layouts are at the forefront with respect to its domestic counterparts. Its overseas banking institutions have initially sprouted up within the Asia-Pacific area. Taking it as a base camp, the Bank also expanded its global landscape by tapping into Europe and the United States. As at 30 June 2021, the Bank established 23 overseas branches (sub-branches) and representative offices with 69 operating outlets in 18 countries and regions, providing customers with comprehensive financial services including deposits, loans and advances, international settlement, trade financing and foreign currency exchange. In 2020, the overseas branches insisted on the business philosophy of staying steady and complying with the laws and regulations, actively cooperated with domestic branches to fight against the pandemic, combined local endowments with the characteristics of these overseas branches to satisfy the cross-border financial needs of domestic customers who had the intention of "going global" and overseas customers. The Bank established overseas banking service network with 1,004 banks in 125 countries and regions, set up 256 cross-border Renminbi interbank accounts for 108 overseas Renminbi participating banks in 31 countries and regions, and opened 81 foreign currency settlement accounts in 26 major currencies with 62 banks in 31 countries and regions. In addition, for the six months ended 30 June 2021, the net profit of the Group's overseas banking institutions decreased by 6.20 per cent. on a year-on-year basis to RMB3.509 billion, whose contribution to the Bank's total net profit was 8.35 per cent. As at 30 June 2021, the total assets of the Group's overseas banking institutions decreased by 3.74 per cent. over the end of the previous year to RMB1,194.599 billion, whose contribution to the Bank's total assets was 10.47 per cent.

To facilitate the globalisation of domestic enterprises, the Bank and HSBC has also jointly launched a program named "1+1 Global Financial Cooperation" to provide related services and advices. The Bank also connected to the "Single Window" of the customs to provide one-stop trading, settlement and financing services to foreign trade companies. In addition, the Bank developed a new format of trade services, actively connected the Bank with cross-border e-Commerce enterprises and integrated foreign trade service platforms to improve the foreign

exchange settlement autonomy and capital turnover efficiency of medium, small and micro enterprises. In 2021, international payment reached U.S.\$230.455 billion, an increase of 52.72 per cent. on a year-on-year basis. The volume of financing for cross-border trade increased by 27.20 per cent. on a year-on-year basis to U.S.\$17.225 billion.

In addition to enhancing its global influence, the Bank is also devoted to promoting the integration of its businesses. To be facilitated by its various wholly-owned and controlling subsidiaries, the Group provides comprehensive financial services and products to its customers, comprising fund, trust, financial leasing, onshore insurance, investment banking, offshore insurance, debt-to-equity swap and wealth management.

BoCom Schroder Fund, whose primary businesses are fund raising, fund sales and asset management, was awarded “Top 10 Star Fund Company” and “Star Fund Companies with Positive Return for Five Consecutive Years”, “Star Fund Company in Active Equity investment” by *Securities Times* and “Golden Bull Fund Management Company” by *China Securities Journal* in 2020. Its yield of equity investment under active management ranked second (2/80) in the industry in the past five years and fifth (5/93) in the past three years.

Staying committed to fulfilling the original mission as a trust company to serve the real economy, Bank of Communications International Trust Co., Ltd. (“**BoCom International Trust**”) focuses on trust loans, investment fund trusts, accounts receivable financing, real estate trusts, family trusts, charitable trusts, credit asset securitisation, corporate asset securitisation, qualified domestic institutional investor (QDII), and private equity investment trusts. As at 30 June 2021, its total assets and the assets under management (AUM) were RMB16.834 billion and RMB622.409 billion, respectively. Its net profit during the six months ended 30 June 2021 was RMB0.586 billion.

Adhering to the development strategies as “Professional, Internalisation, Differentiation and Characteristics”, Bank of Communications Financial Leasing Co., Ltd. (“**BoCom Leasing**”) continues to promote aviation and shipping leasing businesses, covering more than 30 countries and regions on five continents, which further highlighted the professional advantages. As at 30 June 2021, its total assets and net assets were RMB330.542 billion and RMB33.794 billion respectively. Its net profit for the six months ended 30 June 2021 was RMB1.746 billion, which is an increase of 10.3 per cent. on a year-on-year basis. In addition, its balance of leasing assets amounted to RMB284.767 billion, including aircraft and ship assets amounting to RMB170.302 billion, with fleets of 271 planes and 392 ships. Based on statistics from CBA Financial Leasing Committee, total assets, the balance of leased assets and operating income of BoCom Leasing all ranked first among domestic financial leasing companies.

In relation to onshore insurance, BoComm MSIG Life Insurance Company Limited (“**BoCommLife**”) remains committed to providing insurance guarantee and maintains a stable performance. As at 30 June 2021, BoCommLife’s total assets and net assets were RMB87.004 billion and RMB7.184 billion respectively. BoCommLife’s net profit for the six months ended 30 June 2021 was RMB0.604 billion<sup>2</sup>, representing an increase of 31.44 per cent. on a year-on-year basis. For the six months ended 30 June 2021, the original premium income was RMB11.4 billion, representing an increase of 0.12 per cent. on a year-on-year basis.

With respect to offshore insurance, BoCom Insurance expands its banking-related insurance business domestically and overseas and officially obtains the full-coverage aviation insurance license issued by the Hong Kong Insurance Authority (namely, No. 5 Aviation Insurance License and No.11 Aviation Liability Insurance License).

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<sup>2</sup> Net profit was calculated in accordance with the new accounting standard for financial instruments (IFRS 9), which was somewhat different from that calculated under IAS 39 currently adopted in the insurance sector.

As one of the first pilot banks to implement debt-to equity conversion as determined by the State Council, BOCOM Financial Asset Investment Co., Ltd. (“**BOCOM Financial Asset Investment**”) is mainly engaged in debt-to-equity conversion and supporting services. As at 31 December 2020, a total of 76 debt-to-equity swap projects were put into operation, amounting to RMB43.019 billion, representing an increase of 36.87 per cent. over the end of the previous year; BOCOM Financial Assets Investment’s investment amount per person, net profit per person and other indicators were at the top level in the industry, and its capital adequacy ratio was in compliance with regulatory requirements.

Furthermore, the net profits of the Group’s wholly-owned and controlling subsidiaries have rapidly increased. For the six months ended 30 June 2021, net profit attributable to shareholders of the Bank from the subsidiaries<sup>3</sup> amounted to RMB4.928 billion representing a year-on-year increase of 49.11 per cent., the proportion of which to the Group’s net profit increased by 2.68 per cent. to 11.73 per cent. on a year-on-year basis. As at 30 June 2021, the total assets of the Group’s subsidiaries increased by 8.52 per cent. over the end of the previous year to RMB537.878 billion, the proportion of which to the total assets of the Group increased by 0.08 per cent. to 4.71 per cent. over the end of the previous year.

### **Prominent wealth management services**

The Group grasped market opportunities and cooperated with sophisticated fund managers to manage its funds and investments, aiming to create conventional, popular and featured wealth management products and build up the name of BOCOM Wealth. In addition, the Group designed affordable insurance products in response to the outbreak of the COVID-19 pandemic, the trend of resumption of work and the wave of purchase of medical insurance. As at 30 June 2021, personal financial assets under management (“**AUM**”) of domestic branches of the Group increased by 6.26 per cent. over the end of the previous year to RMB4.14 trillion. As at 30 June 2021, there were 67,500 private banking customers of the Group, representing an increase of 10.46 per cent. over the end of the previous year; the assets of private banking customers under management of the Group were RMB943.762 billion, representing increase of 13.19 per cent. over the end of the previous year. In addition, the Group has established comprehensive service brands for its customers in relation to wealth preservation. The Group provided retail and individual customers, corporations and financial institutions with comprehensive financial services, building up a complete series structure comprising “Win to Fortune”, a corporate wealth management brand of the Bank providing comprehensive one-stop wealth management solutions for corporate and government institutions through intelligent financial service and digital transformation; “OTO Fortune”, a main brand of retail business of the Bank with core value of “Creating and Sharing Abundant Wealth with Noble Virtue” devoted to realising value maintenance and appreciation of wealth for customers; and “BoCom Tong Ye Fortune”, an interbank wealth management brand of the Bank with core value of “Corporation for Everlasting Enterprises” devoted to providing comprehensive product support and service solution for interbank financial customers. As at 30 June 2021, the number of qualified customers (customers with quarterly average assets of RMB0.50 million to RMB6.00 million) of OTO Fortune increased by 9.67 per cent. over the end of the previous year to RMB1.9048 million.

### **Comprehensive and robust risk management**

The Board of Directors of the Bank assumed the ultimate responsibility, served the highest function of decision making and monitored the Bank’s risk management through its Risk Management and Related Party Transaction Control Committee. The Bank’s Senior Management established a Risk Management Committee, namely the Comprehensive Risk Management and Internal Control Committee, and two business review committees, namely the Credit and Investment Review Committee and the High-risk Asset Review Committee. The business review committees were guided by and reported to the Comprehensive Risk Management and

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<sup>3</sup> Net profit was calculated in accordance with the new accounting standard for financial instruments (IFRS 9), which was somewhat different from that calculated under IAS 39 currently adopted in the insurance sector.

Internal Control Committee. Each provincial and directly managed branch, overseas branch, subsidiary and directly operating institution correspondingly established the Risk Management Committee accordingly referring to the aforementioned framework, which served as the main platform to study the prevention and control of systematic and regional risks and decision-making risks on major issues, ensured that the comprehensive risk management system had been implemented throughout the Group.

In 2020, under the influence of COVID-19 pandemic and other factors, risk exposure of some customers was accelerated. Meanwhile, the Group strengthened risk identification and strictly followed asset quality classification standards. As at 30 June 2021, the balance of non-performing loans was RMB101.423 billion and the non-performing loan ratio was 1.60 per cent., representing an increase of RMB3.734 billion and a decrease of 0.07 per cent. respectively over the end of the previous year.

### **Experienced and professional management team and talent pool**

The Group's senior management has an average of more than 20 years' experience in banking practice and is well experienced in management. Among the Group's senior management, Mr. Ren Deqi, the Chairman of the Board of Directors and Executive Director, has over 30 years' experience in banking sector, holding important positions. The Group also launched three major projects, namely, "10,000 Fintech Talent Plan", "Fintech Management Trainees" and "Empowerment Transformation of Existing Talents" to enrich its Fintech talents pool in a timely fashion. In 2020, the Bank formulated the Plan for the Cultivation of FinTech Talents (2020-2024). The Bank strived to build a technology team consisting of over 10,000 talents with "forward-looking vision, agile mind, efficient work style, and value creating ability" via external talent introduction, internal talent transformation and incentive scheme.

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

### **Strategic cooperation with HSBC**

In 2020, under the new market positioning of "Deepen Strategic Cooperation and Create Shared Value", the Bank and HSBC overcame the adverse effects of the pandemic and continued to deepen all-round strategic cooperation, which in return achieved positive results. In 2020, under the framework of "1+1 Global Financial Services", business cooperation kept a stable growth between both parties. The Bank and HSBC collaborated to assist Chinese enterprises to "go global", concluding 4 cooperative syndicated loan projects. Both parties consolidated cooperative advantages in Hong Kong, concluding 16 cooperative syndicated loan projects and 35 bond underwriting projects. Cooperation in offshore financing and treasury business was promoted in an orderly manner, further deepening the cooperation in foreign currency settlement and cross-border Renminbi settlement. In addition, cooperation in trust business was steadily promoted. In 2020, the scale of cooperation in terms of trust business reached RMB51.57 billion. Meanwhile, both parties worked together to promote the development of businesses empowered by FinTech, enhance the efficiency of trade finance to serve the real economy, and successfully implemented the first domestic securities transaction between Chinese and foreign banks on the interbank trading platform of the CBA.

Both parties, under the framework of "Resources and Experience Sharing" (RES), continued to exchange experiences on business services and operating management with the focus on subjects such as business development and risk compliance.

Over the past 16 years, cooperation between these two banks was praised as a classic case and a successful example of the cooperation between Chinese and foreign banks. The Bank will continue to work closely with HSBC while focusing on the Yangtze River Delta integration, FinTech and other fields. Both parties will vigorously explore opportunities, explore the potentials in depth, and collaborate to create more value under the concept of mutual benefit and win-win cooperation.

## **THE GROUP'S PRINCIPAL BUSINESS ACTIVITIES**

The Bank provides the customers with corporate banking, personal banking and interbank and financial market businesses. Corporate banking businesses include offering deposits and loans, supply chain finance, cash management, international settlement and trade finance, investment banking, asset custody, wealth management and all kinds of intermediary businesses to corporate customers and government agencies. Personal banking businesses include services such as deposits and loans, wealth management, bank cards, private banking and all kinds of intermediary businesses for individual customers. Interbank and financial market businesses include cooperation with customers in the markets of interest rates, exchange rates, commodities, providing comprehensive services such as investment and financing, transactions, agency, settlement and liquidation. In addition, the Group is involved in businesses in financial leasing, fund, trust, insurance, overseas securities, debt-to-equity conversion and asset management through wholly-owned or controlling subsidiaries.

### **Corporate Banking Business**

As at 30 June 2021, the Group's corporate deposit balance increased by 4.86 per cent. over the end of the previous year to RMB4,552,470 million, among which demand deposits increased by 4.10 per cent. over the end of the previous year. The Group's corporate loan balance increased by 9.51 per cent. over the end of the previous year to RMB4,059.876 billion, among which medium and long-term loans increased by 10.68 per cent. over the end of the previous year.

### ***Customer development***

The Bank accelerated the construction of customer projects, and further established a stratified operation and service system. As at 30 June 2021, the total number of corporate customers of domestic branches increased by 6.94 per cent. over the end of the previous year, and the number of new accounts increased by 43.71 per cent. on a year-on-year basis. For group customers, the Bank adopted a professional and intensive business model and highlighted the level of intra-city operations of headquarter economic clusters including the Yangtze River Delta, the Beijing-Tianjin-Hebei Region and the Guangdong-Hong Kong-Macao Region. The Bank improved the refined service levels for top customers by establishing an integrated three-dimensional service team consisting of the Head Office, the branches and the sub-branches and by adhering to the rule of "One Strategy for One Account". As at 30 June 2021, the number of the Bank's group customers reached 77,500, representing an increase of 2,792 over the end of the previous year. For Government institutions customers, the Bank maintained its dominant position in the fields of government institution customers by building systems and platforms, as well as targeting at resource entry points. As at 30 June 2021, the number of government institutions customers reached 69,000, representing an increase of 658 over the end of the previous year. For small and micro basic customers, the Bank vigorously promoted the construction of online and remote customer acquisition channels, and cooperated with the optimisation of the account opening process, the construction of the outlet's corporate service capabilities and the centralised operation of online outbound teams, to create new operating models of "outlet channel", "online channel" and "remote channel" for small and micro basic customers. As at 30 June 2021, the number of small and micro basic customers reached 1.90 million, representing an increase of 0.13 million over the end of the previous year.



### ***Scenario construction***

The Bank intensively explored scenario construction through digital thinking and integrated financial services into subdivided scenarios such as medical care, schools, parks, property management, parking, mortgage and Party membership dues payment. The Bank also launched some innovative products such as Benefit Medical Payment, BoCom Smart Schools, Intelligent Financial Service Platform, e-License and e-Mortgage, upgrading the comprehensive financial solutions to all fields. Benefit Medical Payment has been launched in ten cities including Shanghai, Nanjing, Dalian, Qingdao and Shijiazhuang. BoCom Smart Schools used the monitoring mechanism of tuition collection as its platform to provide comprehensive service functions such as omni-channel tuition collection, one-stop service for electronic bills and management of non-tax revenue. The Intelligent Financial Services Platform has launched more than 20 scenario-based products, with 68,000 registered customers in total, and the number of qualified customers was 24,900, representing an increase of 47.79 per cent. over the end of the previous year. The Bank launched a comprehensive financial service solution “BoCom e-Customs” focusing on the Single Window Platform at customs to develop a new model of trade finance services covering local and foreign currencies, and accelerated the electronic construction and characteristic scenario application of non-financing letter of guarantee business, with the balance of non-financing letter of guarantee increasing by 35 per cent. on a year-on-year basis.

### ***Industrial chain finance***

Focusing on the industry leaders, the Bank consistently strengthened the expansion of industrial chain finance in key industries and built an “online + offline” digital business expansion model, with the chain finance business increasing by 49 per cent. on a year-on-year basis. The Bank promoted the digital note product series of “Win to Fortune Rapid Discount”, which efficiently satisfied customers’ demands for fast financing. The Bank optimised factoring financing products and developed an industrial chain rapid financing product line, with characteristics of flexible credit granting and convenient operation, which was a leap forward in the efficiency of financing. As at 30 June 2021, the total accumulated number of qualified industrial chain networks developed by domestic branches reached 5,034 and the balance of key industrial chain financing products increased by 18.66 per cent. to over RMB180.0 billion on a year-on-year basis.

### ***Investment bank***

As at 30 June 2021, the scale of the Bank’s bond underwriting business (according to Wind statistics) ranked 4th in the market for the first time, and the scale of the Bank’s bond underwriting according to National Association of Financial Market Institutional Investors (“NAFMII”) (debt financing instructions of non-financial enterprises) reached RMB196.677 billion with a counter-trend increase of 8.89 per cent. against the market decrease of 4.55 per cent. on a year-on-year basis, whose ranking rose from 12th at the end of the previous year to 9th in 2021. Specifically, the scale of the Bank’s NAFMII asset-backed notes underwriting increased by 94.31 per cent. to RMB13.011 billion on a year-on-year basis.

In terms of the innovative products, as at 30 June 2021, the Bank developed five Credit Risk Mitigation Warrants (CRMW) amounting to RMB1.69 billion, accounting for 21.69 per cent. and ranking first in the market. The Bank also completed the first BoCom Share Chain RMB10.0 billion N+N shelf offering project, enabling small and medium enterprises to realise supply chain financing. As at 30 June 2021, the newly increased scale of domestic and overseas mergers and acquisitions finance was RMB40.7 billion, representing an increase of 15 per cent. on a year-on-year basis. The Bank made innovations on the coordinated mechanism for the equity investment business of the Group, launched BoCom Industrial Investment (Hangzhou) Equity Investment Fund (RMB0.9 billion). The Bank was awarded “Outstanding Institution of the Year”, “2020 Wind Best Bond Underwriter” and “2020 Wind Best ABN Underwriter” at the 7th Annual Conference of China Securitisation Forum.

### ***Inclusive loans for small and micro enterprises***

The Bank established the “Inclusive e-Loan” comprehensive online financing product system to realise the driving forces of online standardised products and scenario-customised products, improving the capabilities of both business scale and risk control. Relying on digital methods, the Bank optimised the customer service model, promoted “Share + Reward” linked marketing, enhanced the availability and service to inclusive customers and strengthened customer service in key areas.

The Bank strengthened the innovation in the supply chain financial service model, accelerated the development of online factoring, distributor fast lending and other online industrial chain businesses and promoted the expansion of businesses such as Express Pay. Through a scenario-based and industrial chain model, the Bank reinforced the layout and development in key areas including new energy, new infrastructure, low-carbon finance and sci-tech innovation to extend services to upstream and downstream enterprises and provide integrated financing and settlement services.

The Bank optimised its services of sci-tech finance and green finance. The Bank customised financing products with inclusive characteristics for high-quality small and micro sci-tech enterprises, with focus on the development of small and micro enterprises that functioned in the key “bottleneck” technology challenge, to improve the comprehensive financial service capability for small and micro enterprises in the field of science and technology innovation. The Bank established a new concept of “Carbon Inclusive”, formulating personalised financing solutions with special privileges such as carbon emission rights and pollution emission rights, and undertook the first carbon emission right pledge financing business in the Yangtze River Delta region.

As at 30 June 2021, the balance of inclusive loans for small and micro enterprises increased by RMB66.525 billion or 29.3 per cent. over the end of the previous year to RMB293.568 billion. The number of customers with loan balance increased by 35,700 over the end of the previous year to 183,600, representing an increase of 24.13 per cent. The non-performing loan ratio was 1.51 per cent., representing a decrease of 0.67 per cent. over the end of the previous year. For the year ended 31 December 2020, the average interest rate of cumulative loans of the year was 4.02 per cent. As at 30 June 2021, the Bank provided inclusive credit services for clients in 2,773 outlets.

### **Personal Banking Business**

As at 30 June 2021, the balance of personal deposits of the Group increased by 8.72 per cent. over the end of the previous year to RMB2,383,481 million. The balance of personal loans of the Group increased by 6.87 per cent. over the end of the previous year to RMB2,116.957 billion, of which personal mortgage loans increased by 7.23 per cent. over the end of the previous year.

### ***Retail customers and AUM***

The Bank focused on government affairs, travel, education, medical care and other livelihood scenarios, upgraded product and service solutions through digital transformation, and improved its capability of scenario-based customer acquisition. The Bank made efforts to consolidate the customer operation system, built a hierarchical and classified operation system covering all customers, and kept scaling up AUM. As at 30 June 2021, the number of retail customers of domestic branches (including debit card and credit card customers) increased by 1.71 per cent. over the end of the previous year to 182 million. The number of qualified customers (customers with quarterly average assets of RMB0.50 million to RMB6.00 million) of OTO Fortune increased by 9.67 per cent. over the end of the previous year to 1,904,800. AUM maintained a rapid growth, where the assets increased by 6.26 per cent. or RMB243.906 billion over the end of the previous year to RMB4,139.472 billion as at 30 June 2021.

### ***Wealth management***

The Bank leveraged the Group's advantages in integrated operations while adhering to the principle of "Openness, Best Choice and Customisation", and enriched the variety of wealth management products to build the "OTO Best Choice" product system. For the six months ended 30 June 2021, net wealth management fees and commission income increased by 24.00 per cent. to RMB5.406 billion on a year-on-year basis. The balance of public funds product on consignment increased by 21.32 per cent. over the end of the previous year to RMB289.730 billion. The Bank realised a net income of fund on consignment (including securities dealers and exclusive accounts) of RMB1.897 billion, representing an increase of 100.73 per cent. on a year-on-year basis. The average yield of the "OTO Best Choice" fund kept outperforming the market average. The Bank established a wealth management brand of "OTO Best Choice", built an exclusive wealth management system for different customer segments and promoted the net-worth transformation of wealth management products. As at 30 June 2021, the balance of wealth management products AUM increased by 2.85 per cent. over the end of the previous year to RMB903.97 billion; the net income of wealth management was RMB1.919 billion, representing an increase of 6.21 per cent. on a year-on-year basis. Following up with the trends of the expansion of the middle-income groups and the increasing demand for elderly care services, the Bank vigorously promoted the sales of insurance products such as life support and elderly care. At 30 June 2021, the cumulative sales of insurance products reached RMB13.939 billion and the net income of agency insurance business was RMB1.314 billion, representing an increase of 4.93 per cent. on a year-on-year basis, of which future sales increased by 45.46 per cent. to RMB3.513 billion on a year-on-year basis.

### ***Customer finance***

The Bank continued to promote the online and offline integration of personal housing mortgage loans, took good control of housing mortgage limits and sped up asset securitisation. To meet the consumer finance demands in the inclusive finance scenario, the Bank promoted the transformation from cash consumption loans to scenario-based consumption loans. As at 30 June 2021, the Bank's personal housing mortgage loan balance increased by 7.23 per cent. to 1,387.339 billion over the end of the previous year. The cumulative number of applications for Benefit Loan was 6.34 million, and the total loans granted were RMB173.668 billion, which included the newly issued loans of RMB50.908 billion over the year.

### ***Private banking***

The Bank increasingly diversified its product categories by launching the first CTA alternative investment strategy wealth management product in the domestic market, private wealth management products, investment trust products, and "TOF" products. The Bank also launched the first charity trust product which was exclusively available to family trust customers with charitable willingness and deepened the connotation of wealth management.

The Bank carried out a reform in the private banking business model and implemented the "1+1+N" customer service model, in which private banking consultants provided services to private banking customers, with professional support from wealth management consultants and expert teams. Guided by the investment and research report while using the asset allocation proposal as a tool, the Bank was able to meet the wealth management demands of private banking customers. As at 30 June 2021, there were 67,500 private banking customers of the Group, representing an increase of 10.46 per cent. over the end of the previous year; the assets of private banking customers under management of the Group were RMB943.762 billion, representing an increase of 13.19 per cent. over the end of the previous year. Major interbank market share of private banking businesses had increased from the end of the previous year.

### ***Bank card businesses***

The Bank vigorously expanded quality customers and promoted the digital transformation of customer acquisition. For the six months ended 30 June 2021, the number of new active accounts increased by 84.27 per

cent. on a year-on-year basis, and the proportion of quality customers in the new customers saw a year-on-year rise of 9.54 per cent. With a focus on high-quality young customers, the Bank launched a variety of cards themed by celebrities such as Wang Yibo and Luo Tianyi and famous brands such as KPL. Application for more than 0.20 million Wang Yibo themed cards had been made for within 21 days since it went live. In terms of measures to activate the dormant accounts and retain customers, the number of existing active accounts retained increased by 610,400 on a year-on-year basis. As at 30 June 2021, there were 73,770,000 registered domestic credit cards, representing an increase of 1,110,000 over the end of the previous year, within which customers acquired online accounted for 51.48 per cent.

Meanwhile, the Bank strengthened customer management to promote credit card consumption. Through marketing campaigns such as “Super Red Friday”, “May 5th Shopping Festival” and “Weekly Swipe”, the Bank promoted card binding for mobile payment. For the six months ended 30 June 2021, the cumulative amount of consumption through credit cards was RMB1,451.556 billion, representing a year-on-year increase of 2.62 per cent. In detail, the average consumption of active accounts increased by 4.70 per cent. on a year-on-year basis and the amount of mobile payment transactions increased by 21.96 per cent. on a year-on-year basis. In virtue of precise marketing for targeted customer segments, the balance in instalments increased by 29.43 per cent. on a year-on-year basis. As at 30 June 2021, the credit card overdraft balance in domestic branches was RMB463.242 billion.

The Bank continuously optimised payment products by strengthening cooperation in quick payment with leading Internet platforms and third-party payment platforms, facilitating card binding for third-party payment and raising payment limit. Meanwhile, the Bank reinforced scenario construction, with a focus on online customer acquisition under the inclusive scenarios such as digital government affairs and transportation. For the six months ended 30 June 2021, the number of customers acquired online amounted to 290,200, accounting for 8.36 per cent., with the proportion increased by 5.45 per cent. on a year-on-year basis. The accumulated consumption amounted to RMB1,282.185 billion, representing a year-on-year increase of 49.75 per cent. At 30 June 2021, the accumulated number of debit cards issued amounted to 161.5987 million, representing a net increase of 2,359,700 over the end of the previous year.

### **Inter-bank and Financial Market Businesses**

As at 30 June 2021, the balance of due to and placements from banks and other financial institutions of the Group increased by RMB50.615 billion or 2.83 per cent. over the end of the previous year, which accounted for 17.54 per cent. of total liabilities and represented a decrease of 0.66 per cent. over the end of the previous year; the financial investment of the Group reached RMB3,352.666 billion, representing an increase of 3.56 per cent. over the end of the previous year.

#### ***Inter-Bank Businesses***

As at 30 June 2021, due to and placement from banks and other financial institutions accounted for 8.84 per cent. of total liabilities, representing a decrease of 0.38 per cent. over the end of the previous year. The balance of Renminbi demand deposits of domestic banks was RMB650.805 billion, accounting for 71.45 per cent. of Renminbi interbank deposits of domestic banks, representing an increase of 2.1 per cent. on a year-on-year basis.

The Bank supported the construction of Shanghai as an international financial centre. The Bank continuously optimised futures and securities settlement systems and strengthened customer expansion, making it a market leader in the scale of securities and futures settlement. Meanwhile, the Bank followed the business innovation of Shanghai Clearing House, and rolled out the first batch of clearing business for the cash commodities, with the volume of major agent clearing products such as foreign exchange, RMB interest rate swaps and standard bond forwards ranking first in the market. For the six months ended 30 June 2021, the average balance of

demand deposits of financial factor market was RMB206.176 billion, representing an increase of RMB22.488 billion over the previous year.

The Bank made more efforts in serving the real economy. Through an upgrade of the original interbank platform to BoCom e-Platform on which services such as wealth management, payment and settlement, trade finance and capital transactions were available to interbank customers, the Bank rendered its financial services to cities, counties and rural areas. As at 30 June 2021, there were 1,680 interbank customers in cooperation with BoCom e-Platform, representing an increase of 130 from the beginning of the year. The Bank expanded customers indirectly involved in Cross-border Renminbi Interbank Payment System (CIPS) and supported the development of cross-border Renminbi interbank payment business. The Bank promoted the CIPS standard transmit product to improve the efficiency of cross-border Renminbi interbank payment. As at 30 June 2021, the number of customers indirectly involved in CIPS ranked fourth in the market and the number of customers adopting the standard transmit product ranked first in the market. In addition, the Bank strengthened the cooperation with securities and futures companies. As at 30 June 2021, the Bank accomplished the integration of third-party depository management system with 105 securities companies, achieving cooperation with 98 per cent. of securities company customers, accomplished the integration of financing and securities depository management system with 91 securities companies, achieving cooperation with 96 per cent. of securities company customers, and accomplished the integration of bank-futures transfer system with 147 futures companies, achieving cooperation with 98 per cent. of futures company customers.

### ***Financial Market Businesses***

The scale of financial investments grew steadily. The Bank actively played its role in market making, quotation and trading to support the steady operation of financial market and the steady growth in investment scale. For the six months ended 30 June 2021, the trading volume in Renminbi money market of domestic branches amounted to RMB33.8 trillion; the trading volume in foreign currency market amounted to U.S.\$841.6 billion; the trading volume of Renminbi bonds amounted to RMB1.84 trillion; the trading volume in interbank foreign exchange market amounted to U.S.\$1.37 trillion; the trading volume of self-operated gold amounted to 2,189 tons, maintaining its market position as an active trading bank.

The Bank followed up the construction of Renminbi financial assets allocation and risk management centre of Shanghai, successfully issued the first foreign currency interbank deposit in the market, concluded the first-day transaction of multiple foreign exchange derivatives in the interbank market and became an X-Swap (an electronic transaction system for interest rate swaps) bridging agency and a quotation agency for interest rate options.

The Bank invested more in central and local government bonds, strengthened its support of bond investment businesses to the operation and development of enterprises and actively participated in the bond business of the Free Trade Zone. For six months ended 30 June 2021, the Bank invested in RMB0.3 billion bonds issued by enterprises in the China (Shanghai) Pilot Free Trade Zone. To serve the demands of enterprises for risk avoiding and value preservation, the Bank completed designated RMB interest rate swap transactions amounting to RMB10.015 billion for the six months ended 30 June 2021.

The Bank made efforts to accelerate the global capital integration and to improve the quality and effectiveness of fund operation and management of overseas branches. The Bank completed the second phase of the foreign exchange and interest rate trading business system construction of the Asia-Pacific capital platform, and concentrated US Dollar and offshore Renminbi funds of seven Asia-Pacific overseas branches in Tokyo, Singapore, Seoul and other regions, centralising the business operation of securities issuance and investment, money market transactions, foreign exchange transaction and derivatives close-out settlement with the international market.

### ***Asset Custody***

The Bank deepened its cooperation with asset management institutions and vigorously developed various custody businesses. By seizing development opportunities in the capital markets and strengthening cooperation with quality fund companies, the Bank screened out quality products and accelerated its layout of the equity-based public funds custody businesses. Focusing on protection of people's livelihood and centring on three pillars of pension, the Bank expanded the market, optimised its services and continuously strengthened its pension custody businesses. By providing custody services for businesses such as insurance debts plans and trust plans, the Bank supported the development of the real economy. By seizing policy opportunities like the connectivity of cross-border financial markets, the Bank promoted the development of cross-border custody businesses. As at 30 June 2021, the assets under custody reached RMB11.06 trillion, representing an increase of 7.10 per cent. over the end of the previous year.

### ***Wealth Management Business***

In response to people's demands for wealth management, the Bank promoted the development of wealth finance features and strengthened cooperation with sales agencies outside the Bank, resulting in a continuous rise in the scale of asset management products. For the six months ended 30 June 2021, the average balance of off-balance sheet asset management products of the Group reached RMB1,161.404 billion, representing an increase of 6.18 per cent. or RMB67.570 billion over the previous year. As at 30 June 2021, the scale of net-worth wealth management products of the Group reached RMB821.011 billion, accounting for 71.32 per cent. of the Group's off-balance sheet asset management products, representing an increase of 9.74 per cent. over the end of the previous year.

## **INTEGRATED OPERATION**

For the six months ended 30 June 2021, net profit attributable to shareholders of the Bank from the subsidiaries amounted to RMB4.928 billion, representing a year-on-year increase of 49.11 per cent., the proportion of which to the Group's net profit increased by 2.68 per cent. to 11.73 per cent. on a year-on-year basis. The total assets of the subsidiaries increased by 8.52 per cent. over the end of the previous year to RMB537.878 billion, the proportion of which to the total assets of the Group increased by 0.08 per cent. to 4.71 per cent. over the end of the previous year.

The Group established a coordinative development pattern of commercial banking businesses as the body, along with other businesses including financial leasing, fund, wealth management, trust, insurance, and debt to equity swap, further improving the capability of comprehensive services.

### **Major Subsidiaries**

#### ***Schroder BoCom Wealth***

Schroder BoCom Wealth was set up in February 2022 with registered capital of RMB1.0 billion of which BOCOM Wealth (a wholly-owned subsidiary of the Bank) and Schroder Investment Management Limited contributed 49.0 per cent. and 51.0 per cent. stock rights respectively. With a recent approval from China Banking and Insurance Regulatory Commission on the Opening of Schroder BoCom Wealth Management Co., Ltd (Yin Bao Jian Fu [2022] No. 55), Schroder BoCom Wealth was the third wealth management joint venture partnership having obtained the regulatory permission to operate in regulated fields including issuing financial products to the public, investing and managing investors' entrusted property, issuing non-public financial products to qualified investors, investing and managing qualified investors' entrusted property and providing financial advisory services. It is also the latest collaboration between Schrodors and BOCOM since the establishment of BOCOM Schroder Fund in 2005.

### ***BoCom Leasing***

As the Bank's wholly-owned subsidiary, BoCom Leasing was set up in December 2007 with a registered capital of RMB14.0 billion. The main business scope includes financing leases and operating leases in sectors such as aviation, shipping and energy power, transportation infrastructure, equipment manufacturing and livelihood services. For the six months ended 30 June 2021, BoCom Leasing adhered to the development strategies of "Professionalism, Internationalisation, Differentiation and Characteristics", deeply engaged in aviation, shipping, traditional financing leasing and other businesses. As at 30 June 2021, BoCom Leasing's main indicators such as total assets and balance of leasing assets ranked first among domestic financial leasing companies, among which total assets and net assets were RMB330.542 billion and RMB33.794 billion respectively, and the balance of leasing assets amounted to RMB284.767 billion, indicating an increase of 5.95 per cent. over the end of the previous year. Total assets of aircraft and ship amounted to RMB170.302 billion, with fleets of 271 planes and 392 ships. BoCom Leasing's net profit for the six months ended 30 June 2021 was RMB1.746 billion, representing an increase of 10.3 per cent. on a year-on-year basis. BoCom Leasing was elected as the Fifth Chief Administration Unit of China Banking Association (CBA) Financial Leasing Committee.

### ***BoCom International Trust***

BoCom International Trust was set up in October 2007 with a registered capital of RMB5.765 billion, of which the Bank and Hubei Provincial Communications Investment Group Co., Ltd. contributed 85 per cent. and 15 per cent. stock rights respectively. The main business scope includes trust loans, investment funds trusts, accounts receivable financing, real estate trusts, family trusts, charitable trusts, credit asset securitisation, corporate asset securitisation, qualified domestic institutional investor (QDII), and private equity investment trusts. For the six months ended 30 June 2021, with the strategic goal of "building the most trustworthy first-class trust company", BoCom International Trust focused on four strategic pillar businesses including private investment banking, securities investment, wealth management and fiduciary services, to return to the essence of trust and serve the real economy. The company has been rated as Level A (the highest level) for six consecutive years since the China Trustee Association launched the industry rating and has won the Excellent Trust Company Award named "Cheng Xin Tuo" granted by the Shanghai Securities News. As at 30 June 2021, the total assets, net assets and the AUM of BoCom International Trust were RMB16.834 billion, RMB13.829 billion and RMB622.409 billion respectively. BoCom International Trust's net profit for the six months ended 30 June 2021 was RMB0.586 billion.

### ***BoCom Schroder Fund***

BoCom Schroder Fund was set up in August 2005 with a registered capital of RMB0.2 billion. BoCom Schroder Fund was jointly contributed by the Bank, Schroder Investment Management Limited and China International Marine Containers (Group) Co., Ltd., with the stock rights accounting for 65 per cent., 30 per cent. and 5 per cent. respectively. The primary businesses include fund raising, fund sales and asset management. The yield of equity investment under active management ranked third (3/82) in the industry in the past five years and twelfth (12/102) in the past three years. The rate of return of five fund products in the past five years was more than 200 per cent., while the rate of return of 18 fund products in the past three years was more than 100 per cent. As at the 30 June 2021, BoCom Schroder Fund's total assets and net assets were RMB6.285 billion and RMB4.915 billion respectively, and the public fund under management reached RMB429.1 billion, representing an increase of 26 per cent. over the end of the previous year. BoCom Schroder Fund's net profit for the six months ended 30 June 2021 was RMB0.977 billion, representing an increase of 96 per cent. on a year-on-year basis.

### ***BOCOM Wealth***

As a wholly-owned subsidiary of the Bank, BOCOM Wealth was set up in June 2019 with a registered capital of RMB8.0 billion. It primarily issues wealth management products of fixed income, equity, commodities, financial derivatives and hybrid categories to personal, private banking, institutional and interbank customers. As a core vehicle for the Group to build up wealth management characteristics, a core supplier of wealth management products and an integrated platform for innovation and development of the wide asset management business, BOCOM Wealth actively expanded consignment agencies outside the Bank, and the balance of products sold under consignment outside the Bank reached RMB176.411 billion, accounting for 17.13 per cent. of the balance of products. In addition, the scope of sales on consignment outside the Bank ranked first among wealth management subsidiaries. BOCOM Wealth gave full play to its wealth management expertise, closely focused on the development of the leading bank in the Yangtze River Delta, selected high-quality assets in the Yangtze River Delta, and shared the benefits of regional integrated development, and the Boxiang Yangtze River Delta Value Investment product series were highly recognised by customers. As at 30 June 2021, BOCOM Wealth's total assets and net assets were RMB9.603 billion and RMB9.357 billion respectively. The company's net profit for the six months ended 30 June 2021 was RMB0.606 billion, indicating an increase of 99.47 per cent. on a year-on-year basis. The scale of wealth management products saw a continuous growth.

### ***BoCommLife***

BoCommLife was set up in January 2010 with a registered capital of RMB5.1 billion, of which the Bank and the MS&AD Insurance Group contributed 62.50 per cent. and 37.50 per cent. stock rights respectively. The business scope includes life insurance, health insurance, accident insurance and reinsurance businesses of the aforementioned insurances in Shanghai as well as regions where its branches were established. For the six months ended 30 June 2021, with the strategic goal of "becoming a company with a leading position in growth and profitability of guaranteed insurance", BoCommLife was committed to providing insurance guarantee, highlighted distinctive operation and maintained a stable business performance with good development momentum. As at 30 June 2021, BoCommLife's total assets and net assets were RMB87.004 billion and RMB7.184 billion respectively. For the six months ended 30 June 2021, the original premium income was RMB11.4 billion, representing an increase of 0.12 per cent. on a year-on-year basis. The net profit was RMB0.604 billion, representing an increase of 31.44 per cent. on a year-on-year basis, and the value of new business increased by 56.46 per cent. on a year-on-year basis.

### ***BOCOM Financial Asset Investment***

As a wholly-owned subsidiary of the Bank, BOCOM Financial Asset Investment was set up in December 2017 with a registered capital of RMB10.0 billion. As one of the first pilot banks to implement debt-to-equity conversion as determined by the State Council, BOCOM Financial Asset Investment is mainly engaged in debt-to-equity conversion and supporting services. For the six months ended 30 June 2021, BOCOM Financial Asset Investment made efforts to develop the main business of market-oriented debt-to-equity swap, and actively reduced leverage ratio and controlled risks to serve the real economy. As at the end of 30 June 2021, BOCOM Financial Asset Investment's total assets and net assets were RMB49.935 billion and RMB12.060 billion respectively. BOCOM Financial Asset Investment's net profit for the six months ended 30 June 2021 was RMB0.703 billion, representing an increase of 259.97 per cent. on a year-on-year basis. As at 30 June 2021, BOCOM Financial Asset Investment held a total of 69 historical and incremental projects, with the total investment amount of RMB41.459 billion.

### ***BoCom International Holdings***

BoCom International Holdings was set up on June 1998 (formerly known as Communications Securities Co., Ltd. and changed its name to BOCOM International Holdings Company Limited in May 2007). It was listed on the main board of Hong Kong Stock Exchange on 19 May 2017. As at the end of 30 June 2021, the Bank's



shareholding in BoCom International Holdings was 73.14 per cent. The main business of BoCom International Holdings includes securities brokerage and margin financing, corporate financing and underwriting, asset management and consulting, investment and loan. For the six months ended 30 June 2021, BoCom International Holdings adopted the business strategy of “highlighting the businesses in Yangtze River Delta and Pearl River Delta, focusing on two fields of the industry and achieving transformation with intelligent and digital technologies”, ploughed into fields of new economy and activated new growth drivers for diversified businesses, providing customers with comprehensive financial services of the integrated industrial chain. The number of IPO projects underwritten ranked among top five in the Hong Kong market, the number of Chinese-funded offshore bonds underwritten ranked among top three in the Hong Kong market, and the performance of Hong Kong stock public fund issued and managed by the company ranked first among similar funds in the Hong Kong market. As at the end of 30 June 2021, BoCom International Holdings’s total assets and net assets were HKD30.638 billion and HKD8.082 billion respectively. BoCom International Holdings’s net profit for the six months ended 30 June 2021 was HKD0.572 billion, representing an increase of 105 per cent. on a year-on-year basis.

### ***BoCom Insurance***

As a wholly-owned subsidiary of the Bank, BoCom Insurance was set up in November 2000 with a registered capital of HKD0.4 billion. The main business was the operation of 17 types of general insurances approved by the Insurance Authority of Hong Kong. For the six months ended 30 June 2021, BoCom Insurance gave full play to the advantage of holding a full business license for general insurances, and improved the quality and efficiency of its main underwriting business simultaneously. As at 30 June 2021, BoCom Insurance’s total assets and net assets were HKD0.822 billion and HKD0.577 billion respectively. BoCom Insurance’s net profits for the six months ended 30 June 2021 were HKD6.60 million, representing a year-on-year increase of 0.3 per cent. The gross premiums increased by 11.11 per cent., premium profits before expenditure increased by 27.16 per cent. on a year-on-year basis and the net compensation rate was 11.30 per cent.

## **GLOBAL SERVICE CAPABILITIES**

The Group formed an overseas operating network covering major international financial centres across five continents, and had 23 overseas branches (sub-branches) and representative offices in 18 countries and regions, with 69 overseas operating outlets. For the six months ended 30 June 2021, net profit of overseas banking institutions of the Group increased by 6.20 per cent. on a year-on-year basis to RMB3.509 billion, whose contribution to the Bank’s total net profit increased by 0.55 per cent. to 8.35 per cent. on a year-on-year basis. The total assets of overseas banking institutions of the Group decreased by 3.74 per cent. over the end of the previous year to RMB1,194.599 billion, whose contribution to the Bank’s total assets decreased by 1.13 per cent. to 10.47 per cent. over the end of the previous year.

### ***Hong Kong Branch***

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

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

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

### ***Other overseas branches***

Other overseas branches and subsidiaries as at 31 December 2020 were:

- The Bank's New York branch commenced operation in November 1991.
- The Bank's Tokyo branch commenced operation in December 1995.
- The Bank's Singapore branch commenced operation in September 1996.
- The Bank's Seoul branch commenced operation in August 2005.
- The Bank's Frankfurt branch commenced operation in October 2007.
- The Bank's Macau branch commenced operation in November 2007.
- The Bank's Ho Chi Minh City branch commenced operation in February 2011.
- The Bank's London branch commenced operation in November 2011.
- The Bank's Sydney branch commenced operation in November 2011.
- The Bank's San Francisco branch commenced operation in November 2011.
- The Bank's Taipei branch commenced operation in July 2012.
- The Bank's representative office in Toronto was opened in November 2014.
- The Bank's tier-2 branch in Brisbane commenced operation in April 2015.
- The Bank's subsidiary in Luxembourg commenced operation in May 2015.
- The Bank's subsidiary's branch in Paris commenced operation in November 2016.
- The Bank's subsidiary's branch in Rome commenced operation in November 2016.
- Banco BBM S.A. became a non-wholly owned subsidiary of the Bank in November 2016.
- The Bank's tier-2 branch in Melbourne commenced operation in December 2018.
- The Bank's Prague branch commenced operation in May 2019.
- The Bank's Johannesburg branch commenced operation in November 2020.

### ***International settlement and trade financing***

The Bank implemented the requirements of trade facilitation, perfected online product system, expanded business processing channels and improved service intelligence levels. The Bank supported new forms of foreign trade, extensively served customers on cross-border e-Commerce platforms, integrated foreign trade service platforms and market procurement trade platforms to meet various customer segments' cross-border financial demands of being personalised, scenario-based and comprehensive. For the six months ended 30 June 2021, the Bank continuously improved the capability of serving the real economy, and the balance of international payments reached U.S.\$230.455 billion, representing an increase of 52.72 per cent. on a year-on-

year basis. The volume of trade financing for cross-border trade increased by 27.20 per cent. on a year-on-year basis to U.S.\$17.225 billion.

### ***Overseas service network***

The Group had 23 overseas branches (sub-branches) and representative offices in places including Hong Kong, New York, London, Singapore, Tokyo, Frankfurt, Luxembourg and Sydney, providing customers with financial services including deposits, loans, international settlement, trade financing and foreign currency exchange. The Group established overseas banking service network with 997 banks in 125 countries and regions, set up 243 cross-border Renminbi interbank accounts for 106 overseas Renminbi participating banks in 31 countries and regions. In addition, 81 foreign currency settlement accounts in 26 major currencies were opened in 62 banks in 31 countries and regions.

### ***Cross-border Renminbi transactions***

The Bank actively facilitated the construction of cross-border Renminbi payment scenarios and completed the first market launch of CIPS standard transmit product (enterprise version), so as to improve the efficiency of cross-border payment while facilitating a fast and convenient experience of cross-border payment and collection. The Group strengthened its domestic and overseas collaboration, and the volume of cross-border transfer of domestic trade financing assets in the first half of 2021 amounted to RMB32.767 billion, representing an increase of 504 per cent. on a year-on-year basis. For the six months ended 30 June 2021, the volume of cross-border Renminbi settlement of domestic banking institutions reached RMB604.196 billion, representing an increase of 60.89 per cent. on a year-on-year basis.

### ***Offshore services***

The Bank accelerated the integrated development of offshore and onshore businesses as well as the integrated operation of non-resident accounts, and fully explored the business potentials of the integration of Yangtze River Delta and Lin-Gang Special Area of Shanghai Pilot Free Trade Zone. As at the end of 30 June 2021, the asset balance of offshore business increased by U.S.\$2.529 billion or 21.53 per cent. over the end of the previous year to U.S.\$14.273 billion.

## **MARKETING**

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

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

## **INFORMATION TECHNOLOGY**

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

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

## **EMPLOYEES**

As at 30 June 2021, the Group had a total of 89,890 employees, of whom 83,945 employees were based in domestic banking institutions and 2,610 were local employees in overseas branches. There were 3,335 employees in total working for the Bank's subsidiaries.

## **INTELLECTUAL PROPERTY**

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

## **LEGAL AND REGULATORY PROCEEDINGS**

The Group has been involved as defendants in certain lawsuits arising from its normal business operations. Management of the Group believes, based on legal advice, the final result of these lawsuits will not have a material impact on the financial position or operations of the Group. In 2020, the Group was not involved in any material litigation and arbitration. As at 30 June 2021, the Group was involved in certain outstanding litigations/arbitrations as defendant or third party with an amount of approximately RMB3.075 billion. The Bank believes that there is sufficient provision for current and pending litigations and arbitrations against the Bank or its branches. Even if any judgment or award of the said current and pending litigations or arbitrations against the Bank or its branches is adverse to the Bank, the Bank does not anticipate that any such cases (individually or jointly) would have a material adverse impact on the Bank's financial condition or results of operations.

## **PROPERTIES**

The address of the headquarter of the Bank is No.188 Yincheng Zhong Road, Pudong New District, Shanghai, China. As at 31 December 2020, the Group had 245 domestic branches, including 37 branches at provinces, autonomous regions or municipalities level or directly-managed level and 208 branches managed by branches at provinces, autonomous regions or municipalities level, most of which are concentrated in the Yangtze River Delta, Pearl River Delta and Bohai Rim Economic Zone, as well as large cities in other areas. As at 30 June 2021, in addition to its PRC operations, the Bank had branches or subsidiaries which are located in Hong Kong,

New York, San Francisco, Tokyo, Singapore, Seoul, Frankfurt, Macau, Ho Chi Minh City, Sydney, Brisbane, Melbourne, Taipei, London, Luxembourg, Paris, Rome, Brazil, Prague and Johannesburg, and its representative office in Toronto commenced operations in November 2014.

## RISK MANAGEMENT AND INTERNAL CONTROL

The Board of Directors of the Group established the overall risk appetite of “Stability, Balance, Compliance and Innovation” for the Group and further set specific indicators of risk limits against various risk types including credit, market, operation, liquidity, interest rate of banking book, information technology and country to control strictly over various risk types and thus ensured the bottom line of preventing the occurrence of systematic and regional risks. The Group has focused on enhancing its risk management capabilities in the following respects:

- **Strengthened risk management framework**

The Board of Directors of the Bank assumed the ultimate responsibility and the highest decision-making function of risk management, and controlled the Bank’s risk condition through the subordinate Risk Management and Related Party Transaction Control Committee. The Bank’s senior management established the Comprehensive Risk Management and Internal Control Committee, as well as two business review committees, namely the Credit and Investment Review Committee and the Risk Asset Review Committee. The business review committees were guided by and reported regularly to the Comprehensive Risk Management and Internal Control Committee. Each provincial and directly managed branch, overseas branch and subsidiary established its own Comprehensive Risk Management and Internal Control Committee accordingly based on the aforementioned framework, which served as the main platform to study the prevention and control of systematic and regional risks of the Group and decision-making risk management on major issues, ensuring that the comprehensive risk management system had been implemented throughout the Group.

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

The Group introduced various types of risk information data, explored and applied the advanced technologies such as big data, artificial intelligence and knowledge diagram to construct models, upgraded the unified risk monitoring system which covered throughout the Group and improved the intelligent level of risk management. During the six months ended 30 June 2021, the Group pushed forward the construction of risk measurement system, created a full lifecycle model management platform, strengthened the unified management of risk measurement throughout the Group and optimised the measurement system covering all types of major risks. The Group launched the project of implementing new capital management measures and promoted the construction and upgrade of system.

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

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

The Risk Management and Related Party Transactions Control Committee of the Board of the Bank is primarily responsible for supervising the risk management of the Bank, assessing risks of the Bank and the effectiveness of the Bank’s risk management policies, and making recommendations to the Board regarding the Bank’s risk management and internal control strategies and policies. The audit committee of the Bank is responsible for proposing the appointment, change or removal of the Bank’s auditors, overseeing the Bank’s internal auditing system and its implementation, acting as the communication channel between the Bank’s internal and external

auditors, reviewing the Bank's financial information and related disclosures, overseeing the Bank's accounting policies, financial condition and financial reporting procedures, and evaluating the Bank's compliance with, and adequacy of, the Bank's internal controls. As at 30 June 2021, the audit committee of the Bank consisted of seven members, Mr. Li Longcheng, Mr. Chang Baosheng, Mr. Chen Junkui, Mr. Yeung Chi Wai, Jason, Mr. Woo Chin Wan, Raymond, Mr. Zhang Xiangdong and Ms. Li Xiaohui, with Ms. Li Xiaohui as the Chairwoman of the audit committee.

### **Board of Supervisors**

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

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

The Comprehensive Risk Management Committee of the Bank primarily formulates the Bank's risk management goals, policies and implementation procedures within the framework of the risk management strategies approved by the Board of the Bank, assesses the Bank's bank-wide risk management condition, and reviews and decides on any material violations of the Bank's risk management policies. The Bank's senior management established the Comprehensive Risk Management and Internal Control Committee, as well as two business review committees, namely Credit and Investment Review Committee and Risk Asset Review Committee. The business review committees are guided by and reports regularly to the Comprehensive Risk Management and Internal Control Committee. Each provincial and directly managed branch, overseas branch and subsidiary established the Comprehensive Risk Management and Internal Control Committee accordingly based on the aforementioned framework, which served as the main platform to study the prevention and control of systematic and regional risks of the Group and decision-making risk management on major issues, ensuring that the comprehensive risk management system had been implemented throughout the Group.

### **Credit Risk Management**

The Group's credit risk management is assumed by major functions such as Corporate Business Department, Inclusive Finance Department, Personal Finance Business Department, Pacific Credit Card Centre, Credit Authorisation Department, Credit Approval Department, Risk Management Department/Internal Control and Crime Prevention Office and Asset Preservation Department. They are responsible for the standardised management of corporate and retail credit businesses in terms of guidance on credit investment, credit investigation and report, credit approval, loan granting, post-loan management and non-performing loan management.

During the six months ended 30 June 2021, the Group sticks to build credit risk prevention and control capabilities. By improving asset quality, adjusting credit structure and deepening risk credit granting reform, the Group improved the unified credit granting policy system, optimised credit risk management processes, promoted the intellectualisation of data and systems and achieved steady improvement in asset quality.

The Group constantly its optimised credit structure. The Group improved its industry guidelines, promoted policy updates in an agile manner, and formulated special policies for new infrastructure, strategic emerging industries and green finance. By optimising regional policies, the Group provided more support for key regions such as the Yangtze River Delta, the Beijing-Tianjin-Hebei Region, the Guangdong-Hong Kong-Macao Greater Bay Area and the Chengdu-Chongqing Economic Circle. With a close eye on asset quality and by means of total volume control, name list and quota limits, the Group strengthened risk prevention and control in key areas such as group customers, real estate and implicit local government debts to continuously promote sci-tech empowerment and improve the effectiveness of risk monitoring and warning.

The Group enhanced disposal and collection. During the six months ended 30 June 2021, the Group disposed RMB43.718 billion non-performing loans, representing a year-on-year increase of RMB9.395 billion, of which RMB23.293 billion was written off. On the one hand, through the reinforcement of direct operation and management by the Head Office and the implementation of operation and management responsibilities, the Group drove the disposal of projects with significant risks to improve the disposal effectiveness of non-performing loans. On the other hand, the Group actively implemented new regulatory policies on the pilot transfer of non-performing loans, achieving the normalisation and standardisation of the operations of single transfer of corporate accounts and batch transfer of personal loans

The Group was dedicated to improving the risk management capabilities of credit card businesses. The Group integrated, upgraded and restructured the data, models and systems to continuously improve the accuracy of risk strategies and the capability to identify instances of fraud. On the premise of controllable risks, the Group empowered the front-end business and supported the acquisition of quality customers, stimulated existing customers and scaled up high-quality assets. Meanwhile, the Group strengthened the collection of non-performing loans, focused on the settlement and collection of substantive non-performing loans, proactively coped with the historical risks and ensured that the quality of credit card assets was under control. As at the end of 30 June 2021, the non-performing ratio of credit card business is 2.24 per cent., decreasing by 0.03 percentage point over the end of the previous year or by 0.66 percentage point on a year-on-year basis. During the six months ended 30 June 2021, the volume of new non-performing loans decreased by 39.06 per cent. on a year-on-year basis and this had decreased for four consecutive quarters.

During the six months ended 30 June 2021, due to the lingering COVID-19 pandemic and other factors, certain customer risks were exposed. Meanwhile, the Group strengthened risk identification and tightened asset quality classification standards. As at the end of 30 June 2021, the balance of non-performing loans of the Group was RMB101.432 billion and the non-performing loan ratio was 1.60 per cent., representing an increase of RMB3.734 billion and a decrease of 0.07 percentage point respectively over the end of the previous year. This period also witnessed a decrease in proportions of special mention loans and overdue loans.

#### ***Distribution of loans by five categories of loan classification***

|   | As at 30 June 2021 |                | As at 31 December 2020 |                | As at 31 December 2019 |                | As at 31 December 2018 |                |
|---|--------------------|----------------|------------------------|----------------|------------------------|----------------|------------------------|----------------|
|   | Balance            | Proportion (%) | Balance                | Proportion (%) | Balance                | Proportion (%) | Balance                | Proportion (%) |
| <i>(in millions of RMB unless otherwise stated)</i> |                    |                |                        |                |                        |                |                        |                |
| <b>Categories</b>                                   |                    |                |                        |                |                        |                |                        |                |
| Pass loan .....                                     | 6,157,685          | 97.02          | 5,668,199              | 96.92          | 5,111,715              | 96.37          | 4,662,605              | 96.06          |
| Special mention loan .....                          | 87,586             | 1.38           | 82,527                 | 1.41           | 114,517                | 2.16           | 119,111                | 2.45           |
| <b>Total performing loan balance .....</b>          | <b>6,245,271</b>   | <b>98.40</b>   | <b>5,750,726</b>       | <b>98.33</b>   | <b>5,226,232</b>       | <b>98.53</b>   | <b>4,781,716</b>       | <b>98.51</b>   |
| Sub-standard loan .....                             | 63,237             | 0.99           | 52,652                 | 0.90           | 16,963                 | 0.32           | 13,711                 | 0.28           |
| Doubtful loan .....                                 | 23,276             | 0.37           | 26,713                 | 0.46           | 42,508                 | 0.80           | 38,456                 | 0.79           |
| Loan loss .....                                     | 14,919             | 0.24           | 18,333                 | 0.31           | 18,572                 | 0.35           | 20,345                 | 0.42           |
| <b>Total non-performing loan balance .....</b>      | <b>101,432</b>     | <b>1.60</b>    | <b>97,698</b>          | <b>1.67</b>    | <b>78,043</b>          | <b>1.47</b>    | <b>72,512</b>          | <b>1.49</b>    |
| <b>Total .....</b>                                  | <b>6,346,703</b>   | <b>100.00</b>  | <b>5,848,424</b>       | <b>100.00</b>  | <b>5,304,275</b>       | <b>100.00</b>  | <b>4,854,228</b>       | <b>100.00</b>  |

As at 31 December 2018, 2019 and 2020 and 30 June 2021, the breakdown of the Bank's migration rate stipulated by the CBIRC is as follows:<sup>(1)</sup>



|                            | 30 June 2021 | 31 December 2020 | 31 December 2019 | 31 December 2018 |
|----------------------------|--------------|------------------|------------------|------------------|
|                            |              | (%)              |                  |                  |
| Loan migration rates       |              |                  |                  |                  |
| Pass loan .....            | 0.97         | 1.84             | 1.71             | 1.85             |
| Special mention loan ..... | 28.96        | 46.59            | 29.76            | 30.01            |
| Sub-standard loan .....    | 6.85         | 25.48            | 42.76            | 88.62            |
| Doubtful loan .....        | 11.45        | 19.92            | 10.92            | 15.36            |

Note:

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

As at 30 June 2021, with the impact of economic downturn, the Bank is still under pressure of the risk management and control environment.

### Market Risk Management

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

The aim of the market risk management of the Group was to proactively identify, measure, monitor, control and report its market risks based on the risk appetite determined by the Board of Directors. By using methods and means of quota management, risk hedging and risk transfer, the Group was able to manage its market risk exposure to an acceptable level and pursued a maximisation of its risk-adjusted profits based on its controlled risks.

The exchange rate risk and general interest rate risk of trading book were assessed with the use of the internal model-based approach by the Group, while the market risk not covered by the internal model-based approach was assessed under the standardised approach. In terms of the internal model-based approach, historical simulation method was adopted to calculate value at risk (“VaR”) and stressed value at risk (“SVaR”), which had a historical observation period of 1 year, a holding period of 10 working days and a 99 per cent. confidence interval. Daily capital transaction positions of the Group and the most updated market data were obtained to perform position valuation and sensitivity analysis in a timely manner. In addition, using the historical simulation method, the Group measured VaR of market risks on a daily basis from different perspectives, including risk factors and investment portfolios and products and performed reverse testing to verify the accuracy of the VaR model. The results obtained using the internal model-based approach were also applied to capital measurement, quota monitoring and management, performance assessment and risk monitoring and analysis.

During the six months ended 30 June 2021, the Group kept improving the market risk management system, optimising the market risk information management system and improving the effectiveness of market risk measurement. The Group closely observed market fluctuations, enhanced exposure monitoring and risk warning in the events of financial market volatility, and strictly controlled various market risk exposure limits.

### Exchange Rate Risk Management

The Group conducts the majority of its businesses in RMB, and the recording currency is RMB. Certain foreign transactions are conducted in USD, HKD and other currencies. The exchange rate of RMB to USD, HKD or

other currencies is subject to the trading rules of China Foreign Exchange Trade System. Exchange rate risk mainly results from currency mismatch between foreign currency assets and liabilities and between off balance sheet currency exposure. The Group has formulated management measures for exchange rate risks, defining the functional division and scope of work of the exchange rate risk management department, risk identification, measurement, monitoring and control methods, and specific measures. Moreover, the Group controls exchange rate risk by setting relevant limits, taking the initiative to adjust the structure of foreign currency assets for a proper matching of currency structure of assets and liabilities, and applying appropriate exchange rate financial derivatives for transfers and hedging based on its own risk tolerance and operating level.

### **Liquidity Risk Management**

The governance structure of liquidity risk management of the Group consisted of a decision-making body comprised the board of directors and its special committees and senior management, a supervisory body comprised the board of supervisors and the audit supervision committee and an executive body comprised Financial Management Department, Financial Markets Department, Risk Management Department, Operations and Channel Management Department, all the branches and subsidiaries, and the Head Office's departments in charge of each business unit.

The Group's liquidity risk management goal was to establish and improve the liquidity risk management system, and effectively identify, measure, monitor and manage the liquidity risk at various levels and hierarchies including the legal entity and group level, subsidiaries, branches and business lines to ensure that the liquidity demands can be timely satisfied at a reasonable cost.

The Group made decisions on its liquidity risk appetite on an annual basis based on factors such as operation strategies, business characteristics, financial strength, financing abilities, overall risk appetite and market influence. According to the liquidity risk appetite, the Group formulated written liquidity risk management strategies, policies and procedures. The strategies and policies of liquidity risk management covered all on- and off-balance sheet businesses, as well as all domestic and overseas business departments, branches and subsidiaries that might have significant impacts on liquidity risks and included liquidity risk management under normal and stressful conditions.

During the six months ended 30 June 2021, the Group conscientiously implemented the regulatory requirements, continuously strengthened the on- and off-balance sheet liquidity risk management and ensured the liquidity security of the Bank, with all the liquidity monitoring indicators meeting the regulatory requirements. The Group thoroughly analysed and judged the domestic and overseas macroeconomic and financial situation, flexibly adjusted the liquidity management strategy as well as the structure and pace of business development in time, and thus realised the chronological and effective balance between the source of funds and the use of funds. By forecasting in advance and performing cash flow calculation and analysis, the Group ensured the liquidity security during major holidays and at key time points; the Group also reinforced the coordination and integration to improve financing management and high quality liquid asset management, strengthened position forecast management and ensured daytime liquidity security through continuous monitoring.

The Group launched regular stress testing for liquidity risk, taking various factors that may affect the liquidity into full consideration, and set reasonable stress scenarios. The results of stress tests showed that the liquidity risk of the Bank was in a controllable range under various stress scenarios.

### **Operational Risk Management**

The Group developed comprehensive operational risk management system dealing with the nature, scale and product complexity of the Group's businesses. The Group also standardised the procedures of operational risk controls, control assessment, lost data collection, key risk indicator monitoring and operational risk

management. During the six months ended 30 June 2021, the Group enhanced the categorised management on operational risks in categories and risk assessment mechanism and strengthened operational risk monitoring assessment on key areas. As a result, the Group established an integrated business continuity management system at home and abroad, expanding the outsourcing risk management mechanism to the whole Group.

### **Legal Compliance and Anti-Money Laundering**

During the six months ended 30 June 2021, the Bank promoted the development of long-term mechanism for overseas compliance management, strengthened legal compliance risk control, and improved legal knowledge education and the construction of compliance culture to enhance the legal compliance guarantee for operation and management. During the six months ended 30 June 2021, the Bank also improved the capability construction of anti-money laundering management, optimised the anti-money laundering process, strengthened the identification and assessment of money laundering risks, and advocated the establishment of anti-money laundering system.

### **Cross-industry, Cross-Border and By-Country Risk Management**

The Group set up the risk management system across industries and borders, characterised by “centralised management, clear allocation, adequate tools, IT support, risk quantification, and consolidation of substantially controlled entities”. During the six months ended 30 June 2021, considering the uncertainties caused by the global COVID-19 pandemic and changes in the external environment, the Group emphasised the prevention and control of the pandemic and risk management in overseas institutions to ensure stable operation of business. In addition, the Group also strengthened management of key areas such as employees’ awareness of pandemic prevention, liquidity, business continuity and asset quality in overseas institutions. The Group enhanced the consolidation management, refined the full lifecycle management of subsidiaries, and provided better guidance and assessment on the consolidation management of subsidiaries. The Group implemented by-country risk management, optimised by-country risk limit plans, regularly monitored by-country risk exposures and timely carried out by-country risk rating, assessment and warning.

### **Reputation Risk Management**

The Group improved the reputation risk management framework, prevented the risk arising from negative comments from various stakeholders resulting from the Group’s operation, management and any other behaviours or external events, and handled various reputational incidents properly. The Group laid an emphasis on the identification, warning, assessment and monitoring of reputation risk, and promptly adjusted corresponding strategies and measures. During the six months ended 30 June 2021, reputation risk was well managed, reputation risk was under control and there was no occurrence of significant reputational incidents.

### **Management of Large Exposure Risk**

The Group thoroughly implemented the requirements of the *Administrative Measures for the Large Exposures of Commercial Banks* issued by the CBIRC, boosted the construction of management system, and optimised management process and organisation structure. The Group continuously monitored situations of large exposure risk, and strictly adhered to various delegated authorities’ standards, so as to improve the Group’s ability to prevent systematic and regional risk. As at 30 June 2021, the Group’s large exposure risk indicators all met the regulatory requirements.

## DESCRIPTION OF THE BANK'S ASSETS AND LIABILITIES

### ASSETS

The Bank's total assets as at 30 June 2021 were RMB11,413,960 million, which represents an increase of 6.70 per cent. from RMB10,697,616 million as at 31 December 2020. The Bank's total assets as at 31 December 2020 were RMB10,697,616 million, which represents an increase of 8.00 per cent. from RMB9,905,600 million as at 31 December 2019. The four principal components of the Bank's assets consist of cash and balances with central banks, due from other banks and financial institutions, derivative financial assets and loans and advances to customers. As at 30 June 2021, the balance of the Bank's loans and advances to customers, financial investment, cash and balances with central banks, amounts due from banks and other financial institutions, and others constituted 54.39 per cent., 29.37 per cent., 7.10 per cent., 6.24 per cent. and 2.90 per cent., respectively, of its total assets. The following table sets forth the balances of significant components of the Bank's total assets as at the dates indicated:

|  | As at 31 December       |                  |                   | As at 30 June     |
|--|-------------------------|------------------|-------------------|-------------------|
|  | 2018                    | 2019             | 2020              | 2021              |
|  | <i>(RMB in million)</i> |                  |                   |                   |
| Cash and balances with central banks.....                                    | 840,171                 | 760,185          | 817,561           | 810,320           |
| Due from banks and other financial institutions .....                        | 848,067                 | 648,488          | 571,130           | 712,370           |
| Derivative financial assets .....  | 30,730                  | 20,937           | 54,212            | 35,584            |
| Loans and advances to customers .....  | 4,742,372               | 5,183,653        | 5,720,568         | 6,208,293         |
| Financial investments at fair value through profit or loss                   | 376,386                 | 406,498          | 482,588           | 575,837           |
| Financial investments at amortised cost.....                                 | 2,000,505               | 1,929,689        | 2,019,529         | 2,050,282         |
| Financial investments at fair value through other comprehensive income ..... | 445,018                 | 669,656          | 735,220           | 726,547           |
| Investments in associates and joint venture .                                | 3,653                   | 4,600            | 4,681             | 5,505             |
| Property and equipment.....  | 153,286                 | 171,179          | 169,471           | 167,054           |
| Deferred income tax assets .....   | 21,975                  | 24,065           | 27,991            | 29,119            |
| Other assets <sup>(1)</sup> .....  | 69,008                  | 86,650           | 94,665            | 93,049            |
| <b>Total assets</b> .....  | <b>9,531,171</b>        | <b>9,905,600</b> | <b>10,697,616</b> | <b>11,413,960</b> |

Note:

- (1) Other assets consist of interest receivable, settlement accounts, other receivables and prepayments, investment properties, land use rights and others, intangible assets, long-term deferred expenses, precious metal, foreclosed assets, goodwill, refundable deposits, unsettled assets etc.

As at 30 June 2021, the Bank's capital position is among the best in the industry, its Core Tier 1 Capital Adequacy Ratio, Tier 1 capital adequacy ratio and capital adequacy ratio being 10.59 per cent., 13.11 per cent. and 15.29 per cent., respectively.

## Loans and Advances to Customers

As at 31 December 2020, the Bank's corporate loans and personal loans represented approximately 66.13 per cent. and 33.87 per cent., respectively, of its total gross loans and advances to customers. While the Bank's corporate banking business remains its core banking business, the Bank believes that the PRC personal banking sector continues to offer significant growth opportunities. As part of the Bank's growth strategy, the Bank has taken, and will continue to take, various initiatives to enhance its personal banking business. As at 30 June 2021, the Bank's personal loans reached RMB2,116,957 million, representing an increase of RMB136.075 million or 6.87 per cent. compared to 31 December 2020.

Unless otherwise stated, all amounts of corporate loans, personal loans and discounted bills set forth in this section represent amounts before impairment allowance.

The Bank's loans and advances to customers (after impairment allowances) represent a significant portion of its assets and accounted for 54.39 per cent. of its total assets as at 30 June 2021. The balance of the Bank's loans and advances to customers net of allowance for impairment losses increased by 8.53 per cent. to RMB6,208,293 million as at 30 June 2021 from RMB5,720,568 million as at 31 December 2020.

## Corporate Loan Concentration by Industry

The Bank's corporate loan portfolio represents a broad range of industries, but is concentrated in particular in the transportation, storage and postal services, manufacturing, leasing and commercial services, water conservancy, environmental and other public services and real estate sectors. The following table sets forth the Bank's corporate loan portfolio by industry and as a percentage of its loan portfolio as at the dates indicated:

|  | 31 December 2018 |                   | 31 December 2019 |                   | 31 December 2020 |                   | 30 June 2021  |                   |
|--|------------------|-------------------|------------------|-------------------|------------------|-------------------|---------------|-------------------|
|  | <i>Amount</i>    | <i>% of total</i> | <i>Amount</i>    | <i>% of total</i> | <i>Amount</i>    | <i>% of total</i> | <i>Amount</i> | <i>% of total</i> |
| <i>(RMB in million, except percentages)</i>                        |                  |                   |                  |                   |                  |                   |               |                   |
| <b>Corporate loans .....</b>                                       | 3,061,095        | 63.08             | 3,346,476        | 63.09             | 3,707,471        | 63.39             | 4,059,876     | 63.96             |
| Transportation, storage and postal services .....                  | 573,151          | 11.82             | 637,943          | 12.03             | 708,649          | 12.12             | 757,552       | 11.94             |
| Manufacturing .....  | 581,412          | 11.98             | 601,143          | 11.33             | 658,203          | 11.25             | 708,217       | 11.16             |
| Leasing and commercial services .....                              | 413,716          | 8.52              | 508,863          | 9.59              | 577,500          | 9.87              | 649,188       | 10.23             |
| Water conservancy, environmental and other public services .....   | 263,235          | 5.42              | 284,797          | 5.37              | 334,399          | 5.72              | 374,929       | 5.91              |
| Real estate .....  | 216,536          | 4.46              | 264,495          | 4.99              | 348,185          | 5.95              | 382,381       | 6.02              |
| Wholesale and retail ....  | 246,706          | 5.08              | 221,381          | 4.17              | 204,856          | 3.50              | 214,175       | 3.37              |
| Production and supply of electric power, heat, gas and water ..... | 186,117          | 3.83              | 215,642          | 4.07              | 221,313          | 3.78              | 241,298       | 3.80              |
| Construction .....   | 114,577          | 2.36              | 135,998          | 2.56              | 135,732          | 2.32              | 169,975       | 2.68              |
| Mining .....   | 119,091          | 2.45              | 117,555          | 2.22              | 125,367          | 2.14              | 131,771       | 2.08              |
| Finance sector .....   | 98,342           | 2.03              | 107,865          | 2.03              | 118,702          | 2.03              | 148,399       | 2.34              |
| Education, science, culture and public health .....                | 89,436           | 1.84              | 96,875           | 1.83              | 112,961          | 1.93              | 120,884       | 1.90              |
| Others .....   | 96,428           | 1.99              | 93,314           | 1.76              | 85,570           | 1.48              | 80,103        | 1.26              |

|  | 31 December 2018 |                   | 31 December 2019 |                   | 31 December 2020 |                   | 30 June 2021  |                   |
|--|------------------|-------------------|------------------|-------------------|------------------|-------------------|---------------|-------------------|
|  | <i>Amount</i>    | <i>% of total</i> | <i>Amount</i>    | <i>% of total</i> | <i>Amount</i>    | <i>% of total</i> | <i>Amount</i> | <i>% of total</i> |
| <i>(RMB in million, except percentages)</i>                                  |                  |                   |                  |                   |                  |                   |               |                   |
| Accommodation and catering .....   | 34,486           | 0.71              | 32,259           | 0.61              | 34,886           | 0.60              | 33,744        | 0.53              |
| Information transmission, software and information technology services ..... | 28,682           | 0.59              | 28,346           | 0.53              | 41,148           | 0.70              | 47,260        | 0.74              |
| <b>Personal loans</b> .....  | 1,635,627        | 33.69             | 1,754,765        | 33.08             | 1,980,882        | 33.87             | 2,116,957     | 33.36             |
| <b>Discounted bills</b> .....  | 156,686          | 3.23              | 203,034          | 3.83              | 160,071          | 2.74              | 169,870       | 2.68              |
| <b>Total</b> .....   | 4,854,228        | 100.00            | 5,304,275        | 100.00            | 5,848,424        | 100.00            | 6,346,703     | 100.00            |

In accordance with the disclosure standards in the published audited consolidated financial statements as at and for the year ended 31 December 2020, loans to the transportation, storage and postal services, manufacturing, leasing and commercial services, water conservancy, environmental and other public services and real estate generally account for a significant portion of the Bank's corporate loans. In the aggregate, they accounted for approximately 44.91 per cent. of the Bank's total loans as at 31 December 2020. As at 31 December 2020, the total amount of the Bank's outstanding corporate loans increased by RMB352.405 billion or 9.51 per cent. from RMB3,707,471 million as at 31 December 2020 to RMB4,059,876 million. The Bank offers bill discounting by providing its customers with cash for their bills of exchange accepted by other financial institutions as well as corporations. Discounted bills represented 3.83 per cent., 2.74 per cent. and 2.68 per cent. of the Bank's gross loans and advances balance as at 31 December 2019, 2020 and 30 June 2021, respectively. Discounted bills increased by 6.12 per cent. from RMB160,071 million as at 31 December 2020 to RMB169,870 million as at 30 June 2021.

### Personal Banking Loan Concentration by Product

The Bank's personal finance loan portfolio consists primarily of mortgage loans, credit card advances and others. The following table sets forth the Bank's personal finance loan portfolio by products and as a percentage of its personal finance loan portfolio as at the dates indicated:

|   | 31 December 2018 |                   | 31 December 2019 |                   | 31 December 2020 |                   | 30 June 2021  |                   |
|---|------------------|-------------------|------------------|-------------------|------------------|-------------------|---------------|-------------------|
|   | <i>Amount</i>    | <i>% of total</i> | <i>Amount</i>    | <i>% of total</i> | <i>Amount</i>    | <i>% of total</i> | <i>Amount</i> | <i>% of total</i> |
| <i>(RMB in million, except percentages)</i> |                  |                   |                  |                   |                  |                   |               |                   |
| Mortgage .....                              | 1,007,528        | 61.60             | 1,135,428        | 64.70             | 1,293,773        | 65.31             | 1,387,339     | 65.53             |
| Credit card .....                           | 505,190          | 30.89             | 467,387          | 26.64             | 464,110          | 23.43             | 463,340       | 21.89             |
| Personal business loans                     | 31,871           | 1.95              | 55,560           | 3.17              | 120,985          | 6.11              | 161,858       | 7.65              |
| Others <sup>(1)</sup> .....                 | 91,038           | 5.56              | 96,390           | 5.49              | 102,014          | 5.15              | 104,420       | 4.93              |
| <b>Total personal loans</b> .....           | 1,635,627        | 100.00            | 1,754,765        | 100.00            | 1,980,882        | 100.00            | 2,116,957     | 100.00            |

Note:

- (1) "Others" include, among others, medium-term and long-term working capital loans, short-term working capital loans, car loans, education loans, durable consumer goods loans, refurbishing loans, pledge of certificates of deposit to small-sized loans and small-sized secured loans to the unemployed.

The total amount of the Bank's outstanding personal loans increased by RMB136,075 million or 6.87 per cent. per cent. from RMB1,980,882 million as at 31 December 2020 to RMB2,116,957 million as at 30 June 2021. The Bank's personal loans represented 33.87 per cent. and 33.36 per cent. of its gross loans and advances as at 31 December 2020 and 30 June 2021, respectively.

Mortgage loans represented 65.31 per cent. of the Bank's personal loans as at 31 December 2020. The Bank's mortgage loans increased 7.23 per cent. to RMB1,387,339 million as at 30 June 2021 from RMB1,293,773 million as at 31 December 2020. The Bank has expanded its mortgage loan business while controlling risks by focusing on economically developed regions and well-regulated markets.

As at 31 December 2019, 2020 and 30 June 2021, the Bank's credit card advances were RMB467,387 million, RMB464,110 million and RMB463,340 million, respectively, which represented 26.64 per cent., 23.43 per cent. and 21.89 per cent., respectively, of its total personal loans. As at 31 December 2020, there were 72.66 million registered domestic credit cards, within which customers acquired online accounted for 54.69 per cent.

### **Maturity of Loans**

When a short-term loan is renewed following repayment within the credit term of the loan, no re-application for a credit line is required, provided such loan is drawn in accordance with relevant rules and within the effective credit line. Upon expiration of the credit term of a loan, a borrower must re-apply for a new loan, subject to the Bank's standard credit approval procedures. The interest rates for the Bank's Renminbi-denominated loans and advances are regulated by the PBOC, and banks have discretion to determine the interest rates for Renminbi-denominated loans and advances within a permitted range. The interest rate for discounted bills is determined with reference to the PBOC market re-discount interest rate.

### **Borrower Concentration**

Under the current PRC banking regulations, the aggregate amount of the Bank's loan exposure to any single borrower may not exceed 10 per cent. of its net capital. The Bank is currently in compliance with this regulatory requirement.

### **Loan Concentration by Geographical Location**

The following table sets forth the geographic distribution of the Bank's gross loans and advances as at the dates indicated:

|                               | <b>As at 31 December</b> |             | <b>As at 30</b> |
|-------------------------------|--------------------------|-------------|-----------------|
|                               | <b>2019</b>              | <b>2020</b> | <b>June</b>     |
|                               | <i>(RMB in million)</i>  |             | <b>2021</b>     |
| Yangtze River Delta .....     | 1,434,280                | 1,576,465   | 1,740,449       |
| Pearl River Delta .....       | 572,226                  | 701,865     | 795,832         |
| Bohai Rim Economic Zone ..... | 740,248                  | 831,454     | 919,712         |
| Central China                 | 827,110                  | 958,527     | 1,031,618       |
| Western China .....           | 585,712                  | 680,088     | 732,604         |
| North Eastern China .....     | 212,871                  | 232,864     | 241,802         |
| Overseas .....                | 391,517                  | 359,368     | 378,425         |

|                                  | As at 31 December       |           | As at 30<br>June |
|----------------------------------|-------------------------|-----------|------------------|
|                                  | 2019                    | 2020      | 2021             |
|                                  | <i>(RMB in million)</i> |           |                  |
| Head office <sup>(1)</sup> ..... | 540,311                 | 507,793   | 506,261          |
| Total .....                      | 5,304,275               | 5,848,424 | 6,346,703        |

Note:

(1) Head Office included the Pacific Credit Card Centre.

The Bank's business is concentrated on the economically developed areas of China. As at 30 June 2021, the Bank's loans and advances to customers from Yangtze River Delta, Pearl River Delta, Bohai Rim Economic Zone and Central China accounted for 27.42 per cent., 12.54 per cent., 14.49 per cent. and 16.25 per cent., respectively, of its total loans and advances to customers.

## LOAN QUALITY

The Bank measures and monitors the asset quality of the Bank's loan portfolio through its loan classification system. The Bank classifies its loans using a five-category loan classification system, which complies with the applicable regulatory guidelines.

The Bank intends to continue to improve its loan quality and to generate stable profits while maintaining its credit risk exposure within acceptable parameters through a diversified loan portfolio. The Bank has established an integrated credit risk management system with comprehensive policies and procedures to identify, measure, monitor and control credit risk across its organisation. See the section headed "Risk Management and Internal Control".

Impaired loans are a concept under IFRS, which has been adopted by the Bank in the preparation of its financial statements set forth in the Original Offering Circular. A loan is impaired if there is objective evidence that the Bank will not be able to collect all amounts due according to the original contractual terms of such loan. Non-performing loan is used to refer to a loan that is classified as "substandard", "doubtful" or "loss" under the five-category loan classification system established by the CBIRC.

Overdue loans are (1) for loans with a specific expiry date – these loans should be treated as overdue where the principal or interest is overdue and remains unpaid as at the reporting date; (2) for loans with regular instalments – these loans should be treated as overdue when an instalment payment is overdue and remains unpaid as at the reporting date.

### Provision for Impairment Losses on Loans and Advances to Customers

For the year ended 31 December 2017, for a financial asset that is individually significant, the Group assesses the asset individually for impairment. For a financial asset that is not individually significant, the Group assesses the asset individually for impairment or includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset (whether significant or not), it includes the asset in a group of financial assets with similar credit risk characteristics and collectively reassesses



them for impairment. Assets for which an impairment loss is individually recognised are not included in a collective assessment of impairment.

If financial assets carried at amortised cost are impaired, the carrying amounts of the financial assets are reduced to the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The amount of reduction is recognised as an impairment loss in profit or loss and is recorded through the use of an allowance account. When a financial asset is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss. If, subsequent to the recognition of an impairment loss on financial assets carried at amortised cost, there is objective evidence of a recovery in value of the financial assets which can be related objectively to an event occurring after the impairment is recognised, the previously recognised impairment loss is reversed. However, the reversal is made to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Effective from 1 January 2018, IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (“ECL”) model, which constitutes a change from the incurred loss model in IAS 39.

Under IFRS 9, ECL is a probability-weighted estimate of credit losses. A credit loss is the difference between the total cash flows that are due to the Group in accordance with the contract and the total cash flows that the Group expects to receive discounted at the original effective interest rate, i.e. the present value of the total cash flows shortage. Purchased or originated credit-impaired financial assets shall be discounted at the credit-adjusted effective interest rate. The Group measures the ECL of financial instruments at amortised cost or debt investments at fair value through other comprehensive income. The Group divides them into 3 stages by assessing whether there has been a significant increase in credit risk since initial recognition. The Group measures the ECL of a financial instrument in a way that reflects (1) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; (2) the time value of money; and (3) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The following table sets forth certain information regarding the Bank's individually identified impaired loans and its loans overdue by more than 90 days as at the dates indicated:

|  | <b>31 December<br/>2018</b>                 | <b>31 December<br/>2019</b> | <b>31 December<br/>2020</b> | <b>30 June<br/>2021</b> |
|--|---|-----------------------------|-----------------------------|-------------------------|
|  | <i>(RMB in million, except percentages)</i> |                             |                             |                         |
| Non-performing loans .....               | 72,512                                      | 78,043                      | 97,698                      | 101,432                 |
| Loans overdue by more than 90 days ..... | 63,321                                      | 61,597                      | 64,723                      |                         |
| Non-performing loan ratio .....          | 1.49%                                       | 1.47%                       | 1.67%                       | 1.60%                   |

### **Impaired Loans by Industry**

A significant portion of the Bank's impaired corporate loans is concentrated in the manufacturing, wholesale and retail and real estate sectors. The impaired loan concentration in the manufacturing sector is due primarily to the high proportion of corporate loans to the manufacturing sector, and to the intense competition and overcapacity exhibited by this sector. The impaired loan concentration in the wholesale and retail sector is due primarily to the intense competition and cyclicity exhibited by this sector during the global financial crisis. The Bank has recently adopted several measures as part of its on-going efforts to manage its credit risk across its industries by, among other things, adopting an industry risk rating system and an internal risk rating system

to monitor those industries which are most affected by governmental policies or overcapacity, or those which are low-growth industries, so that the Bank can adjust timely its credit standards and select customers with a lower risk profile. The impaired loan concentration in the real estate sector is due primarily to the growth of the Bank's lending to the real estate sector. The Bank have tried to manage its credit risk in the real estate sector by paying close attention to the market environment and changes in governmental policies, by focusing its lending more heavily on large national and regional property development companies and limiting its lending to small-sized and medium-sized property development companies.

### Distribution of non-performing loans by region

The following table sets forth the geographic distribution of the Bank's non-performing loans as at the dates indicated:

|  | As at 31 December 2019                      |                         |                                  | As at 31 December 2020 |                         |                                  | 30 June 2021   |                         |                                  |
|--|---|-------------------------|----------------------------------|------------------------|-------------------------|----------------------------------|----------------|-------------------------|----------------------------------|
|  | <i>Amount</i>                               | <i>% of total loans</i> | <i>Non-performing loan ratio</i> | <i>Amount</i>          | <i>% of total loans</i> | <i>Non-performing loan ratio</i> | <i>Amount</i>  | <i>% of total loans</i> | <i>Non-performing loan ratio</i> |
|  | <i>(RMB in million, except percentages)</i> |                         |                                  |                        |                         |                                  |                |                         |                                  |
| Yangtze River Delta.....                 | 12,836                                      | 16.45                   | 0.89                             | 20,932                 | 21.43                   | 1.33                             | 22,841         | 27.42                   | 1.31                             |
| Pearl River Delta.....                   | 6,056                                       | 7.76                    | 1.06                             | 7,332                  | 7.50                    | 1.04                             | 8,315          | 12.54                   | 1.04                             |
| Bohai Rim Economic Zone.                 | 9,646                                       | 12.30                   | 1.30                             | 17,058                 | 17.46                   | 2.05                             | 16,850         | 14.49                   | 1.83                             |
| Central China.....                       | 11,369                                      | 14.57                   | 1.37                             | 18,005                 | 18.43                   | 1.88                             | 18,797         | 16.25                   | 1.82                             |
| Western China <sup>(6)</sup> .....       | 11,951                                      | 15.31                   | 2.04                             | 9,220                  | 9.44                    | 1.36                             | 10,126         | 11.54                   | 1.38                             |
| North Eastern China <sup>(3)</sup> ..... | 13,826                                      | 17.72                   | 6.50                             | 10,998                 | 11.26                   | 4.72                             | 10,572         | 3.81                    | 4.37                             |
| Head Office <sup>(1)</sup> .....         | 11,146                                      | 14.28                   | 0.31                             | 10,567                 | 10.82                   | 2.08                             | 3,539          | 5.96                    | 0.94                             |
| Overseas <sup>(7)</sup> .....            | 1,213                                       | 15.31                   | 2.06                             | 3,586                  | 9.44                    | 1.00                             | 10,392         | 7.99                    | 2.05                             |
| Total .....                              | <u>78,043</u>                               | <u>100.00</u>           | <u>1.47</u>                      | <u>97,698</u>          | <u>100.00</u>           | <u>1.67</u>                      | <u>101,432</u> | <u>100.00</u>           | <u>1.60</u>                      |

Notes:

(1) Head Office included the Pacific Credit Card Centre.

### TRADING ASSETS

The Bank invests in and trades Renminbi-denominated and foreign currency-denominated listed and unlisted debt and equity securities for its own account to (1) maintain the stability and diversification of the Bank's assets, (2) maintain adequate sources of back-up liquidity to match the Bank's funding requirements, and (3) supplement income from the Bank's core lending activities.

The Bank's investment securities include primarily securities issued by central governments and central banks, securities issued by banks and other financial institutions, securities issued by corporate entities, as well as a small portion of investment securities issued by public sector entities.

The Bank's trading assets include primarily listed and unlisted debt and equity securities, as well as derivative financial instruments, issued by banks and financial institutions, corporate entities, governments and central banks and public sector entities. The majority of the unlisted bonds in this category are traded in the interbank market in the PRC.

The Bank recorded its investment securities and trading assets on its statement of financial position as financial assets held for trading, loans and receivables investment securities, held-to-maturity investment securities and

available-for-sale investment securities as at and for the year ended 31 December 2017. Debt securities with fixed or determinable payments that are not quoted in an active market, without the intent to sell immediately or in the short term are classified as loans and receivables. Investment securities with fixed maturity where the Bank's management has the intent and the ability to hold to maturity are classified as held-to-maturity investment securities. Investment securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices are classified as available-for-sale investment securities. A trading asset is classified as financial assets held for trading if it is acquired principally for the purpose of selling in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. From 1 January 2018, the Bank applied IFRS 9 and records and reclassifies its investment securities and trading assets on its statement of financial position as financial assets by measurement of fair value through profit or loss ("FVPL"), fair value through other comprehensive income ("FVOCI") or amortised cost. Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured from these financial assets. Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at FVOCI.

The following table sets forth a distribution of the Bank's investment securities by classification and type of issuer as at the dates indicated:

|  | 31 December 2018 |                   | 31 December 2019 |                   | 31 December 2020 |                   | 30 June 2021  |                   |
|--|------------------|-------------------|------------------|-------------------|------------------|-------------------|---------------|-------------------|
|  | <i>Amount</i>    | <i>% of total</i> | <i>Amount</i>    | <i>% of total</i> | <i>Amount</i>    | <i>% of total</i> | <i>Amount</i> | <i>% of total</i> |
| <i>(RMB in million, except percentages)</i>  |                  |                   |                  |                   |                  |                   |               |                   |
| <b>Debt investments at FVOCI</b>             |                  |                   |                  |                   |                  |                   |               |                   |
| Governments and central banks .....          | 66,621           | 2.98              | 258,959          | 10.57             | 340,723          | 12.93             | 319,438       | 11.97             |
| Public sector entities .....                 | 3,699            | 0.17              | 2,108            | 0.09              | 3,376            | 0.13              | 4,944         | 0.19              |
| Banks and other financial institutions ..... | 312,339          | 13.96             | 329,703          | 13.45             | 304,690          | 11.56             | 299,083       | 11.21             |
| Corporate entities .....                     | 54,971           | 2.46              | 69,941           | 2.85              | 75,084           | 2.85              | 83,412        | 3.13              |
| Total .....                                  | 437,630          | 19.57             | 660,711          | 26.96             | 723,873          | 27.47             | 706,877       | 26.50             |
| <b>Bond investments at amortised cost</b>    |                  |                   |                  |                   |                  |                   |               |                   |
| Governments and central banks .....          | 1,439,657        | 64.37             | 1,521,473        | 62.08             | 1,710,428        | 64.92             | 1,805,050     | 67.67             |
| Public sector entities .....                 | 28,364           | 1.27              | 25,689           | 1.05              | 21,979           | 0.83              | 21,683        | 0.81              |
| Banks and other financial institutions ..... | 292,631          | 13.08             | 215,817          | 8.81              | 148,404          | 5.63              | 104,712       | 3.93              |
| Corporate entities .....                     | 38,411           | 1.72              | 27,038           | 1.10              | 29,983           | 1.14              | 29,207        | 1.09              |
| Total .....                                  | 1,799,063        | 80.43             | 1,790,017        | 73.04             | 1,910,794        | 72.53             | 1,960,652     | 73.50             |

## LIABILITIES AND SOURCES OF FUNDS

The Group's total liabilities as at 30 June 2021 were RMB10,478,045 million, which represents an increase of 6.71 per cent. from RMB9,818,988 million as at 31 December 2020. The Group's due to customers accounted for 66.22 per cent. of its total liabilities as at 30 June 2021. The Bank obtains funding for its lending and investment activities from a variety of sources, both domestic and international. The Bank's principal sources of funding are corporate and individual deposits. The Bank's funding operations are designed to ensure both a stable source of funds and effective liquidity management. The Bank continuously adjusts its funding operations to minimise funding costs and also endeavours to match currencies and maturities with those of its loan portfolio.

The table below illustrates the balance and breakdown of the Group's due to customers as at the dates indicated:

|   | 31 December 2018 |                   | 31 December 2019 |                   | 31 December 2020 |                   | 30 June 2021  |                   |
|---|------------------|-------------------|------------------|-------------------|------------------|-------------------|---------------|-------------------|
|   | <i>Amount</i>    | <i>% of total</i> | <i>Amount</i>    | <i>% of total</i> | <i>Amount</i>    | <i>% of total</i> | <i>Amount</i> | <i>% of total</i> |
| <i>(RMB in million, except percentages)</i> |                  |                   |                  |                   |                  |                   |               |                   |
| <b>Corporate deposits</b>                   |                  |                   |                  |                   |                  |                   |               |                   |
| Corporate demand deposits .....             | 1,748,857        | 30.55             | 1,835,688        | 30.57             | 2,005,934        | 30.67             | 2,088,099     | 29.76             |
| Corporate time deposits ..                  | 2,195,241        | 38.35             | 2,196,096        | 36.57             | 2,335,590        | 35.72             | 2,464,371     | 35.12             |
| Sub-total .....                             | 3,944,098        | 68.90             | 4,031,784        | 67.14             | 4,341,524        | 66.39             | 4,552,470     | 64.88             |
| <b>Personal deposits</b>                    |                  |                   |                  |                   |                  |                   |               |                   |
| Personal demand deposits .....              | 687,393          | 12.01             | 762,669          | 12.70             | 812,534          | 12.42             | 824,774       | 11.75             |
| Personal time deposits .....                | 1,089,095        | 19.02             | 1,207,253        | 20.10             | 1,379,697        | 21.10             | 1,558,707     | 22.22             |
| Sub-total .....                             | 1,776,488        | 31.03             | 1,969,922        | 32.80             | 2,192,231        | 33.52             | 2,383,481     | 33.97             |
| Other deposits .....                        | 3,903            | 0.07              | 3,364            | 0.06              | 5,499            | 0.09              | 2,433         | 0.03              |
| Accrued interest.....                       | -                | -                 | -                | -                 | -                | -                 | 78,268        | 1.12              |
| Total due to customers.....                 | 5,724,489        | 100.00            | 6,005,070        | 100.00            | 6,539,254        | 100.00            | 7,016,652     | 100.00            |

## DISTRIBUTION OF DEPOSITS BY GEOGRAPHY

The following table sets forth the distribution of the Bank's deposit balances as at the dates indicated:

|   | 31 December 2019 |                   | 31 December 2020 |                   | 30 June 2021  |                   |
|---|------------------|-------------------|------------------|-------------------|---------------|-------------------|
|   | <i>Amount</i>    | <i>% of total</i> | <i>Amount</i>    | <i>% of total</i> | <i>Amount</i> | <i>% of total</i> |
| <i>(RMB in million, except percentages)</i> |                  |                   |                  |                   |               |                   |
| Yangtze River Delta .....                   | 1,657,282        | 27.58             | 1,786,446        | 27.31             | 1,903,166     | 27.12             |
| Pearl River Delta .....                     | 664,151          | 11.06             | 768,470          | 11.75             | 872,402       | 12.43             |
| Bohai Rim Economic Zone.....                | 1,216,551        | 20.26             | 1,348,298        | 20.62             | 1,436,471     | 20.47             |
| Central China.....                          | 983,484          | 16.38             | 1,072,501        | 16.40             | 1,155,580     | 16.47             |
| Western China .....                         | 694,097          | 11.56             | 734,423          | 11.23             | 774,681       | 11.04             |
| North Eastern China .....                   | 306,599          | 5.11              | 330,087          | 5.05              | 333,383       | 4.75              |
| Overseas .....                              | 465,096          | 7.75              | 495,356          | 7.58              | 459,161       | 6.54              |

|                       | 31 December 2019                            |                   | 31 December 2020 |                   | 30 June 2021     |                   |
|-----------------------|---|-------------------|------------------|-------------------|------------------|-------------------|
|                       | <i>Amount</i>                               | <i>% of total</i> | <i>Amount</i>    | <i>% of total</i> | <i>Amount</i>    | <i>% of total</i> |
|                       | <i>(RMB in million, except percentages)</i> |                   |                  |                   |                  |                   |
| Head office .....     | 17,810                                      | 0.30              | 3,673            | 0.06              | 3,540            | 0.05              |
| Accrued interest..... | -   | -                 | -                | -                 | 78,268           | 1.13              |
| Total .....           | <u>6,005,070</u>                            | <u>100.00</u>     | <u>6,539,254</u> | <u>100.00</u>     | <u>7,016,652</u> | <u>100.00</u>     |

## SUBSTANTIAL SHAREHOLDERS

The table below sets forth certain information regarding ownership of outstanding shares of the Bank as at 30 June 2021 by those persons who hold or are beneficially interested in any substantial part of the share capital of the Bank.

### Particulars of shareholdings disclosed pursuant to H shares regulatory requirements

As at 30 June 2021, to the knowledge of the directors, supervisors and chief executive of the Bank, the substantial shareholders and other persons (other than directors, supervisors and chief executive of the Bank) who had interests or short positions in the shares or underlying shares of the Bank as recorded in the register required to be kept pursuant to Section 336 of the SFO were as follows:

| Name of substantial shareholders                            | Capacity                            | Number of A shares            | Nature of interest <sup>(1)</sup> | Approximate percentage of total issued A shares                | Approximate percentage of total issued shares                |
|---|-------------------------------------|-------------------------------|-----------------------------------|--|--|
|   |                                     |                               |                                   | (%)  |  |
| Ministry of Finance of the People's Republic of China ..... | Beneficial owner                    | 13,178,424,446 <sup>(2)</sup> | Long position                     | 33.57  | 17.75  |
| National Council for Social Security Fund.....              | Beneficial owner                    | 3,105,155,568 <sup>(3)</sup>  | Long position                     | 7.91   | 4.18   |
|   |                                     |                               |                                   |  |  |
| Name of substantial shareholders                            | Capacity                            | Number of H shares            | Nature of interest <sup>(1)</sup> | Approximate percentage of total issued H shares <sup>(8)</sup> | Approximate percentage of total issued shares <sup>(8)</sup> |
|   |                                     |                               |                                   | (%)  |  |
| National Council for Social Security Fund.....              | Beneficial owner                    | 9,055,113,332 <sup>(3)</sup>  | Long position                     | 25.86  | 12.19  |
| Ministry of Finance of the People's Republic of China ..... | Beneficial owner                    | 4,553,999,999 <sup>(2)</sup>  | Long position                     | 13.01  | 6.13   |
| HSBC Holding plc .....                                      | Interest of controlled corporations | 14,135,636,613 <sup>(4)</sup> | Long position                     | 40.37  | 19.03  |

Notes:

- (1) Long positions held other than through equity derivatives.
- (2) To the knowledge of the Bank, as at 30 June 2021, the Ministry of Finance of the People's Republic of China held 4,553,999,999 H shares and 13,178,424,446 A shares of the Bank, representing 6.13 per cent. and 17.75 per cent. of the total ordinary shares issued by the Bank, respectively.
- (3) To the knowledge of the Bank, as at 30 June 2021, the National Council for Social Security Fund held 9,055,113,332 H shares and 3,105,155,568 A shares of the Bank, representing 12.19 per cent. and 4.18 per cent. of the total ordinary shares issued by the Bank, respectively.
- (4) HSBC Holding plc wholly owns HSBC Asia Holdings Limited, which wholly owns HSBC. HSBC beneficially held 14,135,636,613 H shares of the Bank. Pursuant to the SFO, HSBC Holding plc was deemed to own the interests associated with the 14,135,636,613 H shares held by HSBC.

Save as disclosed above, as at 30 June 2021, no person (excluding the Directors, Supervisors and Chief Executive of the Bank) or corporation was recorded in the register required to be kept under Section 336 of the SFO as holding any interests or short positions in the shares or underlying shares of the Bank that would fall to be disclosed to the Bank and the Hong Kong Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO.

## MANAGEMENT OF THE BANK

### GENERAL

The Board of the Bank currently comprises 16 members being two executive directors, eight non-executive directors and six independent non-executive directors. Each director of the Bank is elected at a shareholder meeting for a term of three years, which is renewable upon re-election. The chairman and the vice chairman of the Board are elected by a simple majority of the Board.

The business address of the directors, supervisors and senior management personnel named below is No. 188 Yinchengzhong Road, Pudong District, Shanghai, PRC, 200120.

### DIRECTORS

The following table sets forth certain information concerning the directors of the Bank.

| Name                           | Position  |
|--------------------------------|---|
| Mr. REN Deqi .....             | Chairman and Executive Director                 |
| Mr. LIU Jun .....              | Vice Chairman, Executive Director and President |
| Mr. LI Longcheng .....         | Non-executive Director                          |
| Mr. WANG Linping .....         | Non-executive Director                          |
| Mr. CHANG Baosheng .....       | Non-executive Director                          |
| Mr. LIAO, Yi Chien David.....  | Non-executive Director                          |
| Mr. CHAN Siu Chung .....       | Non-executive Director                          |
| Mr. SONG Hongjun .....         | Non-executive Director                          |
| Mr. CHEN Junkui .....          | Non-executive Director                          |
| Mr. LIU Haoyang .....          | Non-executive Director                          |
| Mr. Jason YEUNG Chi Wai .....  | Independent Non-executive Director              |
| Mr. Raymond WOO Chin Wan ..... | Independent Non-executive Director              |
| Mr. CAI Haoyi .....            | Independent Non-executive Director              |
| Mr. SHI Lei .....              | Independent Non-executive Director              |
| Mr. ZHANG Xiangdong .....      | Independent Non-executive Director              |
| Ms. LI Xiaohui.....            | Independent Non-executive Director              |

### EXECUTIVE DIRECTORS

**Mr. REN Deqi**, Chairman, Executive Director and Senior Economist. Mr. Ren serves as the Chairman of the Board from 16 January 2020. He has been a Vice Chairman, Executive Director and President of the Bank since August 2018. Mr. Ren resigned as President of the Bank on 13 December 2019 and served as Acting President from 13 December 2019 to 6 July 2020. Mr. Ren worked successively in the Changling Sub-branch of Yueyang Branch, Yueyang City Central Sub-branch, Yueyang Branch, Credit Management Committee Office and Credit Risk Management Department of China Construction Bank (“CCB”) from July 1988 to August 2003. He successively served as Deputy General Manager of Credit Approval Department, General Manager of Risk

Control Department, General Manager of Credit Management Department, president of the Hubei Provincial Branch and General Manager of Risk Management Department of CCB from August 2003 to May 2014. He served as Executive Vice President of Bank of China (“BOC”) from July 2014 to November 2016, and served as Executive Director and Executive Vice President of BOC from December 2016 to June 2018; during such period, he also served as Non-executive Director of BOC Hong Kong (Holdings) Limited from October 2015 to June 2018 and President of Shanghai RMB Trading Unit of BOC from September 2016 to June 2018. Mr. Ren obtained his Master’s degree in Engineering from Tsinghua University in 1988.

**Mr. LIU Jun**, Vice Chairman and Executive Director. Mr. Liu has served as Vice Chairman of the Board and Executive Director of the Bank since 5 August 2020. Mr. Liu served as Executive Vice President of China Investment Corporation from November 2016 to May 2020, Deputy General Manager of China Everbright Group Ltd. from December 2014 to November 2016, and Executive Director and Deputy General Manager of China Everbright Group Limited from June 2014 to December 2014 (from June 2014 to November 2016, Mr. Liu successively served as Chairman of Sun Life Everbright Life Insurance Company Limited, Vice Chairman of China Everbright Holdings Company Limited., Executive Director and Vice Chairman of China Everbright Limited, Executive Director and Vice Chairman of China Everbright International Limited, and Chairman of China Everbright Industrial (Group) Co., Ltd.). He served as Assistant to the President and Executive Vice President of China Everbright Bank from September 2009 to June 2014 (during which he concurrently acted as president of Shanghai Branch of China Everbright Bank and General Manager of Financial Market Centre of China Everbright Bank). From July 1993 to September 2009, he successively worked at the International Business Department, Hong Kong Representative Office, the Treasury Department and the Investment Banking Department of China Everbright Bank. Mr. Liu received a Doctorate degree in business administration from Hong Kong Polytechnic University in 2003.

## **NON-EXECUTIVE DIRECTORS**

**Mr. LI Longcheng**, Non-executive Director. Mr. Li has been a Non-executive Director since June 2020. Mr. Li served as the Director of Heilongjiang Supervision Bureau of the Ministry of Finance since April 2019, the Chief Inspector of Heilongjiang Supervision & Inspection Office of the Ministry of Finance from August 2015 to April 2019, the Chief Inspector of Liaoning Supervision & Inspection Office of the Ministry of Finance from August 2012 to August 2015, the Deputy Inspector of Heilongjiang Supervision & Inspection Office of the Ministry of Finance from August 2008 to August 2012; the Deputy Inspector of Zhejiang Supervision & Inspection Office of the Ministry of Finance from January 2006 to August 2008. From January 1995 to January 2006, Mr. Li successively served as a Staff Member of the General Division, a Senior Staff Member of the General Division, the Deputy Director of the General Division, the Director of the First Division and the Assistant Commissioner of Heilongjiang Supervision & Inspection Office of the Ministry of Finance. From August 1986 to January 1995, Mr. Li worked in Beijing Forestry Management Cadres College of the Ministry of Forestry and Heilongjiang Finance Department. Mr. Li obtained a Doctorate degree in management from Northeast Forestry University in 2003.

**Mr. WANG Linping**, Mr. Wang has served as level-one inspector of the Retired Cadres Bureau of the Ministry of Finance since December 2019, chairman of China Finance and Economic Media Group from June 2018 to December 2019, department level cadre of the Ministry of Finance from March 2018 to June 2018. From May 2004 to March 2018, he successively served as chief and director-level cadre of the Financial Division and vice minister and minister of the Department of Administrative Finance of the Liaison Office of the Central People’s Government in Macao Special Administrative Region. From July 1994 to May 2004, Mr. Wang served successively as chief staff member, assistant researcher of the Management Division of Retirement Funds of Administrative Institutions, deputy director and researcher of Pension Security Division of the Social Security Department of Ministry of Finance, and from August 1986 to July 1994, he served successively as a staff



member, deputy chief staff member and chief staff member of the Party Committee of the Ministry of Finance. Mr. Wang obtained his Bachelor's degree in philosophy from Zhongnan University of Finance and Economy in 1986.

**Mr. CHANG Baosheng**, Mr. Chang has served as deputy inspector and level-two inspector of Ningxia Supervision Bureau of the Ministry of Finance since April 2019. From January 1995 to April 2019, he successively served as a staff member and deputy chief staff member of the First Business Section, the chief staff member of the General Division, the deputy director of the General Office, deputy director of the Second Business Department, deputy director of the Third Business Department, assistant commissioner and deputy inspector of Ningxia Supervision and Inspection Office of the Ministry of Finance. From July 1989 to January 1995, Mr. Chang served as a staff member of the Chinese Enterprise Division of Ningxia Finance Department of the Ministry of Finance. Mr. Chang obtained his Bachelor's degree in economics from Zhongnan University of Finance and Economy in 1989.

**Mr. LIAO, Yi Chien David**, Mr. Liao has been Non-executive Director of the Bank since May 2021, and serves as group general manager at HSBC, head of Asia Pacific Global Banking Coverage of HSBC. Mr. Liao served as president and chief executive officer of HSBC China, head of Global Banking and Markets at HSBC China, executive vice president of HSBC China, treasurer of HSBC China. Mr. Liao previously worked at IBJ International (now Mizuho International). Mr. Liao obtained a bachelor's degree with honours from the University of London in 1995.

**Mr. CHAN Siu Chung**, Non-executive Director. Mr. Chan has been a Non-executive Director since October 2019. Mr. Chan has been serving as the Co-head of Markets for Asia-Pacific at the Hong Kong and Shanghai Banking Corporation Limited since August 2013. Mr. Chan joined the Hong Kong and Shanghai Banking Corporation Limited in 1986, and from July 1986 to July 2013, Mr. Chan successively served as the Senior Dealer, Senior Interest Rate Dealer, Head of Hong Kong Dollar Interest Rate and Derivatives Trading, Head of Trading in Hong Kong, and concurrently served as Deputy Head of Global Markets Asia Pacific and Head of Trading in Hong Kong. Mr. Chan graduated from the University of Hong Kong with a Bachelor's Degree in Electrical Engineering in 1986 and obtained his Master's degree from Macquarie University in Australia of Applied Finance in 1994.

**Mr. SONG Hongjun**, Non-executive Director. Mr. Song has been a Non-executive Director since June 2019. Mr. Song has been serving as the Director of Pension Accounting Department of the National Council for Social Security Fund since September 2018. From August 2001 to September 2018, Mr. Song successively served as the Deputy Division Chief of Financial Division of Finance and Accounting Department, the Division Chief and Deputy Head of Fund and Finance Department, and the Deputy Head of Pension Accounting Department of the National Council for Social Security Fund. From August 1989 to August 2001, Mr. Song successively served as a Cadre, the Staff Member, and Senior Staff Member in Financial Division of Commerce, Banking and Finance Department of Ministry of Finance, the Principal Staff Member in the Second Financial Division of Commerce and Finance Department, the Principal Staff Member in the First Division of National Debt and Finance Department, and the Deputy Division Chief of the First Financial Division of Finance Department. Mr. Song graduated from Dongbei University of Finance and Economics in 1989, and obtained his Master's degree in Public Administration from the joint program between Peking University and Chinese Academy of Governance in 2008.

**Mr. CHEN Junkui**, Non-executive Director. Mr. Chen has been a Non-executive Director since June 2019. Mr. Chen has been serving as the Deputy Director-General of Financial Management and Supervision (internal audit) Department of the State Tobacco Monopoly Administration since February 2019. Mr. Chen successively served as the Deputy Head, Head of the Finance and Asset Department of China Tobacco Machinery Group Co., Ltd. from December 2005 to February 2019, the Principal Staff Member in Financial Management Department of China Tobacco Investment Management Co. from September 2005 to December 2005, a Cadre

of Financial Department and the Senior Staff Member and Principal Staff Member of Financial Department of National Tobacco Commodity Company (Cigarette Filter Material Company) from September 2000 to September 2005, and worked in Beijing Bureau of Geology and Mineral from July 1997 to September 2000. Mr. Chen obtained his Master's degree in Management Science from Capital University of Economics and Business in July 2002.

**Mr. LIU Haoyang**, Non-executive Director and Accountant. Mr. Liu has been a Non-executive Director since August 2016. Mr. Liu has been Deputy General Manager of the Capital Operation Department of Beijing Capital Airport Holding Company since November 2015. He served as Deputy General Manager of Capital Airport Finance Co., Ltd. from October 2012 to November 2015, Financial Director of Inner Mongolia Airport Group from June 2009 to October 2012, Assistant to General Manager and Deputy General Manager of Finance Department of Beijing Capital Airport Holding Company from March 2005 to June 2009, Assistant to Manager of Finance Department of Jinfei Civil Aviation Economic Development Center from July 2001 to March 2005, and Assistant to Manager of Finance Department of Beijing Huadu Breeding Company from July 1994 to September 1998. Mr. Liu obtained his Master's degree in Management from College of Economics and Management of China Agricultural University in 2001.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Jason YEUNG Chi Wai**, Independent Non-executive Director and Lawyer. Mr. Yeung has been an Independent Non-executive Director since October 2016. Mr. Yeung serves as Supervisor and President of Risk Management of Fung Group (1937) and its Hong Kong listed company since July 2015. At present, Mr. Yeung also holds positions such as Independent Director of AviChina Industry & Technology Company Limited and Member of Convention of Hospital Authority in Hong Kong. Mr. Yeung served as Vice President of Bank of China (Hong Kong) Limited (in charge of Personal Banking Business) from April 2011 to February 2015, before which he also served as Secretary of the Board of Bank of China (Hong Kong) Limited and Secretary of Bank of China Limited and took positions in charge of supervision of market and compliance of laws and regulations in Hong Kong government, the Securities and Futures Commission, law firms and various enterprises. Mr. Yeung graduated from the University of Hong Kong in 1978, the College of Law of England and Wales in 1985 and the Faculty of Law of University of Western Ontario in 1991, and obtained his MBA degree from University of Western Ontario in 2001.

**Mr. Raymond WOO Chin Wan**, Independent Non-executive Director, Hong Kong and Canadian Certified Public Accountant. Mr. Woo serves as an Independent Non-executive Director of the Bank from November 2017. Mr. Woo joined Ernst & Young in June 1985 and retired in June 2015. Within this period, he has been Senior Associate, Manager, Senior Manager, Partner and Managing Partner.

He served as Managing Partner of Ernst & Young Greater China from 2011 to June 2015 and served as Director and General Manager in Ernst & Young from 2007 to 2012. Mr. Woo was also the member of Ernst & Young Greater China Management Committee from 1998 to 2015. Mr. Woo is currently an Independent Non-executive Director of Dah Chong Hong Holdings Limited and Great Wall Pan Asia Holdings Limited. Mr. Woo obtained his MBA degree from York University in Canada in 1982.

**Mr. CAI Haoyi**, Independent Non-executive Director and Researcher. Mr. Cai has been Independent Non-executive Director of the Bank since August 2018. Mr. Cai currently serves as Master's Supervisor in PBC School of Finance, Tsinghua University, Doctoral Supervisor in University of International Business and Economics and Postdoctoral supervisor in Financial Research Institute of the PBOC. Mr. Cai served as Chairman of the Board of Supervisors in Everbright Bank of China from November 2012 to June 2015 and Non-executive Director in Bank of China from August 2007 to November 2012. Mr. Cai held various positions in Bank of China from July 1986 to March 2007, including Principal Staff of Graduate Department, Deputy

Division Chief of Political Department, Division Chief of Political Department, Director, Deputy Director of the General Office of Financial Research Institute, Deputy Head of Financial Research Institute, Deputy Head of Research Bureau and Secretary General of Monetary Policy Committee. Mr. Cai obtained his Doctoral Degree from Financial Research Institute of the PBOC in 2001 and he obtained special government allowances from the State Council in 2003.

**Mr. SHI Lei**, Independent Non-executive Director. Mr. Shi has been Independent Non-executive Director of the Bank since December 2019. Mr. Shi currently serves as a Professor, a Doctoral Supervisor of Fudan University, and the Head of the Public Economic Research Centre of Fudan University. Mr. Shi joined Fudan University in 1993, since then, he subsequently served as the Head of the China Socialism Market Economy Research Centre, the Director of the Publicity Department of the Communist Party Committee of Fudan University, and the Secretary of the Communist Party Committee of Fudan University Economics College. Currently, Mr. Shi also serves as the Independent Non-executive Director of Ko Yo Chemical (Group) Limited and Sanxiang Impression Co., Ltd. Mr. Shi obtained his Doctorate degree from the Institute of Economics at Shanghai Academy of Social Sciences in 1993. Mr. Shi enjoys the special allowance of the State Council.

**Mr. ZHANG Xiangdong**, Independent Non-executive Director and Senior Economist. Mr. Zhang served as a Non-executive Director of Bank of China Limited from July 2011 to June 2018 and a Non-executive Director of China Construction Bank Corporation from November 2004 to June 2010 (acting as Chairman of the Risk Management Committee of the Board of Directors from April 2005 to June 2010). From January 2004 to December 2008, Mr. Zhang concurrently served as Member of China International Economic and Trade Arbitration Commission. From August 2001 to November 2004, he successively served as Vice President of Haikou Branch of the PBOC and Deputy Director General of Hainan Branch of the State Administration of Foreign Exchange concurrently, Deputy Director General and Inspector of the General Affairs Department of the State Administration of Foreign Exchange. From September 1999 to September 2001, Mr. Zhang concurrently served as a Member of the Issuance Approval Committee of China Securities Regulatory Commission. Mr. Zhang graduated from Renmin University of China with a Bachelor's degree in law in 1986, graduated with a Postgraduate degree in international economic law from Renmin University of China in 1988, and obtained a Master's degree in law in 1990.

**Ms. LI Xiaohui**, Independent Non-executive Director. Ms. Li has been a Professor and Doctoral Supervisor at the School of Accounting, Central University of Finance and Economics from September 2003. From July 2001 to August 2003, she worked in the Professional Standards Department of the Chinese Institute of Certified Public Accountants. From April 1993 to August 1998, Ms. Li worked successively in Cangzhou Accounting Firm, Cangshi Accounting Firm and the State-owned Assets Administration under Hebei Province Department of Finance. Ms. Li is a national leading accountant, and a member of the Professional Technical Advisory Committee of the Chinese Institute of Certified Public Accountants, a member of the Audit Committee of the Accounting Society of China and a member of the Audit Standards Committee of the China Internal Audit Association. Ms. Li currently serves as Independent Director of Fangda Special Steel Technology Co., Ltd., State Grid Information and Communication Co., Ltd., Jizhong Energy Co., Ltd., and Camel Group Co., Ltd. Ms. Li previously served as Director of Fangda Carbon New Material Co., Ltd., Bank of Beijing Co., Ltd. and China U-Ton Holdings Limited. Ms. Li received a Doctorate degree in Economics from Central University of Finance and Economics in 2001.

## SENIOR MANAGEMENT

The senior management of the Bank comprises members of the senior management and secretary of the Board, of which, members of the senior management include the president, executive vice presidents, chief business officer, chief risk officer and HSBC strategic cooperation adviser, etc. The Bank adopts the system of accountability by the president under the leadership of the Board. The president is accountable to the Board,

whereas various functional departments, branch offices and other members of senior management of the Bank are accountable to the president. The president has the right to organise, develop and operate management activities in accordance with laws, regulations, the Bank's Articles of Association and authorisation from the Board.

The following table sets forth certain information concerning members of the senior management of the Bank.

| <b>Name</b>           | <b>Position</b>   |
|-----------------------|---|
| Mr. LIU Jun .....     | President   |
| Mr. YIN Jiuyong ..... | Executive Vice President                                      |
| Mr. GUO Mang .....    | Executive Vice President                                      |
| Mr. ZHOU Wanfu .....  | Executive Vice President                                      |
| Mr. HAO Cheng .....   | Executive Vice President                                      |
| Mr. QIAN Bin .....    | Executive Vice President                                      |
| Mr. GU Sheng .....    | Company Secretary   |
| Mr. TU Hong .....     | Chief Business Officer (Interbank and Market Business Sector) |
| Mr. LIN Hua.....      | Chief Risk Officer  |
|                       | Senior Management Member, BoCom-HSBC Strategic                |
| Mr. NG Siu On .....   | Cooperation Advisor   |

**Mr. LIU Jun**, please refer to details in “*EXECUTIVE DIRECTORS*”.

**Mr. YIN Jiuyong**, Executive Vice President and Senior Economist. Mr. Yin has been Executive Vice President of the Bank since September 2019. Mr. Yin served as Executive Vice President of the Agricultural Development Bank of China from May 2014 to July 2019, Director of the General Office of the Agricultural Development Bank of China from December 2013 to May 2014, General Manager of the Henan Branch of the Agricultural Development Bank of China from January 2011 to December 2013, Deputy General Manager and General Manager of the First Customer Department of the Agricultural Development Bank of China from January 2005 to January 2011 (during which he was seconded to Baoding Branch of the Agricultural Development Bank of China as Deputy Manager of the Business Department of the branch and Deputy General Manager of the branch from February 2007 to January 2008). Mr. Yin served as Division Chief of the Comprehensive Division and Deputy Director of the First Credit Department of the Agricultural Development Bank of China during April 1999 to January 2005; Principal Staff and Deputy Division Chief of the Purchasing and Marketing Department of the Industrial and Commercial Credit Department of the Agricultural Development Bank of China from July 1994 to April 1998, and Principal Staff of the Trust and Investment Company of the Agricultural Bank of China from July 1993 to July 1994. Mr. Yin obtained his Doctoral degree in Agriculture from Beijing Agricultural University in 1993.

**Mr. GUO Mang**, Executive Vice President and Senior Economist. Mr. Guo has been Executive Vice President of the Bank since July 2018. Mr. Guo served as Chief Business Officer of the Bank from February 2017 to July 2018 and served as General Manager of the Bank's Beijing Branch and Chief Executive Officer of Beijing Administrative Department (Group Customer Department) from December 2016 to June 2018. He was General Manager of the Bank's Shenzhen Branch from January 2010 to December 2016, Deputy General Manager (in charge of overall work) and General Manager of the Bank's Chongqing Branch from September 2004 to January 2010. Moreover, he served as a credit clerk in the Credit and Investment Department and Deputy Section Chief of Shenzhen Branch, Head of Shatoujiao Office, Deputy General Manager (in charge of overall work) of

Shatoujiao Subbranch, Deputy General Manager (in charge of overall work) and General Manager of Hongli Sub-branch, General Manager of the Marketing Department and Deputy General Manager of Shenzhen Branch from May 1991 to September 2004. Mr. Guo worked as Staff Member of PBOC Savings Interest Rate Department from June 1989 to May 1991. Mr. Guo also held various of positions from April 1988 to June 1989, including POBC Baoan Branch, Shenzhen Branch and State Administration of Foreign Exchange Shenzhen Branch. From July 1987 to April 1988, Mr. Guo worked as Staff Member in Reform Office of Comprehensive Planning Department in the PBOC. Mr. Guo obtained his Bachelor's degree in Economics from Fudan University in 1987.

**Mr. ZHOU Wanfu**, Executive Vice President. Mr. Zhou has been Executive Vice President of the Bank since November 2020. Mr. Zhou has been the Board Secretary of the Agricultural Bank of China from April 2018 to March 2020. Before that, Mr. Zhou served as General Manager of the Strategic Planning Department, President of Tianjin Training Institute and General Manager of the Strategic Planning Department of the Agricultural Bank of China successively from September 2012 to April 2018; Vice President of Chongqing Branch of the Agricultural Bank of China from June 2009 to September 2012; Deputy General Manager of the Asset and Liability Management Department, Deputy General Manager of the Planning and Finance Department, and General Manager of the Asset and Liability Management Department of the Agricultural Bank of China successively from October 2003 to June 2009; Vice President of the Ningbo Branch of the Agricultural Bank of China from November 1999 to October 2003; and Researcher and Deputy-Division-Chief-Level Cadre of the Research Office, Deputy Division Chief of the Development and Planning Department and Division Chief of Comprehensive Planning Department of the Agricultural Bank of China successively from July 1988 to November 1999. Mr. Zhou obtained a Master's degree in Economics from the Graduate School of the PBOC in 1988 and an MBA degree from Nanyang Technological University in Singapore in 2003.

**Mr. HAO Cheng**, Executive Vice President. Mr. Hao has been Executive Vice President of the Bank since March 2021, Senior Engineer. Mr. Hao held various positions in China Development Bank, including President of the Jilin Branch, Deputy Director of the Personnel Bureau of the Head Office, Executive Vice President of the Tianjin Branch, Division Chief of the Comprehensive Division of the Personnel Bureau of the Head Office, Division Chief of the Policy Division of the Personnel Bureau of the Head Office, Division Chief of the System Personnel Division of the Personnel Bureau of the Head Office, Deputy Division Chief of Policy Division of the Personnel Bureau of the Head Office, Deputy Division Chief of the Second Credit Management Division and the Fourth Credit Management Division of the Credit Management Bureau of the Head Office. Mr. Hao obtained his Doctoral degree in Management from Beijing Jiaotong University in 2009.**Mr. GU Sheng**, Secretary of the Board of Directors and Senior Economist. Mr. Gu has been Secretary of the Board of Directors and General Manager of Human Resources Department since April 2018. Mr. Gu successively served as General Manager of Human Resources Department from October 2015 to April 2018. Mr. Gu successively served as Deputy General Manager of Hainan Branch (in charge of overall work), Deputy General Manager of Nanjing Branch, General Manager of Suzhou Branch and General Manager of Jiangsu Branch from December 1999 to October 2015. Mr. Gu served as Division Chief of Personnel Department of the Personnel and Education Department of the Bank from March 1999 to December 1999. Mr. Gu held various of positions in the Bank, including Staff Member of Personnel and Education Department of Nanjing Branch, Deputy Section Chief of General Affairs Department, Assistant to the Division Chief of Personnel and Education Department and Section Chief of General Affairs Department, Deputy Division Chief of Personnel and Education Department, Deputy General Manager of Xiaguan Branch, General Manager of Xiaguan Branch from August 1987 to March 1999. Mr. Gu served as clerk of Credit Department of Jiangsu Xinghua County Sub-branch of Agricultural Bank of China from July 1984 to August 1987. Mr. Gu obtained his EMBA's degree from Nanjing University in 2006.

**Mr. Qian Bin**, Executive Vice President. Mr. Qian has been Executive Vice President of the Bank since July 2021, senior engineer. He successively served as General Manager and Person-In-Charge of Network Finance

Department, General Manager of Data Center (Shanghai), Deputy General Manager of Private Banking Department, Deputy General Manager of Information Technology Department of Industrial and Commercial Bank of China Limited. Mr. Qian also served as General Manager (concurrently as Director of Technology Support Center), Deputy General Manager, and Assistant General Manager of Information Technology Department of Shanghai Branch of Industrial and Commercial Bank of China Limited. Mr. Qian Bin obtained his MBA degree from The University of Hong Kong – Fudan University IMBA Programme in 2004.

**Mr. Gu Sheng**, Company Secretary. Mr. Gu has been Secretary of the Board of Directors of the Bank since April 2018, and has concurrently been Chief Executive Officer of Yangtze River Delta Integration Management Department of the Bank since July 2020, Senior Economist. Mr. Gu held various positions in the Bank, including General Manager of the Human Resource Department of the Head Office, President of the Jiangsu Branch, President of the Suzhou Branch, Executive Vice President of the Nanjing Branch, Executive Vice President of the Hainan Branch (in charge of overall work), Division Chief of Personnel Division of the Personnel and Education Department of the Bank, President of the Xiaguan Sub-Branch, Executive Vice President of the Xiaguan Branch, Deputy Division Chief of the Personnel and Education Department and Assistant to the Division Chief of the Personnel and Education Department, serving the Bank for 34 years. Mr. Gu obtained his EMBA's degree from Nanjing University in 2006.

**Mr. TU Hong**, Chief Business Officer (Inter-bank and Market Business Sector). Mr. Tu has been Chief Business Officer (Interbank and Market Business Sector) of the Bank since September 2018, General Manager of Financial Institution Department of the Bank since August 2018. Mr. Tu served as Chief Executive Officer of Financial Market Business Center of the Bank from July 2014 to November 2018 (during which he concurrently served as Chief Executive Officer of Asset Management Business Center from February 2016 to September 2016). Mr. Tu held various of positions in the Bank from November 2000 to July 2014, including Deputy General Manager of Guangzhou Branch, Deputy General Manager of International Business Department, General Manager of New York Branch, General Manager of Financial Market Department, Chief Executive Officer of Financial Market Business Center/Precious Metals Business Center. Mr. Tu also held various of positions in the Bank from August 1989 to November 2000, including credit clerk of Overseas Business Department of Beijing Branch, Deputy Section Chief and Deputy Manager of Foreign Exchange and Deposit Department, Vice Chairman and Deputy General Manager of the Preparatory Committee of Sanyuan Sub-branch, Deputy Manager of the Foreign Exchange Credit Department and Division Chief of the General Administration of Foreign Exchange Business. Mr. Tu obtained his Bachelor's Degree in Economics from Renmin University of China in 1989 and Master's Degree in Economics from Fudan University in 1998.

**Mr. Lin Hua**, Chief Risk Officer. Mr. Lin has been the Chief Risk Officer of the Bank since June 2021, economist. Mr. Lin served as the President of Jiangsu Branch, President and Vice President (performing duties of the president) of Jiangxi Branch, Vice President and Senior Credit Executive of Shanghai Branch, Senior Manager of Credit Department, Division Chief of Credit Management Department, Director of the General Office, Deputy Director of the General Office ((in charge of overall work), Assistant Manager of Marketing Department and Assistant Division Chief of Credit Department of Shanghai Branch. He has served the Bank for 33 years. Mr. Lin obtained a master's degree in business administration from Shanghai University of Finance and Economics in 2004.

**Mr. NG Siu On**, Senior Management Member, Bocom-HSBC Strategic Cooperation Adviser. Mr. Ng has been HSBC-BoCom Strategic Cooperation Consultant of the Bank since March 2013. Mr. Ng held various positions in HSBC including Regional Director of the New Territories of HSBC Hong Kong, Associate Vice President and General Manager of the Canadian Toronto Branch Network of HSBC Bank, Deputy General Manager and Director of Branches of HSBC's Area Office China, Senior Manager of Commercial Banking, Director of Medium-sized Enterprises, Head of Corporates of HSBC's Commercial Banking in Hong Kong and Special Consultant for HSBC's Asia-Pacific CEO on Greater China business from June 1989 to March 2013. Mr. Ng

currently serves as Honorary Advisor of the Hong Kong Institute of Bankers. Mr. Ng obtained his MBA's degree from the Chinese University of Hong Kong in 1984.

## **BOARD OF SUPERVISORS**

In accordance with the requirements of the company law of the PRC and the Bank's Articles of Association, the board of supervisors of the Bank monitors the Board's execution of the resolutions approved at shareholders' meetings and decisions made within the Board's scope of power. The board of supervisors of the Bank also monitors the senior management's implementation of resolutions approved at shareholders' general meetings and Board's meetings, and the business activities that were carried out within the senior management's scope of power. The board of supervisors is also responsible for monitoring the performance of the directors and senior management, and for investigating the Bank's financial condition.

The board of supervisors of the Bank includes the following members:

**Mr. Xu Jiming**, Shareholder Supervisor. Mr. Wang has been a Shareholder Supervisor of the Bank since August 2021. Mr. Xu currently serves as the Deputy Secretary of the Party Committee of the Bank. Mr. Xu served as a member of the Party Group, Chief of the Discipline Inspection and Supervision Team, Chief of the Discipline Inspection Team of the Party Group of China National Petroleum Corporation. He also served in the National Audit Office of People's Republic of China as Director-General of the General Office, Director General of Administrative Audit Department, Director-General of Foreign Capital Utilization Audit Department, Director of the Audit Cadre Training Center, Director of the Hygiene and Medicine Audit Bureau, Deputy Director of the Hygiene and Medicine Audit Bureau, Deputy Director-General of Foreign Capital Utilization Audit Department, Commissioner Assistant of the Kunming Special Mission Office (Division Chief Level), Chief of the First Division of Foreign Capital Utilization Audit Department, Chief of the Comprehensive Division of Foreign Capital Utilization Audit Department, Deputy Division Level Auditor of the Second Division of Foreign Capital Utilization Audit Department, Cadre of the Second Division of Foreign Capital Utilization Audit Department. Mr. Xu obtained his Doctoral degree in Economics from the School of Advanced Studies in the Social Sciences of Paris in 1995.

**Mr. WANG Xueqing**, Shareholder Supervisor. Mr. Wang has been a Shareholder Supervisor of the Bank since June 2017. Mr. Wang has been Chief Accountant of Daqing Oilfield Co., Ltd. (Daqing Petroleum Administration Bureau) and member of the Party committee of Daqing Oilfield Co. Ltd. since October 2016. Mr. Wang served as Director of Finance Department of Daqing Oilfield Company from October 2009 to February 2018. From July 2008 to October 2009, Mr. Wang was appointed as Director of Financial Assets of the First Department in Daqing Oilfield Company. He was Head of the Accounting Department (Center) of the Financial Assets Department in Daqing Oilfield Company and became Section Chief, First Deputy Director and Director from November 1999 to July 2008. At present, Mr. Wang holds difference positions including Chairman of the Board of Directors of Daqing Petroleum (Hong Kong) Co. Ltd. and Daqing Energy (Hong Kong) Co. Ltd., Director of Qingdao Qingxin Plastic Co. Ltd. and DPS Indonesia Co. Ltd., Chairman of the Board of Supervisors of Daqing Oilfield Lishen Pump Co. Ltd. and PTINDOSPECENERGY and Vice President of the Sixth Council of China Association of Plant Engineering. Mr. Wang graduated from Tianjin University of Finance and Economics with Master's degree in June 2002, majoring in Accounting. He is also a Professorate Senior Accountant.

**Ms. XIA Zhihua**, External Supervisor. Ms. Xia has been External Supervisor of the Bank since June 2016. Ms. Xia served as Chairman of the Board of Supervisors of China Life Insurance Co. Ltd. from March 2006 to July 2015. She was accredited by the State Council to serve as Deputy Head of the General Office of the Board of Supervisors, Supervisor (Deputy Director General Level), Head of the General Office of the Board of Supervisors and Supervisor (Bureau Level) of China Great Wall Asset Management Corporation, China

Economic Development Trust and Investment Company, China Life Insurance (Group) Company and China Export & Credit Insurance Corporation successively from July 2000 to December 2005. Moreover, Ms. Xia served as Associate Inspector of National Treasury Bureau of the Ministry of Finance in June 2000. She also served as Deputy Director-General of National Debt Financial Department and Department of National Debt of the Ministry of Finance from July 1997 to June 2000. She successively served as Principal Staff, Deputy Division Chief and Division Chief of State Debt Management Department of the Ministry of Finance from December 1988 to June 1997 and Principal Staff of Financial Department of Cultural and Educational Administrative Affairs from December 1984 to November 1988. Ms. Xia obtained Master's degree in Economics from Xiamen University in 1984. At present, Ms. Xia serves as an International Internal Auditor and a Senior Economist, enjoying the special government allowance awarded by the State Council.

**Mr. LI Yao**, External Supervisor. Mr. Li has been an External Supervisor of the Bank since October 2017. Mr. Li has been teaching at the School of Finance, Shanghai University of Finance and Economics since April 2000 and has been Vice Professor and Professor successively. He served as Vice President of School of Finance from December 2014 to January 2018. During the period from September 2002 to September 2003, Mr. Li served as Vice Professor in visiting scholar (CCSEP) program for the purpose of governmental exchange between Chinese and Canadian exchange at the University of Toronto Rotman. Mr. Li was appointed as Professor in the management buyout and private equity research center of Nottingham University Business School from August 2009 to January 2010. Mr. Li has been serving as Professor in visiting Sino-US Fulbright Scholar Program at Boston College from August 2018 to July 2019. Mr. Li also served as Independent Director of Chongqing Rural Commercial Bank Co. Ltd. from October 2014 to December 2015. Mr. Li majored in International Finance and graduated from East China Normal University with the title of Ph.D. in Economics in July 1998.

**Mr. CHEN Hanwen**, External Supervisor. Mr. Chen has been an External Supervisor of the Bank since April 2019. Mr. Chen is currently a Tier 2 Professor and UIBE (Hui Yuan) distinguished Professor of the University of International Business and Economics (UIBE), Doctoral Supervisor, Coordinator of postdoctoral programs, Chair Professor of China Business Executives Academy, Dalian, Co-editor-in-chief of China Journal of Accounting Studies published by the Accounting Society of China, Editorial Board Member of the Audit Research published by China Audit Society, Member of the Professional Title Assessment Committee of the National Audit Office, Member of the Professional Steering Committee of the Chinese Institute of Certified Public Accountants, Executive Director of China Audit Society and selected for Accounting Master Training Project by the Ministry of Finance. Mr. Chen worked as the Secretary General of the Academic Committee of Xiamen University from January 2014 to June 2015, the Vice President of the Graduate School from August 2012 to June 2015, the vice president of School of Management from June 2008 to August 2012, Dean of the Accounting Department of Xiamen University from May 2004 to December 2008, and received the prestigious Xiamen University Nanqiang Award for outstanding contributions. Mr. Chen currently acts as an Independent Director of Yango Group Co., Ltd (from April 2017 to April 2020), Dalian Wanda Commercial Properties (from May 2017 to March 2022), Beijing Sanyuan Gene Pharmacy Co. Ltd.(from November 2018 to November 2021), Xiamen International Bank (from May 2013 to May 2019) and Xiamen Bank (from January 2015 to January 2021). Mr. Chen acted as independent non-executive director of Industrial Securities from September 2011 to November 2017 and Minsheng Holdings from December 2015 to December 2017. Mr. Chen received his Doctoral degree in Economics from Xiamen University in 1997.

**Mr. JU Jiandong**, External Supervisor. Mr. Ju has been External Supervisor of the Bank since June 2020. Mr. Ju is currently a unigroup Chair Professor of PBC School of Finance in Tsinghua University, distinguished Professor under the Chang Jiang Scholars Programme of the Ministry of Education, and a distinguished Professor of the School of International Business Administration of Shanghai University of Finance and Economics. Mr. Ju Jiandong has served as an Independent Director of COFCO Meat Holdings Limited since November 2018. From March 2014 to September 2017, he worked as Dean and Professor of the School of International Business Administration of Shanghai University of Finance and Economics. From August 2009



to July 2015, he worked as a Professor at the School of Economics and Management of Tsinghua University. From May 2011 to August 2014, he worked as a (tenured) Professor of Economics at the University of Oklahoma. Mr. Ju Jiandong served as an Adviser to the World Bank in June and August 2009 and March 2011. From June 2007 to August 2009, he served as a Resident Scholar in the Research Department of the International Monetary Fund. Mr. Ju Jiandong received his Ph. D. in Economics from Pennsylvania State University in May 1995.

**Mr. GUAN Xingshe**, Employee Supervisor. Mr. Guan has been an Employee Supervisor of the Bank since October 2018 and Director of the Office of the Board of Supervisors since August 2018. From September 2011 to August 2018, Mr. Guan served as General Manager of Department of General Affairs of the Bank. Mr. Guan held various positions from May 2003 to September 2011, including Deputy Manager of Henan Branch (Zhengzhou), Secretary of the Commission for Discipline Inspection (from September 2007 to September 2011), Senior Credit Executive (from May 2006 to June 2008). He also held several positions from December 1994 to May 2003, including Deputy Division Chief of Finance and Accounting Department of Zhengzhou Branch, Deputy Division Chief of Internal Audit Division (in charge of overall work), Deputy Director of Finance and Accounting Department (in charge of overall work), Division Chief of Finance and Accounting Department (during which he took a temporary post in Internal Audit Division of the Head Office from April 2002 to March 2003). From April 1993 to December 1994, Mr. Guan served as Deputy Division Chief of Financial Audit Department of Zhengzhou Audit Bureau. Mr. Guan obtained his Bachelor's Degree in Economics from Zhongnan University of Economics and Law in 1988 and his Master's Degree in Economics from Xiamen University in 1999.

**Ms. LIN Zhihong**, Employee Supervisor. Ms. Lin has been Employee Supervisor of the Bank since December 2020, Intermediate Accountant. Ms. Lin serves as Director of the Audit and Supervision Bureau of the Bank, Non-executive Director of BoCom International Holdings Company Limited, Supervisor of the BoCom Financial Asset Investment Co., Ltd. Ms. Lin obtained her Master's degree in Business Administration from Shanghai University of Finance and Economics in 2010.

**Ms. FENG Bing**, Employee Supervisor. Mr. Feng has been Employee Supervisor of the Bank since December 2020, and serves as Director of the Office of Labour Union of the Bank, Senior Economist. Ms. Feng held various positions in the Bank, including Deputy General Manager, Senior Manager of Structural Planning, Senior Manager of Performance Management (During the period, she served a temporary position in the Jiaxing Branch of the Bank as Executive Vice President) and Deputy Senior Manager of Performance Management of the Human Resource Department of the Bank's Head Office, and she also served as Deputy Head of Economic Research Office of the Development Research Department of the Bank's Head Office, serving the Bank for 20 years. Ms. Feng obtained her Master's degree in National Economics from University of Shanghai for Science and Technology in 2000.

**Ms. PO Ying**, Employee Supervisor. Ms. Po, born in 1972, Chinese nationality, is a senior accountant. Ms. Po is currently the general manager of the Equity and Investment Management Department of the Bank, the Chairman of the board of supervisors of Bank of Communications International Trust Co., Ltd., a non-executive director of Bank of Communications Financial Leasing Co., Ltd., a non-executive director of Bank of Communications International Holdings Company Limited, and a non-executive director of Bank of Communications (Brazil) Co., Ltd. She was the deputy general manager of the Budget and Finance Department (Data and Information Management Center) of the head office of the Bank and concurrently served as a non-executive director of Bank of Communications International Trust Co., Ltd. Ms. Po also served as the vice president of Suzhou Branch of the Bank, senior manager of management accounting, senior manager of management accounting and pricing management, senior manager of management accounting and pricing of the Budget and Finance Department of the head office of the Bank, deputy director of the Management

Accounting Division of the Financial Accounting (Budget Finance) Department of the head office of the Bank, deputy director of the Finance Division of the Financial Accounting Department of the head office of the Bank and deputy director and assistant director of the Planning Division of Nanning Branch of the Bank. Ms. Po has been serving the Bank for 25 years. She obtained a master's degree in economics from Southwestern University of Finance and Economics in 1996.

## **BOARD COMMITTEES**

The Board of Directors set up Strategy Committee (Inclusive Finance Development Committee), Audit Committee, Risk Management and Related Party Transaction Control Committee, Personnel & Remuneration Committee and Social Responsibility (Environmental, Social and Governance) and Consumer Protection Committee. Thereinto, the Strategy Committee and Inclusive Finance Development Committee implemented “one institution, two titles”; the Risk Management and Related Party Transaction Control Committee assumed the responsibilities of the US Risk Management Committee; and the Personnel & Remuneration Committee performed the functions of both nomination and remuneration.

### **The Strategy Committee (Inclusive Finance Development Commission)**

The Strategy Committee is primarily responsible for formulating the operations and management objectives as well as long-term development plans, regularly analysing and evaluating the results of capital management, conducting research and making recommendations on major equity investment plans. The committee supervises and inspects the implementation of the annual business plans, examines and assesses the implementation of corporate governance system. Furthermore, it formulates and reviews the strategic plans for the development of inclusive financial business and business operating plan, and also evaluates the achievements of inclusive finance business development. For the year ended 31 December 2020, the Committee held five meetings, reviewed and approved 26 proposals and reports including issuance of financial bonds and 2019 Strategy Implementation Report, and presented professional recommendations to the Board of Directors.

### **The Audit Committee**

The Audit Committee is mainly responsible for proposing the appointments, changes or removals of the Bank's auditors, monitoring the Bank's internal audit system and its implementation, acting as the communication channel between the Bank's internal and external auditors, reviewing the Bank's financial information and disclosure, examining the Bank's accounting policies, financial position and financial reporting procedures, and monitoring the implementation of the Bank's internal controls. As at 30 June 2021, the Audit Committee comprised seven members, including Mr. Li Longcheng, Mr. Chang Baosheng, Mr. Chen Junkui, Mr. Yeung Chi Wai, Jason, Mr. Woo Chin Wan, Raymond, Mr. Zhang Xiangdong and Ms. Li Xiaohui. Ms. Li Xiaohui, Independent Non-executive Director, served as the Chairman. The Audit Committee and the senior management have reviewed the Bank's accounting policies and practices and discussed issues relating to internal controls and financial reporting including reviewing interim financial reports.

### **The Risk Management and Related Party Transactions Control Committee**

The Committee is primarily responsible for monitoring and evaluating the risk management and controls of the Bank in areas of credit, market, operations, compliance, case prevention, money laundering and terrorism financing; periodically assessing the risks, management status and risk tolerance level; supervising and evaluating the risk management of America-related operations, reviewing significant related party transactions, asset disposals, asset pledges or external guarantees; approving policies and procedures of money laundering risk management; reviewing anti-money laundering reports regularly, keeping abreast of major money laundering risk events and their resolutions, and evaluating the status of anti-money laundering risk management. For the year ended 31 December 2020, the Committee held seven meetings, reviewed and approved 26 proposals and reports, including Amendments to Working Guidance of the Committees and

periodical Assessment Report of Comprehensive Risk Management, and presented professional recommendations to the Board of Directors.

### **The Personnel and Remuneration Committee**

The Personnel & Remuneration Committee is primarily responsible for making recommendations to the Board of Directors on its scale and structure according to the operating results, the scale of assets and the structure of shareholding; approving and amending the policies on diversification of members of the Board of Directors; making recommendations to the Board of Directors on formulating the selection procedures and assessment criteria for the Bank's directors and senior management personnel and reviewing the basic systems and policies of remuneration management; proposing suggestions on the remuneration distribution plan of directors and senior management and submitting them to the Board of Directors for approval. The Personnel & Remuneration Committee performed the functions both as a Nomination Committee and a Remuneration Committee.

The Personnel & Remuneration Committee's nomination procedures for the directors and senior management of the Bank are as follows: Firstly, understand the Bank's demands for directors and senior management in time. Secondly, extensively search for candidates of directors and senior management. Thirdly, determine the initial candidates and obtain their agreements. Fourthly, convene the meetings of the Personnel & Remuneration Committee to conduct examinations for the qualification of the initial candidates. Fifthly, propose to the Board of Directors about the election of new directors and the appointment of new senior management. Sixthly, implement other following duties based on decisions and feedbacks of the Board of Directors.

For the year ended 31 December 2020, the Committee held six meetings and reviewed and approved 22 proposals including the appointment of Mr. Liu Jun as President and annual core performance appraisal targets for chief business officers, and presented professional recommendations to the Board of Directors.

### **The Social Responsibility (Environmental, Social and Governance) and Consumer Protection Committee**

The Committee is primarily responsible for formulating the Bank's social responsibility strategies and policies, reviewing the achievements of the social responsibility targets and submitting the Annual Social Responsibility Report to the Board of Directors; researching and assessing the measures of the ESG performance and promoting ESG information disclosure; reviewing the strategies, policies and goals on protecting the consumers' rights, studying key issues and significant policies on consumer's rights protection, approving external donations; reviewing credit policies concerning environmental and sustainable development. For the year ended 31 December 2020, the Committee held five meetings and reviewed and approved 14 proposals and reports, including the renaming of the Committee, revision of the working rules of the Committee and the amount of annual external donation, and presented professional recommendations to the Board of Directors.

## BANKING REGULATION AND SUPERVISION IN THE PRC

### OVERVIEW

The banking industry in the PRC is highly regulated. The principal regulatory authorities in the PRC banking industry include the CBIRC, which has been incorporated in the newly-established China Bank and Insurance Regulatory Commission of the PRC (中國銀行保險監督管理委員會) (“CBIRC”), and the PBOC. The CBIRC is responsible for supervising and regulating banking institutions and insurance companies, and the PBOC, as the central bank of the PRC, is responsible for formulating and implementing monetary policies. The principal laws and regulations relating to the PRC banking industry are the People’s Bank of China Law of the People’s Republic of China (中華人民共和國中國人民銀行法), the Commercial Banking Law of the People’s Republic of China (中華人民共和國商業銀行法) and the Banking Supervision and Regulatory Law of the People’s Republic of China (中華人民共和國銀行業監督管理法), and the rules and regulations established thereunder.

### CBIRC

#### Functions and Powers

*The CBIRC is the principal regulatory authority in the PRC responsible for the supervision and regulation of banking institutions and insurance companies operating within the PRC, including commercial banks, urban credit cooperatives, rural credit cooperatives, other deposit-taking financial institutions and policy banks, as well as certain non-bank financial institutions, such as asset management companies, trust and investment companies, finance companies, financial leasing companies and other financial institutions that can only be set up with the CBIRC’s approval. The CBIRC is also responsible for the supervision and regulation of the entities established by domestic financial institutions outside the PRC and the overseas operations of such institutions. According to the Banking Supervision and Regulatory Law of the People’s Republic of China (中華人民共和國銀行業監督管理法) and relevant regulations, the CBIRC’s primary regulatory responsibilities in relation to banking institutions include:*

- formulating and issuing rules and regulations governing banking institutions and their activities;
- examining and approving the establishment, change and termination of banking institutions and their scope of business, as well as granting banking licences to commercial banks and their branches;
- regulating the business activities of banking institutions, including their products and services offered;
- setting qualification requirements for, and approving and overseeing the nomination of, directors and senior management personnel of banking institutions;
- setting prudential guidelines and standards for risk management, internal control, capital adequacy, asset quality, allowance for impairment losses, risk concentration, related party transactions and asset liquidity requirements for banking institutions;
- conducting on-site examinations and off-site surveillance of the business activities and risk levels of banking institutions;
- imposing integrated supervision on banking institutions;
- establishing emergency disposal mechanisms with relevant authorities in the banking sector and formulating emergency disposal plans;

- imposing corrective and punitive measures for violations of applicable banking regulations; and
- drafting and publishing statistics and financial reports of national banking institutions.

### Supervision over Capital Adequacy

In February 2004, the CBRC (the predecessor of the CBIRC) issued the Capital Adequacy Measures applicable to all commercial banks in the PRC. The Capital Adequacy Measures provided for a phase-in period whereby all domestic banks must have met the minimum ratios of capital adequacy by 1 January 2007.

On 3 July 2007, the CBRC issued an amendment to the Capital Adequacy Measures to set forth new and more stringent capital adequacy guidelines that must be complied with from 3 July 2007 onwards.

On 7 June 2012, the CBRC announced the Capital Management Rules to replace the Capital Adequacy Measures, setting up a new capital adequacy regulatory system by reference to Basel III to replace the Capital Adequacy Measures. The Capital Management Rules have been in effect since 1 January 2013. In particular, the Capital Management Rules establish a unified and comprehensive capital adequacy regulatory system, redefine the meaning of capital, enlarge the scope of risks to be covered by capital, require the scientific classification and differentiated supervision of the capital adequacy levels of commercial banks and give commercial banks a transitional period for meeting the new capital adequacy requirements.

Under the Capital Management Rules, capital adequacy ratios are calculated according to the following formulae in accordance with CBRC requirements:

$$\text{Capital Adequacy Ratio} = \frac{\text{Total capital - corresponding capital deductions}}{\text{Risk-weight assets}} \times 100\%$$

$$\text{Tier 1 Capital Adequacy Ratio} = \frac{\text{Tier 1 capital - corresponding capital deductions}}{\text{Risk-weight assets}} \times 100\%$$

$$\text{Core Tier 1 Capital Adequacy Ratio} = \frac{\text{Core Tier 1 capital - corresponding capital deductions}}{\text{Risk-weight assets}} \times 100\%$$

On 29 November 2012, the CBRC released *The Guiding Opinions on Capital Instrument Innovation of Commercial Banks* (中國銀監會關於商業銀行資本工具創新的指導意見) (the “**Guiding Opinions**”) which was further revised on 22 November 2019, allowing and encouraging commercial banks to develop capital instruments (including tier 2 capital instruments) that comply with the Capital Management Rules. Pursuant to the Guiding Opinions, Additional Tier 1 Capital instruments and tier 2 capital instruments issued by a commercial bank after 1 January 2013 must contain a provision that requires such instruments to be either written off or converted into common stock upon the occurrence of a triggering event. A triggering event for Additional Tier 1 Capital instruments occurs when the Core Tier 1 Capital Adequacy Ratio of the commercial bank falls to 5.125 per cent. or below. A triggering event for tier 2 capital instruments occurs upon the earlier of: (i) a decision of write-down or share conversion, without which the commercial bank would become non-viable, as determined by the CBRC; or (ii) a decision to make a public sector injection of capital or equivalent support, without which the commercial bank would have become non-viable, as determined by relevant authorities. On 18 January, 2018, the CBRC, the PBOC, the CSRC, the China Insurance Regulatory Commission and the State Administration of Foreign Exchange jointly released The Opinions on Further

Supporting Commercial Banks' Innovation on Capital Instruments ( 中國銀監會、中國人民銀行、中國證監會、中國保監會、國家外匯管理局關於進一步支持商業銀行資本工具創新的意見) (the “**Opinions**”), further supporting the beneficial exploration of commercial banks for innovating capital instruments, expanding the channels for issuance of capital instruments, increasing capital instrument types, creating favourable conditions for commercial banks to issue capital bonds without fixed terms, Tier-2 capital bonds to be converted into shares, capital bonds containing regular share conversion clauses, bonds with total loss-absorbing capacity and other capital instruments and improving the approval of issuance of capital instruments.

### **Examination and Supervision**

The CBIRC, through its headquarters in Beijing and its bureaus throughout the PRC, monitors the operations of banks and their branches through on-site examinations and off-site surveillance. On-site examinations generally include inspecting a bank's business premises, interviewing its employees, senior management and directors for an explanation of significant issues relating to its operations and risk management and reviewing relevant documents and materials kept by the bank. The CBIRC also conducts off-site surveillance by reviewing financial and other reports regularly submitted by banks and monitoring banks' business activities and risk exposure status to evaluate and analyse the operational risk of the banks.

If a banking institution is not in compliance with an applicable banking regulation, the CBIRC is authorised to impose corrective and punitive measures, including imposing fines, ordering the suspension of certain business activities, imposing restrictions on dividends and other forms of distributions and asset transfers and suspending the opening of new branches. In extreme cases or when a commercial bank fails to take corrective action within the time period specified by the CBIRC, the CBIRC may order the banking institution to suspend operations and may revoke its operating-business licence. In the event of a crisis or failure within a banking institution, the CBIRC may assume control over, or facilitate the restructuring of, such banking institution.

### **PBOC**

As the central bank of the PRC, the PBOC is responsible for formulating and implementing monetary policies and maintaining the stability of the PRC financial markets. According to the *People's Bank of China Law of the People's Republic of China* (中華人民共和國中國人民銀行法) and relevant regulations, the PBOC is empowered to:

- issue and implement orders and regulations in relation to its duties;
- formulate and implement monetary policy in accordance with laws;
- issue Renminbi and administer its circulation;
- regulate the inter-bank money market and the inter-bank bond market;
- implement foreign exchange controls and regulate the inter-bank foreign exchange market;
- supervise and regulate the gold market;
- hold, administer and manage state reserves of foreign exchange and gold;
- manage the national treasury;
- safeguard the normal operation of payment and clearing systems;
- guide and coordinate the financial industry in its anti-money laundering activities and take responsibility for monitoring capital in respect of anti-money laundering;
- take responsibility for financial industry statistics, surveys, analyses and forecasts;

- participate in international financial activities in its capacity as the central bank of the PRC; and
- undertake other duties as prescribed by the State Council.

On 15 August 2013, the State Council issued the Reply of the State Council on the Establishment of the Inter-departmental Coordination Joint Meeting System for Financial Supervision (國務院關於同意建立金融監管協調部際聯席會議制度的批覆), which aims to build up such system. The PBOC shall take the lead at the joint meetings, with the CBRC, the CSRC, the CIRC and the SAFE being the major members. The NDRC and the MOF may be invited to attend the joint meetings, if necessary.

On 13 January 2017, the PBOC promulgated the PBOC Notice on Issues Relating to the Macro-prudential Management of Overall Cross-border Financing (《中國人民銀行關於全口徑跨境融資宏觀審慎管理有關事宜的通知》) (the “**PBOC Notice**”), which came into effect from the date of promulgation and imposes certain filing, reporting and other requirements on PRC companies and financial institutions that engage in cross-border financing activities. According to the consultation with PBOC regarding the relevant filing and reporting requirements under the PBOC Notice, the PBOC hold the opinion that if (a) the proceeds raised from the issuance under the Programme are not repatriated into the PRC, and (b) the PRC parent bank takes the view that its offshore branch is not a PRC entity for the purpose of the PBOC Notice, then the PBOC Notice is not applicable to the notes issuance of its offshore branch. In connection with the update of the Programme or any issuance by an offshore branch under the Programme, the Bank holds the view that the PBOC Notice is not applicable and consequently has not made and does not intend to make any filing with the PBOC under the PBOC Notice. As advised by the PRC legal advisors, considering (a) the update of the Programme (without any issuance hereunder) and the entering into of the contracts solely in connection with the update does not amount to “cross-border financing activities” under the PBOC Notice; and (b) an issuance by an offshore branch where the proceeds will not be repatriated into the PRC does not involve any “cross-border financing activities” under the PBOC Notice, the update of the Programme and any issuance by the Issuer with its proceeds not being repatriated into the PRC shall not trigger filing requirements under the PBOC Notice. Furthermore, if the proceeds of the Notes are repatriated into the PRC, the PBOC Notice may be applicable for the issuance and thus the Issuer shall make filings with the PBOC regarding the Notes according to the requirements under the PBOC Notice. It should be noted that the PBOC Notice is new and the implementation rules have not yet been published, and if following the date of this Offering Circular, the relevant Issuer or the Bank is required to make any filing, reporting or take other steps to comply with the PBOC Notice, the relevant Issuer or the Bank will take the necessary steps to comply with such requirements.

## **NDRC**

On 14 September 2015, the NDRC published the Notice on Promoting the Reform of the Filing and Registration System for Issuance of Foreign Debt by Corporates (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知) (the “**Circular 2044**”), which came into effect on the same date. The Circular 2044 applies to the offshore bonds or loans with a maturity of more than one year, regardless of whether they are denominated in RMB or a foreign currency, that are issued by an onshore entity or its controlled offshore branches and subsidiaries, including international bond issuances and mid- and long-term international commercial loans.

On 18 December 2015, the NDRC published the Guideline on the Issuance of Foreign Debt by Corporates (企業境外發行債券指引) (the “**Guideline**”), which further clarifies certain issues in the Circular 2044. According to the Guideline, the entities subject to the filing requirements in the Circular 2044 include onshore enterprises (including financial entities) and its controlled offshore enterprises or branches; and the “foreign debts” under the Circular 2044 include but are not limited to ordinary notes, senior notes, financial notes, perpetual notes, convertible notes, preferred shares and other offshore debt financing tools. In addition, the Guideline further requires the onshore entities which failed to complete the pre-issuance registration by the promulgation of the

Guideline to complete the pre-issuance registration by the end of January 2016, and those onshore entities which failed to submit to the NDRC the relevant information in relation to the issuance of the offshore notes should complete the submission as soon as practicable. Furthermore, according to the Guideline the NDRC will set a “blacklist” and a credit information exchange platform on the credit information for those entities or intermediaries which have provided false information in its registration with the NDRC, and will impose punishment with other government authorities on such entities.

Furthermore, the NDRC issued the Filings and Registrations Certificate of Issuance by Enterprises of Foreign Debt (企業借用外債備案登記證明) (發改辦外資備[2021]690 號) on 1 September 2021 (the “**NDRC Certificate**”). The recipient may at its own discretion issue notes of any amount up to the granted amount under such annual foreign debt quota, although it still has to make post-issuance filing within 10 business days after the completion of the relevant notes issuance. As an offshore branch of the Bank, the Issuer is entitled to use the Bank’s annual quota for the issuance of the Notes based on the Bank’s confirmation. As such separate pre-issuance registration with the NDRC with respect to the Notes is not required as the Notes will be issued within the size and terms of the aforesaid quota.

As new regulations, the Circular 2044, the Guideline and the NDRC Certificate will be subject to interpretation and application by the relevant PRC authorities, and it remains unclear what impact non-compliance will have on the legality, enforceability and validity of the Notes.



## TAXATION

The following summary of certain PRC and Hong Kong of the purchase, ownership and disposal of the Notes is based upon applicable laws, regulations, rulings and decisions in effect as at the date of this Offering Circular, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Neither these statements nor any other statements in this Offering Circular are to be regarded as advice on the tax position of any holder of the Notes or any persons acquiring, selling or otherwise dealing in the Notes or on any tax implications arising from the acquisition, sale or other dealings in respect of the Notes. Persons considering the purchase of the Notes should consult their own tax advisers concerning the possible tax consequences of buying, holding or selling any Notes under the laws of their country of citizenship, residence or domicile.

### PRC Taxation

The following summary describes the principal PRC tax consequences of ownership of the Notes by beneficial owners who, or which, are not residents of mainland China for PRC tax purposes. These beneficial owners are referred to as non-PRC Noteholders in this section. In considering whether to invest in the Notes, potential purchasers should consult their individual tax advisers with regard to the application of PRC tax laws to their particular situations as well as any tax consequences arising under the laws of any other tax jurisdiction. Reference is made to PRC taxes from the taxable year beginning on or after 1 January 2008.

Pursuant to the New Enterprise Income Tax Law and its implementation regulations, enterprises that are established under laws of foreign countries and regions (including Hong Kong, Macau and Taiwan) but whose “de facto management bodies” are within the territory of the PRC shall be PRC tax resident enterprises for the purpose of the New Enterprise Income Tax Law and they shall pay enterprise income tax at the rate of 25 per cent. in respect of their income sourced from both within and outside the PRC. If relevant PRC tax authorities decide, in accordance with applicable tax rules and regulations, that the “de facto management body” of the Issuer is within the territory of the PRC, the Issuer may be held to be a PRC tax resident enterprise for the purpose of the New Enterprise Income Tax Law and be subject to enterprise income tax at the rate of 25 per cent. for its income sourced from both within and outside PRC. As confirmed by the Issuer, as at the date of this Offering Circular, the Issuer has not been notified or informed by the PRC tax authorities that it is considered as a PRC tax resident enterprise for the purpose of the New Enterprise Income Tax Law. On that basis, holders of the Notes will not be subject to withholding tax, income tax or any other taxes or duties (including stamp duty) imposed by any governmental authority in the PRC in respect of the holding of the Notes or any repayment of principal and payment of interest made thereon.

However, there is no assurance that the Issuer will not be treated as a PRC tax resident enterprise under the New Enterprise Income Tax Law and related implementation regulations in the future. If the Issuer is treated as a PRC tax resident enterprise, the interest payable by the Issuer may be considered as income sourced inside the PRC. Pursuant to the New Enterprise Income Tax Law and its implementation regulations, any non-resident enterprise without establishment within the PRC or its income has no actual connection to its establishment inside the PRC may be subject to enterprise income tax at the rate of 10 per cent. on the passive incomes including interest payable sourced inside the PRC unless a lower tax treaty rate applies. Similarly, pursuant to the PRC Individual Income Tax Law, any non-resident individual Noteholders may be subject to individual income tax at the rate of 20 per cent. on the interest payable, which may be further decreased by an applicable tax treaty. Such income tax shall be withheld at source by the PRC entity making payment, who shall be obliged to withhold the tax amount from each payment or payment due. Accordingly, in the event the Issuer is deemed to be a PRC tax resident enterprise by the PRC tax authorities in the future, the Issuer shall withhold income

tax from the payments of interest in respect of the Notes for any non-PRC enterprise and individual Noteholders. However, notwithstanding the potential withholding of PRC tax by the Issuer, the Issuer has agreed to pay additional amounts to holders of the Notes so that holders of the Notes would receive the full amount of the scheduled payment, as further set out in the Terms and Conditions of the Notes.

Non-PRC Noteholders will not be subject to the PRC tax on any capital gains derived from a sale or exchange of Notes consummated outside mainland China between non-PRC Noteholders, except however, if the Issuer is treated as a PRC tax resident enterprise under the New Enterprise Income Tax Law and related implementation regulations in the future, any gain realised by the non-PRC enterprise Noteholders from the transfer of the Notes may be regarded as being derived from sources within the PRC and accordingly would be subject to up to 10 per cent. of PRC withholding tax unless decreased or exempted by an applicable tax treaty. Further, non-PRC individual Noteholders may be subject to individual income tax at the rate of 20 per cent. on the capital gains, which may be decreased or exempted by an applicable tax treaty.

No PRC stamp duty will be chargeable upon the issue or transfer (for so long as the register of Noteholders is maintained outside the PRC) of a Note.

## **Hong Kong**

### ***Withholding Tax***

No withholding tax is payable in Hong Kong in respect of payments of principal or interest on the Notes or in respect of any capital gains arising from the sale of the Notes.

### ***Profits Tax***

Hong Kong profits tax is chargeable on every person carrying on a trade, profession or business in Hong Kong in respect of profits arising in or derived from Hong Kong from such trade, profession or business (excluding profits arising from the sale of capital assets).

Interest on the Notes may be deemed to be profits arising in or derived from Hong Kong from a trade, profession or business carried on in Hong Kong in the following circumstances:

- (i) interest on the Notes is derived from Hong Kong and is received by or accrues to a corporation carrying on a trade, profession or business in Hong Kong;
- (ii) interest on the Notes is derived from Hong Kong and is received by or accrues to a person, other than a corporation, carrying on a trade, profession or business in Hong Kong and is in respect of the funds of that trade, profession or business;
- (iii) interest on the Notes is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance (Cap. 112) of Hong Kong (the “IRO”)) and arises through or from the carrying on by the financial institution of its business in Hong Kong; or
- (iv) interest on the Notes is received by or accrues to a corporation, other than a financial institution, and arises through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the IRO).

Pursuant to the Exemption from Profits Tax (Interest Income) Order, interest income accruing to a person other than a financial institution on deposits (denominated in any currency and whether or not the deposit is evidenced by a certificate of deposit) placed with, *inter alia*, an authorised institution in Hong Kong (within the meaning of section 2 of the Banking Ordinance (Cap. 155) of Hong Kong) is exempt from the payment of Hong Kong profits tax. This exemption does not apply, however, to deposits that are used to secure or guarantee money borrowed in certain circumstances. Provided no prospectus involving the issue of Notes is registered under the

Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong, the issue of Notes by the Bank is expected to constitute a deposit to which the above exemption from payment will apply.

Sums received by or accrued to a financial institution by way of gains or profits arising through or from the carrying on by the financial institution of its business in Hong Kong from the sale, disposal and redemption of Notes will be subject to Hong Kong profits tax. Sums received by or accrued to a corporation, other than a financial institution, by way of gains or profits arising through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the IRO) from the sale, disposal or other redemption of Notes will be subject to Hong Kong profits tax.

Sums derived from the sale, disposal or redemption of Notes will be subject to Hong Kong profits tax where received by or accrued to a person, other than a financial institution, who carries on a trade, profession or business in Hong Kong and the sum has a Hong Kong source unless otherwise exempted. The source of such sums will generally be determined by having regard to the manner in which the Notes are acquired and disposed of.

In certain circumstances, Hong Kong profits tax exemptions (such as concessionary tax rates) may be available. Investors are advised to consult their own tax advisors to ascertain the applicability of any exemptions to their individual position.

### **Stamp duty**

Stamp duty will not be payable on the issue of Bearer Notes by the Bank, provided either:

- (a) such Bearer Notes are denominated in a currency other than the currency of Hong Kong and are not repayable in any circumstances in the currency of Hong Kong; or
- (b) such Bearer Notes constitute loan capital (as defined in the Stamp Duty Ordinance (Cap. 117) of Hong Kong (the “SDO”)).

If stamp duty is payable it is payable by the Bank on the issue of Bearer Notes at a rate of 3 per cent. of the market value of the Notes at the time of issue. No stamp duty will be payable on any subsequent transfer of Bearer Notes.

No stamp duty is payable on the issue of Registered Notes. Stamp duty may be payable on any transfer of Registered Notes if the relevant transfer is required to be registered in Hong Kong. Stamp duty will, however, not be payable on any transfer of Registered Notes provided that either:

- (i) such Registered Notes are denominated in a currency other than the currency of Hong Kong and are not repayable in any circumstances in the currency of Hong Kong; or
- (ii) such Registered Notes constitute loan capital (as defined in the SDO).

With effect from 1 August 2021, if stamp duty is payable in respect of the transfer of Registered Notes it will be payable at the rate of 0.26 per cent. (of which 0.13 per cent. is payable by the seller and 0.13 per cent. is payable by the purchaser) normally by reference to the consideration or its value, whichever is higher. In addition, stamp duty is payable at the fixed rate of HK\$5.00 on each instrument of transfer executed in relation to any transfer of the Registered Notes if the relevant transfer is required to be registered in Hong Kong.

### **POTENTIAL FATCA WITHHOLDING AFTER 2019**

Pursuant to certain provisions of U.S. law, commonly known as FATCA, a “foreign financial institution” may be required to withhold on certain payments it makes (“foreign passthru payments”) to persons that fail to meet

certain certification, reporting, or related requirements. A number of jurisdictions (including Hong Kong and the PRC) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (“IGAs”), which modify the way in which FATCA applies in their jurisdictions. Certain aspects of the application of these rules to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, is not clear at this time.

Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply prior to the date that is two years after the date on which final regulations defining foreign passthru payments are published in the U.S. Federal Register and Notes characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are issued on or prior to the date that is six months after the date on which final regulations defining “foreign passthru payments” are published generally would be “grandfathered” for purposes of FATCA withholding unless materially modified after such date. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, no person will be required to pay additional amounts as a result of the withholding.

### **The proposed financial transactions tax (“FTT”)**

On 14 February 2013, the European Commission published a proposal (the “**Commission’s Proposal**”) for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the “**participating Member States**”). However, Estonia has since stated that it will not participate.

The Commission’s Proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances. Primary market transactions referred to in Article 5(c) of Regulation (EC) No 1287/2006 are expected to be exempt.

Under the Commission’s Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, “established” in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

## PRC CURRENCY CONTROLS

### Remittance of Renminbi into and outside the PRC

The Renminbi is not a freely convertible currency. The remittance of Renminbi into and outside the PRC is subject to controls imposed under PRC law.

### Current Account Items

Under PRC foreign exchange control regulations, current account item payments include payments for imports and exports of goods and services, payments of income and current transfers into and outside the PRC.

Prior to July 2009, all current account items were required to be settled in foreign currencies. On July 2009, the PRC government promulgated Measures for the Administration of the Pilot Program of Renminbi Settlement of Cross-Border Trades (跨境貿易人民幣結算試點管理辦法) (the “**Measures**”) and its implementation rules, pursuant to which designated and eligible enterprises are allowed to settle their cross-border trade transactions in Renminbi. Since July 2009, subject to the Measures and its implementation rules, the PRC has commenced a scheme pursuant to which Renminbi may be used for settlement of cross-border trade between approved pilot enterprises in five designated cities in the PRC including Shanghai, Guangzhou, Dongguan, Shenzhen and Zhuhai and enterprises in designated offshore jurisdictions including Hong Kong and Macau. On 17 June 2010, the PRC government promulgated the Circular on Issues concerning the Expansion of the Scope of the Pilot Program of Renminbi Settlement of Cross-Border Trades (關於擴大跨境貿易人民幣結算試點有關問題的通知), pursuant to which (i) the list of designated pilot districts was expanded to cover 20 provinces including Beijing, Shanghai, Tianjin, Chongqing, Guangdong, Jiangsu, Zhejiang, Liaoning, Shandong and Sichuan, and (ii) the restriction on designated offshore districts was lifted. Accordingly, any enterprises in the designated pilot districts and offshore enterprises are entitled to use Renminbi to settle any current account items between them (except in the case of payments for exports of goods from the PRC, such Renminbi remittance may only be effected by approved pilot enterprises in 16 provinces within the designated pilot districts in the PRC). On 27 July 2011, the PRC government promulgated the Circular on the Expansion of the Regions of Renminbi Settlement of Cross-Border Trades (關於擴大跨境貿易人民幣結算地區的通知), pursuant to which the list of designated pilot districts was expanded to the whole country. On 3 February 2012, the PRC government promulgated the *Circular on the Relevant Issues Pertaining to Administration over Enterprises Engaging in RMB Settlement of Export of Goods* (關於出口貨物貿易人民幣結算企業管理有關問題的通知), pursuant to which any enterprises in China which are qualified to engage in import and export trade are allowed to settle their goods export trade in Renminbi.

On 5 July 2013, the PBOC promulgated the Circular on Policies related to Simplifying and Improving Cross-border Renminbi Business Procedures (關於簡化跨境人民幣業務流程和完善有關政策的通知) (銀發[2013] 168 號), which, in particular, simplifies the procedures for cross-border Renminbi trade settlement under current account items. For example, PRC banks may conduct settlement for the PRC enterprises (excluding those on the Supervision List) upon the PRC enterprises presenting the payment instruction. PRC banks may also allow the PRC enterprises to make/receive payments under current account items prior to the relevant PRC bank’s verification of underlying transactions (noting that verification of underlying transactions is usually a precondition for cross-border remittance).

On 23 October 2019, the SAFE promulgated Notice by the State Administration of Foreign Exchange of Simplifying Foreign Exchange Accounts (國家外匯管理局關於精簡外匯帳戶的通知, 匯發[2019]29 號) which became effective on 1 February 2020. SAFE has decided to review and integrate certain foreign exchange accounts and further reduce the types of accounts in order to further intensify the reform of foreign exchange administration, simplifying the relevant business operating procedures, and facilitate true and compliant foreign exchange transactions by banks, enterprises and other market participants, for example, “Current accounts -

foreign currency cash account” and “current accounts - foreign exchange account under current accounts of overseas institutions” are included in “current accounts - foreign exchange settlement account”.

On the same day, the SAFE issued Notice by the State Administration of Foreign Exchange of Further Facilitating Cross-border Trade and Investment (國家外匯管理局關於進一步促進跨境貿易投資便利化的通知, 匯發[2019]28號), based on which, for the revenue obtained by an enterprise from trade in goods, the enterprise may, on its own, decide whether to open a to-be-inspected account for export revenue (“to-be-inspected account”). If an enterprise has not opened a to-be-inspected account, the examined revenue from trade in goods by the bank in accordance with the existing provisions may be directly deposited into the foreign exchange account under current accounts or used for foreign exchange settlement.

The Measures and the subsequent circulars will be subject to interpretation and application by the relevant PRC authorities. Local authorities may adopt different practices in applying the Measures and impose conditions for settlement of current account items.

### **Capital Account Items**

Under PRC foreign exchange control regulations, capital account items include cross-border transfers of capital, direct investments, securities investments, derivative products and loans. Capital account payments are generally subject to approval of the relevant PRC authorities.

Capital account items are generally required to be made in foreign currencies. For instance, foreign investors (including any Hong Kong investors) are generally required to make any capital contribution to foreign invested enterprises in a foreign currency in accordance with the terms set out in the relevant joint venture contracts and/or articles of association as approved by the relevant authorities. Foreign invested enterprises or any other relevant PRC parties are also generally required to make capital account item payments including proceeds from liquidation, transfer of shares, reduction of capital and principal repayment under foreign debt to foreign investors in a foreign currency. That said, the relevant PRC authorities may approve a foreign entity to make a capital contribution or shareholder’s loan to a foreign invested enterprise with Renminbi lawfully obtained by it outside the PRC and for the foreign invested enterprise to service interest and principal repayment to its foreign investor outside the PRC in Renminbi on a trial basis. The foreign invested enterprise may also be required to complete registration and verification process with the relevant PRC authorities before such Renminbi remittances.

On 3 June 2011, the PBOC promulgated the *Circular on Clarifying Issues concerning Cross-border Renminbi Settlement* (中國人民銀行關於明確跨境人民幣業務相關問題的通知) (the “**PBOC Circular**”). The PBOC Circular provides instructions to local PBOC authorities on procedures for the approval of settlement activities for non-financial Renminbi foreign direct investment into the PRC. The PBOC Circular applies to all non-financial Renminbi foreign direct investment into the PRC, and includes investment by way of establishing a new enterprise, acquiring an onshore enterprise, transferring the shares, increasing the registered capital of an existing enterprise, or providing loan facilities in Renminbi. The domestic settlement banks of foreign investors or foreign invested enterprises in the PRC are required to submit written applications to the relevant local PBOC authorities which include, *inter alia*, requisite approval letters issued by the relevant MOFCOM authorities. The PBOC Circular only applies to cases where the receiving onshore enterprise is not a financial institution. On 13 October 2011, the PBOC issued the PBOC RMB FDI Measures, to commence the PBOC’s detailed RMB FDI administration system, which covers almost all aspects of RMB FDI, including capital injection, payment of purchase price in the acquisition of PRC domestic enterprises, repatriation of dividends and distribution, as well as RMB denominated cross-border loans. Under the PBOC RMB FDI Measures, special approval for RMB FDI and shareholder loans from the PBOC which was previously required by the PBOC Circular is no longer necessary.

On 14 June 2012, the PBOC issued the Notice on Clarifying the implementation of Settlement of Cross-Border Renminbi Direct Investment (中國人民銀行關於明確外商直接投資人民幣結算業務操作細則的通知), which provides more detailed rules for cross-border Renminbi direct investments and settlements.

On 3 December 2013, MOFCOM promulgated the Announcement on Issues Related to Cross-border RMB Direct Investment (关于跨境人民币直接投资有关问题的公告) (the “**MOFCOM RMB FDI Circular**”), which has become effective on 1 January 2014, to further facilitate FDI by simplifying and streamlining the applicable regulatory framework. Pursuant to the MOFCOM RMB FDI Circular, the competent counterpart of MOFCOM will grant written approval for each FDI and specify “Renminbi Foreign Direct Investment” and the amount of capital contribution in the approval. Unlike previous MOFCOM regulations on FDI, the MOFCOM RMB FDI Circular removes the approval requirement for changes in the relevant joint venture contract or the articles of association of the joint venture company where foreign investors change the currency of its existing capital contribution from a foreign currency to Renminbi. In addition, the MOFCOM RMB FDI Circular also clearly prohibits the FDI funds from being used for any direct or indirect investment in securities and financial derivatives (except for strategic investment in the PRC listed companies) or for entrustment loans in the PRC.

On 13 February 2015, the SAFE promulgated the Circular of the State Administration of Foreign Exchange on Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies (國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知) (the “**2015 SAFE Circular**”), which became effective on 1 June 2015. The 2015 SAFE Circular aims to deepen the reform of foreign exchange administration of capital accounts, promote and facilitate the capital operation of enterprises in making cross-border investments, regulate the direct investment-related foreign exchange administration business, improve the administration efficiency. The 2015 SAFE Circular set forth the following reformation: (i) cancel the Administrative Examination and Approval Procedures relating to the Foreign Exchange Registration Approval under Domestic Direct Investment and the Foreign Exchange Registration Approval under Overseas Direct Investment; (ii) cancel the requirements to provide the confirmation, and apply for the registration, of foreign investors’ non-monetary contribution and provide the confirmation, and apply for the registration, of foreign investors’ contribution to purchasing the equity held by the party incorporated in the PRC under domestic direct investment; (iii) the requirements to provide the confirmation, and apply for the registration, of foreign investors’ monetary contribution has been replaced by the requirement to apply for a book-entry registration of domestic direct investment monetary contribution.

On 9 June 2016, the SAFE issued the Notice on Reforming and Regulating the Policies for the Administration of Settlement of Foreign Exchange under Capital Accounts (國家外匯管理局關於改革和規範資本項目結匯管理政策的通知), which provided, among others, that the settlement of foreign exchange funds under capital accounts (including the foreign capital, debt financing and overseas listing repatriation of funds, etc.) that are subject to willingness settlement as already specified by relevant policies may be handled at banks based on the domestic institutions’ actual requirements for business operation, and where there are restrictive provisions in any current regulations on the settlement of foreign exchange funds under capital accounts of domestic institutions, these provisions shall prevail.

On 26 January 2017, the SAFE issued the Notice on Further Promoting the Reform of Foreign Exchange Administration and Improving the Examination of Authenticity and Compliance (國家外匯管理局關於進一步推進外匯管理改革完善真實合規性審核的通知(匯發 [2017] 3 號)) to further advance the reform of foreign exchange administration, such as:

- settlement of domestic foreign exchange loans is allowed for export trade in goods. A domestic institution shall repay loans with the foreign exchange funds received from export trade in goods, rather than, in principle, purchased foreign exchange;

- a debtor may directly or indirectly repatriate the funds under guarantee and use them domestically by, among others, granting loans and making equity investment domestically. Where a bank performs its guarantee obligation under overseas loans with domestic guarantee, relevant foreign exchange settlement and sale shall be managed as the bank's own foreign exchange settlement and sale;
- the deposits absorbed by a domestic bank through its principal international foreign exchange account and allowed to be used domestically are no more than 100 per cent. of the average daily deposit balance in the previous six months as opposed to the former 50 per cent.; and the funds used domestically are not included in the bank's outstanding short-term external debt quota;
- allowing foreign exchange settlement in the domestic foreign exchange accounts of overseas institutions within pilot free trade zones: Where funds are repatriated and used domestically after settlement, a domestic bank shall, under the relevant provisions on cross-border transactions, handle such funds by examining the valid commercial documents and vouchers of domestic institutions and domestic individuals; and
- where a domestic institution grants overseas loans, the total of the balance of overseas loans granted in domestic currency and the balance of overseas loans granted in foreign currency shall not exceed 30 per cent. of owner's equity in the audited financial statements of the previous year.

Since September 2015, qualified multinational enterprise groups can extend Renminbi-denominated loans to, or borrow Renminbi-denominated loans from, eligible offshore member entities within the same group by leveraging the cash pooling arrangements. The Renminbi funds will be placed in a special deposit account and may not be used to invest in stocks, financial derivatives, or non-self-use real estate assets, or purchase wealth management products or extend loans to enterprises outside the group.

The securities markets, specifically the Renminbi Qualified Foreign Institutional Investor ("RQFII") regime and the China Interbank Bond Market ("CIBM"), have been further liberalised for foreign investors. PBOC has relaxed the quota control for RQFII, initiated a bond market mutual access scheme between mainland and Hong Kong to allow eligible investors to invest in CIBM and has also expanded the list of foreign investors eligible to directly invest in CIBM, removed quota restriction, and granted more flexibility for the settlement agents to provide the relevant institutions with more trading facilities (for example, in relation to derivatives for hedging foreign exchange risk).

Interbank foreign exchange market is also opening-up. In 2018, CFETS further relaxed qualifications, application materials and the procedures for foreign participating banks (which needs to have a relatively large scale of Renminbi purchase and sale business and international influence) to access the inter-bank foreign exchange market.

On 23 October 2019, the SAFE promulgated Notice by the State Administration of Foreign Exchange of Simplifying Foreign Exchange Accounts (國家外匯管理局關於精簡外匯帳戶的通知, 匯發[2019]29 號) which became effective on 1 February 2020, according to which, several measures were taken to intensify, for example, "Capital accounts - special account for domestic reinvestment" is included in "capital accounts - foreign exchange capital account".

On the same day, the SAFE issued Notice by the State Administration of Foreign Exchange of Further Facilitating Cross-border Trade and Investment (國家外匯管理局關於進一步促進跨境貿易投資便利化的通知, 匯發[2019]28 號) in order to further promote the reform of "simplification of administrative procedures and decentralization of powers, combination of decentralization and appropriate control, and optimization of services". It cancelled restrictions on the use of funds in domestic asset realization accounts for foreign exchange settlement and restrictions on the number of opened foreign exchange accounts under capital accounts.



As the MOFCOM RMB FDI Circular, the PBOC RMB FDI Measures and other normative documents mentioned above are relatively new rules, they will be subject to interpretation and application by the relevant PRC authorities.

Further, if any new PRC regulations are promulgated in the future which have the effect of permitting or restricting (as the case may be) the remittance of Renminbi for payment of transactions categorised as capital account items, then such remittances will need to be made subject to the specific requirements or restrictions set out in such rules.

## CLEARANCE AND SETTLEMENT

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of Euroclear, Clearstream or the CMU (together, the “**Clearing Systems**”) currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Issuer believes to be reliable, but neither the Issuer nor any Dealer nor the Arrangers takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. Neither the Issuer nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to, or payments made on account of, such beneficial ownership interests.

The relevant Pricing Supplement will specify the Clearing System(s) applicable for each Series.

### **The Clearing Systems**

#### ***Euroclear and Clearstream***

Euroclear and Clearstream each holds securities for participating organisations and facilitates the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their respective participants, among other things, services for safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to Euroclear or Clearstream is also available to others, such as banks, brokers, dealers and trust companies which clear through or maintain a custodial relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Distributions of principal with respect to book-entry interests in the Notes held through Euroclear or Clearstream will be credited, to the extent received by the Paying Agent, to the cash accounts of Euroclear or Clearstream participants in accordance with the relevant system’s rules and procedures.

#### ***CMU***

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

The CMU is only available to CMU Instruments issued by a CMU Member or by a person for whom a CMU Member acts as agent for the purposes of lodging instruments issued by such persons. Membership of the CMU is open to financial institutions regulated by Hong Kong Monetary Authority, Securities and Futures Commission, Insurance Authority or Mandatory Provident Fund Schemes Authority. For further details on the full range of the CMU’s custodial services, please refer to the CMU Reference Manual.

The CMU has an income distribution service which is a service offered by the CMU to facilitate the distribution of interest, coupon or redemption proceeds (collectively, the “**income proceeds**”) by CMU Members who are paying agents to the legal title holders of CMU Instruments via the CMU system. Furthermore, the CMU has a corporate action platform which allows an issuer (or its agent) to make an announcement/notification of a corporate action and noteholders to submit the relevant certification. For further details, please refer to the CMU Reference Manual.

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

### **Book-Entry Ownership**

#### ***Bearer Notes***

The Issuer has made applications to Euroclear and Clearstream for acceptance in their respective book-entry systems in respect of any Series of Bearer Notes. The Issuer may also apply to have Bearer Notes accepted for clearance through the CMU. In respect of Bearer Notes, a temporary Global Note and/or a permanent Global Note will be deposited with a common depositary for Euroclear and Clearstream or a sub-custodian for the CMU. Transfers of interests in a temporary Global Note or a permanent Global Note will be made in accordance with the normal market debt securities operating procedures of the CMU, Euroclear and Clearstream. Each Global Note will have an International Securities Identification Number (“**ISIN**”) and a Common Code or, if lodged with a sub-custodian for the CMU, will have a CMU Instrument Number. An ISIN and a Common Code may also be provided upon request.

#### ***Registered Notes***

The Issuer may make applications to Euroclear and Clearstream for acceptance in their respective book-entry systems in respect of the Notes to be represented by a Global Certificate. The Issuer may also apply to have Notes to be represented by a Global Certificate accepted for clearance through the CMU. Each Global Certificate will have an ISIN and a Common Code or, if lodged with a sub-custodian for the CMU, will have a CMU Instrument Number. Investors in Notes of such Series may hold their interests in a Global Certificate through Euroclear, Clearstream or the CMU (if applicable). An ISIN and a Common Code may also be provided upon request.

Each Global Certificate will be subject to restrictions on transfer contained in a legend appearing on the front of such Global Certificate, as set out under “*Subscription and Sale*”.

All Registered Notes will initially be in the form of a Global Certificate. Individual Certificates will be available, in the case of Notes initially represented by a Global Certificate, in amounts specified in the applicable Pricing Supplement.

## SUBSCRIPTION AND SALE

### Dealer Agreement

Subject to the terms and on the conditions contained in the amended and restated dealer agreement dated 8 November 2019, as amended and/or supplemented and/or restated from time to time (the “**Dealer Agreement**”) between Bank of Communications Co., Ltd. Hong Kong Branch, the Arranger and Dealer, the Notes will be offered on a continuous basis by the Issuer to the Permanent Dealers. However, the Issuer has reserved the right to sell Notes directly on its own behalf to Dealers that are not Permanent Dealers as at the date of the Dealer Agreement. The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer. The Notes may also be sold by the Issuer through the Dealers, acting as agents of the Issuer. The Dealer Agreement also provides for Notes to be issued in syndicated Tranches that are severally underwritten by two or more Dealers.

The Issuer will pay each relevant Dealer a commission as agreed between them in respect of Notes subscribed by it. The Issuer has agreed to reimburse each Arranger for certain of its expenses incurred in connection with the establishment of the Programme and the Dealers for certain of their activities in connection with the Programme.

The Issuer has agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of the Notes. The Dealer Agreement entitles the Dealers to terminate any agreement that they make to subscribe Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

The Arranger and Dealer or any of its affiliates are financial institutions engaged in various activities which may include certain trading, commercial and investment banking, financial advice, investment management, principal investment, hedging, financing and brokerage activities advisory services for the relevant Issuer, the Bank and/or their respective affiliates from time to time for which they have received customary fees and expenses and may, from time to time, engage in transactions with and perform services for the relevant Issuer, the Bank and/or their respective subsidiaries and affiliates in the ordinary course of the relevant Issuer's, the Bank's or their business. In the ordinary course of their various business activities, the Arranger and Dealer and its affiliates may make or hold (on their own account, on behalf of clients or in their capacity of investment advisers) a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments and enter into other transactions, including credit derivatives (such as asset swaps, repackaging and credit default swaps) in relation thereto. Such transactions, investments and securities activities may involve securities and instruments of the relevant Issuer, the Bank and/or their respective subsidiaries and affiliates, including Notes issued under the Programme, may be entered into at the same time or proximate to offers and sales of Notes or at other times in the secondary market and be carried out with counterparties that are also purchasers, holders or sellers of Notes. Notes issued under the Programme may be purchased by or be allocated to any Dealer or its affiliate for asset management and/or proprietary purposes but not with a view to distribution.

In connection with the offer and sale of the Notes, the Issuer, the Arranger and Dealer and/or its affiliates may place orders, receive allocations and purchase Notes for their own account (without a view to distributing such Notes) and such orders and/or allocations of the Notes may be material. Such entities may hold or sell such Notes or purchase further Notes for their own account in the secondary market or deal in any other securities of the Issuer, and therefore, they may offer or sell the Notes or other securities otherwise than in connection with the offering. Accordingly, references herein to the Notes being ‘offered’ should be read as including any offering of the Notes to the Issuer, the Arranger and Dealer and/or its affiliates for their own account. Such entities are not expected to disclose such transactions or the extent of any such investment, otherwise than in accordance with any legal or regulatory obligation to do so. Furthermore, it is possible that only a limited

number of investors may subscribe for a significant proportion of the Notes. If this is the case, liquidity of trading in the Notes may be constrained (see “*Risk Factors — Risks Relating to the Market Generally — Notes issued under the Programme have no current active trading market and may trade at a discount to their initial offering price and/or with limited liquidity*”). The Issuer and the Arranger and Dealer are under no obligation to disclose the extent of the distribution of the Notes amongst individual investors.

## **Selling Restrictions**

### ***General***

The distribution of this Offering Circular or any offering material and the offering, sale or delivery of the Notes is restricted by law in certain jurisdictions. Therefore, persons who may come into possession of this Offering Circular or any offering material are advised to consult with their own legal advisers as to what restrictions may be applicable to them and to observe such restrictions. This Offering Circular may not be used for the purpose of an offer or invitation in any circumstances in which such offer or invitation is not authorised. If a jurisdiction requires that the offering of Notes be made by a licensed broker or dealer and any Dealer or any affiliate of that Dealer is a licensed broker in that jurisdiction, the offering shall be deemed to be made by that Dealer or its affiliate on behalf of the relevant Issuer in such jurisdiction.

### ***United States***

This paragraph shall apply in respect of any Notes the Pricing Supplement for which specifies that “Regulation S Category 1” applies. The Notes have not been and will not be registered under the Securities Act and the Notes may not be offered or sold within the United States except pursuant to an exemption from, or a transaction not subject to, the registration requirements of the Securities Act. Each Dealer has represented that it has not offered or sold the Notes, and agreed that it will not offer or sell, any Notes constituting part of its allotment in the United States except in accordance with Rule 903 of Regulation S under the Securities Act. Accordingly, neither it, its affiliates nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to the Notes. Terms used in this paragraph have the meaning given to them by Regulation S.

This paragraph shall apply in respect of any Notes the Pricing Supplement for which specifies that “Regulation S Category 2” applies. The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S under the Securities Act or pursuant to an exemption from the registration requirements of the Securities Act. Each Dealer has represented and agreed that it has offered and sold, and shall offer and sell, any Series (1) as part of their distribution at any time and (2) otherwise until 40 days after the completion of the distribution of an identifiable tranche of which such Notes are a part, only in accordance with Rule 903 of Regulation S under the Securities Act. Accordingly, neither it, its affiliates nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to the Notes, and it and they have complied and shall comply with the offering restrictions requirement of Regulation S. Each Dealer agrees to notify the Fiscal Agent or, in the case of a Syndicated Issue, the Lead Manager when it has completed the distribution of its portion of the Notes of any identifiable tranche so that the Fiscal Agent or, in the case of a Syndicated Issue, the Lead Manager may determine the completion of the distribution of all Notes of that tranche and notify the other relevant Dealers of the end of the distribution compliance period. Each Dealer agrees that, at or prior to confirmation of sale of Notes, it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Notes from it during the distribution compliance period a confirmation or notice to substantially the following effect:

The Securities covered hereby have not been registered under the U.S. Securities Act of 1933 (the “**Securities Act**”) and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution

of an identifiable tranche of Notes of which such Notes are a part, except in either case in accordance with Regulation S under the Securities Act. Terms used above have the meaning given to them by Regulation S under the Securities Act.”

Unless the Pricing Supplement or the Subscription Agreement relating to one or more Tranches specifies that the applicable TEFRA exemption is either “C Rules” or “not applicable”, each Dealer has represented and agreed in relation to each Tranche of Notes in bearer form:

- (i) except to the extent permitted under U.S. Treas. Reg. §1.163-5(c)(2)(i)(D) (or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the U.S. Internal Revenue Code of 1986, as amended (the “**Code**”)) (the “**D Rules**”):
  - (a) it has not offered or sold, and during a 40 day restricted period shall not offer or sell, Notes in bearer form to a person who is within the United States or its possessions or to a United States person; and
  - (b) it has not delivered and shall not deliver within the United States or its possessions definitive Notes in bearer form that are sold during the restricted period;
- (ii) it has and throughout the restricted period shall have in effect procedures reasonably designed to ensure that its employees or agents who are directly engaged in selling Notes in bearer form are aware that such Notes may not be offered or sold during the restricted period to a person who is within the United States or its possessions or to a United States person, except as permitted by the D Rules;
- (iii) if it is a United States person, it is acquiring the Notes in bearer form for purposes of resale in connection with their original issuance and if it retains Notes in bearer form for its own account, it shall only do so in accordance with the requirements of U.S. Treas. Reg. §1.163-5(c)(2)(i)(D)(6); and
- (iv) with respect to each affiliate that acquires from it Notes in bearer form for the purpose of offering or selling such Notes during the restricted period, it either (a) repeats and confirms the representations contained in sub-paragraphs (i), (ii) and (iii) on behalf of such affiliate or (b) agrees that it shall obtain from such affiliate for the benefit of the Issuer the representations contained in sub-paragraphs (i), (ii) and (iii).

Terms used in this paragraph have the meanings given to them by the Code and regulations thereunder, including the D Rules.

To the extent that the Pricing Supplement or the Subscription Agreement relating to one or more Tranches of Bearer Notes specifies that the applicable TEFRA exemption is “C Rules”, under U.S. Treas. Reg. §1.163-5(c)(2)(i)(C) (or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the Code) (the “**C Rules**”), Notes in bearer form must be issued and delivered outside the United States and its possessions in connection with their original issuance. In relation to each such Tranche, each Dealer has represented and agreed that it has not offered, sold or delivered, and shall not offer, sell or deliver, directly or indirectly, Notes in bearer form within the United States or its possessions in connection with their original issuance. Further, in connection with their original issuance of Notes in bearer form, it has not communicated, and shall not communicate, directly or indirectly, with a prospective purchaser if either such purchaser or it is within the United States or its possessions or otherwise involve its U.S. office in the offer or sale of Notes in bearer form. Terms used in this paragraph have the meanings given to them by the Code and regulations thereunder, including the C Rules and IRS Notice 2012-20.

Each issuance of index-, commodity- or currency-linked Notes shall be subject to such additional U.S. selling restrictions as the relevant Dealer(s) shall agree with the Issuer as a term of the issuance and purchase or, as the

case may be, subscription of such Notes. Each relevant Dealer has agreed that it shall offer, sell and deliver such Notes only in compliance with such additional U.S. selling restrictions.

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

Unless the Pricing Supplement in respect of any Notes specifies “Prohibition of Sales to EEA Retail Investors” as “Not Applicable”, each Dealer and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Offering Circular as completed by the Pricing Supplement in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision:

- (a) the expression “**retail investor**” means a person who is one (or more) of the following:
  - (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “**MiFID II**”); or
  - (ii) a customer within the meaning of Directive (EU) 2016/97 (the “**Insurance Distribution Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or
  - (iii) not a qualified investor as defined in the Prospectus Regulation (as defined below); and
- (b) the expression an “**offer**” includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes.

If the relevant Pricing Supplement in respect of any Notes specifies “Prohibition of Sales to EEA Retail Investors” as “Not Applicable”, in relation to each Member State of the European Economic Area (each a Member State), each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Offering Circular as completed by the Pricing Supplement in relation thereto to the public in that Member State except that it may make an offer of such Notes to the public in that Member State:

- (a) if the Pricing Supplement in relation to the Notes specify that an offer of those Notes may be made other than pursuant to Article 1(4) of the Prospectus Regulation in that Member State (a “**Non-exempt Offer**”), following the date of publication of a prospectus in relation to such Notes which has been approved by the competent authority in that Member State or, where appropriate, approved in another Member State and notified to the competent authority in that Member State, provided that any such prospectus has subsequently been completed by the Pricing Supplement contemplating such Non-exempt Offer, in accordance with the Prospectus Regulation, in the period beginning and ending on the dates specified in such prospectus or Pricing Supplement, as applicable and the Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;
- (b) at any time to any legal entity which is a qualified investor as defined in the Prospectus Regulation;
- (c) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Regulation), subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (d) at any time in any other circumstances falling within Article 1(4) of the Prospectus Regulation,

provided that no such offer of Notes referred to in (b) to (d) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Regulation or supplement a prospectus pursuant to Article 23 of the Prospectus Regulation.

For the purposes of this provision, the expression an “**offer of Notes to the public**” in relation to any Notes in any Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, the expression “**Prospectus Regulation**” means Regulation (EU) 2017/1129.

### ***United Kingdom***

#### ***Prohibition of Sales to UK Retail Investors***

Unless the Pricing Supplement in respect of any Notes specifies “Prohibition of Sales to UK Retail Investors” as “Not Applicable”, each Dealer and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Offering Circular as completed by the Pricing Supplement in relation thereto to any retail investor in the United Kingdom. For the purposes of this provision:

- (a) the expression “retail investor” means a person who is one (or more) of the following:
  - (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (“EUWA”);
  - (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (“FSMA”) and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; or
  - (iii) not a qualified investor as defined in Article 2 of the UK Prospectus Regulation (as defined below); and
- (b) the expression an “**offer**” includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes.

If the Pricing Supplement in respect of any Notes specifies “Prohibition of Sales to UK Retail Investors” as “Not Applicable”, each Dealer represents, warrants and agrees, that it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Offering Circular as completed by the Pricing Supplement in relation thereto to the public in the United Kingdom except that it may make an offer of such Notes to the public in the United Kingdom:

- (a) if the Pricing Supplement in relation to the Notes specifies that an offer of those Notes may be made other than pursuant to section 86 of the FSMA (a “**Public Offer**”), following the date of publication of a prospectus in relation to such Notes which either (i) has been approved by the Financial Conduct Authority, or (ii) is to be treated as if it had been approved by the Financial Conduct Authority in accordance with the transitional provision in Regulation 74 of the Prospectus (Amendment etc.) (EU Exit) Regulations 2019, provided that any such prospectus has subsequently been completed by the Pricing Supplement contemplating such Public Offer, in the period beginning and ending on the dates specified in such prospectus or Pricing Supplement, as applicable, and the Issuer has consented in writing to its use for the purpose of that Public Offer;



- (b) at any time to any legal entity which is a qualified investor as defined in Article 2 of the UK Prospectus Regulation;
- (c) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in Article 2 of the UK Prospectus Regulation) in the United Kingdom, subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the relevant Issuer for any such offer; or
- (d) at any time in any other circumstances falling within section 86 of the FSMA.

provided that no such offer of Notes referred to in (b) to (d) above shall require the relevant Issuer or any Dealer to publish a prospectus pursuant to section 85 of the FSMA or supplement a prospectus pursuant to Article 23 of the UK Prospectus Regulation.

For the purposes of this provision, the expression an “**offer of Notes to the public**” in relation to any Notes means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes and the expression “**UK Prospectus Regulation**” means Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the EUWA.

#### ***Other regulatory restrictions***

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (i) in relation to any Notes which have a maturity of less than one year, (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (b) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of section 19 of the Financial Services and Markets Act 2000 (the “**FSMA**”) by the Issuer;
- (ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and
- (iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

#### ***Hong Kong***

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (a) to “Professional Investors” as defined in the Securities and Futures Ordinance (Cap. 571) (the “**SFO**”) of Hong Kong and any rules made under the SFO; or (b) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the “**C(WUMP)O**”) or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and

- (ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, in each case whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “Professional Investors” as defined in the SFO and any rules made under the SFO.

### **Singapore**

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act 2001 (2020 Revised Edition) 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.<sup>4</sup>

*Singapore SFA Product Classification: In connection with Section 309B of the Securities and Futures Act 2001 (2020 Revised Edition) of Singapore, as modified or amended from time to time (the “SFA”) and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the “CMP Regulations 2018”), unless otherwise specified before an offer of Notes, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are ‘prescribed capital markets products’ (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).*

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<sup>4</sup> Notes:

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (i) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (ii) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

- (i) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(c)(ii) of the SFA;
- (ii) where no consideration is or will be given for the transfer;
- (iii) where the transfer is by operation of law;
- (iv) as specified in Section 276(7) of the SFA; or
- (v) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

### ***PRC***

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold and will not offer or sell any of the Notes in the PRC (for such purposes, not including Hong Kong, Macau or Taiwan) or to residents of the PRC unless such offer or sale is made in compliance with all applicable laws and regulations of the PRC.

### ***Taiwan***

Unless the Notes have been registered or filed with, or approved by, the Financial Supervisory Commission of Taiwan and/or other regulatory authority of Taiwan, the Notes may not be sold, issued or offered within Taiwan through a public offering or in circumstances which constitutes an offer within the meaning of the Securities and Exchange Act of Taiwan or relevant laws and regulations that requires a registration, filing or approval of the Financial Supervisory Commission of Taiwan and/or other regulatory authority of Taiwan.

### ***Japan***

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended) (the “**Financial Instruments and Exchange Act**”). Accordingly, each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and any other applicable laws, regulations and ministerial guidelines of Japan.

## GENERAL INFORMATION

1. **Clearing Systems:** The Notes have been accepted for clearance through the Euroclear and Clearstream systems (which are the entities in charge of keeping the records). The Issuer may also apply to have Notes accepted for clearance through the CMU. The relevant CMU instrument number will be set out in the relevant Pricing Supplement. The relevant ISIN, the Common Code and (where applicable) the identification number for any other relevant clearing system for each series of Notes will be specified in the applicable Pricing Supplement. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be set out in the relevant Pricing Supplement.

The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream is 42 Avenue JF Kennedy, L-1855 Luxembourg. The address of any alternative clearing system will be specified in the relevant Pricing Supplement.

2. **Legal Entity Identifier of the Bank:** 549300AX1UM10U30HK09
3. **Listing:** Application has been made to the HKSE for listing of the Programme by way of debt issues to Professional Investors only during the 12-month period after the date of this Offering Circular on the HKSE. Notes to be listed on the HKSE are required to be traded on the HKSE in a board lot size of at least HK\$500,000 (or its equivalent in other currencies).
4. **Litigation:** None of the Issuer nor any of its subsidiaries is involved in any material litigation or arbitration proceedings relating to claims or amounts which are material in the context of the issue of the Notes, nor is the Issuer or any of its subsidiaries aware that any such proceedings are pending or threatened.
5. **Authorisations:** Bank of Communications Co., Ltd. Hong Kong Branch has obtained all necessary consents, approvals and authorisations as may be required in connection with the establishment of the Programme and the issue of this Offering Circular. The establishment of the Programme have been duly authorised by a resolution of the Board of the Bank dated 27 October 2017 and the issue of Notes thereunder will be duly authorised the Bank's internal resolution from time to time. The Issuer has obtained and has agreed to obtain from time to time all necessary internal consents, approvals and authorisations for the issue of Notes under the Programme.
6. **No Material Adverse Change:** Except as disclosed in this Offering Circular, there has been no significant change in the financial or trading position of the Issuer or of the Group since 30 June 2021 and no material adverse change in the financial position or prospects of the Issuer or of the Group since 30 June 2021.
7. **Available Documents:** For so long as Notes may be issued pursuant to this Offering Circular, the following documents will be available, during usual business hours on any weekday (Saturdays and public holidays excepted), for inspection at the registered office of the Issuer and at the specified office of the Fiscal Agent:
  - (a) the Memorandum and Articles of Association of the Issuer;
  - (b) the audited consolidated financial statements of the Bank as at and for the year ended 31 December 2019 and a copy of the auditor's report of PricewaterhouseCoopers;
  - (c) the audited consolidated financial statements of the Bank as at and for the year ended 31 December 2020 and a copy of the related auditor's report of PricewaterhouseCoopers;
  - (d) copies of the most recent annual and interim reports (including the financial statements) published by the Bank;

- (e) the Agency Agreement (which includes the form of the Global Notes, the Global Certificate, the definitive Bearer Notes, the Certificates, the Coupons, the Receipts and the Talons) and the Deed of Covenant;
  - (f) the Dealer Agreement;
  - (g) a copy of this Offering Circular together with any Supplement to this Offering Circular or further Offering Circular;
  - (h) a copy of the subscription agreement for Notes issued on a syndicated basis that are listed on any stock exchange, where the rules of such stock exchange so require;
  - (i) each Pricing Supplement (save that Pricing Supplement relating to a Note which is neither admitted to trading on a regulated market within the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the Fiscal Agent as to its holding of Notes and identity).
8. **Auditor:** PricewaterhouseCoopers, the Bank's independent auditor for the years ended 31 December 2019 and 2020 has audited, and rendered unqualified audit reports on, the consolidated financial statements of the Bank for the years ended 31 December 2019 and 2020. PricewaterhouseCoopers has reviewed, and rendered unqualified review report on, the interim condensed consolidated financial statements of the Bank for the six months ended 30 June 2021 in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".
- The Board proposed the appointment of KPMG Huazhen LLP as the domestic auditor and KPMG as the international auditor of the Bank for the year 2022, who will provide auditing services and other relevant services to the Bank and with a term commencing from the date of approval at the 2021 annual general meeting and ending on the date of conclusion of the 2022 annual general meeting of the Bank.
9. Each Bearer Note having a maturity of more than one year, Receipt, Coupon and Talon will bear the following legend: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code".
10. The issue price and the amount of the relevant Notes will be determined, before filing of the relevant Pricing Supplement of each tranche, based on the prevailing market conditions. The Issuer does not intend to provide any post-issuance information in relation to any issues of Notes.

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Notes:

- (1) The independent auditor's report on the Group's consolidated financial information for the year ended 31 December 2019 set out herein is reproduced from the Group's annual reports for the year ended 31 December 2019. Page references referred to in the abovenamed reports refer to pages set out in such annual report.
- (2) The independent auditor's report on the Group's consolidated financial information for the year ended 31 December 2020 set out herein is reproduced from the Group's annual reports for the year ended 31 December 2020. Page references referred to in the abovenamed reports refer to pages set out in such annual report.
- (3) The report on review of interim financial information on the Group's unaudited interim condensed consolidated financial statements for the six months ended 30 June 2021 set out herein is reproduced from the Group's interim report for the six months ended 30 June 2021. Page references referred to in the abovenamed report refer to pages set out in such interim report.



羅兵咸永道

**To The Shareholders of Bank of Communications Co., Ltd.**  
*(Incorporated in the People's Republic of China with limited liability)*

## OPINION

### What we have audited

The consolidated financial statements of Bank of Communications Co., Ltd. (the “Bank”) and its subsidiaries (the “Group”) set out on pages 178 to 320, which comprise:

- the consolidated statement of financial position as at 31 December 2019;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

### Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (“IFRSs”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (“ISAs”). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (“IESBA Code”), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



## KEY AUDIT MATTERS *(Continued)*

Key audit matters identified in our audit are summarised as follows:

1. Expected credit impairment allowance of loans and advances to customers, financial investments at amortised cost and financial guarantees and loan commitments
2. Consolidation assessment of structured entities

### Key Audit Matter

### How our audit addressed the Key Audit Matter

*Expected credit impairment allowance of loans and advances to customers, financial investments at amortised cost and financial guarantees and loan commitments*

Refer to Notes 2.4, 2.30(a), 3.1.1(a), 3.1.1(b), 3.1.1(c), 3.1.2, 3.1.3.1, 20 and 21 to the Group's consolidated financial statements.

As at 31 December 2019, the Group's gross loans and advances to customers and accrued interest amounted to RMB5,318,923 million, and a loss allowance of RMB135,270 million was recognised in the Group's consolidated statement of financial position; the amount of financial investments at amortised cost and accrued interest was RMB1,932,952 million and a loss allowance of RMB3,263 million was recognised; the exposure of loan commitments and financial guarantees was RMB1,472,170 million, for which a provision of RMB6,332 million was recognised.

The balances of loss allowances for loans and advances to customers, and financial investments at amortised cost and provision for financial guarantees and loan commitments represent the management's best estimates at the balance sheet date of expected credit losses under International Financial Reporting Standard 9: Financial Instruments expected credit losses models ("ECL Models").

The Group assesses whether the credit risk of loans and advances to customers and financial investments at amortised cost and financial guarantees and loan commitments have increased significantly since their initial recognition, and apply a three-stage impairment model to calculate their ECL. For corporate loans and advances classified into stages 1 and 2, and those in stage 3 without using discounted cash flow model ("DCF") to calculate ECL, all personal loans and advances, financial investments at amortised cost and financial guarantees and loan commitments, the management assesses loss allowance using the risk parameter modelling approach that incorporates key parameters, including probability of default, loss given default, exposure at default and discount rates. For corporate loans in stage 3 using DCF, the management assesses loss allowance by estimating the cash flows from the loans.

We evaluated and tested the design and operational effectiveness of the internal controls relating to the measurement of expected credit losses for loans and advances to customers, financial investments at amortised cost and financial guarantees and loan commitments, primarily including:

- (1) Management over ECL models, including the selection, approval and application of modelling methodology; and the internal controls relating to the on going monitoring and optimization of the models;
- (2) Internal controls relating to significant management judgments and assumptions, including the review and approval of portfolio segmentation, model selections, parameters estimation, significant increase in credit risk, or of defaults or credit-impaired, forward-looking and management overlay adjustments;
- (3) Internal controls over the accuracy and completeness of key inputs used by the models;
- (4) Internal controls relating the accuracy of allowance for impairment losses for corporate loans and advances in stage 3;
- (5) Internal controls over the information systems for model-based measurement.

The substantive procedures we performed, primarily including:

We reviewed the modelling methodologies for ECL measurement, and assessed the reasonableness of the portfolio segmentation, models selection, key parameters estimation, significant judgements and assumptions in relation to the models. We tested whether or not the measurement models reflect the modelling methodologies documented by the management on a sample basis.

## KEY AUDIT MATTERS *(Continued)*

### Key Audit Matter

### How our audit addressed the Key Audit Matter

*Expected credit impairment allowance of loans and advances to customers, financial investments at amortised cost and financial guarantees and loan commitments (Continued)*

The measurement models of expected credit losses involves significant management judgments and assumptions, primarily including the following:

- (1) Segmentation of business operations sharing similar credit risk characteristics, selection of appropriate models and determination of relevant key measurement parameters;
- (2) Criteria for determining whether or not there was a significant increase in credit risk, or a default or impairment loss was incurred;
- (3) Economic indicators for forward-looking measurement, and the application of economic scenarios and weightings;
- (4) Management overlay adjustments due to significant uncertain factors not covered in the models;
- (5) The estimated future cash flows for corporate loans and advances in stage 3.

The Group established controls for the measurement of expected credit losses.

For measuring expected credit losses, the Group adopted complex models, employed numerous parameters and data inputs, and applied significant management judgments and assumptions. In addition, the loans and advances to customers, financial guarantees and exposures of loan commitments and financial investments at amortised cost, the loss allowance and provision accrued involve significant amounts. In view of these reasons, we identified this as a key audit matter.

We selected samples, in consideration of the financial information and non-financial information of the borrowers, relevant external evidence and other factors, to assess the appropriateness of the management's identification of significant increase in credit risk, defaults and credit-impaired loans.

For forward-looking measurement, we reviewed the management's model analysis of their selection of economic indicators; economic scenarios and weightings employed, assessed the reasonableness of the prediction of economic indicators and performed sensitivity analysis of economic indicators, economic scenarios and weightings.

In addition, we assessed the reasonableness of the selection of significant uncertain factors, its application and measurement in the management overlay adjustments, and examined the accuracy of the relevant mathematical calculations.

We examined major data inputs to the ECL models on selected samples, including historical data and data at the measurement date, to assess their accuracy and completeness.

For corporate loans and advances in stage 3, we examined, on a sample basis, forecasted future cash flows prepared by the Group based on financial information of borrowers and guarantors, latest collateral valuations and other available information together with discount rates in supporting the computation of loss allowance.

Based on our procedures performed, in the context of the inherent uncertainties associated with measurement of expected credit losses for loans and financial guarantees and advances to customers, loan commitments and financial investments at amortised cost, the models, key parameters, significant judgement and assumptions adopted by management and the measurement results were considered acceptable.

# INDEPENDENT AUDITOR'S REPORT (CONTINUED)

## KEY AUDIT MATTERS *(Continued)*

### Key Audit Matter

#### *Consolidation assessment of structured entities*

Refer to Notes 2.2, 2.30(d), 41 and 42 to the Group's consolidated financial statements.

The Group has managed or invested in a number of structured entities. As at 31 December 2019, the carrying amount of unconsolidated structured entities invested by the Group amounted to RMB309,748 million. In addition, as at 31 December 2019, unconsolidated structured entities sponsored and managed by the Group amounted to RMB2,254,828 million.

Management performed assessment on each of the three elements of control (power to direct relevant activities of structured entities, exposure to variable returns and the Group's ability to use its power to affect its variable returns from the structured entities) in determining whether structured entities managed or invested in by the Group should be consolidated or not. In performing the assessment, significant judgment was involved to determine the role of the Group in the arrangement as either a principal or an agent. If the Group acts as a principal, the structured entities should be consolidated.

We focused on this area because the amount of the Group's structured entities was significant and the consolidation assessment of these structured entities involved significant judgments.

### How our audit addressed the Key Audit Matter

We understood, evaluated and validated the design and operating effectiveness of relevant controls over management's assessment of consolidation of structured entities.

In addition, we selected a sample of the structured entities that the Group invested in or managed, and performed the following procedures on management's assessment of consolidation of structured entities:

- (1) Analysed the transaction structures, inspected related contract terms, and evaluated whether the Group had the power to direct the relevant activities of these structured entities;
- (2) Inspected contract terms related to the Group's variable returns from these selected structured entities, including management fee, expected investment returns and returns from liquidity support, and agreed this information to the corresponding inputs used in management's assessment;
- (3) Recalculated the magnitude and variability of the variable returns to the Group from these structured entities based on contract terms;
- (4) We assessed the Group's role in these structured entities as a principal or an agent through analysis of the scope of its decision-making authority over the structured entities, the remuneration to which the Group was entitled for its management services provided to the structured entities, its exposure to variability of returns from other interests that it holds in them, and the rights held by other parties, and compared our assessment results with management's assessment outcomes.

Based on the work undertaken above, we found the overall consolidation assessment of structured entities performed by management acceptable.

### OTHER INFORMATION

The directors of the Bank are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Bank are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

### AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

### AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Ling Tung Man, Tom.

**PricewaterhouseCoopers**  
*Certified Public Accountants*

Hong Kong, 27 March 2020

# CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(All amounts expressed in millions of RMB unless otherwise stated)

|  | Notes | Year ended 31 December |              |
|--|-------|------------------------|--------------|
|  |       | 2019                   | 2018         |
| Interest income  |       | 367,453                | 348,864      |
| Interest expense   |       | (223,370)              | (217,956)    |
| <b>Net interest income</b>   | 4     | <b>144,083</b>         | 130,908      |
| Fee and commission income  | 5     | 47,669                 | 44,673       |
| Fee and commission expense   | 6     | (4,044)                | (3,436)      |
| <b>Net fee and commission income</b>   |       | <b>43,625</b>          | 41,237       |
| Net gains arising from trading activities  | 7     | 15,936                 | 17,099       |
| Net gains arising from financial investments   |       | 313                    | 290          |
| <i>Including: Net losses on derecognition of financial assets<br/>measured at amortised cost</i> |       | <i>(281)</i>           | <i>(132)</i> |
| Share of profits of associates and joint ventures  |       | 414                    | 227          |
| Insurance business income  |       | 11,687                 | 7,481        |
| Other operating income   | 8     | 16,799                 | 15,813       |
| Credit impairment losses   | 9     | (51,954)               | (43,454)     |
| Other assets impairment losses   | 10    | (270)                  | (60)         |
| Insurance business expense   |       | (11,432)               | (6,722)      |
| Other operating expenses   | 11    | (81,001)               | (76,752)     |
| <b>Profit before tax</b>   |       | <b>88,200</b>          | 86,067       |
| Income tax   | 14    | (10,138)               | (11,902)     |
| <b>Net profit for the year</b>   |       | <b>78,062</b>          | 74,165       |
| <b>Other comprehensive income, net of tax</b>  |       |                        |              |
| <i>Items that may be reclassified subsequently to profit or loss:</i>                            |       |                        |              |
| Loans and advances to customers at fair value through other comprehensive income                 |       |                        |              |
| <i>Amount recognised directly in equity</i>  |       | <i>(335)</i>           | 102          |
| <i>Amount reclassified to profit or loss</i>   |       | <i>(378)</i>           | –            |
| Debt investments at fair value through other comprehensive income                                |       |                        |              |
| <i>Amount recognised directly in equity</i>  |       | <i>3,715</i>           | 2,086        |
| <i>Amount reclassified to profit or loss</i>   |       | <i>(395)</i>           | (171)        |
| Effective portion of gains or losses on hedging instruments in cash flow hedges                  |       |                        |              |
| <i>Changes in fair value recorded in equity</i>  |       | <i>(156)</i>           | 110          |
| <i>Changes in fair value reclassified from equity to profit or loss</i>                          |       | <i>147</i>             | (93)         |
| Others   |       | 18                     | 18           |
| Translation difference on foreign operations   |       | 1,141                  | 1,998        |
|  |       | <b>3,757</b>           | 4,050        |

# CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME *(Continued)*

(All amounts expressed in millions of RMB unless otherwise stated)

|   |       | Year ended 31 December |               |
|---|-------|------------------------|---------------|
|   | Notes | 2019                   | 2018          |
| <i>Items that will not be reclassified subsequently to profit or loss:</i>  |       |                        |               |
| Changes in fair value of equity investments designated at fair value through other comprehensive income                                 |       | (560)                  | 61            |
| Actuarial losses on pension benefits  |       | (20)                   | (25)          |
| Changes in fair value attributable to changes in the credit risk of financial liability designated at fair value through profit or loss |       | 25                     | (14)          |
| Other comprehensive income, net of tax  | 39    | 3,202                  | 4,072         |
| <b>Total Comprehensive income for the year</b>  |       | <b>81,264</b>          | <b>78,237</b> |
| <b>Net profit attributable to:</b>  |       |                        |               |
| Shareholders of the Bank  |       | 77,281                 | 73,630        |
| Non-controlling interests   |       | 781                    | 535           |
|   |       | 78,062                 | 74,165        |
| <b>Total comprehensive income attributable to:</b>  |       |                        |               |
| Shareholders of the Bank  |       | 80,414                 | 77,461        |
| Non-controlling interests   |       | 850                    | 776           |
|   |       | 81,264                 | 78,237        |
| <b>Basic and diluted earnings per share for profit attributable to the shareholders of the Bank (in RMB yuan)</b>                       | 15    | <b>1.00</b>            | <b>0.96</b>   |

The accompanying notes form a part of these consolidated financial statements.

# CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(All amounts expressed in millions of RMB unless otherwise stated)

|  | Notes | As at 31<br>December 2019 | As at<br>31 December 2018 |
|--|-------|---------------------------|---------------------------|
| <b>ASSETS</b>  |       |                           |                           |
| Cash and balances with central banks                                   | 16    | 760,185                   | 840,171                   |
| Due from and placements with banks and other financial institutions    | 17    | 648,488                   | 848,067                   |
| Derivative financial assets  | 19    | 20,937                    | 30,730                    |
| Loans and advances to customers  | 20    | 5,183,653                 | 4,742,372                 |
| Financial investments at fair value through profit or loss             | 18    | 406,498                   | 376,386                   |
| Financial investments at amortised cost                                | 21    | 1,929,689                 | 2,000,505                 |
| Financial investments at fair value through other comprehensive income | 21    | 669,656                   | 445,018                   |
| Investments in associates and joint ventures                           | 23    | 4,600                     | 3,653                     |
| Property and equipment   | 24    | 171,179                   | 153,286                   |
| Deferred income tax assets   | 25    | 24,065                    | 21,975                    |
| Other assets   | 26    | 86,650                    | 69,008                    |
| <b>Total assets</b>  |       | <b>9,905,600</b>          | <b>9,531,171</b>          |
| <b>LIABILITIES</b>   |       |                           |                           |
| Due to and placements from banks and other financial institutions      | 27    | 1,904,082                 | 2,162,293                 |
| Financial liabilities at fair value through profit or loss             | 28    | 26,980                    | 23,109                    |
| Derivative financial liabilities                                       | 19    | 26,424                    | 28,105                    |
| Due to customers   | 29    | 6,072,908                 | 5,793,324                 |
| Certificates of deposits issued  | 30    | 498,991                   | 366,753                   |
| Current income tax liabilities   |       | 7,086                     | 2,279                     |
| Deferred income tax liabilities  | 25    | 918                       | 598                       |
| Debt securities issued   | 31    | 403,918                   | 317,688                   |
| Other liabilities  | 32    | 163,381                   | 131,714                   |
| <b>Total liabilities</b>   |       | <b>9,104,688</b>          | <b>8,825,863</b>          |
| <b>EQUITY</b>  |       |                           |                           |
| Share capital  | 33    | 74,263                    | 74,263                    |
| Other equity instruments   | 34    | 99,870                    | 59,876                    |
| <i>Including: Preference shares</i>                                    |       | <b>59,876</b>             | <b>59,876</b>             |
| <i>Perpetual bonds</i>   |       | <b>39,994</b>             | <b>–</b>                  |
| Capital surplus  | 33    | 113,663                   | 113,663                   |
| Other reserves   |       | 328,310                   | 321,442                   |
| Retained earnings  |       | 177,141                   | 129,161                   |
| <b>Equity attributable to shareholders of the Bank</b>                 |       | <b>793,247</b>            | <b>698,405</b>            |
| Non-controlling interests  |       | 7,665                     | 6,903                     |
| <b>Total equity</b>  |       | <b>800,912</b>            | <b>705,308</b>            |
| <b>Total equity and liabilities</b>                                    |       | <b>9,905,600</b>          | <b>9,531,171</b>          |

The consolidated financial statements were approved and authorised for issuance by the Board of Directors on 27 March 2020 and signed on its behalf by:

**Chairman, Executive Director and President: Ren Deqi    Executive Director and Vice President: Hou Weidong**

The accompanying notes form a part of these consolidated financial statements.



# CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(All amounts expressed in millions of RMB unless otherwise stated)

|  | Other reserves |                   |                 |                 |                   |                       |                           |                                    |                |                |                     |                               |                           |          |             |       |          |  | Attributable to the shareholders of the Bank | Non-controlling interests | Total |
|--|----------------|-------------------|-----------------|-----------------|-------------------|-----------------------|---------------------------|------------------------------------|----------------|----------------|---------------------|-------------------------------|---------------------------|----------|-------------|-------|----------|--|--|---------------------------|-------|
|  | Share capital  | Preference shares | Perpetual bonds | Capital surplus | Statutory reserve | Discretionary reserve | Statutory general reserve | through other comprehensive income | Revaluation    | Effective      | in cash flow hedges | reserve on foreign operations | Actuarial changes reserve | Others   |             |       |          |  |  |                           |       |
|  |                |                   |                 |                 |                   |                       |                           |                                    | reserve for    | changes in     |                     |                               |                           |          | portion of  |       |          |  |  |                           |       |
|  |                |                   |                 |                 |                   |                       |                           |                                    | financial      | credit risk of |                     |                               |                           |          | gains or    |       |          |  |  |                           |       |
|  |                |                   |                 |                 |                   |                       |                           |                                    | assets at      | the financial  |                     |                               |                           |          | losses on   |       |          |  |  |                           |       |
|  |                |                   |                 |                 |                   |                       |                           |                                    | fair value     | liabilities    |                     |                               |                           |          | hedging     |       |          |  |  |                           |       |
|  |                |                   |                 |                 |                   |                       |                           |                                    | designated     | instruments    |                     |                               |                           |          | Translation |       |          |  |  |                           |       |
| As at 31 December 2018                                   | 74,263         | 59,876            | -               | 113,663         | 64,516            | 139,796               | 114,281                   | 1,397                              | (20)           | 24             | 93                  | 10                            | 1,345                     | 129,161  | 698,405     | 6,903 | 705,308  |  |  |                           |       |
| Impact of adoption of IFRS 16                            | -              | -                 | -               | -               | -                 | -                     | -                         | -                                  | -              | -              | -                   | -                             | -                         | (616)    | (616)       | (7)   | (623)    |  |  |                           |       |
| As at 1 January 2019 (restated)                          | 74,263         | 59,876            | -               | 113,663         | 64,516            | 139,796               | 114,281                   | 1,397                              | (20)           | 24             | 93                  | 10                            | 1,345                     | 128,545  | 697,789     | 6,896 | 704,685  |  |  |                           |       |
| Net profit for the period                                | -              | -                 | -               | -               | -                 | -                     | -                         | -                                  | -              | -              | -                   | -                             | -                         | 77,281   | 77,281      | 781   | 78,062   |  |  |                           |       |
| Other comprehensive income                               | -              | -                 | -               | -               | -                 | -                     | -                         | 2,013                              | 25             | (9)            | 1,106               | (20)                          | 18                        | -        | 3,133       | 69    | 3,202    |  |  |                           |       |
| Total comprehensive income                               | -              | -                 | -               | -               | -                 | -                     | -                         | 2,013                              | 25             | (9)            | 1,106               | (20)                          | 18                        | 77,281   | 80,414      | 850   | 81,264   |  |  |                           |       |
| Capital contribution by other equity instruments holders | -              | -                 | 39,994          | -               | -                 | -                     | -                         | -                                  | -              | -              | -                   | -                             | -                         | -        | 39,994      | -     | 39,994   |  |  |                           |       |
| Dividends paid to ordinary shares                        | -              | -                 | -               | -               | -                 | -                     | -                         | -                                  | -              | -              | -                   | -                             | -                         | (22,279) | (22,279)    | (81)  | (22,360) |  |  |                           |       |
| Dividends paid to preference shares                      | -              | -                 | -               | -               | -                 | -                     | -                         | -                                  | -              | -              | -                   | -                             | -                         | (2,671)  | (2,671)     | -     | (2,671)  |  |  |                           |       |
| Transfer to reserves                                     | -              | -                 | -               | -               | 381               | 57                    | 3,286                     | -                                  | -              | -              | -                   | -                             | -                         | (3,724)  | -           | -     | -        |  |  |                           |       |
| Transferred from other comprehensive income              | -              | -                 | -               | -               | -                 | -                     | -                         | 11                                 | -              | -              | -                   | -                             | -                         | (11)     | -           | -     | -        |  |  |                           |       |
| As at 31 December 2019                                   | 74,263         | 59,876            | 39,994          | 113,663         | 64,897            | 139,853               | 117,567                   | 3,421                              | 5              | 15             | 1,199               | (10)                          | 1,363                     | 177,141  | 793,247     | 7,665 | 800,912  |  |  |                           |       |
| As at 31 December 2017                                   | 74,263         | 59,876            | -               | 113,663         | 57,461            | 139,767               | 104,470                   | (2,365)                            | Not applicable | 7              | (1,875)             | 35                            | 1,327                     | 124,514  | 671,143     | 5,128 | 676,271  |  |  |                           |       |
| Impact of adoption of IFRS 9                             | -              | -                 | -               | -               | -                 | -                     | -                         | 1,891                              | (6)            | -              | -                   | -                             | -                         | (28,257) | (26,372)    | (54)  | (26,426) |  |  |                           |       |
| As at 1 January 2018 (restated)                          | 74,263         | 59,876            | -               | 113,663         | 57,461            | 139,767               | 104,470                   | (474)                              | (6)            | 7              | (1,875)             | 35                            | 1,327                     | 96,257   | 644,771     | 5,074 | 649,845  |  |  |                           |       |
| Net profit for the year                                  | -              | -                 | -               | -               | -                 | -                     | -                         | -                                  | -              | -              | -                   | -                             | -                         | 73,630   | 73,630      | 535   | 74,165   |  |  |                           |       |
| Other comprehensive income                               | -              | -                 | -               | -               | -                 | -                     | -                         | 1,867                              | (14)           | 17             | 1,968               | (25)                          | 18                        | -        | 3,831       | 241   | 4,072    |  |  |                           |       |
| Total comprehensive income                               | -              | -                 | -               | -               | -                 | -                     | -                         | 1,867                              | (14)           | 17             | 1,968               | (25)                          | 18                        | 73,630   | 77,461      | 776   | 78,237   |  |  |                           |       |
| Capital contribution by other equity instruments holders | -              | -                 | -               | -               | -                 | -                     | -                         | -                                  | -              | -              | -                   | -                             | -                         | -        | -           | 1,125 | 1,125    |  |  |                           |       |
| Dividends paid to ordinary shares                        | -              | -                 | -               | -               | -                 | -                     | -                         | -                                  | -              | -              | -                   | -                             | -                         | (21,209) | (21,209)    | (72)  | (21,261) |  |  |                           |       |
| Dividends paid to preference shares                      | -              | -                 | -               | -               | -                 | -                     | -                         | -                                  | -              | -              | -                   | -                             | -                         | (2,618)  | (2,618)     | -     | (2,618)  |  |  |                           |       |
| Transfer to reserves                                     | -              | -                 | -               | -               | 7,055             | 29                    | 9,811                     | -                                  | -              | -              | -                   | -                             | -                         | (16,895) | -           | -     | -        |  |  |                           |       |
| Transferred from other comprehensive income              | -              | -                 | -               | -               | -                 | -                     | -                         | 4                                  | -              | -              | -                   | -                             | -                         | (4)      | -           | -     | -        |  |  |                           |       |
| As at 31 December 2018                                   | 74,263         | 59,876            | -               | 113,663         | 64,516            | 139,796               | 114,281                   | 1,397                              | (20)           | 24             | 93                  | 10                            | 1,345                     | 129,161  | 698,405     | 6,903 | 705,308  |  |  |                           |       |

The accompanying notes form a part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF CASH FLOWS

(All amounts expressed in millions of RMB unless otherwise stated)

|  | Notes | Year ended 31 December |                |
|--|-------|------------------------|----------------|
|  |       | 2019                   | 2018           |
| <b>Cash flows from operating activities:</b>   |       |                        |                |
| Net profit before tax:   |       | 88,200                 | 86,067         |
| Adjustments for:   |       |                        |                |
| Provision for impairment losses  |       | 51,954                 | 43,454         |
| Provision for other assets impairment losses   |       | 270                    | 60             |
| Provision for insurance contracts reserve  |       | 9,115                  | 1,393          |
| Depreciation and amortisation  |       | 13,982                 | 10,250         |
| Provision for outstanding litigation and unsettled obligation                                  |       | 50                     | 549            |
| Net gains on the disposal of property, equipment and other assets                              |       | (287)                  | (15)           |
| Interest income from financial investments   |       | (88,647)               | (85,449)       |
| Unwind of discount on allowances during the year   |       | (1,467)                | (1,618)        |
| Fair value losses/(gains)  |       | 1,027                  | (6,527)        |
| Share of profit of associates and joint venture  |       | (414)                  | (227)          |
| Net gains arising from financial investments   |       | (313)                  | (290)          |
| Interest expense on debt securities issued   |       | 11,519                 | 11,992         |
| Operating cash flows before movements in operating assets and liabilities                      |       | 84,989                 | 59,639         |
| Net decrease in balances with central banks  |       | 41,487                 | 106,039        |
| Net decrease/(increase) in due from and placements with banks and other financial institutions |       | 160,720                | (52,257)       |
| Net increase in financial assets at fair value through profit or loss                          |       | (24,219)               | (88,330)       |
| Net increase in loans and advances to customers  |       | (491,230)              | (326,960)      |
| Net decrease/(increase) in other assets  |       | (27,120)               | 4,266          |
| Net increase/(decrease) in due to and placements from banks and other financial institutions   |       | (239,042)              | 23,496         |
| Net increase/(decrease) in financial liabilities at fair value through profit or loss          |       | 3,491                  | (5,013)        |
| Net increase in due to customers   |       | 414,859                | 393,174        |
| Net increase in other liabilities  |       | 2,220                  | 23,415         |
| Net increase in value-added tax and surcharge payable  |       | 21                     | 576            |
| Income tax paid  |       | (8,721)                | (14,153)       |
| <b>Net cash flows generated from/(used in) operating activities</b>                            |       | <b>(82,545)</b>        | <b>123,892</b> |

# CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

(All amounts expressed in millions of RMB unless otherwise stated)

|   |       | Year ended 31 December |                  |
|---|-------|------------------------|------------------|
|   | Notes | 2019                   | 2018             |
| <b>Cash flows from investing activities:</b>                        |       |                        |                  |
| Purchase of financial investments                                   |       | (705,173)              | (694,169)        |
| Disposal or redemption of financial investments                     |       | 565,819                | 542,954          |
| Dividends received  |       | 537                    | 379              |
| Interest received from financial investments                        |       | 86,428                 | 81,294           |
| Acquisition of intangible assets and other assets                   |       | (1,822)                | (694)            |
| Disposal of intangible assets and other assets                      |       | 350                    | 124              |
| Purchase and construction of property and equipment                 |       | (30,554)               | (30,649)         |
| Disposal of property and equipment                                  |       | 2,607                  | 621              |
| <b>Net cash flows used in investing activities</b>                  |       | <b>(81,808)</b>        | <b>(100,140)</b> |
| <b>Cash flows from financing activities:</b>                        |       |                        |                  |
| Cash received from issuing other equity instruments                 |       | 39,994                 | –                |
| Cash received on debt securities issued                             |       | 168,271                | 41,846           |
| Capital contribution by non-controlling interests                   |       | –                      | 1,125            |
| Repayment of principals and interests of lease liabilities          |       | (2,652)                | Not applicable   |
| Repayment of principals of debt securities issued                   |       | (84,176)               | (20,332)         |
| Cash payments for interest on debt securities                       |       | (9,688)                | (12,191)         |
| Cash payments for distribution of dividends                         |       | (24,940)               | (23,852)         |
| Dividends paid to non-controlling interests                         |       | (81)                   | (72)             |
| <b>Net cash flows generated from/(used in) financing activities</b> |       | <b>86,728</b>          | <b>(13,476)</b>  |
| <b>Effect of exchange rate changes on cash and cash equivalents</b> |       | <b>1,868</b>           | <b>4,297</b>     |
| <b>Net increase/(decrease) in cash and cash equivalents</b>         |       | <b>(75,757)</b>        | <b>14,573</b>    |
| <b>Cash and cash equivalents at the beginning of the year</b>       |       | <b>243,492</b>         | <b>228,919</b>   |
| <b>Cash and cash equivalents at the end of the year</b>             | 40    | <b>167,735</b>         | <b>243,492</b>   |
| <b>Net cash flows from operating activities include:</b>            |       |                        |                  |
| Interest received   |       | 283,899                | 281,793          |
| Interest paid   |       | (233,397)              | (193,279)        |

The accompanying notes form a part of these consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

## 1 GENERAL

Bank of Communications Co., Ltd. (the “Bank”) is a joint-stock national commercial bank, reorganised on 1 April 1987 at the approval of notice Guo Fa (1986) No. 81 issued by the State Council of the PRC and notice Yin Fa (1987) No. 40 issued by the People’s Bank of China (“PBOC”). Headquartered in Shanghai, the Bank operates 244 branches in Mainland China and 22 branches (sub-branches), subsidiary banks and representative offices overseas. The Bank’s A shares are listed on Shanghai Stock Exchange and H shares on Hong Kong Stock Exchange.

The principal activities of the Bank and its subsidiaries (collectively referred to as the “Group”) include corporate and personal banking services, interbank and financial market business, fund management, trustees, financial leasing, insurance, overseas securities debt-to-equity swap, asset management and other financial services.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to the periods presented unless otherwise stated.

### 2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all the applicable International Financial Reporting Standards (“IFRSs”) and disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and the Hong Kong Companies Ordinance (Cap.622). The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments and investment property which are measured at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 2.30.

#### 2.1.1 New and amended standards adopted by the Group

The Group has adopted the following new or amendments to the International Financial Reporting Standards (“IFRSs”):

|  |   |
|--|---|
| IFRS 16  | Leases  |
| Amendments to IFRS 9                             | Prepayment Features with Negative Compensation and Modifications of Financial Liabilities |
| Amendments to IAS 28                             | Long-term Interests in Associates and Joint Ventures                                      |
| Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 | Annual Improvements to IFRSs 2015 – 2017 cycle  |
| Amendments to IAS 19                             | Plan Amendment, Curtailment or Settlement   |
| IFRIC 23   | Uncertainty over Income Tax   |

#### *IFRS 16 Leases*

IFRS 16 was officially issued in January 2016 and is effective for annual periods beginning on or after 1 January 2019. The new standard improves the identification, breakdown and mergence of leases and requires lessees to recognise leases in balance sheet. For lessees, substantially all the leases should be recognised in balance sheet as the classification of operating leases and financial leases has been removed. Under new standard, the entity is required to recognise the right-of-use assets and leasing liabilities. Exemptions exists only for to short-term and low-value leases. Meanwhile, the new standard also improves the accounting treatments of the lessee on subsequent measurement and leasing changes. The new standard causes no substantial changes to the accounting of lessors.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.1 Basis of preparation (Continued)

#### **2.1.1 New and amended standards adopted by the Group (Continued)**

##### *IFRS 16 Leases (Continued)*

The Group adopted the standard on 1 January 2019 and did not restate the comparative information of the year before first adoption using simplified transitional approach permitted under the standard. At the date of initial application, the leasing liabilities were measured at the present value of the remaining lease payments, discounted using lessee's incremental borrowing rate, and the right-of-use assets of remaining leases were measured as if the new standard had always been applied since the beginning of the lease period. For short-term and low-value leases, the Group is subject to exemptions.

Disclosures relating to the impact of the adoption of IFRS 16 on the Group are listed in Note 2.1.2. Further details of the specific IFRS 16 accounting policies applied in the current year are listed in Note 2.16 and 2.31.

##### *Amendments to IFRS 9*

On 12 October 2017, the IASB issued amendments to IFRS 9 – Prepayment Features with Negative Compensation and Modifications of Financial Liabilities. These amendments permit more assets to be measured at amortised cost than under the previous version of IFRS 9, in particular some prepayable financial assets. These amendments also clarify the accounting for a modification or exchange of a financial liability measured at amortised cost that does not result in the de-recognition of the financial liability.

##### *Amendments to IAS 28*

The amendments clarify the accounting for long-term interests in an associate or joint venture, which in substance form part of the net investment in the associate or joint venture, but to which equity accounting is not applied. Entities must account for such interests under IFRS 9 before applying the loss allocation and impairment requirements in IAS 28.

##### *Annual Improvements to IFRS Standards 2015 – 2017 Cycle*

The Annual Improvements to IFRS Standards 2015 – 2017 Cycle include a number of amendments to various IFRSs, including the amendments to IFRS 3 – Business Combinations, the amendments to IFRS 11 – Joint Arrangements, the amendments to IAS 12 – Income Taxes, the amendments to IAS 23 – Borrowing Costs.

##### *Amendments to IAS 19*

On 7 February 2018, the IASB issued amendments to the guidance in IAS 19 – Employee Benefits, in connection with accounting for plan amendments, curtailments and settlements. The amendments to IAS 19 clarify the accounting for defined benefit plan amendments, curtailments and settlements. They confirm that entities must calculate the current service cost and net interest for the remainder of the reporting period after a plan amendment, curtailment or settlement by using the updated assumptions from the date of the change, and any reduction in a surplus should be recognised immediately in profit or loss either as part of past service cost, or as a gain or loss on settlement. In other words, a reduction in a surplus must be recognised in profit or loss even if that surplus was not previously recognised because of the impact of the asset ceiling. The entities should separately recognise any changes in the asset ceiling through other comprehensive income.

##### *Interpretation 23 Uncertainty over Income Tax Treatments*

The IASB issued IFRIC 23 – Uncertainty over Income Tax Treatments to clarify how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments.

Except the above-mentioned impacts of IFRS 16, the adoption of the new IFRSs and amendments to IFRSs above does not have a material impact on the Group's operating results, financial position or other comprehensive income.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.1 Basis of preparation (Continued)

#### 2.1.2 Changes in accounting policies

##### IFRS 16

The major impact of adopting IFRS 16 on the financial statements is as follows:

Consolidated balance sheet:

| As at 1 January 2019         | Before restatement | Restated amount | After restatement |
|------------------------------|--------------------|-----------------|-------------------|
| Other assets                 | 69,008             | 6,423           | 75,431            |
| Other liabilities            | 131,714            | 7,046           | 138,760           |
| Including: lease liabilities | Not applicable     | 7,044           | 7,044             |
| Retained earnings            | 129,161            | (616)           | 128,545           |
| Non-controlling interests    | 6,903              | (7)             | 6,896             |

As at 1 January 2019, reconciliation from operating lease commitments under the former standards to lease liabilities under IFRS 16 is as below:

|   | The Group    |
|---|--------------|
| Operating lease commitments disclosed as at 31 December 2018                                | 12,345       |
| Discounted using the lessee's incremental borrowing rate of the date of initial application | 7,674        |
| Less: short-term and low-value leases not recognised as a liability                         | (630)        |
| <b>Lease liability recognised as at 1 January 2019</b>                                      | <b>7,044</b> |

#### 2.1.3 Standards and amendments issued but not yet effective

|  |   | Effective for annual period commencing on or after   |
|--|---|--|
| Amendments to IFRS 10 and IAS 28                     | Sale or contribution of assets between an investor and its associate or joint venture | The amendments were originally intended to be effective for annual periods beginning on or after 1 January 2016. The effective date has now been deferred/removed. |
| Amendments to IAS 1 and IAS 8                        | Definition of Material  | 1 January 2020   |
| Amendments to IFRS 3                                 | Definition of a Business  | 1 January 2020   |
| Revised Conceptual Framework for Financial Reporting | Conceptual Framework for Financial Reporting  | 1 January 2020   |
| IFRS 17  | Insurance Contracts   | 1 January 2021 (likely to be extended to 1 January 2023)   |
| Amendments to IFRS 9, IAS 39 and IFRS 7              | Interest rate benchmark reform  | 1 January 2020   |

##### Amendments to IFRS 10 and IAS 28

The amendments address an inconsistency between IFRS 10 and IAS 28 in the sale and contribution of assets between an investor and its associate or joint venture.

A full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.1 Basis of preparation (Continued)

#### **2.1.3 Standards and amendments issued but not yet effective (Continued)**

##### *Amendments to IAS 1 and IAS 8*

The IASB has made amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors which use a consistent definition of materiality throughout International Financial Reporting Standards and the Conceptual Framework for Financial Reporting, clarify when information is material and incorporate some of the guidance in IAS 1 about immaterial information.

In particular, the amendments clarify:

- that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information, and that an entity assesses materiality in the context of the financial statements as a whole, and
- the meaning of ‘primary users of general purpose financial statements’ to whom those financial statements are directed, by defining them as ‘existing and potential investors, lenders and other creditors’ that must rely on general purpose financial statements for much of the financial information they need.

##### *Amendments to IFRS 3*

The amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs. The definition of the term ‘outputs’ is amended to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits.

The amendments will likely result in more acquisitions being accounted for as asset acquisitions.

##### *Revised Conceptual Framework for Financial Reporting*

The IASB has issued a revised Conceptual Framework which will be used in standard-setting decisions with immediate effect. Key changes include:

- increasing the prominence of stewardship in the objective of financial reporting
- reinstating prudence as a component of neutrality
- defining a reporting entity, which may be a legal entity, or a portion of an entity
- revising the definitions of an asset and a liability
- removing the probability threshold for recognition and adding guidance on derecognition
- adding guidance on different measurement basis, and
- stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

No changes will be made to any of the current accounting standards. However, entities that rely on the Framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards will need to apply the revised Framework from 1 January 2020. These entities will need to consider whether their accounting policies are still appropriate under the revised Framework.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.1 Basis of preparation *(Continued)*

#### **2.1.3 Standards and amendments issued but not yet effective** *(Continued)*

##### *IFRS 17*

IFRS 17 Insurance Contracts was issued in May 2017 as replacement for IFRS 4. It requires a current measurement model where estimates are re-measured in each reporting period. Contracts are measured using the building blocks of: discounted probability weighted cash flows, an explicit risk adjustment, and a contractual service margin ("CSM") representing the unearned profit of the contract which is recognised as revenue over the coverage period.

The standard allows a choice between recognising changes in discount rates either in the statement of profit or loss or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9.

An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.

There is a modification of the general measurement model called the "variable fee approach" for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the CSM. The results of insurers using this model are therefore likely to be less volatile than under the general model.

The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.

The standard is currently mandatorily effective for annual periods beginning on or after 1 January 2021. However, the IASB decided to defer the effective date of IFRS 17 to annual reporting periods beginning on or after 1 January 2023 on 17 March 2020, and expects to issue the amendments to IFRS 17 in the second quarter of 2020.

The Group has not completed its assessment of the impact on the Group's operating results and financial position of adopting IFRS 17.

##### *Amendments to IFRS 9, IAS 39 and IFRS 7*

The IASB has published Amendments to IFRS 9, IAS 39 and IFRS 7 - Interest Rate Benchmark Reform as a first reaction to the potential effects the Interest Rate Benchmark Reform ("IBOR") could have on financial reporting. The amendments provide targeted relief for financial instruments qualifying for hedge accounting in the lead up to IBOR reform. Key changes include:

- modifying specific hedge accounting requirements so that entities would apply those hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform;
- mandatory for all hedging relationships that are directly affected by the interest rate benchmark reform;
- are not intended to provide relief from any other consequences arising from interest rate benchmark reform (if a hedging relationship no longer meets the requirements for hedge accounting for reasons other than those specified by the amendments, discontinuation of hedge accounting is required); and
- requiring specific disclosures about the extent to which the entities' hedging relationships are affected by the amendments.

Except for the above-mentioned impact of IFRS 17, the adoption of the above new standards and amendments issued but not yet effective is not expected to have a material effect on the Group's operating results, financial position or other comprehensive income.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.2 Consolidation

#### **2.2.1 Subsidiary undertakings**

The consolidated financial statements incorporate the financial statements of the Bank and entities (including structured entities) controlled by the Bank and its subsidiaries. Control is achieved when the Bank:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are not consolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred in a business combinations is measured at fair value, which is calculated as the sum of the acquisition date fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition related costs are recognised in the consolidated income statement as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interests in the acquiree at the non-controlling interests' proportionate share of the acquiree's net assets.

The excess of the cost of an acquisition less the fair value of the Group's share of the net identifiable assets of acquired subsidiaries and associates at the date of acquisition is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

All intra-Group transactions, balances, income and expenses are eliminated in full on consolidation. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.2 Consolidation *(Continued)*

#### **2.2.2 Transactions with non-controlling interests**

For acquisition of additional interests in subsidiaries from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiaries is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group loses control of a subsidiary due to the disposal of a portion of an equity investment, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive are reclassified to profit or loss and retained earnings.

#### **2.2.3 Structured entities**

Structured entities are entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entities, for example when any voting rights relate to administrative tasks only, and key activities are directed by contractual agreement. Structured entities often have restricted activities and a narrow and well defined objective. Examples of structured entities include investment funds, trusts, securitisation vehicles and asset backed financings. Involvement with consolidated and unconsolidated structured entities is disclosed in Note 41 and 42.

#### **2.2.4 Investment in an associate**

An associate is an entity over which the Group has significant influence but not control and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results of an associate are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, is recognised immediately in profit or loss.

At the end of each reporting period, the Group assesses whether there is an indication of possible impairment with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested as a single asset for impairment in accordance with IAS 36 "Impairment of assets" by comparing its recoverable amount (the higher of value in use and fair value less costs of sale) with its carrying amount, any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised only to the extent of interests in the associate that are not related to the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.3 Derivative financial instruments

Derivative financial instruments include, but not limited to, interest rate derivative and foreign exchange derivative. Derivative financial instruments are initially measured at fair value at the date a derivative contract is entered into and are subsequently measured at fair value. Changes in fair value of these derivative financial instruments are recognised in profit or loss. Fair values are obtained from quoted market prices in active market or are determined using valuation techniques, including discounted cash flow model and options pricing model as appropriate. All derivatives are recognised as assets when the fair value is positive and as liabilities when the fair value is negative.

Derivatives embedded in non-derivative host contracts are treated as a separate derivative when their characteristics and risks are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss. These embedded derivatives are separately accounted for at fair value, with changes in fair value recognised in profit or loss.

### 2.4 Financial instruments

#### **Initial recognition and measurement**

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset.

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss allowance is recognised for financial assets measured at amortised cost and debt investments measured at fair value through other comprehensive income, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognises the difference as follows:

- (a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.
- (b) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

#### **The method of determining fair value**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction at the measurement date. For financial instruments with active markets, the Group uses quotations from active markets to determine their fair value, and for financial instruments where there is no active market, the Group uses valuation techniques to determine its fair value. Valuation techniques include references to prices used in recent market transactions by parties familiar with the situation and voluntary transactions, the current fair value of other financial instruments with reference to the same substantially, the discounted cash flow method and the option pricing model.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.4 Financial instruments (Continued)

#### **Measurement methods**

##### *Amortised cost and effective interest rate*

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired ('POCI') financial assets – assets that are credit-impaired at initial recognition – the Group calculates the credit-adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

When the Group revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

#### **2.4.1 Financial assets**

##### *Classification and subsequent measurement*

The Group has classified its financial assets in the following measurement categories:

- Fair value through profit or loss (FVPL);
- Fair value through other comprehensive income (FVOCI); or
- Amortised cost.

The classification requirements for debt and equity instruments are described below:

##### **Debt instruments**

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

Classification and subsequent measurement of debt instruments depend on:

- (i) The Group's business model for managing the asset; and
- (ii) The cash flow characteristics of the asset.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.4 Financial instruments (Continued)

#### 2.4.1 Financial assets (Continued)

##### *Classification and subsequent measurement (Continued)*

##### *Debt instruments (Continued)*

Based on these factors, the Group classifies its debt instruments into one of the following three measurement categories:

**Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured from these financial assets. According to the business category, these financial assets are presented as 'Cash and balances with central banks', 'Due from banks and other financial institutions', 'Loans and advances to customers' and 'Financial investments at amortised cost' respectively. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

**Fair value through other comprehensive income (FVOCI):** Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. According to the business category, respectively, these financial assets are presented as 'Loans to customers' and 'Debt investments at fair value through other comprehensive income'. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and recognised in 'Net gains arising from financial investments'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

**Fair value through profit or loss:** Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on the debt investment, which is measured at fair value through profit or loss and is not part of a hedging relationship, is recognised in profit or loss and presented as 'Net gains arising from trading activities'.

**Business model:** the business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPL. Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

**SPPI:** Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.4 Financial instruments *(Continued)*

##### 2.4.1 Financial assets *(Continued)*

*Classification and subsequent measurement (Continued)*

Debt instruments *(Continued)*

The Group reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the year.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Group subsequently measures all equity investments at fair value through profit or loss, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income, listed as 'Financial investments at FVPL'. The Group's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to sell. When this election is used, fair value gains or losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as 'Net gains arising from financial investments' when the Group's right to receive payments is established.

Gains or losses on equity investments at FVPL are recognised as 'Net gains arising from trading activities'.

*Impairment*

On a forward-looking basis, the Group assesses the expected credit losses ('ECL') of debt instrument assets at amortised cost and FVOCI, exposures arising from loan commitments and financial guarantee contracts. The Group recognises a loss allowance accordingly at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Regarding these judgment and estimates, please refer to note 21.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.4 Financial instruments (Continued)

#### 2.4.1 Financial assets (Continued)

##### *Modification of loans*

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms. The Group does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Group derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.4 Financial instruments (Continued)

#### 2.4.1 Financial assets (Continued)

##### *Derecognition other than on a modification*

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Group transfers substantially all the risks and rewards of ownership, or (ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control.

The Group enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if the Group:

- (i) Has no obligation to make payments unless it collects equivalent amounts from the assets;
- (ii) Is prohibited from selling or pledging the assets; and
- (iii) Has an obligation to remit any cash it collects from the assets without material delay.

Collateral (shares and bonds) furnished by the Group under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitisation transactions in which the Group retains a subordinated residual interest.

When the contractual rights to receive the cash flows from the assets have been transferred, and the Group neither transfers nor retains substantially all the risks and rewards of ownership, and the Group has retained control of the transferred assets, the Group applies continuing involvement approach. Under this approach, the Group continues to recognise the transferred asset to the extent of its continuing involvement and recognise the associated liability, to reflect the rights and obligations retained by the Group. The net carrying amount of the transferred asset and associated liability is: (a) the amortised cost of the rights and obligations retained by the Group, if the transferred asset is measured at amortised cost; or (b) equal to the fair value of the rights and obligations retained by the Group when measured on a stand-alone basis, if the transferred asset is measured at fair value.

##### *Asset securitisation*

As part of its operational activities, the Group securitises financial assets, generally through the sale of these assets to structured entities which then issue securities to investors. The Group holds part or all of the subordinated tranche notes, which are not transferrable before both the principals and interests of the senior tranche notes are repaid. The Group serves as the asset management supplier, providing services including loan collection for the investment pool, keeping accounting records related to the investment pool and issuing reports as the service agency. The assets under securitisation are used to repay the principals and interests of the senior tranche notes first after deducting related taxation and expenses, and the remaining assets under securitisation are repaid to the Group and subordinated tranche notes investors. The Group derecognises the transferred assets in full or in part based on the extent of the risks and rewards retained over.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.4 Financial instruments (Continued)

#### 2.4.1 Financial assets (Continued)

##### Asset securitisation (Continued)

The Group evaluates the extent to which it transfers the risks and rewards of ownership of the financial assets to the other party and determines whether it retains control while applying the accounting policy in respect of asset securitisation.

- (1) The financial asset is derecognised when the Group transfers substantially all the risks and rewards of ownership of the financial asset.
- (2) The financial asset continues to be recognised when the Group retains substantially all the risks and rewards of ownership of the financial asset.
- (3) When the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset and does not retain control it derecognises the financial asset and recognises separately as assets or liabilities any rights and obligations created or retained in the transfer.
- (4) When the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset and retains control, it continues to recognise the financial asset to the extent of its continuing involvement in the financial asset. The Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

#### 2.4.2 Financial liabilities

##### Classification and subsequent measurement

In both the current and prior period, financial liabilities are classified as liabilities measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains or losses attributable to changes in the credit risk of the liability are also presented in profit or loss;
- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition or when the continuing involvement approach applies. When the transfer of financial asset did not qualify for derecognition, a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Group recognises any expense incurred on the financial liability; when continuing involvement approach applies, see note 2.30(e); and
- Financial guarantee contracts and loan commitments (refer to Note 2.27)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.4 Financial instruments (Continued)

#### 2.4.2 Financial liabilities (Continued)

##### *Derecognition*

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

The exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is more than 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

##### *Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

A financial instrument is an equity instrument if, and only if, both conditions (i) and (ii) below are met:

- (i) The financial instrument includes no contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; and
- (ii) If the financial instrument will or may be settled in the Group's own equity instruments, it is a non-derivative instrument that includes no contractual obligations for the Group to deliver a variable number of its own equity instruments; or a derivative that will be settled only by the Group exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

Equity instruments issued by the Group are recorded at the fair value of proceeds received, net of direct issuance expenses.

#### 2.4.3 Derivatives and hedging activities

The Group has elected to apply the hedge accounting requirements of IFRS 9.

Derivatives are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.4 Financial instruments (Continued)

#### 2.4.3 Derivatives and hedging activities (Continued)

Certain derivatives are embedded in hybrid contracts, such as the conversion option in a convertible bond. If the hybrid contract contains a host that is a financial asset, then the Group assesses the entire contract as described in the financial assets section above for classification and measurement purposes. Otherwise, the embedded derivatives are treated as separate derivatives when:

- (i) Their economic characteristics and risks are not closely related to those of the host contract;
- (ii) A separate instrument with the same terms would meet the definition of a derivative; and
- (iii) The hybrid contract is not measured at fair value through profit or loss.

These embedded derivatives are separately accounted for at fair value, with changes in fair value recognised in the statement of profit or loss unless the Group chooses to designate the hybrid contracts at fair value through profit or loss.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated and qualifies as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- (a) Hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges); or
- (b) Hedges of highly probable future cash flows attributable to a recognised asset or liability (cash flow hedges).

The Group documents, at the inception of the hedge, the relationship between hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

#### (a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the statement of profit or loss, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss no later than when the hedged item ceases to be adjusted for hedging gains and losses over the period to maturity and recorded as net interest income.

#### (b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the statement of profit or loss.

Amounts accumulated in equity are recycled to the statement of profit or loss in the periods when the hedged item affects profit or loss. They are recorded in the income or expense lines in which the revenue or expense associated with the related hedged item is reported.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised in the periods when the hedged item affects profit or loss. When a forecast transaction is no longer expected to occur (for example, the recognised hedged asset is disposed of), the cumulative gain or loss previously recognised in other comprehensive income is immediately reclassified to the statement of profit or loss.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 2.4 Financial instruments (Continued)

##### **2.4.4 Offsetting financial assets and financial liabilities**

When the Group has a currently enforceable legal right to offset recognised financial assets and financial liabilities, and intends either to settle on a net basis or to realise the financial asset and settle the financial liability at the same time, the financial assets and liabilities are offset with the net amount presented in the consolidated statement of financial position. Otherwise, financial assets and financial liabilities are presented separately. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

#### 2.5 Interest income and expense

Interest income and expense of interest-bearing financial instruments are recognised in profit or loss using the effective interest method (See Note 2.4).

#### 2.6 Fee and commission income

For the performance obligations satisfied at a point in time, the Group recognises revenue when control is passed to the customer at a certain point in time. For the performance obligations satisfied over time, the Group recognises revenue according to the progress toward satisfaction of the obligation over the time.

#### 2.7 Dividend income

Dividends are recognised when the right to receive the dividends is established.

#### 2.8 Assets transferred under repurchase agreements

##### **(a) Financial assets sold under repurchase agreements**

Financial assets sold subject to agreements with a commitment to repurchase at a specific future date at a fixed or determinable price are not derecognised in the statement of financial position. The proceeds from selling such assets are presented under “due to banks and other financial institutions” in the statement of financial position. The difference between the selling price and repurchasing price is recognised as interest expense during the term of the agreement using the effective interest method.

##### **(b) Financial assets purchased under resale agreements**

Financial assets that have been purchased under agreements with a commitment to resell at a specific future date are not recognised in the statement of financial position. The cost of purchasing such assets is presented under “due from banks and other financial institutions” in the statement of financial position. The difference between the purchasing price and reselling price is recognised as interest income during the term of the agreement using the effective interest method.

#### 2.9 Precious metals

Precious metals that are not related to the Group’s trading activities are initially measured at acquisition cost and subsequently measured at the lower of cost and net realisable value. Precious metals that are related to the Group’s trading activities are initially and subsequently recognised at fair value, with changes in fair value arising from re-measurement recognised directly in profit or loss in the period in which they arise.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.10 Property and equipment

The Group's property and equipment mainly comprise land and buildings, equipment, construction in progress, transportation equipment and property improvement.

The assets purchased or constructed are initially measured at acquisition cost.

Subsequent expenditures incurred for the property and equipment are included in the cost of the property and equipment if it is probable that economic benefits associated with the asset will flow to the Group and the subsequent expenditures can be measured reliably. Meanwhile the carrying amount of the replaced part is derecognised. Other subsequent expenditures are recognised in profit or loss in the period in which they are incurred.

Depreciation is calculated on a straight-line basis to write down the cost of such assets to their residual values over their estimated useful lives. The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each financial reporting date.

Land and buildings comprise primarily office premises. The estimated useful lives, depreciation rate and estimated residual value rate of land and buildings, equipment, transportation equipment and property improvement are as follows:

| Type of assets  | Estimated useful lives         | Estimated residual value rate | Depreciation rate |
|---|--------------------------------|-------------------------------|-------------------|
| Land and buildings  | 25 years – 50 years            | 3%                            | 1.94% – 3.88%     |
| Equipment   | 3 years – 11 years             | 3%                            | 8.82% – 32.33%    |
| Transportation equipment (excluding equipment under operating leases) | 4 years – 8 years              | 3%                            | 12.13% – 24.25%   |
| Property improvement  | Over the economic useful lives |                               |                   |

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Construction in progress is measured at its actual costs. The actual costs include various construction expenditures during the construction period and other relevant costs. Construction in progress is not depreciated. Construction in progress is transferred to a property and equipment when it is ready for intended use.

Equipment under operating leases where the Group is the lessor is aircraft or vessel. The estimated useful lives and depreciation rate of the aircraft or vessel are determined considering their conditions and the estimated residual values are determined by external appraiser using historical data on an item-by-item basis. The estimated useful lives range from 5 to 25 years.

### 2.11 Foreclosed assets

Foreclosed financial assets are initially recognised at fair value, and foreclosed non-financial assets are initially recognised at cost. At the end of each reporting period, foreclosed non-financial assets are measured at the lower of the carrying amount and the net realisable value. When the net realisable value is lower than the carrying amount, an impairment allowance is recognised.

When a foreclosed asset is disposed, the difference between the disposal proceeds and the carrying amount is recognised in profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.11 Foreclosed assets *(Continued)*

The Group disposes of foreclosed assets through various means. In principle, foreclosed assets should not be transferred for own use, but, in the event that they are needed for the Group's own business or management purposes, they are transferred at their net carrying amounts and managed as newly acquired property and equipment.

When a foreclosed asset needs to be transferred for own use, it is transferred at its carrying amount including the impairment allowance at the transition day.

Foreclosed assets of the Group mainly include buildings and land use rights.

### 2.12 Land use rights

Land use rights are classified as other assets and amortised using the straight-line method over the lease term.

### 2.13 Intangible assets

An intangible asset is measured initially at cost. When an intangible asset with a finite useful life is available for use, its original cost is amortised over its estimated useful life using the straight-line method. An intangible asset with an indefinite useful life is not amortised.

For an intangible asset with a finite useful life, the Group reviews the useful life and amortisation method at the end of each reporting period, and makes adjustments when necessary.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

### 2.14 Investment property

Investment property is a property held to earn rentals or for capital appreciation or both and initially measured at cost.

As there is an active property market in the location in which the Group's investment property is situated, and the Group can obtain the market price and other relevant information regarding the same or similar type of property from the property market so as to reasonably estimate the fair value of the investment property; therefore, the Group uses the fair value model for subsequent measurement of the investment property, with changes in the fair value included in profit or loss for the period in which they arise.

When an investment property is sold, transferred, retired or damaged, the Group recognises the amount of any proceeds on disposal net of the carrying amount and related taxes in profit or loss for the period.

### 2.15 Impairment of non-financial assets

At the end of the reporting period or whenever there is an indication that the non-financial assets are impaired, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately.

Goodwill, intangible assets with indefinite useful life and intangible assets not yet available for use are tested for impairment annually, irrespective of whether there is any indication that the assets may be impaired.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.15 Impairment of non-financial assets (Continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

### 2.16 Leases

Lease refers to a contract in which the lessor transfers the right of use of the assets to the lessee for a certain period of time to obtain the consideration.

#### (a) The Group as Lessee

The Group recognises the right-of-use asset on the start date of the lease term and recognises the lease liability at the present value of the remaining lease payments. The lease payments include fixed payments and payments to be made when it is reasonably determined to exercise purchase option or terminate lease option. Variable rent determined based on a certain proportion of sales is not included in the lease payments and is recognised in profit or loss when incurred.

The Group's right-of-use assets include leased properties, venues, parking lots, advertising spaces, vehicles and equipment etc. The right-of-use asset is initially measured at cost, which includes the initial measurement of the lease liability, the lease payments already paid on or before the lease start date, the initial direct costs etc., and deducts any lease incentives received. The leased asset is depreciated on a straight-line basis over its remaining useful life if the Group could reasonably determine to obtain the ownership at the expiration of the lease term; if it is unsure whether the ownership of the leased asset can be obtained at the expiration of the lease term, the right-of-use asset is depreciated over the shorter of its remaining useful life and the lease term on a straight-line basis. When the recoverable value is lower than the book value of the right-of-use asset, the Group reduces the book value to the recoverable value.

For short-term leases with a lease term shorter than 12 months and leases of asset with low value when it is new, the Group recognises relevant rental expenses on a straight-line basis in profit or loss or in the related asset costs in each lease period rather than recognising the right-of-use assets or lease liabilities.

#### (b) The Group as Lessor

##### *Operating Lease*

When the Group leases out its own buildings and properties, equipment and transportation vehicles, the rental income arising from operating leases is recognised on a straight-line basis over the lease term. Variable rent determined based on a certain proportion of sales is recognised in rental income when incurred.

##### *Finance Lease*

As lessor of the finance lease, the Group recognises the finance lease receivables for the finance lease on the commencement date of the lease period and derecognises the related assets. Finance lease receivables are recognised at the net lease investment to "Loans and advances to customers" for the initial measurement. The net lease investment is the sum of the unsecured residual value and the present value of the lease payments unreceived at the commencement date of the lease period discounted at the interest rate implicit in lease.

Finance lease receivables are derecognised when the contractual rights of receiving cash from the finance lease receivables have expired or have been transferred and all substantial risks and rewards regarding the lease have been transferred.

During the lease period, the lessor applies the fixed periodic interest rate to calculate the interest income for each period. Contingent rentals are recognised in profit or loss when incurred.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.17 Cash and cash equivalents

Cash and cash equivalents are short-term and highly liquid assets, which are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value. Cash and cash equivalents include cash and assets with original maturity of three months or less under balances with central banks, due from banks and other financial institutions.

### 2.18 Provisions

Provisions are recognised when the Group has a present obligation related to a contingency, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account factors pertaining to a contingency such as the risks, uncertainties and time value of money. Where the effect of the time value of money is material, the amount of the provision is determined by discounting the related future cash outflows.

Where all or some of the expenditure required to settle a provision is expected to be reimbursed by a third party, the reimbursement is recognised as a separate asset only when it is virtually certain that reimbursement will be received, and the amount of reimbursement recognised does not exceed the carrying amount of the provision.

### 2.19 Income taxes

Income tax expense represents the sum of the tax currently payable and deferred tax.

#### **(a) Current income tax**

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

#### **(b) Deferred income tax**

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.19 Income taxes (Continued)

#### **(b) Deferred income tax (Continued)**

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income, in which case the current and deferred tax are also recognised in other comprehensive income.

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

### 2.20 Share capital

#### **(a) Share capital**

Share capital comprises ordinary shares issued.

#### **(b) Share issue costs**

External costs directly attributable to the issuance of new shares are shown in equity as a deduction from the proceeds.

### 2.21 Dividend distribution

#### **(a) Dividends on ordinary shares**

Dividends on ordinary shares are recognised in the period in which they are declared and approved by the Bank's shareholders.

#### **(b) Dividends on preference shares**

Preference share dividend distribution is recognised as a liability in the Group's and the Bank's financial statements in the period in which the dividends are approved by the Board of Directors of the Bank.

#### **(c) Distribution on perpetual bonds**

Perpetual bond interest distribution is recognised as a liability in the Group's and the Bank's financial statements in the period in which the interest distribution approved by the Board of Directors of the Bank.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.22 Acceptances

Acceptances comprise the Group's commitments on payment for bills that are issued to customers. Acceptances are accounted for as financial guarantees and credit related commitments and are disclosed as contingent liabilities and commitments.

### 2.23 Employee benefits

#### **(a) Staff benefit and retirement benefit obligations**

In the reporting period in which an employee has rendered services, the Group recognises the employee benefits payable for those services as a liability. The Group participates in the employee social security systems, such as basic pensions, medical insurance, housing funds and other social securities established by the government in accordance with relevant requirements. The related expenditures are charged to profit or loss in the period when they are incurred.

The Group pays supplementary retirement benefits to employees in Mainland China who retired before 31 December 2008. The Group accrues a liability based on actuarial techniques and recognises all actuarial gains and losses in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income will not be reclassified to profit or loss. Past service cost is recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset.

Employees in Mainland China who retired after 1 January 2009 participate in the defined contribution plan established (the "Annuity Plan") by the Group. The Group contributes a certain portion of the employees' gross salaries to the Annuity Plan. Related expenses are recognised in profit or loss when incurred.

The Group pays the welfare benefits for employees, who have not yet reached the statutory retirement age limit and are approved by the Group to voluntarily retire from their employment, from the early retirement date to the statutory retirement age limit. These welfare benefits are recognised in profit or loss based on the discounted cash flow calculation over the implementation period. The Group reviews present value of the welfare benefits on each reporting date, with any changes recognised in profit or loss.

#### **(b) Share-based compensation**

A share-based payment is a transaction which the Group grants equity instruments, or incurs liabilities for amounts that are determined based on the price of equity instruments, in return for services rendered by employees. The Group's share-based payments are cash-settled share-based payments.

Cash-settled share-based payments are measured at the fair value of the liabilities incurred by the Group, which are determined based on the price of the share or other equity instruments. Until the liability is settled, the Group remeasures the fair value of the liability at each reporting date and at the date of settlement, with any changes in fair value recognised in profit or loss for the period.

The value of share appreciation rights ("SARs") granted by the Group is determined by applying the Binomial Option Pricing Model.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.24 Foreign currency translation

Renminbi ("RMB") is the currency of the primary economic environment in which the Bank and the Group's domestic subsidiaries operate. Therefore, the Bank and the Group's domestic subsidiaries choose RMB as their functional currency. The Bank and the Group's foreign subsidiaries choose their respective functional currencies on the basis of the primary economic environment in which they operate. The Group adopts RMB to prepare its consolidated financial statements.

In preparing the financial statements of each individual Group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions.

At the reporting date, foreign currency monetary items are translated into RMB using the spot exchange rates at the reporting date. Exchange differences arising from the differences between the spot exchange rates prevailing at the reporting date and those on initial recognition or at the previous reporting date are recognised in profit or loss for the period, except that (1) exchange differences related to hedging instruments for the purpose of hedging against foreign exchange risks are accounted for using hedge accounting; (2) exchange differences arising from non-monetary items at fair value through other comprehensive income (such as shares) denominated in foreign currencies and changes in the carrying amounts (other than the amortised cost) of monetary items at fair value through other comprehensive income are recognised as other comprehensive income; and (3) exchange differences arising on a foreign currency monetary item that forms part of the Bank's net investment in a foreign operation.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income.

On disposal of the Group's entire interest in a foreign operation, or upon a loss of control over a foreign operation due to disposal of certain interest in it or other reasons, the Group transfers the accumulated exchange differences arising on translation of financial statements of this foreign operation and foreign currency monetary items that form part of the net investment in such foreign operation attributable to the owners' equity of the Group and presented under shareholder's equity in the statement of financial position, to profit or loss in the period in which the disposal occurs.

In case of a disposal or other reason that does not result in the Group losing control over a foreign operation, the proportionate share of accumulated exchange differences arising on translation of financial statements are re-attributed to non-controlling interests and are not recognised in profit and loss. For partial disposals of equity interests in foreign operations which are associates, the proportionate share of the accumulated exchange differences arising on translation of financial statements of foreign operations is reclassified to profit or loss.

### 2.25 Contingent liabilities and contingencies

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable and the amount can be reliably measured, it will then be recognised as a provision.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.26 Insurance contracts

##### **(a) Insurance contracts classification**

Insurance contracts are those contracts under which the Group has accepted significant insurance risk, relative to an insured event or occurrence. The Group issues primarily life insurance contracts, which insure events associated with mortality over a long duration. The Group also issues non-life insurance contracts, which cover short-term casualty and health insurance risk. When necessary, the Group enters into reinsurance contracts to transfer insurance risks to a reinsurer. A significant insurance risk test is performed at inception of the insurance contracts.

Some insurance contracts contain both an insurance component and a deposit component. The Group unbundles those components, if the insurance component and the deposit component are separately measurable. The unbundled insurance component is accounted for according to IFRS 4 — Insurance Contracts and the unbundled deposit component is accounted for as a financial liability under investment contract liabilities.

##### **(b) Insurance income recognition**

Premiums from long-term life insurance contracts are recognised as revenue when due from policyholders. Premiums related to short-term non-life insurance contracts are recognised when received at the inception of the policy, as unearned insurance premiums in the consolidated statement of financial position, and are amortised on a straight-line basis into the consolidated income statement over the term of the policy. When the Group has transferred insurance risk through reinsurance contracts, the Group calculates the amount of premium ceded and the reinsurers' share of expenses and recognises them through the consolidated income statement in accordance with the terms of the reinsurance contracts.

##### **(c) Insurance contract reserves**

Insurance contract liabilities are measured based on a reasonable estimate of the amount of payments that the Group will be required to make to fulfil its obligations under the insurance contracts, which represents the difference between expected future cash outflows and inflows related to such contracts. A reasonable estimate of expected future net cash flows is determined based on information currently available as at the end of the reporting period. The Group has considered the impact of time value in the liability calculation for long-term life insurance.

The Group performs liability adequacy tests based on information currently available, as at the reporting date. Additional insurance contract liabilities should be recorded if any deficiency exists.

#### 2.27 Financial guarantee contracts and credit related commitments

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and others on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- The amount of the loss allowance (calculated as described in Note 3.1.2); and
- The premium received on initial recognition less income recognised in accordance with the principles of IFRS 15.

Loan commitments provided by the Group are measured as the amount of the loss allowance (calculated as described in Note 3.1.2). The Group has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument. For loan commitments and financial guarantee contracts, the loss allowance is recognised as an provision.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.28 Fiduciary activities

In activities where the Group acts in a fiduciary capacity such as trustee, custodian or agent, the assets and income arising from the transaction together with the related undertakings to return the assets to customers are excluded from the Group's consolidated financial statements.

The Group conducts entrusted lending for the third-party lenders. The Group grants loans to borrowers, as trustee, according to the instruction of the third-party lenders who fund these loans. The Group is responsible for the arrangement and collection of the entrusted loans and receives a commission for the services rendered. As the Group does not assume the risks and rewards of the entrusted loans and does not provide funding for the corresponding entrusted funds, the entrusted loans are not recognised as assets and liabilities of the Group.

### 2.29 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the person or Group that allocates resources to and assesses the performance of the operating segments of an entity. The Group has determined the senior management team represented by the governor as its chief operating decision maker.

An operating segment is a component of the Group with all of the following conditions are satisfied: (1) that component can earn revenues and incur expenses from ordinary activities; (2) the component's operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and (3) discrete financial information for the component is available to the Group. If two or more operating segments have similar economic characteristics, and certain conditions are satisfied, they may be aggregated into a single operating segment. Intra-segment income and expenses are eliminated. Income and expenses directly associated with each segment are considered in determining segment performance.

The Group has the following segments: Northern China, North Eastern China, Eastern China, Central and Southern China, Western China, Head Office, and Overseas.

### 2.30 Critical accounting estimates and judgments in applying accounting policies

The preparation of financial statements in conformity with IFRSs and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and of the Hong Kong Companies Ordinance require the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies.

#### **(a) Measurement of the expected credit loss allowance**

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (e.g. the likelihood of customers defaulting and the resulting losses). Note 3.1 Specifies the parameters, assumptions and estimation techniques used in the measurement of expected credit loss and also discloses the sensitivity of expected credit losses to changes in these factors.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.30 Critical accounting estimates and judgments in applying accounting policies *(Continued)*

#### **(a) Measurement of the expected credit loss allowance** *(Continued)*

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Segmentation of business operations having similar credit risk characteristics, selection of appropriate models and determination of relevant key measurement parameters;
- Criteria for determining whether or not there was a significant increase in credit risk, or a default or impairment loss was incurred;
- Economic indicators for forward-looking measurement, and the application of economic scenarios and weightings;
- Management overlay adjustments due to significant uncertain factors not covered in the models; and
- The estimated future cash flows for corporate loans and advances in stage 3.

Detailed information about the judgements and estimates made by the Group in the above areas is set out in note 3.1.

#### **(b) Fair value of financial instruments**

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques (e.g. discounted cash flow model). To the extent practical, models use observable data such as interest rate yield curves, foreign currency rates and implied option volatilities, however areas such as credit risk (both own and counterparty's), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

The Group assesses assumptions and estimates used in valuation techniques including review of valuation model assumptions and characteristics, changes to model assumptions, the quality of market data, whether markets are active or inactive, other fair value adjustments not specifically captured by models and consistency of application of techniques between reporting periods as part of its normal review and approval processes. Valuation techniques are validated and periodically reviewed and, where appropriate, have been updated to reflect market conditions at the financial reporting date.

Detailed information about the judgements and estimates made by the Group in the above areas is set out in note 3.4.

#### **(c) Income taxes**

The Group is subject to income tax in various jurisdictions; principally, in Mainland China and Hong Kong. Significant estimates are required in determining the provision for income tax. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated issues from tax audit based on estimates of whether additional taxes will be due. In particular, the deductibility of certain items in PRC is subject to tax authority's approval. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred income tax and current tax liabilities and deferred income tax assets and liabilities in the period during which such a determination is made.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.30 Critical accounting estimates and judgments in applying accounting policies (Continued)

#### **(d) Consolidation of structured entities**

As the Group acts as the asset manager in a structured entity, the Group will evaluate whether, in the case of the structured entity, the Group exercises decision-making power as the principal or agent. The Group exercises decision-making power primarily on behalf of other parties (other investors in the structured entity) if it is merely agent and therefore does not have control over the structured entity. However, if the Group is recognised to be primarily representing its own exercise of decision-making power, it is the primary principal and thus does have control over the structured entity. In the evaluation, the Group comprehensively takes into account a wide range of factors, such as the scope of the decision-making power of the asset manager, the rights held by other parties, the remuneration level received by the Group for management service, and the risk exposure to variable returns arising from any other arrangement (such as direct investments).

#### **(e) Derecognition of financial assets**

In judging whether the transaction in which a loan transfer through packaging and asset securitization is consistent with the termination confirmation of a financial asset, the Group needs to assess whether the Group meets the criteria for the transfer of financial assets and whether almost all risks and rewards in the ownership of the loan are transferred. If there is neither a transfer nor a retention of almost all the risks and rewards on the ownership of the transferred loan, the Group will further assess whether control over the transferred loan has been retained. In assessing and judging, the Group has taken into account a wide range of factors, such as whether trading arrangements are accompanied by repurchase clauses. The Group sets situational assumptions and uses the future cash flow discount model for risk and compensation transfer testing. The Group de-recognised the loan only if the loan has been transferred and almost all risks and benefits in ownership have been transferred to another subject. If the Group retains almost all the risks and rewards associated with the ownership of the transferred loan, it shall continue to confirm the loan and at the same time recognise the proceeds received as a financial liability. If the Group has neither transferred nor retained almost all of the risks and rewards in the ownership of the loan and has not waived its control over the loan, the financial assets concerned are recognised to the extent that the loan continues to be involved and the relevant liability is recognised accordingly.

### 2.31 Accounting policies during the comparative period

#### **2.31.1 Leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

##### *(a) The Group as lessor*

At the commencement of the lease term, the aggregate of the minimum lease receivable at the inception of the lease and the initial direct costs is recognised as a finance lease receivable, and the unguaranteed residual value is recorded at the same time. The difference between the aggregate of the minimum lease receivable, the initial direct costs and the unguaranteed residual value, and the aggregate of their present values is recognised as unearned finance income. Unearned finance income is recognised as finance income for the period using the effective interest method over the lease term. Contingent rents are credited to profit or loss in the period in which they are actually incurred. The net amount of financial lease receivables less unearned finance income is presented as other assets in the statement of financial position.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

##### *(b) The Group as lessee*

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis over the lease term.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT

### Overview

The Group's business activities expose it to a variety of financial risks regarding analysis, evaluation, acceptance and management. The Group's aim is to achieve an appropriate balance between risks and returns and minimise potential adverse effects on the Group's financial performance. The main types of financial risks are credit risk, liquidity risk, market risk, operational risk, etc.

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, monitor the risks and to control the risk limits through reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets and products and the latest best practice.

### Risk management framework

The Board of Directors sets out risk management strategies, overall risk preference and risk tolerance level. The senior management establishes risk management policies and procedures according to the strategies set by the Board of Directors. The Risk Management Department (Crime Prevention Office) at Head Office leads the risk management. The risk management division in each operation department at Head Office, in each domestic and overseas branch and in each subsidiary undertakes specific risk management function. Internal Audit Department is responsible for independent review of risk management and control environment.

### 3.1 Credit risk

Credit risk is the risk of loss that a borrower or counterparty fails to or is unwilling to meet its obligations. Credit risk arises principally from loans and advances to customers, financial investments, derivative instruments and due from and placements with banks and other financial institutions. There is also credit risk in off-balance sheet items such as loan commitments, financial guarantees, acceptances and letters of credit. Credit risk is a major risk to which the Bank is exposed. Therefore, the Group manages and controls the overall credit risk in a prudent manner and the Risk Management Department (Crime Prevention Office) at Head Office reports regularly to the senior management and the Board of Directors of the Group.

#### 3.1.1 Credit risk management

The Group's credit risk management is assumed by major functions such as Corporate Business Department, Inclusive Finance Department, Personal Finance Business Department, Pacific Credit Card Centre, Credit Authorisation Department and Risk Management Department (Crime Prevention Office). They are responsible for the standardised management of corporate and retail credit businesses in terms of guidance on credit investment, credit investigation and report, credit approval, loan granting, post-loan monitoring and non-performing loan management.

##### (a) *Loans and advances to customers and off-balance sheet commitments*

As for corporate loans, the Group's relationship managers are responsible for receiving application files submitted by the applicants, conducting pre-loan investigation, assessing the credit risk, and raising the proposed rating. The Group adopts the hierarchical approval system at the branch and Head Office level based on the credit approval authority. Credit line is determined by taking into account the credit record, financial position, collaterals and guarantees of the applicant, overall credit risk of the credit portfolio, macroeconomic regulation and control policies and relevant laws and regulations. The Group keeps a close eye on the economic and financial trend and credit risk profile in the industry and provides more guidance on credit investment by formulating guidance for different industries, provides more guidance on credit investment, formulate guidance for different industries, strengthens daily risk pre-warning, monitoring and specific risk investigation, identify customers under major risks and material potential risk points, enhances the refinement of post-loan management. The independent loan granting centre shall review the compliance, completeness and effectiveness of relevant credit files before loan granting according to the applications for drawdown of credit line. The Group's relationship managers are primarily responsible for post-loan management. The Group adopts a series of tools and approaches, such as risk filtering, list management, risk warning and risk investigation, in daily risk monitoring of corporate loans. The Group manages non-performing loans mainly through (1) collection; (2) restructuring; (3) disposal of collaterals or recourse to the guarantors; (4) litigation or arbitration.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### 3.1 Credit risk (Continued)

#### 3.1.1 Credit risk management (Continued)

##### (a) Loans and advances to customers and off-balance sheet commitments (Continued)

For retail credit assets, the Group manages the overall risk profile of retail credit business through on-site review and adoption of reporting system on material matters, strengthens daily risk monitoring and pre-warning through optimising management system, standardises operation process of retail credit business through formulating manuals for individual loans and small-enterprise loans, identifies and reveals material potential risks on a timely manner through strengthening risk monitoring and early-warning, and understands and forecasts the quality trends so as to adopt targeted risk control measures in advance by using stress testing and quality migration analysis. In addition, the Group continues to carry out fast response mechanism to address emergencies properly and maintains a list to manage those key risk projects through risk monitoring, guidance, collection and mitigation.

The Group adopts categorised management for retail credit assets on the basis of overdue ageing and guarantee type. With regard to retail credit customers with overdue loans, different approaches are adopted to collect such loans based on their overdue days.

Credit Card Centre of the Group is in charge of the operation and management of credit card business. Credit Card Centre of the Group adopts various supervisory and preventive measures. It reinforces data cross-validation to enhance risk prevention in the approval process, tightens credit line to high risk customers through subsequent credit investigation and enters into the collection process earlier than scheduled, effectively improves collection result through reasonable allocation of available resources, and optimises data analytic system to further enhance the management of credit card business.

##### (b) Treasury business

For treasury business (including debt investments), the Group chooses banks and other financial institutions prudently and balances the credit risk and return rate of investments. By making reference to internal and external credit rating information, the Group approves credits of different levels and uses an appropriate credit limit management system to review and adjust credit lines, aiming to manage the credit risk exposed to the treasury business.

For debt securities, internal and external ratings (such as Standard and Poor's) are used by the Group when available for managing the credit risk exposed to debt securities and bills. The investment in those debts and bills is to have better credit quality assets while maintaining readily available liquidity resource. The bond issuers involved with the Group are subject to the credit granting review and approval of the Head Office and credit limits are placed on such issuers.

Debt investments other than debt securities include investments in fund trust schemes, asset management plans and wealth management products set up by banking financial institutions. Fund trust schemes and asset management plans, the funds of which ultimately go to trust loans, are mainly managed and operated by third-party trustees and asset managers. The Group implements a rating system for accepting trust companies, securities companies and fund companies, sets credit limits for repurchase parties of trust beneficiary right, ultimate borrowers of targeted asset management plans, and issuers of inter-bank wealth management products, and carries out follow-up risk management on a regular basis.

As for derivative instruments, the Group maintains strict limits on net open derivative investment positions (i.e., the difference between long and short contracts), by both amount and maturity. At any time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e., assets where their fair value is positive), which, in relation to derivative instruments, is only a fraction of the contract's notional amount used to express the amount outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market fluctuations. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except when the Group requires margin deposits from counterparties. The management has set limits of these contracts according to counterparty, and regularly monitor and control the actual credit risk when the Group concludes foreign exchange and interest rate contracts with other financial institutions and clients.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT *(Continued)*

### 3.1 Credit risk *(Continued)*

#### 3.1.1 Credit risk management *(Continued)*

##### *(b) Treasury business (Continued)*

The Group manages the credit quality of due from and placements with banks and other financial institutions, and balances arising from transactions for precious metals, by considering the size, financial position, the internal and external credit rating of the banks and financial institutions. The Head Office monitors and reviews the credit risk of due from and placements with banks and other financial institutions by counterparties periodically. Limits are placed on different counterparties.

##### *(c) Credit-related commitments*

Credit risk exposures to financial guarantees are the same as that of loans. However, commercial letters of credit are usually pledged by the relevant shipped goods, and therefore are subject to lower risk compared with direct loans. Credit-related commitments are included in the management of overall credit line granted to the applicant. For customers with transactions beyond the credit limit or infrequent transactions, the applicant shall be requested to provide relevant guarantee in order to reduce credit risk exposures.

##### *(d) Credit risk quality*

In accordance with the *Guideline for Loan Credit Risk Classification* issued by the China Banking and Insurance Regulatory Commission ("CBIRC"), the Group has established a loan credit risk classification system and performs credit risk management based on loan classification in one of five categories. The Group classifies loans into the following five categories: normal, special-mention, substandard, doubtful and loss, of which substandard, doubtful and loss loans are regarded as non-performing loans.

The five categories of loan classification into which the Group classifies its loans and advances to customers are set out below:

|                  |  |
|------------------|--|
| Normal:          | Borrowers can honour the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.  |
| Special-mention: | Borrowers are able to service their loans currently, although repayment may be adversely affected by specific factors.   |
| Substandard:     | Borrowers' ability to service their loans is in question and they cannot rely entirely on normal operating revenues to repay principal and interest. Losses may ensue even when collaterals or guarantees are invoked. |
| Doubtful:        | Borrowers cannot repay principal and interest in full and significant losses will need to be recognised even when collaterals or guarantees are invoked.   |
| Loss:            | Only a small portion or none of the principal and interest can be recovered after taking all possible measures and exhausting all legal remedies.  |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### 3.1 Credit risk (Continued)

#### 3.1.2 Expected credit loss (“ECL”)

The Group measures the ECL of financial instruments at amortised cost or debt investments at fair value through other comprehensive income. The Group divides them into 3 stages by assessing whether there has been a significant increase in credit risk since initial recognition.

The Group measures the ECL of a financial instrument in a way that reflects:

- (1) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- (2) the time value of money;
- (3) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

#### Stage classification

The Group divides them into 3 stages. Stage 1 is “financial assets without significant increase in credit risk since initial recognition”, at which the Group only needs to measure ECL in the next 12 months. Stage 2 is “financial assets with significant increase in credit risk” and stage 3 is “credit-impaired financial assets”, at both of which the Group needs to measure lifetime ECL.

#### Definition of credit-impaired

The Group considers a financial instrument is default, when it is credit-impaired. In general, the financial instruments that are more than 90 days past due are identified as in default.

The Group considers a financial instrument to be credit-impaired when one or more of the following criteria have been met:

- (1) Principal (including advances, applies to below) or interest of the asset is more than 90 days past due;
- (2) The issuer or obligor is in significant financial difficulty, or has already become insolvent
- (3) It is becoming probable that the obligor will enter bankruptcy;
- (4) An active market for that financial asset has disappeared because of financial difficulties of issuers;
- (5) Other objective evidence indicating impairment of the financial asset.

#### A significant increase in credit risk

The Group assesses quarterly whether the credit risk on a financial instrument has increased significantly since initial recognition. In determining the stage classification of a financial asset, the Group considers all reasonable and supportable information which reflects whether there have been significant changes in credit risk, including that which is forward-looking. Based on an individual financial instrument or a portfolio of financial instruments with similar credit risk characteristics, the Group compares risk of default occurring at reporting date as with initial recognition, in order to determine possible changes in risk of default occurring during the expected life of the financial instrument. The Group considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following criteria have been met:

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT *(Continued)*

### 3.1 Credit risk *(Continued)*

#### 3.1.2 Expected credit loss (“ECL”) *(Continued)*

*Stage classification (Continued)*

A significant increase in credit risk *(Continued)*

- (1) Principal or interest of the instrument is more than 30 days past due;
- (2) Credit rating of obligor changes significantly. Credit rating is based on both internal and external rating results, and the criteria are as follow: (a) a significant increase in credit risk is determined when internal and external rating during the reporting period is below the Group’s credit acceptance standards; (b) When the borrower’s internal rating is downgraded to a certain level, there has been a significant increase in credit risk. Criteria to determine significant increase in credit risk varies based on the original internal rating upon initial recognition;
- (3) Significant adverse issues have negative impacts on obligator’s repayment ability;
- (4) Other circumstances of significant increase in credit risk. For example, appearance of other risk alarm indicators which imply growing potential risk, and could cause losses of financial assets to the Group.

The financial assets are moveable between stages. For instance, financial instruments originally classified at stage 1 should be downgraded to stage 2 if events occur such as a significant increase in credit risk. Financial instruments at stage 2 could be upgraded to stage 1 if credit risk decreases and the criteria for the determination of “a significant increase in credit risk” are no longer met.

*Description of parameters, assumptions and estimation techniques*

The Group recognises a loss allowance to different financial instruments at an amount equal to 12-month or lifetime expected credit loss based on whether there has been a significant increase in credit risk and whether the financial instrument is credit-impaired. ECL is the result of discounted product of the weighted average of “probability of default (PD)”, “loss given default (LGD)”, “exposure at default (EAD)” under the three scenarios, which are defined as follows:

Probability of default (PD) is the probability of default occurring of a client and its assets in a given period of time in the future.

Exposure at default (EAD) represents the total amount of on-balance sheet and off-balance sheet exposure at the time of default by debtor, reflecting the total amount of possible losses likely to be incurred. In general, this includes the utilised credit limit, interest receivable, the anticipated usage of unused credit facilities as well as the related expenses to be incurred.

Loss given default (LGD) represents the percentage of amount of loss to be incurred in the event of default to the total risk exposure. It is expressed as the loss percentage per unit of exposure which typically varies by nature of debtor, type and seniority of claim and the availability of collaterals or other credit enhancements.

Definition of default has been consistently applied to model establishment of probability of default (PD), exposure at default (EAD), loss given default (LGD) in ECL calculation throughout the Group.

Forward-looking information: scenarios and weights of economic indicators

The Group has established a macro-economic forecast model driven by Gross Domestic Product (GDP) growth rate to forecast values of macro-economic indicators in multiple categories including national accounts, price index, foreign trade, fixed asset investment, money supply, and interest under three economic scenarios (i.e., Optimistic scenario, Basic scenario, and Pessimistic scenario) annually. The forecasts, after evaluation and confirmation by economic experts of the Bank, are used in the impairment model. Basic scenario is defined as the most probable situation, which will become benchmark for other scenarios. Optimistic and pessimistic scenarios are possible scenarios which are better or worse than basic scenario respectively, and can also become a source of sensitivity analysis. These three scenarios apply to all portfolios.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### 3.1 Credit risk (Continued)

#### 3.1.2 Expected credit loss (“ECL”) (Continued)

*Description of parameters, assumptions and estimation techniques (Continued)*

Estimation of ECL: the impairment models

The impairment models adopt a top down approach. Through grouping, the models cover the risk exposures of financial institutions, companies and retailers and reveal the regressive relationship between different macro-economic indicators (such as national accounts, price index, foreign trade, fixed asset investment, money supply, and interest) and risk parameters. The result of macro-economic indicator forecasts will form the basis for impairment calculation and represent “forward looking” elements of credit risk allowance in different scenarios.

Where impairment models cannot be established due to lack of data support, the Group endeavours to select appropriate methods in order to make prospective estimation. The Group makes prospective adjustments to impairment calculation of overseas branches and subsidiaries regularly based on macro-forecast data from authoritative institutions (such as IMF and the World Bank). For asset portfolios not covered by impairment models, expected loss rate is set by referring to that of similar asset portfolios with impairment models available.

Management also overlays adjustments to asset portfolios whose non-linear risk characteristics cannot be adequately reflected through impairment models, such as Group credit exposures with higher possibility of risk spreading among borrowers' group entities and credit exposures to borrowers which need to be actively and properly managed to achieve overcapacity reduction. These adjustments do not have a significant impact on the Group's impairment allowance.

Grouping of instruments with similar risk characteristics

To calculate the relevance between ECL allowance modelled on a collective basis and macro-economic indicators, a grouping of exposure is performed on the basis of shared risk characteristics, so that risk exposures within a group are homogenous. In performing this grouping, there must be sufficient information for the Group to be statistically credible. Where sufficient information is not available internally, the Group has considered benchmarking internal/external supplementary data for modelling purposes. Non-retail assets of the Group are mainly grouped according to industries, while retail assets are mainly grouped based on product types, repayment methods and so on.

*Economic scenarios and weightings*

As at 31 December 2019, the significant assumptions used to estimate expected credit losses are presented as three economic scenarios, including “Optimistic scenario”, “Basic scenario”, and “Pessimistic scenario”, which are applicable to all groups. The weighting of “Basic scenario” adopted by the Group overweighs the aggregated weightings of other scenarios.

*Sensitivity analysis*

At the balance sheet date, the probability-weighted impairment allowance increased by the following amounts compared with basic scenario impairment allowance:

|   | As at<br>31 December 2019 | As at<br>31 December 2018 |
|---|---------------------------|---------------------------|
| Corporate loans   | 468                       | 277                       |
| Individual loans  | 29                        | 88                        |
| Debt investments at amortise cost and fair value through other comprehensive income | 21                        | 1                         |

If the Optimistic and Pessimistic scenario weightings both increase by 10%, the impairment allowance of loans and advances will increase RMB497 million (31 December 2018: RMB304 million), and the impairment allowance of debt investments at amortise cost and fair value through other comprehensive income will increase RMB21 million (31 December 2018: RMB2 million).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

### 3 FINANCIAL RISK MANAGEMENT *(Continued)*

#### 3.1 Credit risk *(Continued)*

##### **3.1.3 Maximum exposure to credit risk**

###### *3.1.3.1 Maximum exposure to credit risk – financial instruments included in impairment assessment*

The Group categorises asset risk characteristics based on the quality of the assets, differentiating financial instruments included in expected credit losses calculation as “Low risk”, “Medium risk”, “High risk” and “Impaired”. “Low risk” refers to counterparty with strong repayment ability, low probability of impairment in the future, and minor effect of adverse external factors; “Medium risk” refers to counterparty with certain repayment ability, but continuously unstable and worsening business, finance, and economic conditions will potentially cause its repayment ability to descend; “High risk” refers to counterparty with existence of adverse factors having significant effect on repayment ability or high probability of impairment in the future; and “Impaired” refers to the assets met the Group’s definition of credit-impaired.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019  
(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### 3.1 Credit risk (Continued)

#### 3.1.3 Maximum exposure to credit risk (Continued)

##### 3.1.3.1 Maximum exposure to credit risk – financial instruments included in impairment assessment (Continued)

The table below analyses exposure to credit risk of financial instruments included in expected credit losses assessment. The balance of financial instruments below is the maximum exposure to credit risk of these instruments in the Group.

| As at 31 December 2019                          | Low risk  | Medium risk | High risk | Impaired | Domestic<br>branches | Overseas<br>and<br>subsidiaries | Group total | Allowance<br>for<br>impairment<br>losses | Group<br>carrying<br>amount | As at<br>31 December<br>2018 Group<br>carrying amount |
|---|-----------|-------------|-----------|----------|----------------------|---------------------------------|-------------|--|-----------------------------|---|
| <b>On-balance sheet item</b>                    |           |             |           |          |                      |                                 |             |  |                             |   |
| <b>Cash and balances with central banks</b>     |           |             |           |          |                      |                                 |             |  |                             |   |
| (Stage 1)                                       | 729,859   | –           | –         | –        | 729,859              | 15,845                          | 745,704     | –  | 745,704                     | 825,506   |
| <b>Loans and advances to customers</b>          |           |             |           |          |                      |                                 |             |  |                             |   |
| <b>(Corporate)</b>                              |           |             |           |          |                      |                                 |             |  |                             |   |
| – at amortised cost                             | 1,501,665 | 1,103,396   | 106,046   | 56,508   | 2,767,615            | 546,481                         | 3,314,096   | (105,170)                                | 3,208,926                   | 2,931,520   |
| Stage 1   | 1,500,753 | 1,074,724   | 2,796     | –        | 2,578,273            | 536,706                         | 3,114,979   | (23,125)                                 | 3,091,854                   | 2,825,633   |
| Stage 2   | 912       | 28,672      | 103,250   | –        | 132,834              | 6,867                           | 139,701     | (39,960)                                 | 99,741                      | 85,317  |
| Stage 3   | –         | –           | –         | 56,508   | 56,508               | 2,908                           | 59,416      | (42,085)                                 | 17,331                      | 20,570  |
| – at FVOCI                                      | 113,994   | 113,800     | 7,567     | 53       | 235,414              | –                               | 235,414     | –  | 235,414                     | 184,184   |
| Stage 1   | 113,994   | 112,323     | 2,640     | –        | 228,957              | –                               | 228,957     | –  | 228,957                     | 177,711   |
| Stage 2   | –         | 1,477       | 4,927     | –        | 6,404                | –                               | 6,404       | –  | 6,404                       | 6,448   |
| Stage 3   | –         | –           | –         | 53       | 53                   | –                               | 53          | –  | 53                          | 25  |
| <b>Loans and advances to customers</b>          |           |             |           |          |                      |                                 |             |  |                             |   |
| <b>(Individuals)</b>                            |           |             |           |          |                      |                                 |             |  |                             |   |
| – at amortised cost                             | 1,030,543 | 645,992     | 19,533    | 18,357   | 1,714,425            | 40,340                          | 1,754,765   | (27,549)                                 | 1,727,216                   | 1,614,169   |
| Stage 1   | 1,030,197 | 644,783     | 12,138    | –        | 1,687,118            | 39,988                          | 1,727,106   | (8,394)                                  | 1,718,712                   | 1,604,705   |
| Stage 2   | 346       | 1,209       | 7,395     | –        | 8,950                | 135                             | 9,085       | (3,193)                                  | 5,892                       | 5,570   |
| Stage 3   | –         | –           | –         | 18,357   | 18,357               | 217                             | 18,574      | (15,962)                                 | 2,612                       | 3,894   |
| <b>Due from and placements with</b>             |           |             |           |          |                      |                                 |             |  |                             |   |
| <b>banks and other financial</b>                |           |             |           |          |                      |                                 |             |  |                             |   |
| <b>institutions (Stage 1)</b>                   |           |             |           |          |                      |                                 |             |  |                             |   |
|   | 395,742   | 1,005       | –         | –        | 396,747              | 252,800                         | 649,547     | (1,059)                                  | 648,488                     | 848,067   |
| <b>Financial investments at amortised cost</b>  |           |             |           |          |                      |                                 |             |  |                             |   |
|   | 1,853,796 | 29,868      | 793       | 1,064    | 1,885,521            | 47,431                          | 1,932,952   | (3,263)                                  | 1,929,689                   | 2,000,505   |
| Stage 1   | 1,853,796 | 29,868      | –         | –        | 1,883,664            | 46,408                          | 1,930,072   | (2,455)                                  | 1,927,617                   | 1,999,905   |
| Stage 2   | –         | –           | 793       | –        | 793                  | 704                             | 1,497       | (178)                                    | 1,319                       | –   |
| Stage 3   | –         | –           | –         | 1,064    | 1,064                | 319                             | 1,383       | (630)                                    | 753                         | 600   |
| <b>Debt investments at FVOCI</b>                |           |             |           |          |                      |                                 |             |  |                             |   |
|   | 263,029   | 2,054       | –         | –        | 265,083              | 395,628                         | 660,711     | –  | 660,711                     | 437,630   |
| Stage 1   | 263,029   | 2,054       | –         | –        | 265,083              | 395,628                         | 660,711     | –  | 660,711                     | 437,630   |
| Stage 2   | –         | –           | –         | –        | –                    | –                               | –           | –  | –                           | –   |
| Stage 3   | –         | –           | –         | –        | –                    | –                               | –           | –  | –                           | –   |
| <b>Other financial assets at amortised cost</b> |           |             |           |          |                      |                                 |             |  |                             |   |
|   | 17,360    | 9,415       | 294       | 1,703    | 28,772               | 15,148                          | 43,920      | (3,437)                                  | 40,483                      | 25,838  |
| Stage 1   | 17,359    | 9,409       | –         | –        | 26,768               | 15,148                          | 41,916      | (2,139)                                  | 39,777                      | 25,251  |
| Stage 2   | 1         | 6           | 294       | –        | 301                  | –                               | 301         | (86)                                     | 215                         | 131   |
| Stage 3   | –         | –           | –         | 1,703    | 1,703                | –                               | 1,703       | (1,212)                                  | 491                         | 456   |
| <b>On-balance sheet total</b>                   |           |             |           |          |                      |                                 |             |  |                             |   |
|   | 5,905,988 | 1,905,530   | 134,233   | 77,685   | 8,023,436            | 1,313,673                       | 9,337,109   | (140,478)                                | 9,196,631                   | 8,867,419   |
| <b>Financial guarantees and credit related</b>  |           |             |           |          |                      |                                 |             |  |                             |   |
| <b>commitments</b>                              |           |             |           |          |                      |                                 |             |  |                             |   |
| Stage 1   | 970,178   | 420,254     | 977       | –        | 1,391,409            | 67,906                          | 1,459,315   | (5,358)                                  | 1,453,957                   | 1,446,824   |
| Stage 2   | –         | 2,465       | 9,792     | –        | 12,257               | 598                             | 12,855      | (974)                                    | 11,881                      | 4,313   |
| <b>Off-balance sheet total</b>                  |           |             |           |          |                      |                                 |             |  |                             |   |
|   | 970,178   | 422,719     | 10,769    | –        | 1,403,666            | 68,504                          | 1,472,170   | (6,332)                                  | 1,465,838                   | 1,451,137   |
| Total   | 6,876,166 | 2,328,249   | 145,002   | 77,685   | 9,427,102            | 1,382,177                       | 10,809,279  | (146,810)                                | 10,662,469                  | 10,318,556  |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### 3.1 Credit risk (Continued)

#### 3.1.3 Maximum exposure to credit risk (Continued)

##### 3.1.3.2 Maximum exposure to credit risk – financial instruments not included in impairment assessment

The analysis of credit risk exposure of those financial assets which are not included in the impairment assessment are as follows:

|  | Maximum exposure to credit risk |                  |
|--|---------------------------------|------------------|
|  | 31 December 2019                | 31 December 2018 |
| Financial assets at fair value through profit or loss  |                                 |                  |
| Loans and advances to customers                        | –                               | 494              |
| Derivative financial instruments                       | 20,937                          | 30,730           |
| Debt securities  | 134,950                         | 132,828          |
| Fund investments and other asset management products   | 170,435                         | 187,601          |
| Precious metal contracts                               | 39,532                          | 37,232           |
| Placements with banks and other financial institutions | 11,864                          | 8,393            |
| Total  | 377,718                         | 397,278          |

##### 3.1.3.3 Collaterals and other credit enhancements

The Group manages, limits and controls concentrations of credit risk wherever they are identified, in particular, to individual counterparties, company and groups, industry segments and geographical regions.

The Group structures the levels of credit risk it undertakes by placing limits in relation to one borrower, or group of borrowers. Such risks are monitored on a regular basis and subject to annual or more frequent review, whenever necessary.

The exposure to any single borrower including banks and brokers is further restricted by sub-limits covering on-balance and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing their lending limits where appropriate.

Some other specific control and risk mitigation measures are outlined below.

#### (a) Collaterals

The Group employs a range of policies and practices to mitigate credit risk. The most useful practice is to accept collaterals or pledges. The Group implements guidelines on the acceptability of specific classes of collaterals and pledges. The principal types of collaterals and pledges for loans and advances to customers are:

- Residential properties;
- Business assets such as premises, inventory and receivables;
- Financial instruments such as debt securities and stocks.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### 3.1 Credit risk (Continued)

#### 3.1.3 Maximum exposure to credit risk (Continued)

##### 3.1.3.3 Collaterals and other credit enhancements (Continued)

##### (a) Collaterals (Continued)

The value of collaterals at the time of loan origination is determined by the Credit Authorisation Department and the amount of the loans granted is subject to loan-to-value ratio limits based on collateral types. The principal types of collaterals for corporate loans and individual loans are as follows:

| Collaterals                                   | Maximum loan-to-value ratio |
|---|-----------------------------|
| Cash deposits with the Group                  | 90%                         |
| PRC treasury bonds                            | 90%                         |
| Financial institution bonds                   | 90%                         |
| Publicly traded stocks                        | 60%                         |
| Rights to collect fees or right of management | 65%                         |
| Properties                                    | 70%                         |
| Land use rights                               | 70%                         |
| Vehicles                                      | 50%                         |

Long-term loans and advances to corporate and individual customers are generally secured, while revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss the Group will seek additional collaterals and pledges from the counterparties as soon as impairment indicators are noted for the individual loans and advances.

For loans guaranteed by a third-party guarantor, the Group will assess the financial condition, credit history and ability to meet obligations of the guarantor.

Collaterals and pledges held as security for financial assets other than loans and advances to customers are determined by the nature of the instrument. Debt securities, PRC treasury bonds and PBOC bills are generally unsecured, with the exception of asset-backed securities, which are secured by portfolios of financial instruments.

The Group closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Group will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

|                                 | Gross exposure | Impairment allowance | Carrying amount | Fair value of collateral held |
|---------------------------------|----------------|----------------------|-----------------|-------------------------------|
| <b>As at 31 December 2019</b>   |                |                      |                 |                               |
| Credit-impaired assets          |                |                      |                 |                               |
| Loans and advances to customers |                |                      |                 |                               |
| Loans to corporate entities     | 59,469         | (42,085)             | 17,384          | 18,839                        |
| Loans to individuals            | 18,574         | (15,962)             | 2,612           | 10,559                        |
| Financial investments           | 3,274          | (1,202)              | 2,072           | 6,079                         |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

### 3 FINANCIAL RISK MANAGEMENT (Continued)

#### 3.1 Credit risk (Continued)

##### 3.1.3 Maximum exposure to credit risk (Continued)

##### 3.1.3.3 Collaterals and other credit enhancements (Continued)

##### (a) Collaterals (Continued)

|                                 | Gross exposure | Impairment allowance | Carrying amount | Fair value of collateral held |
|---------------------------------|----------------|----------------------|-----------------|-------------------------------|
| <b>As at 31 December 2018</b>   |                |                      |                 |                               |
| Credit-impaired assets          |                |                      |                 |                               |
| Loans and advances to customers |                |                      |                 |                               |
| Loans to corporate entities     | 57,172         | (36,577)             | 20,595          | 17,484                        |
| Loans to individuals            | 15,340         | (11,446)             | 3,894           | 10,865                        |
| Financial investments           | 1,552          | (952)                | 600             | 1,041                         |

##### (b) Master netting arrangements

The Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of assets and liabilities in the statement of financial position, as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Group's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as each transaction subject to the arrangement affects credit risk.

##### 3.1.4 Derivative instruments

The Group undertakes its transactions in foreign exchange, commodity, interest rate and other derivative contracts with other financial institutions and customers. The management has established limits for these contracts based on counterparties, industry sectors and countries. Actual credit exposures and limits are regularly monitored and controlled by management.

##### Credit risk-weighted amounts

|  | As at<br>31 December 2019 | As at<br>31 December 2018 |
|--|---------------------------|---------------------------|
| Counterparty credit risk-weighted amount | 36,175                    | 26,895                    |

The credit risk-weighted amounts are the amounts calculated with reference to the guidelines issued by the CBIRC and are dependent on, amongst other factors, the creditworthiness of the counterparty and the maturity characteristics of each type of contract.

The credit risk-weighted amounts stated above have not taken the effects of netting arrangements into account.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019  
(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### 3.1 Credit risk (Continued)

#### 3.1.5 Foreclosed assets

|                             | As at<br>31 December 2019 | As at<br>31 December 2018 |
|-----------------------------|---------------------------|---------------------------|
| Buildings                   | 873                       | 913                       |
| Land use rights             | 20                        | 20                        |
| Others                      | 14                        | 19                        |
| Gross                       | 907                       | 952                       |
| Less: Impairment allowances | (148)                     | (128)                     |
| Net                         | 759                       | 824                       |

Foreclosed assets are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness. The Group does not generally occupy foreclosed assets for its own business use. Foreclosed assets are classified as other assets in the statement of financial position.

#### 3.1.6 Concentration risk analysis for financial assets with credit risk exposure

The Group mainly manages concentration risk for loans and advances to customers by industry sectors and also manages concentration risk for financial assets by geographical sectors.

##### Geographical sectors

|   | Mainland China | Hong Kong | Others  | Total     |
|---|----------------|-----------|---------|-----------|
| <b>As at 31 December 2019</b>                                       |                |           |         |           |
| <b>Financial assets</b>   |                |           |         |           |
| Balances with central banks   | 732,414        | 1,027     | 11,972  | 745,413   |
| Due from and placements with banks and other financial institutions | 546,171        | 30,082    | 72,235  | 648,488   |
| Derivative financial assets   | 15,636         | 4,295     | 1,006   | 20,937    |
| Financial investments at FVPL                                       | 321,366        | 10,064    | 25,351  | 356,781   |
| Loans and advances to customers                                     | 4,792,758      | 218,575   | 172,320 | 5,183,653 |
| Financial investments at FVOCI                                      | 347,311        | 112,537   | 200,863 | 660,711   |
| Financial investments at amortised cost                             | 1,915,749      | 4,181     | 9,759   | 1,929,689 |
| Other financial assets  | 37,301         | 15,414    | 2,513   | 55,228    |
|   | 8,708,706      | 396,175   | 496,019 | 9,600,900 |
| <b>Off-balance sheet exposures</b>                                  |                |           |         |           |
| Guarantees, acceptances and letters of credit                       | 652,860        | 13,761    | 13,646  | 680,267   |
| Loan commitments and other credit related commitments               | 750,807        | 30,572    | 10,524  | 791,903   |
|   | 1,403,667      | 44,333    | 24,170  | 1,472,170 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### 3.1 Credit risk (Continued)

#### 3.1.6 Concentration risk analysis for financial assets with credit risk exposure (Continued)

Geographical sectors (Continued)

|   | Mainland China | Hong Kong | Others  | Total     |
|---|----------------|-----------|---------|-----------|
| <b>As at 31 December 2018</b>                                       |                |           |         |           |
| <b>Financial assets</b>   |                |           |         |           |
| Balances with central banks   | 790,382        | 2,548     | 32,576  | 825,506   |
| Due from and placements with banks and other financial institutions | 689,611        | 69,231    | 89,225  | 848,067   |
| Derivative financial assets   | 22,541         | 5,646     | 2,543   | 30,730    |
| Financial investments at FVPL                                       | 333,693        | 7,726     | 24,635  | 366,054   |
| Loans and advances to customers                                     | 4,385,888      | 190,464   | 166,020 | 4,742,372 |
| Financial investments at FVOCI                                      | 110,740        | 80,452    | 246,438 | 437,630   |
| Financial investments at amortised cost                             | 1,962,108      | 4,154     | 34,243  | 2,000,505 |
| Other financial assets  | 24,945         | 10,491    | 4,481   | 39,917    |
|   | 8,319,908      | 370,712   | 600,161 | 9,290,781 |
| <b>Off-balance sheet exposures</b>                                  |                |           |         |           |
| Guarantees, acceptances and letters of credit                       | 605,869        | 11,595    | 20,320  | 637,784   |
| Credit-related commitments and other credit-related commitments     | 766,769        | 36,213    | 15,452  | 818,434   |
|   | 1,372,638      | 47,808    | 35,772  | 1,456,218 |

(a) Geographical risk concentration for loans and advances to customers

|                                    | <b>As at 31 December 2019</b> |        | <b>As at 31 December 2018</b> |        |
|------------------------------------|-------------------------------|--------|-------------------------------|--------|
|                                    |                               | %      |                               | %      |
| Northern China (1)                 | 689,601                       | 13.00  | 619,891                       | 12.77  |
| North Eastern China (2)            | 212,871                       | 4.01   | 205,989                       | 4.24   |
| Eastern China (3)                  | 1,830,275                     | 34.51  | 1,710,884                     | 35.24  |
| Central and Southern China (4)     | 1,106,903                     | 20.87  | 941,511                       | 19.40  |
| Western China (5)                  | 532,796                       | 10.04  | 480,670                       | 9.90   |
| Overseas (6)                       | 391,517                       | 7.38   | 355,681                       | 7.33   |
| Head Office                        | 540,312                       | 10.19  | 539,602                       | 11.12  |
| Gross amount of loans and advances | 5,304,275                     | 100.00 | 4,854,228                     | 100.00 |

Note:

- (1) Including Beijing, Tianjin, Hebei Province, Shanxi Province and Inner Mongolia Autonomous Region.
- (2) Including Liaoning Province, Jilin Province and Heilongjiang Province.
- (3) Including Shanghai (excluding Head Office), Jiangsu Province, Zhejiang Province, Anhui Province, Fujian Province, Jiangxi Province and Shandong Province.
- (4) Including Henan Province, Hunan Province, Hubei Province, Guangdong Province, Hainan Province and Guangxi Zhuang Autonomous Region.
- (5) Including Chongqing, Sichuan Province, Guizhou Province, Yunnan Province, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Autonomous Region and Xinjiang Uyghur Autonomous Region.
- (6) Including Hong Kong, New York, Tokyo, Singapore, Seoul, Frankfurt, Macau, Ho Chi Minh City, San Francisco, Sydney, Taipei, London, Luxembourg, Brisbane, Paris, Rome, Brazil, Toronto, Melbourne, Prague and other overseas affiliates.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019  
(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### 3.1 Credit risk (Continued)

#### 3.1.6 Concentration risk analysis for financial assets with credit risk exposure (Continued)

(b) Industry analysis for loans and advances to customers

|  | As at 31 December 2019 |               | As at 31 December 2018 |               |
|--|------------------------|---------------|------------------------|---------------|
|  |                        | %             |                        | %             |
| <b>Corporate loans</b>   |                        |               |                        |               |
| Mining   | 117,555                | 2.22          | 119,091                | 2.45          |
| Manufacturing  |                        |               |                        |               |
| – Petroleum and chemical   | 106,108                | 2.00          | 104,806                | 2.16          |
| – Electronics  | 95,736                 | 1.80          | 95,858                 | 1.97          |
| – Steel  | 35,156                 | 0.66          | 33,241                 | 0.68          |
| – Machinery  | 93,393                 | 1.76          | 93,828                 | 1.93          |
| – Textile and clothing   | 27,049                 | 0.51          | 29,146                 | 0.60          |
| – Other manufacturing  | 243,701                | 4.60          | 224,533                | 4.64          |
| Production and supply of power, heat, gas and water                    | 215,642                | 4.07          | 186,117                | 3.83          |
| Construction   | 135,998                | 2.56          | 114,577                | 2.36          |
| Transportation, storage and postal service                             | 637,943                | 12.03         | 573,151                | 11.82         |
| Information transmission, software and IT services                     | 28,346                 | 0.53          | 28,682                 | 0.59          |
| Wholesale and retail   | 221,381                | 4.17          | 246,706                | 5.08          |
| Accommodation and catering   | 32,259                 | 0.61          | 34,486                 | 0.71          |
| Finance  | 107,865                | 2.03          | 98,342                 | 2.03          |
| Real estate  | 264,495                | 4.99          | 216,536                | 4.46          |
| Leasing and commercial services  | 508,863                | 9.59          | 413,716                | 8.52          |
| Water conservancy, environmental and other public services             | 284,797                | 5.37          | 263,235                | 5.42          |
| Education, science, culture and public health                          | 96,875                 | 1.83          | 89,436                 | 1.84          |
| Others   | 93,314                 | 1.76          | 96,428                 | 1.99          |
| Discounted bills   | 203,034                | 3.83          | 156,686                | 3.23          |
| <b>Total corporate loans</b>   | <b>3,549,510</b>       | <b>66.92</b>  | <b>3,218,601</b>       | <b>66.31</b>  |
| <b>Individual loans</b>  |                        |               |                        |               |
| Mortgages  | 1,135,428              | 21.41         | 1,007,528              | 20.75         |
| Credit cards   | 467,387                | 8.81          | 505,190                | 10.41         |
| Others   | 151,950                | 2.86          | 122,909                | 2.53          |
| <b>Total individual loans</b>  | <b>1,754,765</b>       | <b>33.08</b>  | <b>1,635,627</b>       | <b>33.69</b>  |
| <b>Gross amount of loans and advances before impairment allowances</b> | <b>5,304,275</b>       | <b>100.00</b> | <b>4,854,228</b>       | <b>100.00</b> |

Note: The classification of industries is consistent with the latest national standards for industry classification (Industrial classification for national economic activities (GB/T 4754-2017) issued by SAC and AQSIQ in 2017).

The industry risk concentration analysis for loans and advances to customers is based on the type of industry of the borrowers.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

### 3 FINANCIAL RISK MANAGEMENT *(Continued)*

#### 3.2 Market risk

##### 3.2.1 Overview

Market risk is risk of loss on the Group's on balance sheet and off balance sheet businesses, which is originated from the unfavourable changes and fluctuations in interest rates, foreign exchange rates, commodity price and equity product price. Market risk consists of interest rate risk, foreign exchange rate risk, commodity price risk and equity product price risk. The market risk of the Group mainly comprises interest rate risk and foreign exchange risk.

The Group established a management model of "large and small middle offices" for its market risk management, which is a centralised control framework led by Board of Directors, Board of Supervisors and senior management. The Assets and Liabilities Management Department takes the lead in the Group's market risk management, while business units such as financial markets department, precious metals trading centre, domestic and overseas branches and subsidiaries are the execution units of the Bank's market risk management. The risk management department and the internal audit department are responsible for the independent validation and internal audit of the market risk management system of the Bank.

In accordance with the requirements of the CBIRC, the Group's financial instrument positions are divided into trading book and banking book. The trading book consists of financial instruments held either for trading intent or economic hedging for other elements of the trading book. The banking book consists of all financial instruments other than those included in trading book. The Group recognises, measures, monitors and controls the market risks in trading book and banking book according to their nature and characteristics.

With regard to the exchange rate risk and the interest rate risk of trading book, the Group established an effective limit management system by implementing Net Position, Risk Sensitivity, Value at Risk ("VaR") and other indicators. Meanwhile, with regard to the interest risk of banking book, net interest income sensitivity tests and gap analysis are the major tools used by the Group to monitor the interest risk of its overall businesses. In addition, through adequate repricing management and structure adjustment of assets and liabilities, the Group strives to maximise its rate of return while keeping its risks under control.

The Group has continuously improved the management system of market risk. The Group conducted stress tests on historical scenarios and hypothetical scenarios in the consideration of the Group's major market risk factors. The Group has realised daily automatic collection of trading data and market data in the system. The Group conducted the management of risk capital and VaR quota, and formulated the quota allocation plans.

The Group also applies sensitivity analysis to assess and measure the market risk of trading book and banking book. Sensitivity analysis indicates the impact on the relevant market risk assuming that only a single variable changes. As any risk variable rarely changes isolatedly, and the correlation between variables will have a significant effect on the final impact amount of the change of a risk variable, the results of sensitivity analysis can only provide limited market risk information.

The major measurement techniques used to measure and control market risk are outlined below:

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019  
(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### 3.2 Market risk (Continued)

#### 3.2.2 VaR

VaR refers to the maximum loss that an investment portfolio may incur at a given confidence level and holding period caused by the changes in market price factors such as interest rates and exchange rates etc. The Group adopted the historical simulation method to calculate daily VaR (99% confidence interval, the holding period of one day).

A summary of VaR by risk type of the Group's portfolios is as follows:

#### Items

|                               | Year ended 31 December 2019 |         |         |         |
|-------------------------------|-----------------------------|---------|---------|---------|
|                               | 31 December                 | Average | Maximum | Minimum |
|                               | 2019                        |         |         |         |
| VaR                           | 464                         | 586     | 788     | 462     |
| Including: Interest rate risk | 167                         | 171     | 209     | 112     |
| Foreign exchange risk         | 500                         | 632     | 846     | 492     |

#### Items

|                               | Year ended 31 December 2018 |         |         |         |
|-------------------------------|-----------------------------|---------|---------|---------|
|                               | 31 December                 | Average | Maximum | Minimum |
|                               | 2018                        |         |         |         |
| VaR                           | 586                         | 556     | 690     | 467     |
| Including: Interest rate risk | 176                         | 159     | 218     | 68      |
| Foreign exchange risk         | 625                         | 538     | 701     | 442     |

#### 3.2.3 Sensitivity analysis

##### Interest rate sensitivity analysis

The table below illustrates the impact on net profit of the Group for the following year based on the structure of financial assets and liabilities as at the date of statement of financial position, resulting from a parallel upward or downward shift of 100 basis points in related yield curves.

|  | Changes in net profit |                  |
|--|-----------------------|------------------|
|  | As at                 | As at            |
|  | 31 December 2019      | 31 December 2018 |
| +100 basis points parallel shift in yield curves | 15,794                | 14,029           |
| -100 basis points parallel shift in yield curves | (15,794)              | (14,029)         |

The table below illustrates the impact on other comprehensive income of the Group for the following year based on the structure of financial assets and liabilities as at the date of statement of financial position, resulting from a parallel upward or downward shift of 100 basis points in related yield curves.

|  | Changes in other comprehensive income |                  |
|--|---------------------------------------|------------------|
|  | As at                                 | As at            |
|  | 31 December 2019                      | 31 December 2018 |
| +100 basis points parallel shift in yield curves | (11,748)                              | (5,572)          |
| -100 basis points parallel shift in yield curves | 11,570                                | 5,740            |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

### 3 FINANCIAL RISK MANAGEMENT (Continued)

#### 3.2 Market risk (Continued)

##### 3.2.3 Sensitivity analysis (Continued)

###### Interest rate sensitivity analysis (Continued)

The above-mentioned impact on other comprehensive income arises from the changes in the fair value of fixed-interest-rate bonds at fair value through other comprehensive income, and loans and advances to customers at fair value through other comprehensive income.

The results of the interest rate sensitivity analysis set out in the table above are illustrative only and are based on simplified scenarios. The figures represent the projected impact to the net profit and other comprehensive income caused by the projected movement of current interest risk structure yield curves. This effect, however, does not take into account actions that would be taken by the Group to mitigate the impact of interest rate changes. The projections above also assume that interest rates of all maturities excluding demand deposits move by the same amount and, therefore, do not reflect the potential impact on net profit due to changes in certain rates while others remain unchanged. The projections are based on other simplified assumptions as well, including that all positions are to be held to maturity. There will be changes to the projection if positions are not held to maturity but it is not expected that the changes would be material.

The Group believes the assumption does not represent the Group's policy on use of funds and interest rate risk management. As a result, the above impact may differ from the actual situation.

###### Foreign exchange sensitivity analysis

The table below illustrates the impact of a concurrent appreciation or depreciation of RMB spot and forward rates against HKD and USD by 5% on the Group's net profit:

|                        | Changes in net profit     |                           |
|------------------------|---------------------------|---------------------------|
|                        | As at<br>31 December 2019 | As at<br>31 December 2018 |
| 5% appreciation of RMB | (1,758)                   | (1,755)                   |
| 5% depreciation of RMB | 1,758                     | 1,755                     |

The table below illustrates the impact of a concurrent appreciation or depreciation of RMB spot and forward rates against HKD and USD by 5% on the Group's other comprehensive income:

|                        | Changes in other comprehensive income |                           |
|------------------------|---------------------------------------|---------------------------|
|                        | As at<br>31 December 2019             | As at<br>31 December 2018 |
| 5% appreciation of RMB | (954)                                 | (891)                     |
| 5% depreciation of RMB | 954                                   | 891                       |

The impact on net profit arises from the influences of RMB exchange rate fluctuation on the net position of monetary assets (excluding other book value than amortised cost of monetary assets at fair value through other comprehensive income) and liabilities denominated in foreign currencies, the net position of non-monetary financial assets (excluding non-monetary items denominated in foreign currencies measured at fair value through other comprehensive income) and liabilities denominated in foreign currencies measured at fair value, and the fair value of currency derivatives denominated in RMB.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### 3.2 Market risk (Continued)

#### 3.2.3 Sensitivity analysis (Continued)

##### *Foreign exchange sensitivity analysis (Continued)*

The impact on other comprehensive income arises from the influences of RMB exchange rate fluctuation on the differences on translation of foreign currency financial statements of foreign operators, the overseas investment portion of monetary assets denominated in foreign currencies, other book value other than amortised cost of the non-monetary items denominated in foreign currencies measured at fair value through other comprehensive income (such as stock) and monetary items at fair value through other comprehensive income.

The above impact on net profit is based on the assumption that the sensitive position of the Group's year-end exchange rate and currency derivatives denominated in RMB remain unchanged around the year. While in practice, the Group will, based on its judgement on the trend of exchange rate, actively adjust the foreign currency position and use appropriate derivative instruments to mitigate the impact of the foreign currency risk. Therefore, the above impact might differ from the actual situation.

#### 3.2.4 Interest rate risk

The Group's interest rate risk mainly arises from interest rate repricing and maturity mismatching of assets and liabilities, and the fluctuation of market interest rates, as well as from the adjustments in the interest rate policies made by the People's Bank of China ("PBOC"). On 20 July 2013, PBOC cancelled the lower limit of benchmark interest rates of loans dominated in RMB, allowing financial institutions to determine the loan interest rates independently based on commercial principles. On 24 October 2015, PBOC cancelled the upper limit of the benchmark interest rates for deposits. The Group conducts most of its domestic businesses including loans and deposits as well as the majority of its financial guarantees and credit commitments at benchmark interest rates published by PBOC. On 20 August 2019, the first quotation formed in accordance with the new Loan Prime Rate (LPR) mechanism was officially launched, and the newly issued loans are priced mainly at LPR. On 28 December 2019, PBOC announced that financial institutions should complete the conversion of the pricing benchmark of existing floating rate loans to LPR between March and August in 2020. Therefore, the Group organised a team to promote the processes, developing the implementation plan and offering guidances to the conversion, and managing the interest rate risks effectively at the same time. With the LPR mechanism, the Group's exposure to interest rate risk will reduce, consequently interest margin will be more stable under different monetary policies. The Group has initially established a relatively complete interest rate risk monitoring system. By using the gap analysis system, the Group regularly monitors the repricing maturity gap of interest rate-sensitive assets and liabilities throughout the Group, takes the initiative to adjust the proportion of interest-bearing assets at floating interest rates and fixed interest rates, and adjusts the repricing term structure of interest rate and manages interest rate risk by applying appropriate derivatives such as interest rate swaps based on allocation strategy of assets and liabilities. Consequently, the Group is less vulnerable to interest rate risk.

During the reporting period, the Group closely monitored the interest rate trend for RMB and foreign currencies, conducted specific management of risk limits, and strengthened comprehensive operations and limit monitoring. In addition, the Group, by rationally adjusting the loan repricing strategies, reinforced the specific management of price negotiation to maximise its rate of return while keeping its risks under control.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### 3.2 Market risk (Continued)

#### 3.2.4 Interest rate risk (Continued)

At the date of statement of financial position, the Group's assets and liabilities categorised by the repricing date or maturity date (whichever is earlier) are as follows:

|  | Up to<br>1 month   | 1-3 months         | 3-12 months        | 1-5 years          | Over<br>5 years  | Non-interest<br>bearing | Total              |
|--|--------------------|--------------------|--------------------|--------------------|------------------|-------------------------|--------------------|
| <b>As at 31 December 2019</b>  |                    |                    |                    |                    |                  |                         |                    |
| <b>Assets</b>  |                    |                    |                    |                    |                  |                         |                    |
| Cash and balances with central banks                                   | 729,335            | -                  | -                  | -                  | -                | 30,850                  | 760,185            |
| Due from and placements with banks and<br>other financial institutions | 217,899            | 94,206             | 262,663            | 57,535             | 10,639           | 5,546                   | 648,488            |
| Derivative financial assets  | -                  | -                  | -                  | -                  | -                | 20,937                  | 20,937             |
| Financial investments at FVPL  | 24,970             | 27,425             | 49,446             | 39,634             | 35,329           | 229,694                 | 406,498            |
| Loans and advances to customers  | 2,422,040          | 475,631            | 1,695,459          | 190,829            | 91,463           | 308,231                 | 5,183,653          |
| Financial investments at FVOCI   | 61,795             | 152,393            | 87,723             | 243,110            | 109,231          | 15,404                  | 669,656            |
| Financial investments at amortised cost                                | 21,782             | 39,197             | 249,195            | 1,027,815          | 562,411          | 29,289                  | 1,929,689          |
| Other assets   | 493                | -                  | -                  | -                  | -                | 286,001                 | 286,494            |
| <b>Total assets</b>  | <b>3,478,314</b>   | <b>788,852</b>     | <b>2,344,486</b>   | <b>1,558,923</b>   | <b>809,073</b>   | <b>925,952</b>          | <b>9,905,600</b>   |
| <b>Liabilities</b>   |                    |                    |                    |                    |                  |                         |                    |
| Due to and placements from banks and<br>other financial institutions   | (720,024)          | (273,836)          | (837,746)          | (39,236)           | (19,803)         | (13,437)                | (1,904,082)        |
| Financial liabilities at FVPL  | (4,103)            | (6,006)            | (6,779)            | (8,190)            | -                | (1,902)                 | (26,980)           |
| Derivative financial liabilities                                       | -                  | -                  | -                  | -                  | -                | (26,424)                | (26,424)           |
| Due to customers   | (3,188,008)        | (668,974)          | (998,242)          | (1,102,269)        | (26,026)         | (89,389)                | (6,072,908)        |
| Other liabilities  | (47,541)           | (123,654)          | (391,494)          | (241,821)          | (136,354)        | (133,430)               | (1,074,294)        |
| <b>Total liabilities</b>   | <b>(3,959,676)</b> | <b>(1,072,470)</b> | <b>(2,234,261)</b> | <b>(1,391,516)</b> | <b>(182,183)</b> | <b>(264,582)</b>        | <b>(9,104,688)</b> |
| <b>Total interest sensitivity gap</b>                                  | <b>(481,362)</b>   | <b>(283,618)</b>   | <b>110,225</b>     | <b>167,407</b>     | <b>626,890</b>   | <b>661,370</b>          | <b>800,912</b>     |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019  
(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### 3.2 Market risk (Continued)

#### 3.2.4 Interest rate risk (Continued)

|  | Up to<br>1 month   | 1-3 months       | 3-12 months        | 1-5 years        | Over<br>5 years  | Non-interest<br>bearing | Total              |
|--|--------------------|------------------|--------------------|------------------|------------------|-------------------------|--------------------|
| <b>As at 31 December 2018</b>  |                    |                  |                    |                  |                  |                         |                    |
| <b>Assets</b>  |                    |                  |                    |                  |                  |                         |                    |
| Cash and balances with central banks                                   | 815,408            | –                | –                  | –                | –                | 24,763                  | 840,171            |
| Due from and placements with banks and<br>other financial institutions | 421,426            | 65,741           | 203,758            | 143,923          | 5,463            | 7,756                   | 848,067            |
| Derivative financial assets  | –                  | –                | –                  | –                | –                | 30,730                  | 30,730             |
| Financial investments at FVPL  | 27,857             | 18,051           | 48,317             | 43,896           | 33,166           | 205,099                 | 376,386            |
| Loans and advances to customers  | 2,211,528          | 521,424          | 1,544,308          | 101,108          | 64,324           | 299,680                 | 4,742,372          |
| Financial investments at FVOCI   | 50,183             | 123,857          | 80,836             | 125,220          | 53,657           | 11,265                  | 445,018            |
| Financial investments at amortised costs                               | 41,240             | 59,505           | 210,740            | 1,165,477        | 494,443          | 29,100                  | 2,000,505          |
| Other assets   | 425                | –                | –                  | –                | –                | 247,497                 | 247,922            |
| <b>Total assets</b>  | <b>3,568,067</b>   | <b>788,578</b>   | <b>2,087,959</b>   | <b>1,579,624</b> | <b>651,053</b>   | <b>855,890</b>          | <b>9,531,171</b>   |
| <b>Liabilities</b>   |                    |                  |                    |                  |                  |                         |                    |
| Due to and placements from banks and<br>other financial institutions   | (776,575)          | (325,116)        | (955,468)          | (46,009)         | (26,521)         | (32,604)                | (2,162,293)        |
| Financial liabilities at FVPL  | (2,968)            | (5,760)          | (5,948)            | (7,401)          | –                | (1,032)                 | (23,109)           |
| Derivative financial liabilities                                       | –                  | –                | –                  | –                | –                | (28,105)                | (28,105)           |
| Due to customers   | (2,970,102)        | (391,142)        | (1,609,799)        | (661,237)        | (75,540)         | (85,504)                | (5,793,324)        |
| Other liabilities  | (44,739)           | (108,504)        | (233,212)          | (185,771)        | (141,087)        | (105,719)               | (819,032)          |
| <b>Total liabilities</b>   | <b>(3,794,384)</b> | <b>(830,522)</b> | <b>(2,804,427)</b> | <b>(900,418)</b> | <b>(243,148)</b> | <b>(252,964)</b>        | <b>(8,825,863)</b> |
| <b>Total interest sensitivity gap</b>                                  | <b>(226,317)</b>   | <b>(41,944)</b>  | <b>(716,468)</b>   | <b>679,206</b>   | <b>407,905</b>   | <b>602,926</b>          | <b>705,308</b>     |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### 3.2 Market risk (Continued)

#### 3.2.5 Foreign exchange risk

The Group conducts the majority of its businesses in RMB, and the recording currency is RMB. Certain foreign transactions are conducted in USD, HKD and other currencies. The exchange rate of RMB to USD, HKD or other currencies is subject to the trading rules of China Foreign Exchange Trade System. Exchange rate risk mainly results from currency mismatch of foreign currency assets and liabilities and off balance sheet currency exposures. The Group has formulated management measures for exchange rate risks, defining the functional division and scope of work of the exchange rate risk management department, risk identification, measurement, monitoring and control methods, and specific measures. Moreover, the Group controls exchange rate risk by setting relevant limits, taking the initiative to adjust the structure of foreign currency assets for a proper matching of currency structure of assets and liabilities, and applying appropriate exchange rate financial derivatives for transfers and hedging based on its own risk tolerance and operating level.

As at 31 December 2019, the exchange rates for US dollar and HK dollar are 1 US dollar to RMB6.9762 (31 December 2018: RMB6.8632) and 1 HK dollar to RMB0.8958 (31 December 2018: RMB0.8762), respectively.

Carrying amounts of the Group's total assets and liabilities categorised by the original currency as at the date of statement of financial position are as follows:

|   | RMB                | USD (RMB<br>Equivalent) | HKD (RMB<br>Equivalent) | Others (RMB<br>Equivalent) | Total              |
|---|--------------------|-------------------------|-------------------------|----------------------------|--------------------|
| <b>As at 31 December 2019</b>                                       |                    |                         |                         |                            |                    |
| <b>Assets</b>   |                    |                         |                         |                            |                    |
| Cash and balances with central banks                                | 730,031            | 17,082                  | 1,874                   | 11,198                     | 760,185            |
| Due from and placements with banks and other financial institutions | 296,047            | 308,665                 | 22,958                  | 20,818                     | 648,488            |
| Derivative financial assets   | 17,991             | 1,503                   | 1,206                   | 237                        | 20,937             |
| Financial investments at FVPL                                       | 336,039            | 43,167                  | 2,947                   | 24,345                     | 406,498            |
| Loans and advances to customers                                     | 4,664,589          | 282,461                 | 162,892                 | 73,711                     | 5,183,653          |
| Financial investments at FVOCI                                      | 277,710            | 282,552                 | 55,646                  | 53,748                     | 669,656            |
| Financial investments at amortised cost                             | 1,910,731          | 16,213                  | –                       | 2,745                      | 1,929,689          |
| Other assets  | 142,776            | 132,093                 | 10,646                  | 979                        | 286,494            |
| <b>Total assets</b>   | <b>8,375,914</b>   | <b>1,083,736</b>        | <b>258,169</b>          | <b>187,781</b>             | <b>9,905,600</b>   |
| <b>Liabilities</b>  |                    |                         |                         |                            |                    |
| Due to and placements from banks and other financial institutions   | (1,489,552)        | (354,673)               | (7,031)                 | (52,826)                   | (1,904,082)        |
| Financial liabilities at FVPL                                       | (2,273)            | (1,882)                 | (10,963)                | (11,862)                   | (26,980)           |
| Derivative financial liabilities                                    | (21,149)           | (3,058)                 | (1,815)                 | (402)                      | (26,424)           |
| Due to customers  | (5,403,579)        | (391,803)               | (241,714)               | (35,812)                   | (6,072,908)        |
| Other liabilities   | (844,270)          | (187,717)               | (22,048)                | (20,259)                   | (1,074,294)        |
| <b>Total liabilities</b>  | <b>(7,760,823)</b> | <b>(939,133)</b>        | <b>(283,571)</b>        | <b>(121,161)</b>           | <b>(9,104,688)</b> |
| <b>Net position</b>   | <b>615,091</b>     | <b>144,603</b>          | <b>(25,402)</b>         | <b>66,620</b>              | <b>800,912</b>     |
| <b>Financial guarantees and credit-related commitments</b>          | <b>1,327,987</b>   | <b>110,286</b>          | <b>18,482</b>           | <b>15,415</b>              | <b>1,472,170</b>   |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### 3.2 Market risk (Continued)

#### 3.2.5 Foreign exchange risk (Continued)

|  | RMB                | USD (RMB<br>Equivalent) | HKD (RMB<br>Equivalent) | Others (RMB<br>Equivalent) | Total              |
|--|--------------------|-------------------------|-------------------------|----------------------------|--------------------|
| <b>As at 31 December 2018</b>  |                    |                         |                         |                            |                    |
| <b>Assets</b>  |                    |                         |                         |                            |                    |
| Cash and balances with central banks                                   | 784,959            | 30,993                  | 3,390                   | 20,829                     | 840,171            |
| Due from and placements with banks and<br>other financial institutions | 488,242            | 334,579                 | 13,180                  | 12,066                     | 848,067            |
| Derivative financial assets  | 25,102             | 1,738                   | 3,344                   | 546                        | 30,730             |
| Financial investments at FVPL  | 328,378            | 29,449                  | 759                     | 17,800                     | 376,386            |
| Loans and advances to customers  | 4,245,922          | 297,273                 | 138,325                 | 60,852                     | 4,742,372          |
| Financial investments at FVOCI   | 157,284            | 199,484                 | 45,069                  | 43,181                     | 445,018            |
| Financial investments at amortised cost                                | 1,981,956          | 15,707                  | –                       | 2,842                      | 2,000,505          |
| Other assets   | 121,427            | 117,928                 | 7,410                   | 1,157                      | 247,922            |
| <b>Total assets</b>  | <b>8,133,270</b>   | <b>1,027,151</b>        | <b>211,477</b>          | <b>159,273</b>             | <b>9,531,171</b>   |
| <b>Liabilities</b>   |                    |                         |                         |                            |                    |
| Due to and placements from banks and<br>other financial institutions   | (1,776,123)        | (332,360)               | (2,364)                 | (51,446)                   | (2,162,293)        |
| Financial liabilities at FVPL  | (4,155)            | (1,137)                 | (7,234)                 | (10,583)                   | (23,109)           |
| Derivative financial liabilities                                       | (24,021)           | (900)                   | (2,809)                 | (375)                      | (28,105)           |
| Due to customers   | (5,122,012)        | (437,650)               | (207,753)               | (25,909)                   | (5,793,324)        |
| Other liabilities  | (567,133)          | (209,406)               | (18,064)                | (24,429)                   | (819,032)          |
| <b>Total liabilities</b>   | <b>(7,493,444)</b> | <b>(981,453)</b>        | <b>(238,224)</b>        | <b>(112,742)</b>           | <b>(8,825,863)</b> |
| <b>Net position</b>  | <b>639,826</b>     | <b>45,698</b>           | <b>(26,747)</b>         | <b>46,531</b>              | <b>705,308</b>     |
| <b>Financial guarantees and credit-related<br/>commitments</b>         |                    |                         |                         |                            |                    |
|  | 1,281,258          | 134,995                 | 27,704                  | 12,261                     | 1,456,218          |

#### 3.2.6 Other price risk

The Group is exposed to other price risk arising from financial assets such as equity investments and derivatives linked to commodity price. The equity investments arise from the proprietary trading of the Group's subsidiaries which hold the qualification of securities dealing and brokerage as well. As for the proprietary trading exposure, the Group enforces strict management of the risk exposure limit and the balance is insignificant to the Group's financial assets. The Group considers the exposure to the other price risk to be insignificant.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

### 3 FINANCIAL RISK MANAGEMENT *(Continued)*

#### 3.3 Liquidity risk

##### **3.3.1 Overview**

Liquidity risk is the risk that occurs when the Group cannot obtain sufficient funds in time and at a reasonable cost to repay debts when they are due, fulfill other payment obligations, or meet other funding needs in the normal course of business. The Group's liquidity risk mainly comes from depositors' early or centralised withdrawals, borrowers' deferred repayment of loans, the amount of assets and liabilities and maturity mismatches.

##### **3.3.2 Liquidity risk management process**

The Group implements centralised management of liquidity risk and, on the basis of forecasting liquidity requirements, formulates corresponding liquidity management plans and actively manages the liquidity of the Bank. The specific measures mainly include:

- Pay close attention to changes in the macroeconomic situation, central bank monetary policy, capital market dynamics, etc.
- Enhance weighting of core deposits as a percentage of liabilities, so as to improve the stability of liabilities;
- Monitor and manage liquidity position bank-wide by implementing a series of indicators and restrictions;
- Liquidity position management and cash utilisation functions are centralised by the Head offices;
- Maintain an appropriate level of central bank reserves, overnight inter-bank transactions, highly liquid debt investment, actively involve in capital management through open market, monetary market and bond market in order to ensure optimal financing capability at market places;
- Minimise liquidity risk by proper management of asset maturity structures and multi-level liquidity portfolios.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019  
(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### 3.3 Liquidity risk (Continued)

#### 3.3.3 Non-derivative financial instruments cash flows

The table below presents the structural analysis by contracted maturities on non-derivative financial assets and liabilities of the Group at the balance sheet date. The amount of financial assets and liabilities for each period is the amount of undiscounted cash flows. The Group's expected cash flows on these financial instruments may vary significantly from the following analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance although they have been classified as repayable on demand in the following tables.

|   | Overdue | Undated | On Demand   | Up to<br>1 month | 1-3 months  | 3-12 months | 1-5 years   | Over<br>5 years | Total       |
|---|---------|---------|-------------|------------------|-------------|-------------|-------------|-----------------|-------------|
| <b>As at 31 December 2019</b>   |         |         |             |                  |             |             |             |                 |             |
| <b>Liabilities</b>  |         |         |             |                  |             |             |             |                 |             |
| Due to and placements from banks and other financial institutions           | -       | -       | (409,571)   | (312,459)        | (279,062)   | (861,415)   | (41,653)    | (24,479)        | (1,928,639) |
| Non-derivative financial liabilities at FVPL                                | -       | -       | (1,087)     | (4,129)          | (6,110)     | (7,644)     | (8,370)     | -               | (27,340)    |
| Due to customers  | -       | -       | (2,608,940) | (620,749)        | (687,767)   | (1,032,419) | (1,184,740) | (26,470)        | (6,161,085) |
| Certificates of deposit issued  | -       | -       | -           | (47,583)         | (112,660)   | (326,884)   | (19,723)    | (104)           | (506,954)   |
| Debt securities issued  | -       | -       | -           | (356)            | (11,595)    | (83,202)    | (246,898)   | (124,044)       | (466,095)   |
| Other financial liabilities   | -       | -       | (62,915)    | (157)            | (980)       | (994)       | (9,289)     | (31,022)        | (105,357)   |
| <b>Total liabilities (contractual maturity dates)</b>                       | -       | -       | (3,082,513) | (985,433)        | (1,098,174) | (2,312,558) | (1,510,673) | (206,119)       | (9,195,470) |
| <b>Assets</b>   |         |         |             |                  |             |             |             |                 |             |
| Cash and balances with central banks  | -       | 669,268 | 90,626      | -                | 291         | -           | -           | -               | 760,185     |
| Due from and placements with banks and other financial institutions         | -       | -       | 68,990      | 150,526          | 96,100      | 271,267     | 60,169      | 13,316          | 660,368     |
| Financial investments at FVPL   | -       | 221,829 | 7,455       | 5,633            | 17,275      | 53,313      | 68,842      | 53,129          | 427,476     |
| Loans and advances to customers   | 41,983  | -       | -           | 662,690          | 350,205     | 1,349,166   | 1,675,654   | 3,135,246       | 7,214,944   |
| Financial investments at FVOCI  | -       | 8,945   | -           | 11,356           | 37,795      | 124,191     | 422,104     | 127,664         | 732,055     |
| Financial investments at amortised cost                                     | 740     | -       | -           | 22,301           | 39,748      | 303,842     | 1,206,797   | 628,632         | 2,202,060   |
| Other financial assets  | 4,524   | -       | 45,990      | -                | -           | -           | -           | -               | 50,514      |
| <b>Assets held for managing liquidity risk (contractual maturity dates)</b> | 47,247  | 900,042 | 213,061     | 852,506          | 541,414     | 2,101,779   | 3,433,566   | 3,957,987       | 12,047,602  |
| <b>Net position</b>   | 47,247  | 900,042 | (2,869,452) | (132,927)        | (556,760)   | (210,779)   | 1,922,893   | 3,751,868       | 2,852,132   |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### 3.3 Liquidity risk (Continued)

#### 3.3.3 Non-derivative financial instruments cash flows (Continued)

|   | Overdue | Undated | On Demand   | Up to<br>1 month | 1-3 months | 3-12 months | 1-5 years | Over<br>5 years | Total       |
|---|---------|---------|-------------|------------------|------------|-------------|-----------|-----------------|-------------|
| <b>As at 31 December 2018</b>   |         |         |             |                  |            |             |           |                 |             |
| <b>Liabilities</b>  |         |         |             |                  |            |             |           |                 |             |
| Due to and placements from banks and other                                      |         |         |             |                  |            |             |           |                 |             |
| financial institutions  | -       | -       | (438,924)   | (356,970)        | (333,168)  | (985,845)   | (50,277)  | (32,319)        | (2,197,503) |
| Non-derivative financial liabilities at FVPL                                    | -       | -       | (865)       | (2,980)          | (5,857)    | (6,265)     | (7,726)   | -               | (23,693)    |
| Due to customers  | -       | -       | (2,443,124) | (555,345)        | (399,059)  | (1,659,473) | (704,621) | (80,025)        | (5,841,647) |
| Certificates of deposit issued  | -       | -       | -           | (41,447)         | (106,436)  | (209,534)   | (15,446)  | -               | (372,863)   |
| Debt securities issued  | -       | -       | -           | (3,665)          | (3,474)    | (39,527)    | (199,677) | (129,224)       | (375,567)   |
| Other financial liabilities   | -       | -       | (52,322)    | (247)            | (237)      | (903)       | (6,096)   | (26,029)        | (85,834)    |
| <b>Total liabilities (contractual maturity dates)</b>                           | -       | -       | (2,935,235) | (960,654)        | (848,231)  | (2,901,547) | (983,843) | (267,597)       | (8,897,107) |
| <b>Assets</b>   |         |         |             |                  |            |             |           |                 |             |
| Cash and balances with central banks  | -       | 713,376 | 126,424     | -                | 371        | -           | -         | -               | 840,171     |
| Due from and placements with banks and other                                    |         |         |             |                  |            |             |           |                 |             |
| financial institutions  | -       | -       | 93,517      | 335,541          | 68,165     | 208,480     | 145,585   | 5,471           | 856,759     |
| Financial investments at FVPL   | 458     | 194,838 | 8,232       | 7,416            | 10,235     | 51,034      | 72,536    | 54,336          | 399,085     |
| Loans and advances to customers   | 36,953  | -       | -           | 680,810          | 287,572    | 1,307,557   | 1,520,092 | 2,574,873       | 6,407,857   |
| Financial investments at FVOCI  | -       | 7,388   | -           | 12,314           | 28,455     | 114,936     | 252,017   | 63,611          | 478,721     |
| Financial investments at amortised cost   | 600     | -       | -           | 39,005           | 55,896     | 266,384     | 1,375,516 | 557,879         | 2,295,280   |
| Other financial assets  | 781     | -       | 34,679      | -                | -          | -           | -         | -               | 35,460      |
| <b>Assets held for managing liquidity risk<br/>(contractual maturity dates)</b> | 38,792  | 915,602 | 262,852     | 1,075,086        | 450,694    | 1,948,391   | 3,365,746 | 3,256,170       | 11,313,333  |
| <b>Net position</b>   | 38,792  | 915,602 | (2,672,383) | 114,432          | (397,537)  | (953,156)   | 2,381,903 | 2,988,573       | 2,416,226   |

Assets available to repay all of the liabilities and fulfill loan commitments include cash, balances with central banks, due from and placements with banks and other financial institutions, financial investment at fair value through profit or loss, etc. In the normal course of business, a majority of matured deposits will not be withdrawn immediately on the maturity date but will continue to be kept by the Group, a proportion of loans and advances to customers contractually repayable within one year will be extended, and certain debt securities have been pledged for liabilities. In addition, financial investments at fair value through other comprehensive income can also be disposed of when necessary to obtain funds for repayment of matured debts. In stressful scenario, the Group would also be able to meet unexpected cash outflows by selling financial investments, using credit commitment provided by other financial institutions, etc.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019  
(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### 3.3 Liquidity risk (Continued)

#### 3.3.4 Derivative financial instruments cash flows

The Group's derivative financial instruments are either settled on a net basis or a gross basis.

##### (a) Derivative settled on a net basis

The Group's derivative financial instruments that will be settled on a net basis include foreign exchange contracts, commodity contracts, interest rate contracts and others.

The table below analyses the undiscounted cash flows of the Group's derivative financial instruments which will be settled on a net basis and are classified based on the remaining contractual period from the balance sheet date to maturity date.

|  | Up to<br>1 month | 1-3 months | 3-12 months | 1-5 years | Over<br>5 years | Total   |
|--|------------------|------------|-------------|-----------|-----------------|---------|
| <b>As at 31 December 2019</b>              |                  |            |             |           |                 |         |
| <b>Assets</b>                              |                  |            |             |           |                 |         |
| <b>Derivative financial instruments</b>    |                  |            |             |           |                 |         |
| – Foreign exchange and commodity contracts | –                | –          | –           | –         | –               | –       |
| – Interest rate contracts and others       | 163              | 315        | 1,148       | 2,547     | 208             | 4,381   |
| <b>Total</b>                               | 163              | 315        | 1,148       | 2,547     | 208             | 4,381   |
| <b>Liabilities</b>                         |                  |            |             |           |                 |         |
| <b>Derivative financial instruments</b>    |                  |            |             |           |                 |         |
| – Foreign exchange and commodity contracts | (203)            | (728)      | (1,545)     | –         | –               | (2,476) |
| – Interest rate contracts and others       | (178)            | (396)      | (1,387)     | (3,720)   | (526)           | (6,207) |
| <b>Total</b>                               | (381)            | (1,124)    | (2,932)     | (3,720)   | (526)           | (8,683) |
| <b>As at 31 December 2018</b>              |                  |            |             |           |                 |         |
| <b>Assets</b>                              |                  |            |             |           |                 |         |
| <b>Derivative financial instruments</b>    |                  |            |             |           |                 |         |
| – Foreign exchange and commodity contracts | 6                | –          | –           | –         | –               | 6       |
| – Interest rate contracts and others       | 99               | 257        | 1,016       | 2,316     | 180             | 3,868   |
| <b>Total</b>                               | 105              | 257        | 1,016       | 2,316     | 180             | 3,874   |
| <b>Liabilities</b>                         |                  |            |             |           |                 |         |
| <b>Derivative financial instruments</b>    |                  |            |             |           |                 |         |
| – Foreign exchange and commodity contracts | (145)            | (220)      | (389)       | –         | –               | (754)   |
| – Interest rate contracts and others       | (64)             | (200)      | (760)       | (1,836)   | (104)           | (2,964) |
| <b>Total</b>                               | (209)            | (420)      | (1,149)     | (1,836)   | (104)           | (3,718) |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

### 3 FINANCIAL RISK MANAGEMENT (Continued)

#### 3.3 Liquidity risk (Continued)

##### 3.3.4 Derivative financial instruments cash flows (Continued)

(b) Derivative settled on a gross basis

The Group's derivative financial instruments that will be settled on a gross basis mainly include currency and commodity derivatives. The table below analyses the undiscounted cash flows of the Group's derivative financial instruments which will be settled on a gross basis and are classified based on the remaining contractual period from the balance sheet date to maturity date.

|   | Up to<br>1 month | 1–3 months     | 3–12 months    | 1–5 years   | Over<br>5 years | Total          |
|---|------------------|----------------|----------------|-------------|-----------------|----------------|
| <b>As at 31 December 2019</b>                             |                  |                |                |             |                 |                |
| Derivative financial instruments settled on a gross basis |                  |                |                |             |                 |                |
| – Outflow   | (652,146)        | (611,954)      | (1,031,667)    | (96,867)    | (1,451)         | (2,394,085)    |
| – Inflow  | 652,036          | 610,048        | 1,028,315      | 96,800      | 3,443           | 2,390,642      |
| <b>Total</b>  | <b>(110)</b>     | <b>(1,906)</b> | <b>(3,352)</b> | <b>(67)</b> | <b>1,992</b>    | <b>(3,443)</b> |
|   | Up to<br>1 month | 1–3 months     | 3–12 months    | 1–5 years   | Over<br>5 years | Total          |
| <b>As at 31 December 2018</b>                             |                  |                |                |             |                 |                |
| Derivative financial instruments settled on a gross basis |                  |                |                |             |                 |                |
| – Outflow   | (745,533)        | (542,190)      | (1,458,561)    | (41,111)    | (1,241)         | (2,788,636)    |
| – Inflow  | 746,029          | 542,837        | 1,458,647      | 41,052      | 2,870           | 2,791,435      |
| <b>Total</b>  | <b>496</b>       | <b>647</b>     | <b>86</b>      | <b>(59)</b> | <b>1,629</b>    | <b>2,799</b>   |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019  
(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### 3.3 Liquidity risk (Continued)

#### 3.3.5 Maturity analysis

The table below analyses the Group's assets and liabilities into relevant maturity groupings based on the remaining period at the end of reporting date to the contractual maturity date.

|   | On demand          | Up to 1<br>month | 1-3 months         | 3-12 months        | 1-5 years          | Over<br>5 years  | Overdue       | Undated          | Total              |
|---|--------------------|------------------|--------------------|--------------------|--------------------|------------------|---------------|------------------|--------------------|
| <b>As at 31 December 2019</b>                                       |                    |                  |                    |                    |                    |                  |               |                  |                    |
| <b>Assets</b>   |                    |                  |                    |                    |                    |                  |               |                  |                    |
| Cash and balances with central banks                                | 90,626             | -                | 291                | -                  | -                  | -                | -             | 669,268          | 760,185            |
| Due from and placements with banks and other financial institutions | 68,990             | 149,937          | 95,479             | 265,628            | 57,812             | 10,642           | -             | -                | 648,488            |
| Derivative financial assets   | -                  | 3,350            | 4,941              | 7,339              | 3,971              | 1,336            | -             | -                | 20,937             |
| Financial investments at FVPL                                       | 7,455              | 5,468            | 16,748             | 50,326             | 58,460             | 47,292           | -             | 220,749          | 406,498            |
| Loans and advances to customers                                     | -                  | 645,176          | 316,350            | 1,217,899          | 1,168,046          | 1,802,390        | 33,792        | -                | 5,183,653          |
| Financial investments at FVOCI                                      | -                  | 11,231           | 36,586             | 112,932            | 386,254            | 113,708          | -             | 8,945            | 669,656            |
| Financial investments at amortised cost                             | -                  | 21,690           | 36,753             | 267,765            | 1,040,314          | 562,427          | 740           | -                | 1,929,689          |
| Other assets  | 65,540             | 5                | 15                 | 7,807              | 20,326             | 3,802            | 696           | 188,303          | 286,494            |
| <b>Total assets</b>   | <b>232,611</b>     | <b>836,857</b>   | <b>507,163</b>     | <b>1,929,696</b>   | <b>2,735,183</b>   | <b>2,541,597</b> | <b>35,228</b> | <b>1,087,265</b> | <b>9,905,600</b>   |
| <b>Liabilities</b>  |                    |                  |                    |                    |                    |                  |               |                  |                    |
| Due to and placements from banks and other financial institutions   | (409,571)          | (312,213)        | (276,142)          | (846,554)          | (39,762)           | (19,840)         | -             | -                | (1,904,082)        |
| Financial liabilities at FVPL                                       | (1,087)            | (4,103)          | (6,026)            | (7,453)            | (8,311)            | -                | -             | -                | (26,980)           |
| Derivative financial liabilities                                    | -                  | (3,494)          | (5,876)            | (10,477)           | (5,121)            | (1,456)          | -             | -                | (26,424)           |
| Due to customers  | (2,608,492)        | (616,996)        | (680,301)          | (1,018,114)        | (1,122,574)        | (26,431)         | -             | -                | (6,072,908)        |
| Other liabilities   | (60,594)           | (50,219)         | (145,757)          | (398,664)          | (277,546)          | (141,514)        | -             | -                | (1,074,294)        |
| <b>Total liabilities</b>  | <b>(3,079,744)</b> | <b>(987,025)</b> | <b>(1,114,102)</b> | <b>(2,281,262)</b> | <b>(1,453,314)</b> | <b>(189,241)</b> | <b>-</b>      | <b>-</b>         | <b>(9,104,688)</b> |
| <b>Net amount on liquidity gap</b>                                  | <b>(2,847,133)</b> | <b>(150,168)</b> | <b>(606,939)</b>   | <b>(351,566)</b>   | <b>1,281,869</b>   | <b>2,352,356</b> | <b>35,228</b> | <b>1,087,265</b> | <b>800,912</b>     |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### 3.3 Liquidity risk (Continued)

#### 3.3.5 Maturity analysis (Continued)

|  | On demand          | Up to<br>1 month | 1–3 months       | 3–12 months        | 1–5 years        | Over<br>5 years  | Overdue       | Undated          | Total              |
|--|--------------------|------------------|------------------|--------------------|------------------|------------------|---------------|------------------|--------------------|
| <b>As at 31 December 2018</b>  |                    |                  |                  |                    |                  |                  |               |                  |                    |
| <b>Assets</b>  |                    |                  |                  |                    |                  |                  |               |                  |                    |
| Cash and balances with central banks                                   | 126,424            | –                | 371              | –                  | –                | –                | –             | 713,376          | 840,171            |
| Due from and placements with banks and other<br>financial institutions | 93,420             | 330,936          | 67,073           | 207,595            | 143,572          | 5,471            | –             | –                | 848,067            |
| Derivative financial assets  | –                  | 5,601            | 6,887            | 13,831             | 2,859            | 1,552            | –             | –                | 30,730             |
| Financial investments at FVPL  | 8,232              | 7,253            | 9,786            | 47,586             | 58,183           | 50,050           | 458           | 194,838          | 376,386            |
| Loans and advances to customers  | –                  | 664,962          | 257,043          | 1,191,035          | 1,088,301        | 1,514,178        | 26,853        | –                | 4,742,372          |
| Financial investments at FVOCI   | –                  | 13,348           | 27,707           | 106,691            | 232,364          | 57,520           | –             | 7,388            | 445,018            |
| Financial investments at amortised cost                                | –                  | 38,084           | 52,330           | 227,158            | 1,187,867        | 494,466          | 600           | –                | 2,000,505          |
| Other assets   | 54,240             | –                | 165              | 499                | 21,311           | 1,309            | 781           | 169,617          | 247,922            |
| <b>Total assets</b>  | <b>282,316</b>     | <b>1,060,184</b> | <b>421,362</b>   | <b>1,794,395</b>   | <b>2,734,457</b> | <b>2,124,546</b> | <b>28,692</b> | <b>1,085,219</b> | <b>9,531,171</b>   |
| <b>Liabilities</b>   |                    |                  |                  |                    |                  |                  |               |                  |                    |
| Due to and placements from banks and other<br>financial institutions   | (438,924)          | (354,689)        | (329,637)        | (966,127)          | (46,308)         | (26,608)         | –             | –                | (2,162,293)        |
| Financial liabilities at FVPL  | (865)              | (2,968)          | (5,801)          | (5,978)            | (7,497)          | –                | –             | –                | (23,109)           |
| Derivative financial liabilities                                       | –                  | (5,036)          | (6,199)          | (14,435)           | (2,199)          | (236)            | –             | –                | (28,105)           |
| Due to customers   | (2,442,774)        | (554,332)        | (397,452)        | (1,649,194)        | (674,006)        | (75,566)         | –             | –                | (5,793,324)        |
| Other liabilities  | (50,084)           | (53,268)         | (118,200)        | (238,444)          | (214,200)        | (144,836)        | –             | –                | (819,032)          |
| <b>Total liabilities</b>   | <b>(2,932,647)</b> | <b>(970,293)</b> | <b>(857,289)</b> | <b>(2,874,178)</b> | <b>(944,210)</b> | <b>(247,246)</b> | <b>–</b>      | <b>–</b>         | <b>(8,825,863)</b> |
| <b>Net amount on liquidity gap</b>                                     | <b>(2,650,331)</b> | <b>89,891</b>    | <b>(435,927)</b> | <b>(1,079,783)</b> | <b>1,790,247</b> | <b>1,877,300</b> | <b>28,692</b> | <b>1,085,219</b> | <b>705,308</b>     |

#### 3.3.6 Off-balance sheet items

The off-balance sheet items of the Group primarily comprise loan commitments, credit card commitments, letter of credit commitments, guarantee and letters of guarantee issued, acceptance notes, etc. The table below lists the liquidity analysis of the off-balance sheet items of the Group, and financial guarantees are included at notional amounts and based on the earliest contractual maturity date.

|  | Up to 1 year     | 1–5 years      | Over 5 years  | Total            |
|--|------------------|----------------|---------------|------------------|
| <b>As at 31 December 2019</b>                            |                  |                |               |                  |
| Loan commitments and other credit related<br>commitments | <b>761,484</b>   | <b>22,389</b>  | <b>8,030</b>  | <b>791,903</b>   |
| Guarantees, acceptances and letters of credit            | <b>570,426</b>   | <b>104,593</b> | <b>5,248</b>  | <b>680,267</b>   |
| <b>Total</b>   | <b>1,331,910</b> | <b>126,982</b> | <b>13,278</b> | <b>1,472,170</b> |
| <b>As at 31 December 2018</b>                            |                  |                |               |                  |
| Loan commitments and other credit related<br>commitments | 787,886          | 21,417         | 9,131         | 818,434          |
| Guarantees, acceptances and letters of credit            | 527,162          | 106,736        | 3,886         | 637,784          |
| <b>Total</b>   | <b>1,315,048</b> | <b>128,153</b> | <b>13,017</b> | <b>1,456,218</b> |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT *(Continued)*

### 3.4 Fair value of financial assets and liabilities

#### **(a) Determination of fair value and valuation techniques**

Certain financial assets and liabilities of the Group are measured at fair value or with fair value disclosed for financial reporting purposes. The fair value has been determined using appropriate valuation techniques and inputs for fair value measurements. The appropriateness of the valuation techniques and the inputs to the fair value measurements are reviewed by the Board of Directors periodically.

Fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- (1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- (2) Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- (3) Level 3 inputs are unobservable inputs for the asset or liability.

The fair value of financial instruments with unadjusted quoted prices for identical instruments in active markets is determined by the open market quotations. These instruments are classified as level 1.

The Group uses valuation techniques to determine the fair value of financial instruments when an open market quotation in active markets is not obtainable.

If the key parameters used in valuation techniques for financial instruments (including debt securities and derivatives) are substantially observable and obtainable from active open market, the instruments are classified as level 2. The second hierarchy of financial instruments held by the Group includes over-the-counter derivatives, certificates of deposit without quotations from active market, loans and advances to customers carried at FVOCI, precious metals, debt securities issued and debt instruments trading in inter-bank market. The fair value of RMB denominated bonds is mainly valued based on the yield curves of the bonds from China Central Depository & Clearing Co., Ltd., while the fair value of the foreign currency denominated bonds is determined based on the valuation results published by Bloomberg. The fair value of foreign currency forwards, swaps and interest rate swaps, currency options is estimated by the discounted cash flow method and Black-Scholes model; the fair value of precious metal contract is mainly determined in accordance with the closing prices of the Shanghai Gold Exchange or the settlement prices of the Shanghai Futures Exchange. The main parameters used in discounted cash flow model include recent market prices, the relevant yield curve, exchange rates and counterparty's credit spreads; main parameters used in Black-Scholes model include the relevant yield curve, exchange rate, level of volatilities and counterparty's credit spreads, etc. All parameters used in valuation techniques are substantially observable and obtainable from active open market.

For loans and advances to customers at fair value, loans and advances to customers at fair value through other comprehensive income, trust and asset management plan, the fair value is determined based on discounted cash flow model using unobservable discount rates that reflect credit risk and liquidity. These financial instruments are classified as Level 3.

For convertible bonds, unlisted equities, unlisted debts, unlisted funds and equity derivatives held by the Group, the fair value of these financial instruments are determined with reference to certain unobservable inputs, and therefore the instruments have been classified by the Group as level 3. Management determines the fair value of these financial instruments using a variety of techniques, including using valuation models that incorporate and take into account unobservable inputs such as Discount for Lack of Marketability (DLOM). The Group has established internal control procedures to monitor the Group's exposure to such financial instruments.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### 3.4 Fair value of financial assets and liabilities (Continued)

#### (b) Financial instruments not measured at fair value

The table below summarises the carrying amount and fair value of those financial assets and liabilities that are not presented at fair value as at the date of statement of financial position. Financial assets and liabilities with carrying amount approximate to fair value, such as cash and balances with central banks, due from and placements with banks and other financial institutions, loans and advances to customers, due to and placements from banks and other financial institutions, and due to customers, are not included in the table below.

|   | As at 31 December 2019 |            | As at 31 December 2018 |            |
|---|------------------------|------------|------------------------|------------|
|   | Carrying amount        | Fair value | Carrying amount        | Fair value |
| <b>Financial assets</b>                 |                        |            |                        |            |
| Financial investments at amortised cost | 1,929,689              | 1,954,341  | 2,000,505              | 2,013,818  |
| <b>Financial liabilities</b>            |                        |            |                        |            |
| Debt securities issued                  | (383,481)              | (388,177)  | (301,138)              | (304,328)  |

#### Fair value hierarchy of financial instruments not measured at fair value

|   | Level 1 | Level 2   | Level 3 | Total     |
|---|---------|-----------|---------|-----------|
| <b>As at 31 December 2019</b>           |         |           |         |           |
| <b>Financial assets</b>                 |         |           |         |           |
| Financial investments at amortised cost | 7,655   | 1,806,199 | 140,487 | 1,954,341 |
| <b>Financial liabilities</b>            |         |           |         |           |
| Debt securities issued                  | –       | (388,177) | –       | (388,177) |

|   | Level 1 | Level 2   | Level 3 | Total     |
|---|---------|-----------|---------|-----------|
| <b>As at 31 December 2018</b>           |         |           |         |           |
| <b>Financial assets</b>                 |         |           |         |           |
| Financial investments at amortised cost | 14,022  | 1,793,650 | 206,146 | 2,013,818 |
| <b>Financial liabilities</b>            |         |           |         |           |
| Debt securities issued                  | –       | (304,328) | –       | (304,328) |

The carrying amounts and fair values of other financial assets and liabilities (including loans and advances to customers, due to customers, due from and placements with banks and other financial institutions, due to and placements from banks and other financial institutions) are approximately the same, because the interest rates of most of these assets and liabilities are adjusted following the changes in interest rates determined by PBOC, other regulatory bodies or market.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019  
(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### 3.4 Fair value of financial assets and liabilities (Continued)

#### (c) Financial assets and financial liabilities measured at fair value on a recurring basis

The financial assets and liabilities measured at fair value on a recurring basis by the three levels are analysed below:

|   | Level 1        | Level 2          | Level 3       | Total            |
|---|----------------|------------------|---------------|------------------|
| <b>As at 31 December 2019</b>                               |                |                  |               |                  |
| At fair value through profit or loss                        |                |                  |               |                  |
| Debt securities   |                |                  |               |                  |
| – Governments and central banks                             | 4,220          | 3,382            | –             | 7,602            |
| – Public sector entities                                    | –              | 2,000            | –             | 2,000            |
| – Banks and other financial institutions                    | 8,757          | 79,922           | 104           | 88,783           |
| – Corporate entities  | 4,625          | 28,178           | 3,762         | 36,565           |
| Fund investments and other asset management products        | 56             | 158,698          | 11,681        | 170,435          |
| Equity securities and others                                | 2,576          | –                | 47,141        | 49,717           |
| Precious metal contracts                                    | –              | 39,532           | –             | 39,532           |
| Placements with banks and other financial institutions      | –              | 11,864           | –             | 11,864           |
| Derivative financial instruments                            |                |                  |               |                  |
| – Foreign exchange and commodity contracts                  | –              | 15,784           | –             | 15,784           |
| – Interest rate contracts and others                        | –              | 4,145            | 1,008         | 5,153            |
|   | 20,234         | 343,505          | 63,696        | 427,435          |
| At fair value through other comprehensive income            |                |                  |               |                  |
| Debt Investments at FVOCI                                   |                |                  |               |                  |
| – Governments and central banks                             | 57,694         | 201,265          | –             | 258,959          |
| – Public sector entities                                    | 136            | 1,972            | –             | 2,108            |
| – Banks and other financial institutions                    | 134,110        | 195,593          | –             | 329,703          |
| – Corporate entities  | 39,804         | 29,299           | 838           | 69,941           |
| Investments in equity instruments designated at FVOCI       | 1,895          | 421              | 6,629         | 8,945            |
| Loans and advances to customers designated at FVOCI         | –              | 235,361          | 53            | 235,414          |
|   | 233,639        | 663,911          | 7,520         | 905,070          |
| <b>Total assets</b>   | <b>253,873</b> | <b>1,007,416</b> | <b>71,216</b> | <b>1,332,505</b> |
| Financial liabilities at FVPL                               |                |                  |               |                  |
| – Certificates of deposits issued                           | –              | (13,392)         | –             | (13,392)         |
| – Financial liabilities related to precious metal contracts | –              | (12,950)         | –             | (12,950)         |
| – Notes issued  | –              | (638)            | –             | (638)            |
| Derivative financial instruments                            |                |                  |               |                  |
| – Foreign exchange and commodity contracts                  | –              | (20,423)         | –             | (20,423)         |
| – Interest rate contracts and others                        | –              | (6,001)          | –             | (6,001)          |
| Debt securities issued                                      | –              | (20,437)         | –             | (20,437)         |
| <b>Total liabilities</b>                                    | <b>–</b>       | <b>(73,841)</b>  | <b>–</b>      | <b>(73,841)</b>  |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### 3.4 Fair values of financial assets and liabilities (Continued)

#### (c) Financial assets and financial liabilities measured at fair value on a recurring basis (Continued)

|   | Level 1        | Level 2         | Level 3       | Total            |
|---|----------------|-----------------|---------------|------------------|
| <b>As at 31 December 2018</b>                               |                |                 |               |                  |
| At fair value through profit or loss                        |                |                 |               |                  |
| Debt securities   |                |                 |               |                  |
| – Governments and central banks                             | 1,925          | 3,636           | –             | 5,561            |
| – Public sector entities                                    | 90             | 2,498           | –             | 2,588            |
| – Banks and other financial institutions                    | 4,031          | 86,912          | 255           | 91,198           |
| – Corporate entities  | 696            | 29,368          | 3,417         | 33,481           |
| Fund investments and other asset management products        | 47             | 180,884         | 6,670         | 187,601          |
| Equity securities and others                                | 1,099          | –               | 9,233         | 10,332           |
| Precious metal contracts                                    | –              | 37,232          | –             | 37,232           |
| Placements with banks and other financial institutions      | –              | 8,393           | –             | 8,393            |
| Derivative financial instruments                            |                |                 |               |                  |
| – Foreign exchange and commodity contracts                  | –              | 26,441          | –             | 26,441           |
| – Interest rate contracts and others                        | –              | 3,308           | 981           | 4,289            |
| Loans and advances to customers designated at FVPL          | –              | –               | 494           | 494              |
|   | 7,888          | 378,672         | 21,050        | 407,610          |
| At fair value through other comprehensive income            |                |                 |               |                  |
| Debt Investments at FVOCI                                   |                |                 |               |                  |
| – Governments and central banks                             | 28,115         | 38,506          | –             | 66,621           |
| – Public sector entities                                    | 124            | 3,575           | –             | 3,699            |
| – Banks and other financial institutions                    | 152,355        | 159,984         | –             | 312,339          |
| – Corporate entities  | 29,900         | 24,690          | 381           | 54,971           |
| Investments in equity instruments designated at FVOCI       | 2,096          | –               | 5,292         | 7,388            |
| Loans and advances to customers designated at FVOCI         | –              | 184,159         | 25            | 184,184          |
|   | 212,590        | 410,914         | 5,698         | 629,202          |
| <b>Total assets</b>   | <b>220,478</b> | <b>789,586</b>  | <b>26,748</b> | <b>1,036,812</b> |
| Financial liabilities at FVPL                               |                |                 |               |                  |
| – Certificates of deposits issued                           | –              | (11,660)        | –             | (11,660)         |
| – Financial liabilities related to precious metal contracts | –              | (11,449)        | –             | (11,449)         |
| Derivative financial instruments                            |                |                 |               |                  |
| – Foreign exchange and commodity contracts                  | –              | (25,640)        | –             | (25,640)         |
| – Interest rate contracts and others                        | –              | (2,465)         | –             | (2,465)          |
| Debt securities issued                                      | –              | (16,556)        | –             | (16,556)         |
| <b>Total liabilities</b>                                    | <b>–</b>       | <b>(67,770)</b> | <b>–</b>      | <b>(67,770)</b>  |

There was no transfer between level 1 and 2 during the year.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### 3.4 Fair values of financial assets and liabilities (Continued)

#### (c) Financial assets and financial liabilities measured at fair value on a recurring basis (Continued)

Reconciliation of level 3 items

|  | Financial assets<br>at FVPL | Financial assets<br>at FVOCI |
|--|-----------------------------|------------------------------|
| Balance at 1 January 2019                                | 21,050                      | 5,698                        |
| Total gains or losses                                    |                             |                              |
| – Net gains arising from trading activities              | 1,120                       | 64                           |
| – Other comprehensive income                             | –                           | (429)                        |
| Additions  | 53,632                      | 3,235                        |
| Disposals and settlement                                 | (9,891)                     | (941)                        |
| Transfer to other levels                                 | (2,215)                     | (107)                        |
| Balance at 31 December 2019                              | 63,696                      | 7,520                        |
| Total gains/(losses) for the year ended 31 December 2019 |                             |                              |
| – Realised gains/(losses)                                | 974                         | 68                           |
| – Unrealised gains/(losses)                              | 104                         | (435)                        |

|  | Financial assets<br>at FVPL | Financial assets<br>at FVOCI |
|--|-----------------------------|------------------------------|
| Balance at 1 January 2018                                | 14,107                      | 1,577                        |
| Total gains or losses                                    |                             |                              |
| – Net gains arising from trading activities              | 217                         | 32                           |
| – Other comprehensive income                             | –                           | (314)                        |
| Additions  | 14,079                      | 4,836                        |
| Disposals  | (7,353)                     | (433)                        |
| Transfer to other levels                                 | –                           | –                            |
| Balance at 31 December 2018                              | 21,050                      | 5,698                        |
| Total gains/(losses) for the year ended 31 December 2018 |                             |                              |
| – Realised gains/(losses)                                | 327                         | 33                           |
| – Unrealised gains/(losses)                              | (110)                       | (315)                        |

These financial instruments with fair values determined based on unobservable inputs are primarily convertible bonds, unlisted equities, unlisted debts, unlisted funds, part of the trust and asset management plan, equity derivatives and part of loans and advances to customers. The fair value of these financial instruments is determined primarily using discounted cash flow method and market comparison method. These valuation methods involve inputs from various unobservable assumptions such as cash flow, risk-adjusted discount rate, price to book value ratio, price to earning ratio and marketability discounts.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

### 3 FINANCIAL RISK MANAGEMENT *(Continued)*

#### 3.5 Offsetting financial assets and financial liabilities

Certain financial assets and financial liabilities of the Group are subject to enforceable master netting arrangements or similar agreements. The agreement between the Group and the counterparty generally allows for net settlement of the relevant financial assets and financial liabilities when both elect to settle on a net basis. In the absence of such a mutual consent, financial assets and financial liabilities will be settled on a gross basis. However, each party to the master netting arrangements or similar agreements will have the option to settle all such amounts on a net basis in the event of default of the other party. These financial assets and financial liabilities of the Group are not offset in accordance with IFRS.

As at 31 December 2019, the amount of the financial assets and financial liabilities subject to enforceable master netting arrangements or similar agreements is not material to the Group.

#### 3.6 Capital management

The “capital” in capital management is a broader concept than “shareholders’ equity” on the statement of financial position. The Group’s objectives in capital management are:

- To comply with the capital requirements set by the regulators of the markets where the Group operates;
- To ensure the Group’s ability to maintain a stable operation so as to continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

The Group management adopts administrative measures issued by CBIRC, which was developed based on guideline issued by the Based Committee, in monitoring its capital adequacy and the usage of regulatory capital on a quarterly basis.

The Administrative Measures for the Capital of Commercial Banks (Provisional) specified the regulatory requirements for minimum capital, capital conservation buffer, additional capital surcharge for systemically important banks, countercyclical buffer and Pillar II capital as follows:

- Minimum regulatory requirements for Core Tier 1 Capital adequacy ratio, Tier 1 Capital adequacy ratio and Capital adequacy ratio are 5%, 6% and 8%, respectively;
- Capital conservation buffer requires additional 2.5% on Core Tier 1 Capital adequacy ratio;
- Additional capital surcharge for systemically important banks requires additional 1% on Core Tier 1 Capital adequacy ratio;
- Should the regulators require countercyclical buffer under particular circumstances or regulators impose additional Pillar II capital requirements for specific banks, these requirements shall be met within the specified time limits.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019  
(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### 3.6 Capital management (Continued)

The Group's capital as monitored by its Planning and Finance Department consists of the following:

- Core Tier 1 Capital, including ordinary shares, eligible portion of capital surplus, statutory reserve, statutory general reserve, retained earnings, eligible portion of non-controlling interests and translation reserve on foreign operations;
- Additional Tier 1 Capital, including Additional Tier 1 Capital instruments issued and related premium and eligible portion of non-controlling interests;
- Tier 2 Capital, including Tier 2 Capital instruments issued and related premium, excess loan loss provisions and eligible portion of non-controlling interests.

The Group's deductible items from Core Tier 1 Capital include: Goodwill, other intangible assets (except land use rights), investments in Core Tier 1 Capital of financial institutions with controlling interests but outside the scope of regulatory consolidation.

In April 2014, CBIRC officially approved the implementation of the advanced approach of capital management adopted by the Bank. In this approach, the Bank elected to use elementary internal rating based ("IRB") approach for corporate risk exposure, IRB approach for retail risk exposure, internal models approach for market risk and standardised approach for operational risk exposure which is compliant with regulatory requirements. For risk exposures not covered by the advanced approaches, the corresponding portion shall be calculated by adopting non-advanced approaches. The capital ratios calculated based on Administrative Measures for the Capital of Commercial Banks (Provisional) are as follows:

| Item                                   | As at<br>31 December 2019 | As at<br>31 December 2018 |
|--|---------------------------|---------------------------|
| Core Tier 1 Capital adequacy ratio (%) | 11.22                     | 11.16                     |
| Tier 1 Capital adequacy ratio (%)      | 12.85                     | 12.21                     |
| Capital adequacy ratio (%)             | 14.83                     | 14.37                     |
| Core Tier 1 Capital                    | 695,084                   | 640,373                   |
| Core Tier 1 Capital deductions         | (5,595)                   | (5,566)                   |
| Net Core Tier 1 Capital                | 689,489                   | 634,807                   |
| Additional Tier 1 Capital              | 100,057                   | 60,025                    |
| Net Tier 1 Capital                     | 789,546                   | 694,832                   |
| Tier 2 Capital                         | 121,710                   | 122,717                   |
| Net Capital                            | 911,256                   | 817,549                   |
| Risk-weighted asset                    | 6,144,459                 | 5,690,542                 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

### 4 NET INTEREST INCOME

|   | Year ended 31 December |                  |
|---|------------------------|------------------|
|   | 2019                   | 2018             |
| <b>Interest income</b>  |                        |                  |
| Loans and advances to customers                                     | 242,948                | 225,422          |
| Financial investments   | 88,647                 | 85,449           |
| Due from and placements with banks and other financial institutions | 24,167                 | 24,945           |
| Balances with central banks   | 11,691                 | 13,048           |
|   | <b>367,453</b>         | <b>348,864</b>   |
| <b>Interest expense</b>   |                        |                  |
| Due to customers  | (139,153)              | (128,589)        |
| Due to and placements from banks and other financial institutions   | (57,650)               | (66,788)         |
| Certificates of deposit issued                                      | (15,048)               | (11,344)         |
| Debt securities issued  | (11,519)               | (11,235)         |
|   | <b>(223,370)</b>       | <b>(217,956)</b> |
| <b>Net interest income</b>  | <b>144,083</b>         | <b>130,908</b>   |
| Including:  |                        |                  |
| Interest income on impaired financial assets                        | 1,467                  | 1,618            |

### 5 FEE AND COMMISSION INCOME

|                          | Year ended 31 December |               |
|--------------------------|------------------------|---------------|
|                          | 2019                   | 2018          |
| Bank cards               | 21,050                 | 20,114        |
| Management services      | 14,400                 | 12,524        |
| Investment banking       | 4,337                  | 4,424         |
| Agency services          | 3,098                  | 2,777         |
| Guarantee and commitment | 2,520                  | 2,461         |
| Settlement services      | 2,024                  | 2,167         |
| Others                   | 240                    | 206           |
|                          | <b>47,669</b>          | <b>44,673</b> |

|  | Year ended 31 December |       |
|--|------------------------|-------|
|  | 2019                   | 2018  |
| Fee income, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading or designated at FVPL | 943                    | 701   |
| Fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers   | 3,541                  | 3,406 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019  
(All amounts expressed in millions of RMB unless otherwise stated)

## 6 FEE AND COMMISSION EXPENSE

|                     | Year ended 31 December |       |
|---------------------|------------------------|-------|
|                     | 2019                   | 2018  |
| Bank card business  | 2,884                  | 2,326 |
| Settlement services | 821                    | 771   |
| Others              | 339                    | 339   |
|                     | 4,044                  | 3,436 |

|   | Year ended 31 December |      |
|---|------------------------|------|
|   | 2019                   | 2018 |
| Fee expense, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading or designated at FVPL | 7                      | 5    |

## 7 NET GAINS ARISING FROM TRADING ACTIVITIES

|                                      | Year ended 31 December |        |
|--------------------------------------|------------------------|--------|
|                                      | 2019                   | 2018   |
| Financial instruments at FVPL        | 13,415                 | 12,606 |
| Foreign exchange                     | 2,629                  | 3,636  |
| Interest rate instruments and others | (108)                  | 857    |
|                                      | 15,936                 | 17,099 |

Net gains or losses on foreign exchange include trading gains or losses and fair value changes of spot and forward contracts, currency swaps, cross currency interest rate swaps, currency options and the translation of foreign currency monetary assets and liabilities into RMB.

Net gains or losses on interest rate instruments and others include trading gains or losses and fair value changes of interest rate swaps, interest rate options, commodity and other derivatives.

Net gains arising from trading activities for the year ended 31 December 2019 included a loss of RMB56 million (for the year ended 31 December 2018: an income of RMB26 million) in relation to changes in the fair value of financial liabilities designated at fair value through profit or loss.

## 8 OTHER OPERATING INCOME

|   | Year ended 31 December |        |
|---|------------------------|--------|
|   | 2019                   | 2018   |
| Leasing income  | 12,821                 | 10,523 |
| Income from sales of precious metal merchandise         | 1,370                  | 2,351  |
| Revaluation of investment properties                    | 31                     | 117    |
| Net gain on the disposal of fixed and foreclosed assets | 287                    | 15     |
| Other miscellaneous income                              | 2,290                  | 2,807  |
|   | 16,799                 | 15,813 |

Other miscellaneous income mainly includes income arising from miscellaneous banking services provided to the Group's customers.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

### 9 CREDIT IMPAIRMENT LOSSES

Credit impairment losses:

|   | Year ended 31 December |         |
|---|------------------------|---------|
|   | 2019                   | 2018    |
| Due from and placements with banks and other financial institutions   | (731)                  | (43)    |
| Loans and advances to customers at amortised cost                     | 49,427                 | 42,813  |
| Loans and advances to customers at FVOCI                              | (346)                  | (317)   |
| Off-balance sheet businesses  | 1,434                  | (1,142) |
| Financial investments at amortised cost                               | (120)                  | (362)   |
| Debt investments at FVOCI   | (160)                  | 265     |
| Other receivables   | 1,610                  | 1,075   |
| Accrued interest of loans and advances to customers at amortised cost | 322                    | 1,127   |
| Others  | 518                    | 38      |
|   | 51,954                 | 43,454  |

### 10 OTHER ASSETS IMPAIRMENT LOSSES

|   | Year ended 31 December |      |
|---|------------------------|------|
|   | 2019                   | 2018 |
| Impairment losses on property and equipment | 233                    | 33   |
| Impairment losses on foreclosed assets      | 37                     | 27   |
|   | 270                    | 60   |

### 11 OTHER OPERATING EXPENSES

|   | Year ended 31 December |        |
|---|------------------------|--------|
|   | 2019                   | 2018   |
| Staff costs and benefits (Note 12)            | 32,927                 | 29,995 |
| General operating and administrative expenses | 25,528                 | 28,368 |
| Depreciation and amortisation                 | 8,105                  | 5,677  |
| Costs of operating lease business             | 8,934                  | 6,414  |
| Tax and surcharges                            | 2,697                  | 2,501  |
| Provision for outstanding litigations         | 50                     | 549    |
| Others  | 2,760                  | 3,248  |
|   | 81,001                 | 76,752 |

Since the presentation of "Other operating expenses" has been changed, we have restated the comparative information of the year before.

### 12 STAFF COSTS AND BENEFITS

|   | Year ended 31 December |        |
|---|------------------------|--------|
|   | 2019                   | 2018   |
| Salaries, bonuses, allowances and subsidies | 21,933                 | 21,075 |
| Post-employment benefit (a)                 | 4,208                  | 3,380  |
| Other social security and benefit costs     | 6,786                  | 5,540  |
|   | 32,927                 | 29,995 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019  
(All amounts expressed in millions of RMB unless otherwise stated)

## 12 STAFF COSTS AND BENEFITS (Continued)

### (a) Post-employment benefit

#### Defined contribution plans

The Group participates in various defined contribution retirement benefit plans organised by municipal and provincial governments in Mainland China under which it is required to make monthly contributions to these plans at rates ranging from 10% to 27% of the employees' basic salary for the year. The Group's contributions to these pension plans are charged to profit or loss and other comprehensive income in the year to which they relate.

Employees who retire after 1 January 2009 can voluntarily participate in an Annuity Plan. The Bank contributes to the Annuity Plan based on certain percentage of the employees' gross salary which is recognised in profit or loss as incurred.

The amount recognised in profit or loss is as follows:

|   | Year ended 31 December |       |
|---|------------------------|-------|
|   | 2019                   | 2018  |
| Expenses incurred for retirement benefit plans and unemployment insurance | 2,331                  | 2,532 |
| Expenses incurred for annuity plan  | 1,855                  | 820   |
| Total   | 4,186                  | 3,352 |

The amount payable at the end of the year is as follows:

|   | As at<br>31 December 2019 | As at<br>31 December 2018 |
|---|---------------------------|---------------------------|
| Expenses incurred for retirement benefit plans and unemployment insurance | 65                        | 64                        |
| Expenses incurred for annuity plan  | 966                       | 14                        |
| Total   | 1,031                     | 78                        |

#### Defined benefit plans

The Group pays supplementary retirement benefits to employees in Mainland China, who retired before 31 December 2008. The Group's obligations in respect of supplementary retirement benefits are calculated by estimating the amount of future benefits that the Group is committed to pay to the employees after their retirement using actuarial techniques. Such benefits, which are estimated by using key parameters such as inflation rate and mortality ratio, are discounted to their present values. The discount rate is the yield on government bonds at the end of reporting date, the maturity dates of which approximate to the terms of the Group's obligations. Actuarial gains or losses and changes in actuarial assumptions are recognised in other comprehensive income, and amendments to pension plan are recognised in profit or loss in the period of a plan amendment. The amounts recognised in the statement of financial position represent the present value of unfunded obligations.

The Group's retirement benefit obligations in locations other than Mainland China are immaterial and are made in accordance with the relevant local policies and regulations.

|                                    | As at<br>31 December 2019 | As at<br>31 December 2018 |
|------------------------------------|---------------------------|---------------------------|
| Statement of financial position    |                           |                           |
| – Obligations for pension benefits | 399                       | 408                       |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

### 12 STAFF COSTS AND BENEFITS (Continued)

#### (a) Post-employment benefit (Continued)

##### **Defined benefit plans** (Continued)

Amounts recognised in comprehensive income in respect of the supplementary retirement benefits are as follows:

|  | Year ended 31 December |      |
|--|------------------------|------|
|  | 2019                   | 2018 |
| Components of defined benefit costs recognised in profit or loss             | 22                     | 28   |
| Components of defined benefit costs recognised in other comprehensive income | 20                     | 25   |
| Total  | 42                     | 53   |

Past service cost and interest expense are recognised in other operating expense in the income statement.

Movements in the unfunded obligations over the year are as follows:

|  | Year ended 31 December |      |
|--|------------------------|------|
|  | 2019                   | 2018 |
| Present value of unfunded obligations at the beginning of the year | 408                    | 395  |
| Retirement benefits paid during the year                           | (51)                   | (40) |
| Interest expense   | 20                     | 25   |
| Past service cost  | 2                      | 3    |
| Net actuarial losses recognised in the current year                | 20                     | 25   |
| Present value of unfunded obligations at the end of the year       | 399                    | 408  |

The average duration of the supplementary retirement benefits plan at 31 December 2019 is 10.21 years (31 December 2018: 10.95 years).

The Group expects to make a contribution of RMB40 million (2018: RMB41 million) to the defined benefit plan during the next financial year.

The supplementary retirement benefits plan exposes the Group to actuarial risks such as interest risk, longevity risk and inflation risk. A decrease in the government bond yield will increase the present value of unfunded obligations. The present value of unfunded obligations is calculated by reference to the best estimate of the mortality of plan participants. An increase in the life expectancy of the plan participants will increase the plan's liability. The present value of unfunded obligations is also measured by future payment standards, which are determined by inflation rate. Hence, an increase in inflation rate will increase the present value of the unfunded obligations.

The principal actuarial assumptions regarding interest risk and inflation risk used by the Group are discount rate and inflation rate, which were 3.22% (31 December 2018: 3.47%) and 2.68% (31 December 2018: 2.12%) respectively as at 31 December 2019. In the meantime, assumptions regarding future mortality rate are set based on published statistics by China Insurance Regulatory Commission. As at 31 December 2019, an average longevity of a pensioner after retirement at age 60 for male is 19.70 years (31 December 2018: 19.70 years) while a pensioner after retirement at age 55 for female is 28.70 years (31 December 2018: 28.70 years).



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

## 12 STAFF COSTS AND BENEFITS *(Continued)*

### (a) Post-employment benefit *(Continued)*

#### **Defined benefit plan** *(Continued)*

Significant actuarial assumptions for the determination of the unfunded obligation are discount rate, inflation rate and mortality. The sensitivity analysis below is based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

- (1) If the discount rate is 100 basis points higher (lower), the defined benefit obligation would decrease by RMB23 million (increase by RMB26 million).
- (2) If the expected inflation rate increases (decreases) by 1%, the defined benefit obligation would increase by RMB26 million (decrease by RMB23 million).
- (3) If the life expectancy increases (decreases) by one year for men and women, the defined benefit obligation would increase by RMB32 million (decrease by RMB32 million).

The sensitivity analysis above may not be representative of the actual change in the unfunded obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

In presenting the above sensitivity analysis, the present value of the unfunded obligation has been calculated at the end of the reporting period, which is the same as that applied in calculating the unfunded obligation liability recognised in the statement of financial position.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

## 13 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

### (a) Directors', supervisors' and senior management's emoluments before taxation

| (in thousands of RMB)                           | Year ended 31 December 2019 |              |                |       |
|---|-----------------------------|--------------|----------------|-------|
| Name  | Emoluments                  | Remuneration | Other benefits | Total |
| Executive directors                             |                             |              |                |       |
| Mr. Ren, Deqi                                   | –                           | 579          | 200            | 779   |
| Mr. Hou, Weidong                                | –                           | 521          | 183            | 704   |
| Non-executive directors                         |                             |              |                |       |
| Mr. Wang, Taiyin                                | –                           | 672          | 178            | 850   |
| Mr. Song, Guobin                                | –                           | 672          | 191            | 863   |
| Mr. He, Zhaobin                                 | –                           | 672          | 191            | 863   |
| Mr. Chan Siu Chung                              | –                           | –            | –              | –     |
| Mr. Song, Hongjun                               | –                           | –            | –              | –     |
| Mr. Chen, Junkui                                | –                           | –            | –              | –     |
| Mr. Liu, Haoyang                                | –                           | –            | –              | –     |
| Ms. Li, Jian                                    | 292                         | –            | –              | 292   |
| Mr. Liu, Li                                     | 292                         | –            | –              | 292   |
| Mr. Jason Yeung Chi Wai                         | 282                         | –            | –              | 282   |
| Mr. Raymond Woo Chin Wan                        | 282                         | –            | –              | 282   |
| Mr. Cai, Haoyi                                  | –                           | –            | –              | –     |
| Mr. Shi, Lei                                    | 6                           | –            | –              | 6     |
| Supervisors                                     |                             |              |                |       |
| Mr. Zhang, Minsheng                             | –                           | –            | –              | –     |
| Mr. Wang, Xueqing                               | –                           | –            | –              | –     |
| Ms. Tang, Xinyu                                 | –                           | –            | –              | –     |
| Ms. Xia, Zhihua                                 | –                           | –            | –              | –     |
| Mr. Li, Yao                                     | –                           | 232          | –              | 232   |
| Mr. Chen, Hanwen                                | –                           | 137          | –              | 137   |
| Ms. Chen, Qing                                  | –                           | 853          | 169            | 1,022 |
| Mr. Du, Yarong                                  | –                           | 841          | 169            | 1,010 |
| Mr. Guan, Xingshe                               | –                           | 800          | 169            | 969   |
| Mr. Wang, Xuewu                                 | –                           | 408          | 86             | 494   |
| Total   | 1,154                       | 6,387        | 1,536          | 9,077 |
| Directors and supervisors that resigned in 2019 |                             |              |                |       |
| Mr. Peng, Chun                                  | –                           | 145          | 45             | 190   |
| Mr. Peter Wong Tung Shun                        | –                           | –            | –              | –     |
| Mr. Wu, Wei                                     | –                           | 304          | 105            | 409   |
| Ms. Helen Wong Pik Kuen                         | –                           | –            | –              | –     |
| Mr. Liu, Hanxing                                | –                           | –            | –              | –     |
| Mr. Luo, Mingde                                 | –                           | –            | –              | –     |
| Mr. Yu,Yongshun                                 | –                           | –            | –              | –     |
| Mr. Song, Shuguang                              | –                           | 48           | 17             | 65    |
| Mr. Gu, Huizhong                                | –                           | –            | –              | –     |
| Mr. Zhao, Yuguo                                 | –                           | –            | –              | –     |
| Mr. Liu, Mingxing                               | –                           | –            | –              | –     |
| Ms. Zhang, Lili                                 | –                           | –            | –              | –     |
| Mr. Fen, Xiaodong                               | –                           | –            | –              | –     |
| Mr. Xu, Ming                                    | –                           | 417          | 83             | 500   |
| Total   | –                           | 914          | 250            | 1,164 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019  
(All amounts expressed in millions of RMB unless otherwise stated)

## 13 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

### (a) Directors', supervisors' and senior management's emoluments before taxation (Continued)

(in thousands of RMB)

| Name   | Year ended 31 December 2018 |              |                |        |
|--|-----------------------------|--------------|----------------|--------|
|  | Emoluments                  | Remuneration | Other benefits | Total  |
| <b>Executive directors</b>                             |                             |              |                |        |
| Mr. Peng, Chun   | —                           | 712          | 179            | 891    |
| Mr. Ren, Deqi  | —                           | 356          | 103            | 459    |
| Mr. Hou, Weidong                                       | —                           | 641          | 174            | 815    |
| <b>Non-executive directors</b>                         |                             |              |                |        |
| Mr. Wang, Dongsheng                                    | —                           | —            | —              | —      |
| Mr. Wang, Taiyin                                       | —                           | 1,563        | 170            | 1,733  |
| Mr. Song, Guobin                                       | —                           | 1,563        | 210            | 1,773  |
| Mr. He, Zhaobin  | —                           | 1,563        | 210            | 1,773  |
| Ms. Huang, Bijuan                                      | —                           | —            | —              | —      |
| Mr. Liu, Hanxing                                       | —                           | —            | —              | —      |
| Mr. Luo, Mingde  | —                           | —            | —              | —      |
| Mr. Liu, Haoyang                                       | —                           | —            | —              | —      |
| Mr. Yu, Yongshun                                       | —                           | —            | —              | —      |
| Ms. Li, Jian   | 250                         | —            | —              | 250    |
| Mr. Liu, Li  | 250                         | —            | —              | 250    |
| Mr. Yang, Zhiwei                                       | 250                         | —            | —              | 250    |
| Mr. Hu, Zhanyun  | 250                         | —            | —              | 250    |
| Mr. Cai, Haoyi   | —                           | —            | —              | —      |
| <b>Supervisors</b>                                     |                             |              |                |        |
| Mr. Gu, Huizhong                                       | —                           | —            | —              | —      |
| Mr. Zhao, Yuguo  | —                           | —            | —              | —      |
| Mr. Liu, Mingxing                                      | —                           | —            | —              | —      |
| Ms. Zhang, Lili  | —                           | —            | —              | —      |
| Mr. Wang, Xueqing                                      | —                           | —            | —              | —      |
| Ms. Tang, Xinyu  | —                           | —            | —              | —      |
| Ms. Xia, Zhihua  | —                           | —            | —              | —      |
| Mr. Li, Yao  | —                           | 200          | —              | 200    |
| Ms. Chen, Qing   | —                           | 853          | 161            | 1,014  |
| Mr. Du, Yarong   | —                           | 840          | 161            | 1,001  |
| Mr. Xu, Ming   | —                           | 833          | 161            | 994    |
| Mr. Guan, Xingshe                                      | —                           | 133          | 28             | 161    |
| Total  | 1,000                       | 9,257        | 1,557          | 11,814 |
| <b>Directors and supervisors that resigned in 2018</b> |                             |              |                |        |
| Mr. Niu, Ximing  | —                           | 331          | 195            | 526    |
| Ms. Yu, Yali   | —                           | 427          | 114            | 541    |
| Mr. Shen, Rujun  | —                           | 534          | 158            | 692    |
| Mr. Song, Shuguang                                     | —                           | 712          | 195            | 907    |
| Mr. Fan, Jun   | —                           | 484          | 91             | 575    |
| Mr. Chen, Zhiwu  | 146                         | —            | —              | 146    |
| Total  | 146                         | 2,488        | 753            | 3,387  |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

### 13 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(Continued)*

#### (a) Directors', supervisors' and senior management's emoluments before taxation *(Continued)*

- (1) The total compensation package for directors and supervisors for the year ended 31 December 2019 has not yet been finalised in accordance with regulations of the PRC relevant authorities. The amount of the compensation not provided for is not expected to have significant impact to the Group's 2019 financial statements. The final compensation will be disclosed in a separate announcement when determined. The total final compensation for the year ended 31 December 2018 was disclosed in Information on the First Interim General Meeting of Stockholders in 2020 issued on 11 March 2020.
- (2) Staff supervisors Ms. Chen, Qing, Mr. Du, Yarong, Mr. Wang, Xuewu and Mr. Guan, Xingshe received compensation according to their staff position of the Bank and did not received additional compensation for being staff supervisors.
- (3) During 2019 and 2018, there was no arrangement under which a director or a supervisor waived or agreed to waive any remuneration.
- (4) Other benefits include social insurance, housing fund, enterprise annuity paid by the Bank.

#### (b) Five highest paid individuals

The five highest paid individuals in the Group for the related years are as follows:

|  | Year ended 31 December |      |
|--|------------------------|------|
|  | 2019                   | 2018 |
| Salary   | 14                     | 14   |
| Discretionary bonuses  | 14                     | 14   |
| Employer's contribution to pension scheme and other benefits | 2                      | 2    |
| Total  | 30                     | 30   |

Emoluments of the above five highest paid individuals in the Group are within the following bands:

|                            | Number of employees<br>As at 31 December |      |
|----------------------------|--|------|
|                            | 2019                                     | 2018 |
| HKD4,000,001 – 4,500,000   | –  | –    |
| HKD4,500,001 – 5,000,000   | 3  | 2    |
| HKD5,000,001 – 5,500,000   | 1  | 2    |
| HKD5,500,001 – 6,000,000   | –  | –    |
| HKD6,000,001 – 6,500,000   | –  | –    |
| HKD6,500,001 – 7,000,000   | –  | –    |
| HKD7,000,001 – 7,500,000   | –  | –    |
| HKD7,500,001 – 8,000,000   | –  | –    |
| HKD8,000,001 – 8,500,000   | –  | –    |
| HKD8,500,001 – 9,000,000   | –  | –    |
| HKD9,000,001 – 9,500,000   | –  | –    |
| HKD9,500,001 – 10,000,000  | –  | 1    |
| HKD10,000,001 – 10,500,000 | 1  | –    |
|                            | 5  | 5    |

During 2019 and 2018, no emolument was paid by the Group to any of the directors, supervisors and the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019  
(All amounts expressed in millions of RMB unless otherwise stated)

## 14 INCOME TAX

|  | Year ended 31 December |        |
|--|------------------------|--------|
|  | 2019                   | 2018   |
| Current income tax   |                        |        |
| – Mainland China enterprise income tax                               | 11,789                 | 6,838  |
| – Hong Kong profits tax  | 1,059                  | 1,058  |
| – Income tax arising in Macao, Taiwan and other countries or regions | 680                    | 593    |
|  | 13,528                 | 8,489  |
| Deferred income tax (Note 25)  | (3,390)                | 3,413  |
|  | 10,138                 | 11,902 |

The provision for enterprise income tax in Mainland China is calculated based on the statutory rate of 25% (2018: 25%) of the assessable income of the Bank and each of the subsidiaries established in Mainland China. Taxation arising in other jurisdictions (including Hong Kong) is calculated at the rates prevailing in the relevant jurisdictions, the shortfall arising from the differential in tax rates of overseas branches as compared with the Mainland China tax rate shall be reported and paid by the Mainland China head office.

The taxation on the Group's profit before tax differs from the theoretical amount that would arise using the tax rate of the home country of the Group at 25% (2018: 25%). The major reconciliation items are as follows:

|   | Year ended 31 December |          |
|---|------------------------|----------|
|   | 2019                   | 2018     |
| Profit before tax   | 88,200                 | 86,067   |
| Tax calculated at a tax rate of 25%   | 22,050                 | 21,517   |
| Effect of different tax rates in Hong Kong, Macao and Taiwan and other countries (or regions) | (206)                  | (33)     |
| Tax effect of expense not deductible for tax purposes   | 3,094                  | 3,589    |
| Tax effect arising from income not subject to tax (1)   | (15,231)               | (12,395) |
| Income tax adjustment for prior years   | 431                    | (776)    |
| Income tax expense  | 10,138                 | 11,902   |

- (1) The income not subject to tax is mainly comprised of fund investment income and interest income generated from PRC treasury bonds and municipal government bonds.

## 15 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit attributable to shareholders of the Bank by the weighted average number of ordinary shares in issue during the period.

|  | Year ended 31 December |         |
|--|------------------------|---------|
|  | 2019                   | 2018    |
| Net profit attributable to shareholders of the Bank  | 77,281                 | 73,630  |
| Less: Net profit attributable to preference shareholders of the Bank                               | (2,671)                | (2,618) |
| Net profit attributable to ordinary shareholders of the Bank                                       | 74,610                 | 71,012  |
| Weighted average number of ordinary shares in issue (expressed in millions) at the end of the year | 74,263                 | 74,263  |
| Basic and diluted earnings per share (expressed in RMB per share)                                  | 1.00                   | 0.96    |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

### 15 BASIC AND DILUTED EARNINGS PER SHARE *(Continued)*

The Bank issued non-cumulative preference shares on 29 July 2015 and 2 September 2016 under the terms and conditions as detailed in Note 34.1 Preference Shares. For the purpose of calculating basic earnings per share, a cash dividend of RMB2,671 million on non-cumulative preference shares declared for the period was deducted from the amounts attributable to ordinary shareholders of the Bank. The conversion feature of preference shares is considered to fall within contingently issuable ordinary shares. The triggering events of conversion did not occur for the year ended 31 December 2019, therefore the conversion feature of preference shares has no effect on the basic and diluted earnings per share calculation.

The Bank issued non-cumulative perpetual bonds on 18 September 2019 under the terms and conditions as detailed in Note 34.2 Perpetual Bonds. For the purpose of calculating basic earnings per share, distributions on non-cumulative perpetual bonds declared in respect of the period should be deducted from the amounts attributable to shareholders of the Bank. The Bank has not declared any distributions on perpetual bonds for the year ended 31 December 2019.

### 16 CASH AND BALANCES WITH CENTRAL BANKS

|                            | As at<br>31 December 2019 | As at<br>31 December 2018 |
|----------------------------|---------------------------|---------------------------|
| Cash                       | 14,481                    | 14,665                    |
| Mandatory reserve deposits | 653,190                   | 703,649                   |
| Excess reserve deposits    | 76,145                    | 111,759                   |
| Fiscal deposits and others | 16,078                    | 9,727                     |
| Accrued interest           | 291                       | 371                       |
|                            | <b>760,185</b>            | <b>840,171</b>            |

The Group places mandatory reserves with PBOC and several other central banks of overseas countries and regions. Such mandatory reserves are not available for use by the Group in its day-to-day operations.

The Bank's domestic mandatory deposit reserve rates as at the balance sheet date are as follows:

|  | As at<br>31 December 2019 | As at<br>31 December 2018 |
|--|---------------------------|---------------------------|
|  | %                         | %                         |
| Domestic mandatory reserve rate for deposits denominated in RMB                | 12.50                     | 14.00                     |
| Domestic mandatory reserve rate for deposits denominated in foreign currencies | 5.00                      | 5.00                      |

Reserve rate for deposits denominated in RMB of the Group's subsidiaries in Mainland China is subject to relevant regulations of PBOC.

Mandatory reserve rate for deposits with central banks of overseas countries and regions is subject to regulations of local regulatory bodies.

Excess reserve deposits with central banks are mainly used for capital settlement, financial institution transfer, etc.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019  
(All amounts expressed in millions of RMB unless otherwise stated)

## 17 DUE FROM AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

|  | As at<br>31 December 2019 | As at<br>31 December 2018 |
|--|---------------------------|---------------------------|
| Due from banks and other financial institutions                                    |                           |                           |
| – Banks and other financial institutions operating in Mainland China               | 96,489                    | 104,270                   |
| – Banks and other financial institutions operating outside Mainland China          | 39,783                    | 58,697                    |
| Accrued interest   | 559                       | 933                       |
| Less: Allowance for impairment losses  | (176)                     | (254)                     |
| Financial assets purchased under resale agreements                                 |                           |                           |
| – Securities   | 15,217                    | 116,871                   |
| – Bills  | 329                       | 2,846                     |
| Accrued interest   | 20                        | 92                        |
| Less: Allowance for impairment losses  | (11)                      | (166)                     |
| Placements with and loans to banks   |                           |                           |
| – Banks operating in Mainland China  | 100,074                   | 194,008                   |
| – Banks operating outside Mainland China   | 55,132                    | 47,437                    |
| Placements with and loans to other financial institutions                          |                           |                           |
| – Placements with and loans to other financial institutions in Mainland China      | 262,885                   | 275,020                   |
| – Placements with and loans to other financial institutions outside Mainland China | 74,080                    | 42,898                    |
| Accrued interest   | 4,979                     | 6,749                     |
| Less: Allowance for impairment losses  | (872)                     | (1,334)                   |
|  | <b>648,488</b>            | <b>848,067</b>            |

As at 31 December 2019, placements and bonds purchased under resale agreements with certain wealth management products that were sponsored and not consolidated by the Group amounted to RMB4,500 million (31 December 2018: RMB96,473 million). These transactions were carried out at market prices and the Group were not contractually obliged to make such arrangements. The maximum exposure to loss of those transactions approximated the carrying amount of the placements and bonds purchased under resale agreements. The average exposure of the above transactions for the year ended 31 December 2019 was RMB47,930 million and the weighted average outstanding period was 2.42 days (The average exposure during 2018 was RMB54,670 million and the weighted average outstanding period was 6.01 days). As at the approval date of these consolidated financial statements, the placements and bonds purchased under resale agreements had been matured and the amounts had been fully repaid.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

### 18 FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

|  | As at<br>31 December 2019 | As at<br>31 December 2018 |
|--|---------------------------|---------------------------|
| Government bonds                                       |                           |                           |
| – Listed in Hong Kong                                  | 2,829                     | 1,746                     |
| – Listed outside Hong Kong (a)                         | 3,176                     | 3,036                     |
| – Unlisted   | 1,597                     | 779                       |
| Other debt securities                                  |                           |                           |
| – Listed in Hong Kong                                  | 21,244                    | 13,043                    |
| – Listed outside Hong Kong (a)                         | 100,680                   | 109,396                   |
| – Unlisted – corporate entities                        | 3,869                     | 3,609                     |
| – Unlisted – banks                                     | 1,555                     | 1,219                     |
| Equity securities and others                           |                           |                           |
| – Listed in Hong Kong                                  | 820                       | 1                         |
| – Listed outside Hong Kong                             | 1,756                     | 1,099                     |
| – Unlisted   | 47,141                    | 9,232                     |
| Fund investments and other asset management products   |                           |                           |
| – Listed outside Hong Kong                             | 92                        | –                         |
| – Unlisted   | 170,343                   | 187,601                   |
| Precious metal contracts                               | 39,532                    | 37,232                    |
| Placements with banks and other financial institutions | 11,864                    | 8,393                     |
| <b>Total</b>   | <b>406,498</b>            | <b>376,386</b>            |

(a) Debt securities traded in the China domestic inter-bank bond market are included in “Listed outside Hong Kong”.

Debt securities at fair value through profit or loss are analysed by issuer as follows:

|  | As at<br>31 December 2019 | As at<br>31 December 2018 |
|--|---------------------------|---------------------------|
| – Banks and other financial institutions | 88,783                    | 91,198                    |
| – Corporate entities                     | 36,565                    | 33,481                    |
| – Governments and central banks          | 7,602                     | 5,561                     |
| – Public sector entities                 | 2,000                     | 2,588                     |
|  | <b>134,950</b>            | <b>132,828</b>            |

The financial investments at fair value through profit or loss include financial assets held for trading and financial assets that cannot pass the ‘SPPI test’.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019  
(All amounts expressed in millions of RMB unless otherwise stated)

## 19 DERIVATIVE FINANCIAL INSTRUMENTS

The following derivative instruments are utilised by the Group for trading or hedging purposes:

Currency and commodity forwards are contracts between two parties to buy or sell certain currencies or commodities at a specified future date at a predetermined price. The party agreeing to buy the underlying currency or commodities in the future assumes a long position, and the party agreeing to sell the currency or commodities in the future assumes a short position. The price agreed upon is called the delivery price, which is equal to the forward price at the time the contract is entered into.

Currency, commodity and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies, commodities or interest rates (for example, fixed rate for floating rate) or a combination of these (i.e. cross-currency interest rate swaps). The Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

Currency, commodity and interest rate options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) on or before a set date or during a set period, a specific amount of a currency or commodity at a predetermined price or to receive an interest payment based on a variable interest rate and pay at a fixed interest rate or vice versa. The seller receives a premium from the purchaser in consideration for assuming foreign exchange, interest rate risk or commodity price fluctuations. Options may be either exchange-traded or negotiated between the Group and a customer (over the counter market).

The notional amounts of certain types of financial instruments provide a reference of the amounts recognised in the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments may become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates, foreign exchange rates or commodity price relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The fair values of derivative instruments held are set out in the following tables.

|   | Contractual/Notional<br>Amount | Fair values |             |
|---|--------------------------------|-------------|-------------|
|   |                                | Assets      | Liabilities |
| <b>As at 31 December 2019</b>                     |                                |             |             |
| Foreign exchange and commodity contracts          | 2,173,598                      | 15,784      | (20,423)    |
| Interest rate contracts and others                | 3,826,987                      | 5,153       | (6,001)     |
| Total amount of derivative instruments recognised | 6,000,585                      | 20,937      | (26,424)    |

|   | Contractual/Notional<br>Amount | Fair values |             |
|---|--------------------------------|-------------|-------------|
|   |                                | Assets      | Liabilities |
| <b>As at 31 December 2018</b>                     |                                |             |             |
| Foreign exchange and commodity contracts          | 2,541,252                      | 26,441      | (25,640)    |
| Interest rate contracts and others                | 831,692                        | 4,289       | (2,465)     |
| Total amount of derivative instruments recognised | 3,372,944                      | 30,730      | (28,105)    |

The tables above provide a breakdown of the contractual or notional amounts and the fair values of the Group's derivative financial instruments outstanding at year end. These instruments, comprising foreign exchange, interest rate and commodity derivatives allow the Group and its customers to transfer, modify or reduce their foreign exchange, interest rate and commodity price fluctuation risks.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

### 19 DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

The Group undertakes its transactions in foreign exchange, interest rates and commodity contracts with other financial institutions and customers. Management has established limits for these contracts based on counterpart types, industry sectors and countries. Related risks are regularly monitored and controlled by management.

Notional amounts of derivative financial instruments by original currency:

|        | As at<br>31 December 2019 | As at<br>31 December 2018 |
|--------|---------------------------|---------------------------|
| RMB    | 4,442,337                 | 1,785,452                 |
| USD    | 1,209,161                 | 1,384,347                 |
| HKD    | 204,007                   | 129,328                   |
| Others | 145,080                   | 73,817                    |
| Total  | 6,000,585                 | 3,372,944                 |

### Hedge accounting

The above derivative financial instruments include those designated as hedging instruments by the Group as follows:

|   | Contractual/Notional<br>Amount | Fair values<br>Assets | Liabilities    |
|---|--------------------------------|-----------------------|----------------|
| <b>As at 31 December 2019</b>   |                                |                       |                |
| Derivative financial instruments designated as hedging instruments in fair value hedges | 121,791                        | 295                   | (1,794)        |
| Derivative financial instruments designated as hedging instruments in cash flow hedges  | 29,379                         | 130                   | (168)          |
| <b>Total</b>  | <b>151,170</b>                 | <b>425</b>            | <b>(1,962)</b> |

|   | Contractual/Notional<br>Amount | Fair values<br>Assets | Liabilities  |
|---|--------------------------------|-----------------------|--------------|
| <b>As at 31 December 2018</b>   |                                |                       |              |
| Derivative financial instruments designated as hedging instruments in fair value hedges | 71,133                         | 1,122                 | (353)        |
| Derivative financial instruments designated as hedging instruments in cash flow hedges  | 26,935                         | 479                   | (201)        |
| <b>Total</b>  | <b>98,068</b>                  | <b>1,601</b>          | <b>(554)</b> |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

## 19 DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

### Hedge accounting (Continued)

#### (a) Fair value hedge

The Group uses interest rate swaps to hedge against changes in fair value arising from changes in interest rates. Some purchased interest rate swap contracts are designated as hedging instruments, whose terms are identical with those of the corresponding hedged items regarding interest rate, maturity and currency. The Group uses regression analysis to evaluate the effectiveness of hedging. With the supporting of testing results, the Group's management considers the hedging relationship to be highly effective. The hedged items include due from and placements with banks and other financial institutions, debt investments at FVOCI, due to and placements from banks and other financial institutions, loans and advances to customers and certificates of deposits issued.

The following table shows the profit or loss effects of the fair value hedges:

| The Group                                    | Year ended 31 December |       |
|--|------------------------|-------|
|  | 2019                   | 2018  |
| Net gains/(losses) from fair value hedges:   |                        |       |
| Hedging instruments                          | (2,504)                | (28)  |
| Hedged items attributable to the hedged risk | 2,250                  | (81)  |
| Total  | (254)                  | (109) |

#### (b) Cash flow hedge

The Group uses foreign exchange contracts to hedge against exposures to cash flow variability primarily resulting from foreign exchange risks, and uses interest rate swaps to hedge against exposures to cash flow variability primarily resulting from interest rate risks. The hedged items include debt investments at FVOCI, due from and placements with banks and other financial institutions, loans and advances to customers, due to and placements from banks and other financial institutions and certificates of deposits issued. The Group mainly uses regression analysis to evaluate the effectiveness of hedging. With the supporting of testing results, the Group's management considers the hedging relationship to be highly effective.

The Group's loss from the hedging instruments of RMB210 million (31 December 2018: profit of RMB147 million) was recognised in other comprehensive income and the gains or losses arising from the ineffective portion of cash flow hedge was immaterial for the year ended 31 December 2019. There were no transactions for which cash flow hedge accounting had to be ceased, as a result of the highly probable cash flows no longer being expected to occur.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

### 20 LOANS AND ADVANCES TO CUSTOMERS

#### 20.1 Loans and advances to customers

|   | As at<br>31 December 2019 | As at<br>31 December 2018 |
|---|---------------------------|---------------------------|
| Loans and advances to customers                           |                           |                           |
| – Carried at amortised cost                               | 5,068,861                 | 4,669,550                 |
| – Carried at FVOCI  | 235,414                   | 184,184                   |
| – Carried at FVPL   | –                         | 494                       |
| Less: Allowance for impairment losses                     | (132,719)                 | (123,861)                 |
| Accrued interest  | 14,648                    | 14,195                    |
| Less: Allowance for impairment losses of accrued interest | (2,551)                   | (2,190)                   |
|   | 5,183,653                 | 4,742,372                 |

#### 20.2 Movements of gross carrying amount and ECL allowance

Movements of gross carrying amount – Corporate loan at amortised cost:

|  | Stage 1   | Stage 2  | Stage 3  | Total     |
|--|-----------|----------|----------|-----------|
| <b>As at 1 January 2019</b>                                | 2,848,956 | 127,820  | 57,147   | 3,033,923 |
| Addition, net  | 365,201   | (58,429) | (4,964)  | 301,808   |
| Written-offs and disposals                                 | –         | (217)    | (27,330) | (27,547)  |
| Transfers:   | (105,437) | 70,823   | 34,614   | –         |
| <i>Transfer between Stage 1 and Stage 2, net</i>           | (95,474)  | 95,474   | –        | –         |
| <i>Transfer between Stage 1 and Stage 3, net</i>           | (9,963)   | –        | 9,963    | –         |
| <i>Transfer between Stage 2 and Stage 3, net</i>           | –         | (24,651) | 24,651   | –         |
| Modification of contractual cash flows of financial assets | –         | (413)    | (82)     | (495)     |
| Exchange differences                                       | 6,259     | 117      | 31       | 6,407     |
| <b>As at 31 December 2019</b>                              | 3,114,979 | 139,701  | 59,416   | 3,314,096 |

|  | Stage 1   | Stage 2  | Stage 3  | Total     |
|--|-----------|----------|----------|-----------|
| <b>As at 1 January 2018</b>                                | 2,791,561 | 150,487  | 62,557   | 3,004,605 |
| Addition, net  | 154,030   | (87,260) | (5,255)  | 61,515    |
| Written-offs and disposals                                 | –         | (527)    | (38,461) | (38,988)  |
| Transfers:   | (103,366) | 64,901   | 38,465   | –         |
| <i>Transfer between Stage 1 and Stage 2, net</i>           | (88,892)  | 88,892   | –        | –         |
| <i>Transfer between Stage 1 and Stage 3, net</i>           | (14,474)  | –        | 14,474   | –         |
| <i>Transfer between Stage 2 and Stage 3, net</i>           | –         | (23,991) | 23,991   | –         |
| Modification of contractual cash flows of financial assets | 18        | 148      | (212)    | (46)      |
| Exchange differences                                       | 6,713     | 71       | 53       | 6,837     |
| <b>As at 31 December 2018</b>                              | 2,848,956 | 127,820  | 57,147   | 3,033,923 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019  
(All amounts expressed in millions of RMB unless otherwise stated)

## 20 LOANS AND ADVANCES TO CUSTOMERS (Continued)

### 20.2 Movements of gross carrying amount and ECL allowance (Continued)

Movements of ECL allowance – Corporate loan at amortised cost:

|   | Stage 1       | Stage 2         | Stage 3       |                |
|---|---------------|-----------------|---------------|----------------|
|   | 12-month ECL  | Lifetime ECL    | Lifetime ECL  | Total          |
| <b>As at 1 January 2019</b>                       | <b>23,323</b> | <b>42,503</b>   | <b>36,577</b> | <b>102,403</b> |
| Addition/(Reversal)                               | 3,443         | (3,596)         | (4,142)       | (4,295)        |
| Transfer in/(out)                                 | (51)          | 189             | –             | 138            |
| Written-offs and disposals                        | –             | (217)           | (27,330)      | (27,547)       |
| Transfers:  | 844           | (13,068)        | 12,224        | –              |
| <i>Transfer between Stage 1 and Stage 2, net</i>  | <i>1,148</i>  | <i>(1,148)</i>  | <i>–</i>      | <i>–</i>       |
| <i>Transfer between Stage 1 and Stage 3, net</i>  | <i>(304)</i>  | <i>–</i>        | <i>304</i>    | <i>–</i>       |
| <i>Transfer between Stage 2 and Stage 3, net</i>  | <i>–</i>      | <i>(11,920)</i> | <i>11,920</i> | <i>–</i>       |
| Remeasurement                                     | (4,459)       | 14,145          | 24,560        | 34,246         |
| Recoveries of loans written-off in previous years | –             | –               | 1,464         | 1,464          |
| Unwind of discount                                | –             | –               | (1,292)       | (1,292)        |
| Exchange differences                              | 25            | 4               | 24            | 53             |
| <b>As at 31 December 2019</b>                     | <b>23,125</b> | <b>39,960</b>   | <b>42,085</b> | <b>105,170</b> |

|   | Stage 1       | Stage 2        | Stage 3       |                |
|---|---------------|----------------|---------------|----------------|
|   | 12-month ECL  | Lifetime ECL   | Lifetime ECL  | Total          |
| <b>As at 1 January 2018 (Restated)</b>            | <b>25,027</b> | <b>50,159</b>  | <b>36,406</b> | <b>111,592</b> |
| Addition/(Reversal)                               | (2,123)       | 1,320          | 30,879        | 30,076         |
| Written-offs and disposals                        | –             | (527)          | (38,461)      | (38,988)       |
| Transfers:  | 381           | (8,488)        | 8,107         | –              |
| <i>Transfer between Stage 1 and Stage 2, net</i>  | <i>741</i>    | <i>(741)</i>   | <i>–</i>      | <i>–</i>       |
| <i>Transfer between Stage 1 and Stage 3, net</i>  | <i>(360)</i>  | <i>–</i>       | <i>360</i>    | <i>–</i>       |
| <i>Transfer between Stage 2 and Stage 3, net</i>  | <i>–</i>      | <i>(7,747)</i> | <i>7,747</i>  | <i>–</i>       |
| Recoveries of loans written-off in previous years | –             | –              | 1,062         | 1,062          |
| Unwind of discount                                | –             | –              | (1,447)       | (1,447)        |
| Exchange differences                              | 38            | 39             | 31            | 108            |
| <b>As at 31 December 2018</b>                     | <b>23,323</b> | <b>42,503</b>  | <b>36,577</b> | <b>102,403</b> |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

### 20 LOANS AND ADVANCES TO CUSTOMERS (Continued)

#### 20.2 Movements of gross carrying amount and ECL allowance (Continued)

Movements of gross carrying amount – Individual loan at amortised cost:

|   | Stage 1          | Stage 2      | Stage 3       | Total            |
|---|------------------|--------------|---------------|------------------|
| <b>As at 1 January 2019</b>               | <b>1,612,415</b> | <b>7,872</b> | <b>15,340</b> | <b>1,635,627</b> |
| Addition, net                             | 138,887          | (1,906)      | (4,226)       | 132,755          |
| Written-offs and disposals                | –                | –            | (14,436)      | (14,436)         |
| Transfers:                                | (25,008)         | 3,116        | 21,892        | –                |
| Transfer between Stage 1 and Stage 2, net | (7,504)          | 7,504        | –             | –                |
| Transfer between Stage 1 and Stage 3, net | (17,504)         | –            | 17,504        | –                |
| Transfer between Stage 2 and Stage 3, net | –                | (4,388)      | 4,388         | –                |
| Exchange differences                      | 812              | 3            | 4             | 819              |
| <b>As at 31 December 2019</b>             | <b>1,727,106</b> | <b>9,085</b> | <b>18,574</b> | <b>1,754,765</b> |

|   | Stage 1          | Stage 2      | Stage 3       | Total            |
|---|------------------|--------------|---------------|------------------|
| <b>As at 1 January 2018</b>               | <b>1,388,170</b> | <b>5,721</b> | <b>15,991</b> | <b>1,409,882</b> |
| Addition, net                             | 240,290          | (1,515)      | (2,902)       | 235,873          |
| Written-offs and disposals                | –                | –            | (11,180)      | (11,180)         |
| Transfers:                                | (17,027)         | 3,635        | 13,392        | –                |
| Transfer between Stage 1 and Stage 2, net | (5,541)          | 5,541        | –             | –                |
| Transfer between Stage 1 and Stage 3, net | (11,486)         | –            | 11,486        | –                |
| Transfer between Stage 2 and Stage 3, net | –                | (1,906)      | 1,906         | –                |
| Exchange differences                      | 982              | 31           | 39            | 1,052            |
| <b>As at 31 December 2018</b>             | <b>1,612,415</b> | <b>7,872</b> | <b>15,340</b> | <b>1,635,627</b> |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019  
(All amounts expressed in millions of RMB unless otherwise stated)

## 20 LOANS AND ADVANCES TO CUSTOMERS (Continued)

### 20.2 Movements of gross carrying amount and ECL allowance (Continued)

Movements of ECL allowance – Individual Loan at amortised cost:

|   | Stage 1      | Stage 2      | Stage 3       |               |
|---|--------------|--------------|---------------|---------------|
|   | 12-month ECL | Lifetime ECL | Lifetime ECL  | Total         |
| <b>As at 1 January 2019</b>                       | <b>7,710</b> | <b>2,302</b> | <b>11,446</b> | <b>21,458</b> |
| Addition/(Reversal)                               | 909          | (225)        | (1,219)       | (535)         |
| Written-offs and disposals                        | –            | –            | (14,436)      | (14,436)      |
| Transfers:  | 380          | (686)        | 306           | –             |
| Transfer between Stage 1 and Stage 2, net         | 295          | (295)        | –             | –             |
| Transfer between Stage 1 and Stage 3, net         | 85           | –            | (85)          | –             |
| Transfer between Stage 2 and Stage 3, net         | –            | (391)        | 391           | –             |
| Remeasurement                                     | (605)        | 1,800        | 18,816        | 20,011        |
| Recoveries of loans written-off in previous years | –            | –            | 1,224         | 1,224         |
| Unwind of discount                                | –            | –            | (175)         | (175)         |
| Exchange differences                              | –            | 2            | –             | 2             |
| <b>As at 31 December 2019</b>                     | <b>8,394</b> | <b>3,193</b> | <b>15,962</b> | <b>27,549</b> |

|   | Stage 1      | Stage 2      | Stage 3       |               |
|---|--------------|--------------|---------------|---------------|
|   | 12-month ECL | Lifetime ECL | Lifetime ECL  | Total         |
| <b>As at 1 January 2018</b>                       | <b>6,506</b> | <b>1,395</b> | <b>11,626</b> | <b>19,527</b> |
| Addition  | 730          | 1,450        | 10,557        | 12,737        |
| Written-offs and disposals                        | –            | –            | (11,180)      | (11,180)      |
| Transfers:  | 460          | (545)        | 85            | –             |
| Transfer between Stage 1 and Stage 2, net         | 272          | (272)        | –             | –             |
| Transfer between Stage 1 and Stage 3, net         | 188          | –            | (188)         | –             |
| Transfer between Stage 2 and Stage 3, net         | –            | (273)        | 273           | –             |
| Recoveries of loans written-off in previous years | –            | –            | 517           | 517           |
| Unwind of discount                                | –            | –            | (171)         | (171)         |
| Exchange differences                              | 14           | 2            | 12            | 28            |
| <b>As at 31 December 2018</b>                     | <b>7,710</b> | <b>2,302</b> | <b>11,446</b> | <b>21,458</b> |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

### 20 LOANS AND ADVANCES TO CUSTOMERS (Continued)

#### 20.2 Movements of gross carrying amount and ECL allowance (Continued)

Movements of gross carrying amount – Loans and advances to customers at fair value through other comprehensive income

|   | Stage 1        | Stage 2      | Stage 3    | Total          |
|---|----------------|--------------|------------|----------------|
| <b>As at 1 January 2019</b>               | <b>178,874</b> | <b>6,731</b> | <b>258</b> | <b>185,863</b> |
| Addition, net                             | 49,941         | (193)        | (310)      | 49,438         |
| Transfers:                                | (102)          | –            | 102        | –              |
| Transfer between Stage 1 and Stage 2, net | –              | –            | –          | –              |
| Transfer between Stage 1 and Stage 3, net | (102)          | –            | 102        | –              |
| Changes in the fair value                 | 244            | (134)        | 3          | 113            |
| <b>As at 31 December 2019</b>             | <b>228,957</b> | <b>6,404</b> | <b>53</b>  | <b>235,414</b> |

|   | Stage 1        | Stage 2      | Stage 3    | Total          |
|---|----------------|--------------|------------|----------------|
| <b>As at 1 January 2018</b>               | <b>156,612</b> | <b>7,184</b> | <b>209</b> | <b>164,005</b> |
| Addition, net                             | 28,129         | (7,712)      | (44)       | 20,373         |
| Transfers:                                | (7,029)        | 6,980        | 49         | –              |
| Transfer between Stage 1 and Stage 2, net | (6,980)        | 6,980        | –          | –              |
| Transfer between Stage 1 and Stage 3, net | (49)           | –            | 49         | –              |
| Changes in the fair value                 | 1,162          | 279          | 44         | 1,485          |
| <b>As at 31 December 2018</b>             | <b>178,874</b> | <b>6,731</b> | <b>258</b> | <b>185,863</b> |



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019  
(All amounts expressed in millions of RMB unless otherwise stated)

## 20 LOANS AND ADVANCES TO CUSTOMERS (Continued)

### 20.2 Movements of gross carrying amount and ECL allowance (Continued)

Movements of ECL allowance – Loans and advances to customers at fair value through other comprehensive income:

|  | Stage 1      | Stage 2      | Stage 3      |              |
|--|--------------|--------------|--------------|--------------|
|  | 12-month ECL | Lifetime ECL | Lifetime ECL | Total        |
| <b>As at 1 January 2019</b>                      | <b>1,163</b> | <b>283</b>   | <b>233</b>   | <b>1,679</b> |
| Addition/(Reversal)                              | (321)        | (78)         | 53           | (346)        |
| Transfers:                                       | (3)          | –            | 3            | –            |
| <i>Transfer between Stage 1 and Stage 2, net</i> | –            | –            | –            | –            |
| <i>Transfer between Stage 1 and Stage 3, net</i> | (3)          | –            | 3            | –            |
| <b>As at 31 December 2019</b>                    | <b>839</b>   | <b>205</b>   | <b>289</b>   | <b>1,333</b> |

|  | Stage 1      | Stage 2      | Stage 3      |              |
|--|--------------|--------------|--------------|--------------|
|  | 12-month ECL | Lifetime ECL | Lifetime ECL | Total        |
| <b>As at 1 January 2018 (Restated)</b>           | <b>1,587</b> | <b>278</b>   | <b>131</b>   | <b>1,996</b> |
| Addition/(Reversal)                              | (138)        | (279)        | 100          | (317)        |
| Transfers:                                       | (286)        | 284          | 2            | –            |
| <i>Transfer between Stage 1 and Stage 2, net</i> | (284)        | 284          | –            | –            |
| <i>Transfer between Stage 1 and Stage 3, net</i> | (2)          | –            | 2            | –            |
| <b>As at 31 December 2018</b>                    | <b>1,163</b> | <b>283</b>   | <b>233</b>   | <b>1,679</b> |

### 20.3 Loans and advances to customers analysed by security type

|   | As at<br>31 December 2019 | As at<br>31 December 2018 |
|---|---------------------------|---------------------------|
| Unsecured loans                               | 1,844,304                 | 1,554,652                 |
| Guaranteed loans                              | 943,076                   | 895,738                   |
| Collateralised and other secured loans        | 2,516,895                 | 2,403,838                 |
| <i>Including: Loans secured by collateral</i> | <b>1,926,508</b>          | <b>1,732,818</b>          |
| <i>Pledged loans</i>                          | <b>590,387</b>            | <b>671,020</b>            |
| <b>Total</b>                                  | <b>5,304,275</b>          | <b>4,854,228</b>          |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

### 20 LOANS AND ADVANCES TO CUSTOMERS (Continued)

#### 20.4 Overdue loans analysed by security type

|   | As at 31 December 2019      |   |  |                          |               |
|---|-----------------------------|---|--|--------------------------|---------------|
|   | Overdue within three months | Overdue between three months and one year | Overdue between one year and three years | Overdue over three years | Total         |
| Unsecured loans                               | 10,622                      | 12,014                                    | 1,009                                    | 299                      | 23,944        |
| Guaranteed loans                              | 4,983                       | 7,781                                     | 11,294                                   | 3,893                    | 27,951        |
| Collateralised and other secured loans        | 13,318                      | 8,823                                     | 11,358                                   | 5,126                    | 38,625        |
| <i>Including: Loans secured by collateral</i> | <i>11,805</i>               | <i>7,934</i>                              | <i>9,505</i>                             | <i>4,695</i>             | <i>33,939</i> |
| <i>Pledged loans</i>                          | <i>1,513</i>                | <i>889</i>                                | <i>1,853</i>                             | <i>431</i>               | <i>4,686</i>  |
| Total   | 28,923                      | 28,618                                    | 23,661                                   | 9,318                    | 90,520        |

|   | As at 31 December 2018      |   |  |                          |               |
|---|-----------------------------|---|--|--------------------------|---------------|
|   | Overdue within three months | Overdue between three months and one year | Overdue between one year and three years | Overdue over three years | Total         |
| Unsecured loans                               | 11,133                      | 10,402                                    | 400                                      | 460                      | 22,395        |
| Guaranteed loans                              | 6,344                       | 10,847                                    | 9,561                                    | 4,099                    | 30,851        |
| Collateralised and other secured loans        | 8,366                       | 10,830                                    | 11,930                                   | 4,792                    | 35,918        |
| <i>Including: Loans secured by collateral</i> | <i>7,553</i>                | <i>9,429</i>                              | <i>10,329</i>                            | <i>4,306</i>             | <i>31,617</i> |
| <i>Pledged loans</i>                          | <i>813</i>                  | <i>1,401</i>                              | <i>1,601</i>                             | <i>486</i>               | <i>4,301</i>  |
| Total   | 25,843                      | 32,079                                    | 21,891                                   | 9,351                    | 89,164        |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019  
(All amounts expressed in millions of RMB unless otherwise stated)

## 21 FINANCIAL INVESTMENTS

|   | As at<br>31 December 2019 | As at<br>31 December 2018 |
|---|---------------------------|---------------------------|
| Financial investments at amortised cost |                           |                           |
| – Listed in Hong Kong                   | 7,427                     | 6,007                     |
| – Listed outside Hong Kong              | 1,747,791                 | 1,759,249                 |
| – Unlisted                              | 149,170                   | 209,518                   |
| Accrued interest                        | 28,564                    | 29,100                    |
| Less: Allowance for impairment losses   | (3,263)                   | (3,369)                   |
| <b>Total</b>                            | <b>1,929,689</b>          | <b>2,000,505</b>          |
| Financial investments at FVOCI          |                           |                           |
| Debt investments at FVOCI               |                           |                           |
| – Listed in Hong Kong                   | 155,781                   | 106,465                   |
| – Listed outside Hong Kong              | 382,695                   | 236,079                   |
| – Unlisted                              | 115,776                   | 91,209                    |
| Accrued interest                        | 6,459                     | 3,877                     |
| <b>Subtotal</b>                         | <b>660,711</b>            | <b>437,630</b>            |
| Equity investments at FVOCI             |                           |                           |
| – Listed in Hong Kong                   | 677                       | 991                       |
| – Listed outside Hong Kong              | 1,639                     | 1,423                     |
| – Unlisted                              | 6,629                     | 4,974                     |
| <b>Subtotal</b>                         | <b>8,945</b>              | <b>7,388</b>              |
| <b>Total</b>                            | <b>669,656</b>            | <b>445,018</b>            |

The Group designates part of non-trading equity investments as financial investments measured at FVOCI.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

### 21 FINANCIAL INVESTMENTS (Continued)

The movements in the gross carrying amount of financial investments are summarised as follows:

|  | Debt investments at FVOCI |         |         | Financial investments at amortised cost |         |         | Total     |
|--|---------------------------|---------|---------|---|---------|---------|-----------|
|  | Stage 1                   | Stage 2 | Stage 3 | Stage 1                                 | Stage 2 | Stage 3 |           |
| <b>As at 1 January 2019</b>                      | 437,630                   | -       | -       | 2,002,789                               | -       | 1,085   | 2,441,504 |
| New financial assets originated or purchased     | 415,485                   | -       | -       | 289,477                                 | -       | -       | 704,962   |
| Financial assets derecognised during the year    | (205,700)                 | -       | -       | (360,855)                               | -       | (21)    | (566,576) |
| Transfers:                                       | -                         | -       | -       | (1,816)                                 | 1,497   | 319     | -         |
| <i>Transfer between Stage 1 and Stage 2, net</i> | -                         | -       | -       | (1,497)                                 | 1,497   | -       | -         |
| <i>Transfer between Stage 1 and Stage 3, net</i> | -                         | -       | -       | (319)                                   | -       | 319     | -         |
| <i>Transfer between Stage 2 and Stage 3, net</i> | -                         | -       | -       | -                                       | -       | -       | -         |
| Changes in accrual interest                      | 2,582                     | -       | -       | (536)                                   | -       | -       | 2,046     |
| Exchange differences and other movements         | 5,822                     | -       | -       | 1,013                                   | -       | -       | 6,835     |
| Changes in fair value                            | 4,892                     | -       | -       | -                                       | -       | -       | 4,892     |
| <b>As at 31 December 2019</b>                    | 660,711                   | -       | -       | 1,930,072                               | 1,497   | 1,383   | 2,593,663 |

|  | Debt investments at FVOCI |         |         | Financial investments at amortised cost |         |         | Total     |
|--|---------------------------|---------|---------|---|---------|---------|-----------|
|  | Stage 1                   | Stage 2 | Stage 3 | Stage 1                                 | Stage 2 | Stage 3 |           |
| <b>As at 1 January 2018</b>                      | 369,318                   | -       | -       | 1,886,559                               | 54      | 576     | 2,256,507 |
| New financial assets originated or purchased     | 283,626                   | -       | -       | 406,039                                 | -       | -       | 689,665   |
| Financial assets derecognised during the year    | (224,823)                 | -       | -       | (319,166)                               | (54)    | (16)    | (544,059) |
| Transfers:                                       | -                         | -       | -       | (525)                                   | -       | 525     | -         |
| <i>Transfer between Stage 1 and Stage 2, net</i> | -                         | -       | -       | -                                       | -       | -       | -         |
| <i>Transfer between Stage 1 and Stage 3, net</i> | -                         | -       | -       | (525)                                   | -       | 525     | -         |
| <i>Transfer between Stage 2 and Stage 3, net</i> | -                         | -       | -       | -                                       | -       | -       | -         |
| Changes in accrual interest                      | 3,877                     | -       | -       | 29,100                                  | -       | -       | 32,977    |
| Exchange differences and other movements         | 3,037                     | -       | -       | 782                                     | -       | -       | 3,819     |
| Changes in fair value                            | 2,595                     | -       | -       | -                                       | -       | -       | 2,595     |
| <b>As at 31 December 2018</b>                    | 437,630                   | -       | -       | 2,002,789                               | -       | 1,085   | 2,441,504 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019  
(All amounts expressed in millions of RMB unless otherwise stated)

## 21 FINANCIAL INVESTMENTS (Continued)

The movements in allowance for impairment losses of financial investments are summarised as follows:

|   | Debt investments at FVOCI |                         |                         | Financial investments at amortised cost |                         |                         | Total |
|---|---------------------------|-------------------------|-------------------------|---|-------------------------|-------------------------|-------|
|   | Stage 1<br>12-month ECL   | Stage 2<br>Lifetime ECL | Stage 3<br>Lifetime ECL | Stage 1<br>12-month ECL                 | Stage 2<br>Lifetime ECL | Stage 3<br>Lifetime ECL |       |
| As at 1 January 2019                      | 718                       | -                       | 467                     | 2,884                                   | -                       | 485                     | 4,554 |
| Addition/(Reversal)                       | 114                       | -                       | (81)                    | (148)                                   | -                       | (13)                    | (128) |
| Written-offs                              | -                         | -                       | -                       | -                                       | -                       | -                       | -     |
| Recovery after written-offs               | -                         | -                       | -                       | -                                       | -                       | 13                      | 13    |
| Transfers:                                | -                         | -                       | -                       | (56)                                    | 52                      | 4                       | -     |
| Transfer between Stage 1 and Stage 2, net | -                         | -                       | -                       | (52)                                    | 52                      | -                       | -     |
| Transfer between Stage 1 and Stage 3, net | -                         | -                       | -                       | (4)                                     | -                       | 4                       | -     |
| Transfer between Stage 2 and Stage 3, net | -                         | -                       | -                       | -                                       | -                       | -                       | -     |
| Remeasurement                             | (193)                     | -                       | -                       | (226)                                   | 126                     | 141                     | (152) |
| Exchange differences                      | 21                        | -                       | 7                       | 1                                       | -                       | -                       | 29    |
| As at 31 December 2019                    | 660                       | -                       | 393                     | 2,455                                   | 178                     | 630                     | 4,316 |

|   | Debt investments at FVOCI |                         |                         | Financial investments at amortised cost |                         |                         | Total |
|---|---------------------------|-------------------------|-------------------------|---|-------------------------|-------------------------|-------|
|   | Stage 1<br>12-month ECL   | Stage 2<br>Lifetime ECL | Stage 3<br>Lifetime ECL | Stage 1<br>12-month ECL                 | Stage 2<br>Lifetime ECL | Stage 3<br>Lifetime ECL |       |
| As at 1 January 2018                      | 438                       | -                       | 454                     | 3,246                                   | 10                      | 475                     | 4,623 |
| Addition/(Reversal)                       | 273                       | -                       | (8)                     | (336)                                   | (10)                    | (16)                    | (97)  |
| Written-offs                              | -                         | -                       | -                       | -                                       | -                       | -                       | -     |
| Recovery after written-offs               | -                         | -                       | -                       | -                                       | -                       | -                       | -     |
| Transfers:                                | -                         | -                       | -                       | (26)                                    | -                       | 26                      | -     |
| Transfer between Stage 1 and Stage 2, net | -                         | -                       | -                       | -                                       | -                       | -                       | -     |
| Transfer between Stage 1 and Stage 3, net | -                         | -                       | -                       | (26)                                    | -                       | 26                      | -     |
| Transfer between Stage 2 and Stage 3, net | -                         | -                       | -                       | -                                       | -                       | -                       | -     |
| Exchange differences                      | 7                         | -                       | 21                      | -                                       | -                       | -                       | 28    |
| As at 31 December 2018                    | 718                       | -                       | 467                     | 2,884                                   | -                       | 485                     | 4,554 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

### 21 FINANCIAL INVESTMENTS (Continued)

Debt securities analysed by issuer are as follows:

|  | As at<br>31 December 2019 | As at<br>31 December 2018 |
|--|---------------------------|---------------------------|
| Debt investments at FVOCI                |                           |                           |
| – Governments and central banks          | 258,959                   | 66,621                    |
| – Public sector entities                 | 2,108                     | 3,699                     |
| – Banks and other financial institutions | 329,703                   | 312,339                   |
| – Corporate entities                     | 69,941                    | 54,971                    |
| Total                                    | 660,711                   | 437,630                   |
| Bond investments at amortised cost       |                           |                           |
| – Governments and central banks          | 1,521,473                 | 1,439,657                 |
| – Public sector entities                 | 25,689                    | 28,364                    |
| – Banks and other financial institutions | 215,817                   | 292,631                   |
| – Corporate entities                     | 27,038                    | 38,411                    |
| Total                                    | 1,790,017                 | 1,799,063                 |

The certificates of deposits held included in financial investments are analysed as follows:

|                                | As at<br>31 December 2019 | As at<br>31 December 2018 |
|--------------------------------|---------------------------|---------------------------|
| Financial investments at FVOCI |                           |                           |
| – Listed in Hong Kong          | 1,411                     | 1,047                     |
| – Listed outside Hong Kong     | 3,606                     | 44,682                    |
| – Unlisted                     | 38,088                    | 44,354                    |
| Total                          | 43,105                    | 90,083                    |

The maturity profile of certificates of deposits in the inter-bank market held by the remaining period as at period end to the contractual maturity dates are summarised as follows:

|                       | As at 31<br>December 2019 | As at<br>31 December 2018 |
|-----------------------|---------------------------|---------------------------|
| Within 3 months       | 3,129                     | 14,407                    |
| 3 months to 12 months | 15,341                    | 58,075                    |
| 1 year to 5 years     | 22,368                    | 17,072                    |
| Over 5 years          | 2,267                     | 529                       |
| Total                 | 43,105                    | 90,083                    |

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## 22 PRINCIPAL SUBSIDIARIES

### 22.1 Details of the principal subsidiaries

| Name of subsidiaries   | Place of incorporation and operation | Date of incorporation | Issued and fully paid up share capital | Proportion of ownership interest and voting power held by the Group (%) | Principal activities                                |
|--|--------------------------------------|-----------------------|--|---|---|
| Bank of Communications Financial Leasing Co., Ltd.   | Mainland China                       | 20 Dec. 2007          | RMB8,500,000,000                       | 100.00  | Financial leasing                                   |
| Bank of Communications International Trust Co., Ltd.   | Mainland China                       | 18 Oct. 2007          | RMB5,764,705,882                       | 85.00   | Trust investment                                    |
| Bank of Communications Schroder Fund Management Co., Ltd.  | Mainland China                       | 4 Aug. 2005           | RMB200,000,000                         | 65.00   | Fund management                                     |
| BoCommlife Insurance Company Limited   | Mainland China                       | 27 Jan. 2010          | RMB5,100,000,000                       | 62.50   | Life Insurance                                      |
| BoCom International Holdings Company Limited (formerly known as BoCom Securities Company Limited)  | Hong Kong<br>China                   | 2 May. 2007           | HKD2,734,392,000                       | 73.14   | Securities dealing and brokerage                    |
| China BoCom Insurance Co., Ltd. (formerly known as China Communications Insurance Company Limited) | Hong Kong<br>China                   | 1 Nov. 2000           | HKD400,000,000                         | 100.00  | General insurance and reinsurance                   |
| Dayi BoCom Xingmin Rural Bank Ltd.   | Mainland China                       | 15 Aug. 2008          | RMB60,000,000                          | 61.00   | Commercial banking                                  |
| Zhejiang Anji BoCom Rural Bank Ltd.  | Mainland China                       | 18 Mar. 2010          | RMB180,000,000                         | 51.00   | Commercial banking                                  |
| Xinjiang Shihezi BoCom Rural Bank Company Ltd.   | Mainland China                       | 13 Apr. 2011          | RMB150,000,000                         | 51.00   | Commercial banking                                  |
| Qingdao Laoshan BoCom Rural Bank Company Ltd.  | Mainland China                       | 16 Aug. 2012          | RMB150,000,000                         | 51.00   | Commercial banking                                  |
| Bank of Communications (Luxemburg) Limited   | Luxembourg                           | 7 May. 2015           | EUR100,000,000                         | 100.00  | Commercial banking                                  |
| Bank of Communications Financial Assets Investment Co., Ltd.                                       | Mainland China                       | 29 Dec. 2017          | RMB10,000,000,000                      | 100.00  | Debt-to-equity swaps                                |
| Bank of Communications (Hong Kong) Limited   | Hong Kong<br>China                   | 29 Jan. 2018          | HKD17,900,000,000                      | 100.00  | Commercial banking                                  |
| BOCOM Wealth Management Co., Ltd.  | Mainland China                       | 6 June. 2019          | RMB8,000,000,000                       | 100.00  | Financial products issuing and financial consulting |
| BoCom Brazil Holding Company Ltd.  | Brazil                               | 11 Mar. 2016          | BRL533,377,877                         | 100.00  | Investment  |
| BANCO Bocom BBM S.A.   | Brazil                               | 29 Jun. 1967          | BRL313,686,111                         | 80.00   | Commercial banking                                  |

As at 31 December 2019, the amount of non-controlling interests of these subsidiaries is insignificant to the Group.

### 22.2 Changes of principal subsidiaries

- On 6 June 2019, the Bank set up a wholly-owned subsidiary, BOCOM Wealth Management Co., Ltd., which was approved by CBIRC on 28 May 2019 with the registered capital of RMB8 billion. As at 31 December 2019, the Bank held 100% of the total capital of BOCOM Wealth Management Co., Ltd.
- On 4 December 2019, the Bank increased the capital of Bocom Brazil Holding Company Ltda by BRL32,122,063.84. As at 31 December 2019, the Bank and its subsidiary held 100% of Bocom Brazil Holding Company Ltda.
- The liquidation of Bank of Communications (UK) Limited was completed in 2019 and deregistration was completed on 23 January 2020. As at 31 December 2019, Bank of Communications (UK) Limited was no longer included in the Group's consolidated financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

### 22 PRINCIPAL SUBSIDIARIES (Continued)

#### 22.3 Auditors of subsidiaries

For the year ended 31 December 2019, PricewaterhouseCoopers was the auditor of all principal subsidiaries incorporated in Hong Kong (for the year ended 31 December 2018: PricewaterhouseCoopers).

For the year ended 31 December 2019, PricewaterhouseCoopers ZhongTian Certified Public Accountants LLP was the auditor of all principal subsidiaries incorporated in PRC (for the year ended 31 December 2018: PricewaterhouseCoopers ZhongTian Certified Public Accountants LLP).

For the year ended 31 December 2019, Bank of Communications (Luxemburg) Limited was audited by PricewaterhouseCoopers, Société coopérative (for the year ended 31 December 2018: PricewaterhouseCoopers, Société coopérative).

For the year ended 31 December 2019, BoCom Brazil Holding Company Ltda and BANCO Bocom BBM S.A. were audited by PricewaterhouseCoopers LLP (for the year ended 31 December 2018: PricewaterhouseCoopers LLP).

### 23 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

|  | As at<br>31 December 2019 | As at<br>31 December 2018 |
|--|---------------------------|---------------------------|
| Investments in associates                                |                           |                           |
| Investment cost  | 3,506                     | 2,977                     |
| Share of net profit of associates for the year           | 1,080                     | 666                       |
| Share of other equity changes of associates for the year | 71                        | 44                        |
| Dividend income  | (93)                      | (42)                      |
| Subtotal   | 4,564                     | 3,645                     |
| Investments in joint ventures                            | 36                        | 8                         |
| Total  | 4,600                     | 3,653                     |

The Group's investments in associates mainly include the investments in Jiangsu Changshu Rural Commercial Bank Co., Ltd. and Bank of Tibet Co., Ltd.

Jiangsu Changshu Rural Commercial Bank Co., Ltd. was incorporated in Changshu City, Jiangsu Province on 3 December 2001. The registered capital of the entity is RMB2,741 million, and the principal activities of the entity are banking activities. The Group held 9.01% of equity interest in this associate as at 31 December 2019 (31 December 2018: 8.84%).

There are 15 directors at the Board of Directors of Jiangsu Changshu Rural Commercial Bank Co., Ltd., of which 3 directors were nominated by the Group. Accordingly, the Group is able to exert significant influence on such company, so such company is accounted for as an associate.

Bank of Tibet Co., Ltd. was incorporated in Tibet Autonomous Region, PRC on 30 December 2011. The registered capital of the entity is RMB3,320 million, and the principal activities of the entity are banking activities. The Group held 10.60% of equity interest in this associate as at 31 December 2019 (31 December 2018: 10.60%).

There are 12 directors at the Board of Directors of Bank of Tibet Co., Ltd., of which 3 directors were nominated by the Group. Accordingly, the Group is able to exert significant influence on such company, so such company is accounted for as an associate.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019  
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## 24 PROPERTY AND EQUIPMENT

|  | Land and<br>buildings | Construction<br>in progress | Equipment       | Transportation<br>equipment | Property<br>improvement | Total           |
|--|-----------------------|-----------------------------|-----------------|-----------------------------|-------------------------|-----------------|
| <b>Cost</b>                                |                       |                             |                 |                             |                         |                 |
| As at 1 January 2019                       | 61,594                | 2,407                       | 25,523          | 108,553                     | 9,133                   | 207,210         |
| Additions                                  | 173                   | 965                         | 2,077           | 28,201                      | 103                     | 31,519          |
| Disposals                                  | (468)                 | –                           | (2,250)         | (2,314)                     | (124)                   | (5,156)         |
| Construction in progress transfer in/(out) | 326                   | (731)                       | –               | –                           | 405                     | –               |
| Other transfers in/(out)                   | 139                   | (16)                        | –               | –                           | (139)                   | (16)            |
| <b>As at 31 December 2019</b>              | <b>61,764</b>         | <b>2,625</b>                | <b>25,350</b>   | <b>134,440</b>              | <b>9,378</b>            | <b>233,557</b>  |
| <b>Accumulated depreciation</b>            |                       |                             |                 |                             |                         |                 |
| As at 1 January 2019                       | (16,860)              | –                           | (20,288)        | (11,540)                    | (5,103)                 | (53,791)        |
| Charge for the year                        | (1,975)               | –                           | (2,065)         | (5,908)                     | (822)                   | (10,770)        |
| Disposals                                  | 157                   | –                           | 2,110           | 171                         | 101                     | 2,539           |
| <b>As at 31 December 2019</b>              | <b>(18,678)</b>       | <b>–</b>                    | <b>(20,243)</b> | <b>(17,277)</b>             | <b>(5,824)</b>          | <b>(62,022)</b> |
| <b>Allowance for impairment losses</b>     |                       |                             |                 |                             |                         |                 |
| As at 1 January 2019                       | –                     | (16)                        | –               | (117)                       | –                       | (133)           |
| Provision for impairment                   | –                     | –                           | –               | (233)                       | –                       | (233)           |
| Decrease                                   | –                     | –                           | –               | 10                          | –                       | 10              |
| <b>As at 31 December 2019</b>              | <b>–</b>              | <b>(16)</b>                 | <b>–</b>        | <b>(340)</b>                | <b>–</b>                | <b>(356)</b>    |
| <b>Net book value</b>                      |                       |                             |                 |                             |                         |                 |
| <b>As at 31 December 2019</b>              | <b>43,086</b>         | <b>2,609</b>                | <b>5,107</b>    | <b>116,823</b>              | <b>3,554</b>            | <b>171,179</b>  |

As at 31 December 2019, the net book value of aircrafts and vessels leased out by the Group under operating lease arrangements was RMB116,540 million (31 December 2018: RMB96,623 million). Among them, the net book value of the aircrafts and vessels used as collateral for borrowings was RMB59,957 million (31 December 2018: RMB59,279 million).

As at 31 December 2019, the property and equipment with re-registration procedure not completed amounted to RMB198 million (31 December 2018: RMB203 million). However, this registration process does not affect the rights of the Bank to these assets.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

### 24 PROPERTY AND EQUIPMENT (Continued)

|  | Land and<br>buildings | Construction<br>in progress | Equipment       | Transportation<br>equipment | Property<br>improvement | Total           |
|--|-----------------------|-----------------------------|-----------------|-----------------------------|-------------------------|-----------------|
| <b>Cost</b>                                |                       |                             |                 |                             |                         |                 |
| As at 1 January 2018                       | 58,158                | 4,286                       | 25,184          | 82,885                      | 7,961                   | 178,474         |
| Additions                                  | 1,367                 | 1,249                       | 2,149           | 25,745                      | 139                     | 30,649          |
| Transfer in from investment properties     | 458                   | –                           | –               | –                           | –                       | 458             |
| Disposals                                  | (294)                 | –                           | (1,810)         | (77)                        | (138)                   | (2,319)         |
| Construction in progress transfer in/(out) | 2,433                 | (3,076)                     | –               | –                           | 643                     | –               |
| Other transfers in/(out)                   | (528)                 | (52)                        | –               | –                           | 528                     | (52)            |
| <b>As at 31 December 2018</b>              | <b>61,594</b>         | <b>2,407</b>                | <b>25,523</b>   | <b>108,553</b>              | <b>9,133</b>            | <b>207,210</b>  |
| <b>Accumulated depreciation</b>            |                       |                             |                 |                             |                         |                 |
| As at 1 January 2018                       | (15,006)              | –                           | (19,607)        | (7,018)                     | (4,251)                 | (45,882)        |
| Charge for the year                        | (1,890)               | –                           | (2,249)         | (4,591)                     | (866)                   | (9,596)         |
| Transfer in from investment properties     | –                     | –                           | –               | –                           | –                       | –               |
| Transfers in                               | 7                     | –                           | –               | –                           | (7)                     | –               |
| Disposals                                  | 29                    | –                           | 1,568           | 69                          | 21                      | 1,687           |
| <b>As at 31 December 2018</b>              | <b>(16,860)</b>       | <b>–</b>                    | <b>(20,288)</b> | <b>(11,540)</b>             | <b>(5,103)</b>          | <b>(53,791)</b> |
| <b>Allowance for impairment losses</b>     |                       |                             |                 |                             |                         |                 |
| As at 1 January 2018                       | –                     | (16)                        | –               | (84)                        | –                       | (100)           |
| Provision for impairment                   | –                     | –                           | –               | (33)                        | –                       | (33)            |
| Decrease                                   | –                     | –                           | –               | –                           | –                       | –               |
| <b>As at 31 December 2018</b>              | <b>–</b>              | <b>(16)</b>                 | <b>–</b>        | <b>(117)</b>                | <b>–</b>                | <b>(133)</b>    |
| <b>Net book value</b>                      |                       |                             |                 |                             |                         |                 |
| <b>As at 31 December 2018</b>              | <b>44,734</b>         | <b>2,391</b>                | <b>5,235</b>    | <b>96,896</b>               | <b>4,030</b>            | <b>153,286</b>  |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019  
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## 25 DEFERRED INCOME TAX

Deferred income taxes for transactions in PRC are calculated on all temporary differences using an effective tax rate of 25% for the year ended 31 December 2019 (for the year ended 31 December 2018: 25%). Deferred income taxes for transactions in Hong Kong are calculated on all temporary differences using an effective tax rate of 16.5% (for the year ended 31 December 2018: 16.5%).

The movements in the deferred income tax account are as follows:

|   | Allowance for<br>impairment<br>losses | Provisions | Retirement<br>supplementary<br>pension<br>payable | Changes in fair<br>value<br>of financial<br>assets at<br>FVOCI | Changes in<br>fair value of<br>derivative<br>instruments | Changes in<br>fair value of<br>investment<br>properties | Changes in<br>fair value<br>of financial<br>investments<br>and financial<br>liabilities at<br>FVPL | Others | Total   |
|---|---------------------------------------|------------|---|--|--|---|--|--------|---------|
| Balance at 1 January 2019                   | 18,947                                | 1,516      | 102   | 484  | (412)  | (584)   | (538)  | 1,862  | 21,377  |
| Recognised in profit or loss                | 2,742                                 | 324        | (3)   | -  | 1,778  | (96)  | (1,036)  | (319)  | 3,390   |
| Recognised in other comprehensive<br>income | (611)                                 | -          | -   | (1,014)  | 5  | -   | -  | -      | (1,620) |
| Balance at 31 December 2019                 | 21,078                                | 1,840      | 99  | (530)  | 1,371  | (680)   | (1,574)  | 1,543  | 23,147  |

|  | Allowance for<br>impairment<br>losses | Provisions | Retirement<br>supplementary<br>pension<br>payable | Changes in<br>fair value<br>of financial<br>assets at<br>FVOCI | Changes in<br>fair value of<br>derivative<br>instruments | Changes in<br>fair value of<br>investment<br>properties | Changes in<br>fair value<br>of financial<br>investments<br>and financial<br>liabilities at<br>FVPL | Others | Total   |
|--|---------------------------------------|------------|---|--|--|---|--|--------|---------|
| Balance at 31 December 2017                        | 12,844                                | 110        | 99  | -  | (163)  | (522)   | 916  | 1,988  | 15,272  |
| Impact of adoption of IFRS 9 on<br>opening balance | 9,004                                 | -          | -   | 1,095  | -  | -   | 36   | -      | 10,135  |
| Balance at 1 January 2018                          | 21,848                                | 110        | 99  | 1,095  | (163)  | (522)   | 952  | 1,988  | 25,407  |
| Recognised in profit or loss                       | (2,901)                               | 1,406      | 3   | -  | (243)  | (62)  | (1,490)  | (126)  | (3,413) |
| Recognised in other comprehensive<br>income        | -                                     | -          | -   | (611)  | (6)  | -   | -  | -      | (617)   |
| Balance at 31 December 2018                        | 18,947                                | 1,516      | 102   | 484  | (412)  | (584)   | (538)  | 1,862  | 21,377  |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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(All amounts expressed in millions of RMB unless otherwise stated)

### 25 DEFERRED INCOME TAX (Continued)

Deferred income tax assets and liabilities are attributable to the following items:

|   | As at 31 December 2019                               |  | As at 31 December 2018                               |  |
|---|--|--|--|--|
|   | Deductible/<br>(Taxable)<br>temporary<br>differences | Deferred<br>income<br>tax assets/<br>(liabilities) | Deductible/<br>(Taxable)<br>temporary<br>differences | Deferred<br>income tax<br>assets/(liabilities) |
| <b>Deferred income tax liabilities</b>                            |  |  |  |  |
| Changes in fair value of financial assets at FVOCI                | (4,632)  | (1,158)  | (351)  | (88)   |
| Changes in fair value of financial assets and liabilities at FVPL | (8,272)  | (2,068)  | (4,021)  | (1,005)  |
| Changes in fair value of derivative instruments                   | (20,937)   | (5,235)  | (30,566)   | (7,642)  |
| Changes in fair value of investment properties                    | (2,720)  | (680)  | (2,334)  | (584)  |
| Others  | (2,408)  | (602)  | (336)  | (84)   |
|   | <b>(38,969)</b>                                      | <b>(9,743)</b>                                     | <b>(37,608)</b>                                      | <b>(9,403)</b>                                 |
| <b>Deferred income tax assets</b>                                 |  |  |  |  |
| Allowance for impairment of assets                                | 84,312   | 21,078   | 75,789   | 18,947   |
| Retirement supplementary pension payable                          | 399  | 99   | 408  | 102  |
| Provisions  | 7,361  | 1,840  | 6,063  | 1,516  |
| Changes in fair value of financial assets and liabilities at FVPL | 1,976  | 494  | 1,866  | 467  |
| Changes in fair value of financial assets at FVOCI                | 2,512  | 628  | 2,288  | 572  |
| Changes in fair value of derivative instruments                   | 26,424   | 6,606  | 28,921   | 7,230  |
| Others  | 8,580  | 2,145  | 7,782  | 1,946  |
|   | <b>131,564</b>                                       | <b>32,890</b>                                      | <b>123,117</b>                                       | <b>30,780</b>                                  |
| <b>Net deferred income tax assets</b>                             | <b>92,595</b>  | <b>23,147</b>                                      | <b>85,509</b>  | <b>21,377</b>                                  |

The above net deferred income tax assets are disclosed separately on the statements of financial position based on different taxation authorities and entities:

|                                 | As at<br>31 December 2019 | As at<br>31 December 2018 |
|---------------------------------|---------------------------|---------------------------|
| Deferred income tax assets      | 24,065                    | 21,975                    |
| Deferred income tax liabilities | (918)                     | (598)                     |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019  
(All amounts expressed in millions of RMB unless otherwise stated)

## 26 OTHER ASSETS

|   | As at<br>31 December 2019 | As at<br>31 December 2018 |
|---|---------------------------|---------------------------|
| Interest receivable <sup>(1)</sup>        | 3,827                     | 3,849                     |
| Settlement accounts                       | 7,567                     | 7,562                     |
| Other receivables and prepayments         | 41,344                    | 30,050                    |
| Less: Allowance for impairment losses (c) | (2,717)                   | (2,152)                   |
| Investment properties (b)                 | 7,894                     | 7,899                     |
| Right-of-use assets(e)                    | 6,521                     | Not applicable            |
| Land use rights and others                | 1,936                     | 1,869                     |
| Intangible assets (a)                     | 1,368                     | 1,309                     |
| Long-term deferred expenses               | 714                       | 692                       |
| Precious metal                            | 758                       | 925                       |
| Foreclosed assets                         | 759                       | 824                       |
| Goodwill (d)                              | 430                       | 437                       |
| Refundable deposits                       | 493                       | 425                       |
| Unsettled assets                          | 33                        | 33                        |
| Others                                    | 15,723                    | 15,286                    |
|   | <b>86,650</b>             | <b>69,008</b>             |

Note 1: The interest receivable account only reflects the interest for relevant financial instruments which is due but not received on balance sheet date.

### (a) Intangible assets

|                                 | Software       |
|---------------------------------|----------------|
| <b>Cost</b>                     |                |
| As at 1 January 2019            | 3,028          |
| Additions                       | 365            |
| Transfers in                    | –              |
| Disposals                       | (7)            |
| <b>As at 31 December 2019</b>   | <b>3,386</b>   |
| <b>Accumulated amortisation</b> |                |
| As at 1 January 2019            | (1,719)        |
| Amortisation expense            | (306)          |
| Transfers in                    | –              |
| Disposals                       | 7              |
| <b>As at 31 December 2019</b>   | <b>(2,018)</b> |
| <b>Net book value</b>           | <b>1,368</b>   |

|                                 | Software       |
|---------------------------------|----------------|
| <b>Cost</b>                     |                |
| As at 1 January 2018            | 2,780          |
| Additions                       | 270            |
| Transfers in                    | –              |
| Disposals                       | (22)           |
| <b>As at 31 December 2018</b>   | <b>3,028</b>   |
| <b>Accumulated amortisation</b> |                |
| As at 1 January 2018            | (1,452)        |
| Amortisation expense            | (271)          |
| Transfers in                    | –              |
| Disposals                       | 4              |
| <b>As at 31 December 2018</b>   | <b>(1,719)</b> |
| <b>Net book value</b>           | <b>1,309</b>   |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

### 26 OTHER ASSETS (Continued)

#### (b) Investment properties

|                       | As at<br>1 January<br>2019 | Additions/<br>(Decreases)<br>of the year | Gains on<br>property<br>revaluation | Exchange<br>differences | As at<br>31 December<br>2019 |
|-----------------------|----------------------------|--|-------------------------------------|-------------------------|------------------------------|
| Investment properties | 7,899                      | –  | 31                                  | (36)                    | 7,894                        |

|                       | As at<br>1 January<br>2018 | Additions/<br>(Decreases)<br>of the year | Gains on<br>property<br>revaluation | Exchange<br>differences | As at<br>31 December<br>2018 |
|-----------------------|----------------------------|--|-------------------------------------|-------------------------|------------------------------|
| Investment properties | 8,217                      | (458)                                    | 117                                 | 23                      | 7,899                        |

The Group's investment properties are located in active real estate markets. The external appraisers make reasonable estimation of fair value using market prices of the similar properties.

As at 31 December 2019, fair value hierarchies of the investment properties of the Group are as follows:

|   | Level 1 | Level 2 | Level 3 | As at<br>31 December<br>2019 |
|---|---------|---------|---------|------------------------------|
| Commercial property units located in Hong Kong      | –       | –       | 1,171   | 1,171                        |
| Commercial property units located outside Hong Kong | –       | –       | 6,723   | 6,723                        |

The valuation of investment properties was performed by independent qualified professional valuers not connected to the Group. Valuation methodologies include "Rental Income Approach" and "Direct Comparison Approach". The inputs to these models mainly include growth rate of rental, capitalisation rate and unit price.

#### (c) Allowance for impairment losses

|                                   | As at<br>1 January<br>2019 | Amounts<br>accrued | Reversal | Written-<br>offs | Transfers<br>(in)/out | Recoveries<br>after<br>written-offs | Exchange<br>differences | As at<br>31<br>December<br>2019 |
|-----------------------------------|----------------------------|--------------------|----------|------------------|-----------------------|-------------------------------------|-------------------------|---------------------------------|
| Other receivables and prepayments | (2,152)                    | (2,134)            | 524      | 1,140            | (13)                  | (80)                                | (2)                     | (2,717)                         |
| Total                             | (2,152)                    | (2,134)            | 524      | 1,140            | (13)                  | (80)                                | (2)                     | (2,717)                         |

|                                   | As at<br>1 January<br>2018 | Amounts<br>accrued | Reversal | Written-<br>offs | Transfers<br>(in)/out | Recoveries<br>after<br>written-offs | Exchange<br>differences | As at<br>31<br>December<br>2018 |
|-----------------------------------|----------------------------|--------------------|----------|------------------|-----------------------|-------------------------------------|-------------------------|---------------------------------|
| Other receivables and prepayments | (1,940)                    | (1,574)            | 499      | 864              | 41                    | (41)                                | (1)                     | (2,152)                         |
| Total                             | (1,940)                    | (1,574)            | 499      | 864              | 41                    | (41)                                | (1)                     | (2,152)                         |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019  
(All amounts expressed in millions of RMB unless otherwise stated)

## 26 OTHER ASSETS (Continued)

### (d) Goodwill

|  | As at<br>1 January<br>2019 | Addition during<br>the year | Decrease<br>during the year | Exchange<br>differences | As at<br>31 December<br>2019 |
|--|----------------------------|-----------------------------|-----------------------------|-------------------------|------------------------------|
| Bank of Communications International Trust Co., Ltd. | 200                        | –                           | –                           | –                       | 200                          |
| BoCommLife Insurance Company Limited                 | 122                        | –                           | –                           | –                       | 122                          |
| BANCO Bocom BBM S.A                                  | 115                        | –                           | –                           | (7)                     | 108                          |
| Total  | 437                        | –                           | –                           | (7)                     | 430                          |

|  | As at<br>1 January<br>2018 | Addition during<br>the year | Decrease<br>during the year | Exchange<br>differences | As at<br>31 December<br>2018 |
|--|----------------------------|-----------------------------|-----------------------------|-------------------------|------------------------------|
| Bank of Communications International Trust Co., Ltd. | 200                        | –                           | –                           | –                       | 200                          |
| BoCommLife Insurance Company Limited                 | 122                        | –                           | –                           | –                       | 122                          |
| BANCO Bocom BBM S.A                                  | 131                        | –                           | –                           | (16)                    | 115                          |
| Total  | 453                        | –                           | –                           | (16)                    | 437                          |

At each end of year, the Group performed impairment tests on goodwill. In the test, the Group compares the book value of cash-generating unit (CGU) or CGUs (including goodwill) with the recoverable amount. If the recoverable amount is less than the book value, the related difference is recognised in profit or loss.

The Group calculates the recoverable amount of CGU and CGUs using cash flow models based on the management's approved financial forecasts and fixed growth rates afterwards.

As indicated by the impairment tests, goodwill arising from business combinations is not impaired and therefore, no impairment loss is recognised.

### (e) Right-of-use assets

|                                  | As at<br>31 December 2019 |
|----------------------------------|---------------------------|
| Gross:                           |                           |
| Opening balance                  | 14,493                    |
| Additions                        | 2,124                     |
| Decreases                        | (3,104)                   |
| Balance at the end of the period | 13,513                    |
| Accumulated depreciation:        |                           |
| Opening balance                  | (7,372)                   |
| Additions                        | (2,550)                   |
| Decreases                        | 2,930                     |
| Balance at the end of the period | (6,992)                   |
| Net book value:                  |                           |
| As at 1 January 2019             | 7,121                     |
| As at 31 December 2019           | 6,521                     |
| Lease liabilities                |                           |
| As at 31 December 2019           | 6,344                     |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

### 26 OTHER ASSETS (Continued)

#### (e) Right-of-use assets (Continued)

As at 31 December 2019, leases not yet commenced to which the lease is committed were RMB195 million.

The Group's right-of-use assets include the above assets and land use rights.

### 27 DUE TO AND PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

|   | As at<br>31 December 2019 | As at<br>31 December 2018 |
|---|---------------------------|---------------------------|
| Borrowing from central banks                                    | 456,314                   | 511,284                   |
| Accrued interest  | 6,619                     | 8,854                     |
| Due to banks  |                           |                           |
| – Banks operating in Mainland China                             | 284,254                   | 327,250                   |
| – Banks operating outside Mainland China                        | 14,213                    | 16,729                    |
| Due to other financial institutions                             |                           |                           |
| – Other financial institutions operating in Mainland China      | 602,870                   | 724,295                   |
| – Other financial institutions operating outside Mainland China | 14,645                    | 11,851                    |
| Accrued interest  | 5,672                     | 21,199                    |
| Placements from banks   |                           |                           |
| – Banks operating in Mainland China                             | 154,740                   | 131,865                   |
| – Banks operating outside Mainland China                        | 245,877                   | 260,241                   |
| Placements from other financial institutions                    |                           |                           |
| – Other financial institutions operating in Mainland China      | 701                       | 651                       |
| – Other financial institutions operating outside Mainland China | 10,303                    | 8,083                     |
| Accrued interest  | 1,016                     | 2,478                     |
| Financial assets sold under repurchase agreements               |                           |                           |
| – Securities  | 34,176                    | 107,367                   |
| – Bills   | 72,553                    | 30,072                    |
| Accrued interest  | 129                       | 74                        |
| Total   | 1,904,082                 | 2,162,293                 |

### 28 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

|   | As at<br>31 December 2019 | As at<br>31 December 2018 |
|---|---------------------------|---------------------------|
| Certificates of deposit issued                            | 13,392                    | 11,660                    |
| Financial liabilities related to precious metal contracts | 12,950                    | 11,449                    |
| Notes issued  | 638                       | –                         |
| Total   | 26,980                    | 23,109                    |

Except for certificates of deposit issued and notes issued which are designated at fair value through profit or loss, the financial liabilities at fair value through profit or loss are financial liabilities held for trading.

#### Financial liabilities designated at fair value through profit or loss

|  | As at<br>31 December 2019 | As at<br>31 December 2018 |
|--|---------------------------|---------------------------|
| Difference between carrying amount and maturity amount |                           |                           |
| Fair values  | 14,030                    | 11,660                    |
| Amount payable at maturity                             | 13,976                    | 11,663                    |
| Total  | 54                        | (3)                       |



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019  
(All amounts expressed in millions of RMB unless otherwise stated)

## 28 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

Financial liabilities designated at fair value through profit or loss (Continued)

For the year ended 31 December 2019 and the year ended 31 December 2018, there were no significant changes in the fair value of the Group's financial liabilities designated at fair value through profit or loss that were attributable to the changes in credit risk.

## 29 DUE TO CUSTOMERS

|                                | As at<br>31 December 2019 | As at<br>31 December 2018 |
|--------------------------------|---------------------------|---------------------------|
| Corporate demand deposits      | 1,835,688                 | 1,748,857                 |
| Corporate time deposits        | 2,196,096                 | 2,195,241                 |
| Individual demand deposits     | 762,669                   | 687,393                   |
| Individual time deposits       | 1,207,253                 | 1,089,095                 |
| Other deposits                 | 3,364                     | 3,903                     |
| Due to customers               | 6,005,070                 | 5,724,489                 |
| Accrued interest               | 67,838                    | 68,835                    |
| Total                          | 6,072,908                 | 5,793,324                 |
| Including:                     |                           |                           |
| Deposits pledged as collateral | 246,727                   | 297,707                   |

## 30 CERTIFICATES OF DEPOSITS ISSUED

Certificates of deposits at year end were issued by the Bank's domestic branches, branches in Macau, Taipei, Hong Kong, New York, Tokyo, Singapore, Seoul, Sydney, London, Luxembourg and Frankfurt, and BANCO Bocom BBM S.A., which were measured at amortised cost.

## 31 DEBT SECURITIES ISSUED

|                            |      | As at<br>31 December 2019 | As at<br>31 December 2018 |
|----------------------------|------|---------------------------|---------------------------|
| Carried at amortised cost: |      |                           |                           |
| Subordinated bonds         | 31.1 | 25,950                    | 39,450                    |
| Tier 2 capital bonds       | 31.2 |                           |                           |
| The Bank                   |      | 73,843                    | 70,017                    |
| Subsidiaries               |      | 1,994                     | 1,994                     |
| Bonds                      |      |                           |                           |
| The Bank                   | 31.3 | 194,422                   | 115,431                   |
| Subsidiaries               | 31.3 | 83,688                    | 70,777                    |
| Accrued interest           |      | 3,584                     | 3,463                     |
| Subtotal                   |      | 383,481                   | 301,132                   |
| Carried at fair value:     |      |                           |                           |
| Bonds                      | 31.3 |                           |                           |
| The Bank                   |      | 20,437                    | 16,556                    |
| Total                      |      | 403,918                   | 317,688                   |

Note 1: Debt securities issued are designated as fair value through profit or loss upon initiation as the Hong Kong branch of the Bank considers such designation could eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise result from measuring the corresponding financial assets or recognising the gains or losses on them on different basis. Accordingly, the debts are designated as fair value through profit or loss with changes in fair values charged to profit and loss account. For the year ended 31 December 2019 and the year ended 31 December 2018, there were no significant changes that were attributable to the Group's changes in credit risks.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

## 31 DEBT SECURITIES ISSUED (Continued)

### 31.1 Subordinated bonds

Detailed information of subordinated bonds is disclosed as follows:

|              | Currency | Issue place    | Coupon<br>rate % | Par value<br>(CCY) | Issue date | Maturity | Note | Issue<br>amount | Ending<br>balance | Opening<br>balance |
|--------------|----------|----------------|------------------|--------------------|------------|----------|------|-----------------|-------------------|--------------------|
| 09 BoComm 02 | RMB      | Mainland China | 4.00             | 13,500             | 2009/07/01 | 15 years | (a)  | 13,500          | –                 | 13,500             |
| 11 BoComm 01 | RMB      | Mainland China | 5.75             | 26,000             | 2011/10/21 | 15 years | (b)  | 26,000          | 25,950            | 25,950             |
| Total        |          |                |                  |                    |            |          |      | 39,500          | 25,950            | 39,450             |

(a) The Group has redeemed full face value of 09 BoComm 02 by exercising redemption option on 3 July 2019.

(b) The Group has an option to redeem 11 BoComm 01 on 24 October 2021. The bonds bear a fixed coupon rate of 5.75%.

### 31.2 Tier 2 capital bonds

Detailed information of Tier 2 capital bonds is disclosed as follows:

|                   | Currency | Issue place    | Coupon<br>rate % | Par value<br>(CCY) | Issue date | Maturity | Note | Issue<br>amount | Ending<br>balance | Opening<br>balance |
|-------------------|----------|----------------|------------------|--------------------|------------|----------|------|-----------------|-------------------|--------------------|
| The Bank          |          |                |                  |                    |            |          |      |                 |                   |                    |
| 14 BoComm 01      | RMB      | Mainland China | 5.80             | 28,000             | 2014/08/18 | 10 years | (a)  | 28,000          | –                 | 27,976             |
| 14 BoComm 01-USD  | USD      | Hong Kong      | 4.50             | 1,200              | 2014/10/03 | 10 years | (b)  | 8,371           | –                 | 8,169              |
|                   |          | China          |                  |                    |            |          |      |                 |                   |                    |
| 14 BoComm 01-Euro | EUR      | Hong Kong      | 3.625            | 500                | 2014/10/03 | 12 years | (c)  | 3,908           | 3,883             | 3,904              |
|                   |          | China          |                  |                    |            |          |      |                 |                   |                    |
| 17 BoComm 02      | RMB      | Mainland China | 4.50             | 30,000             | 2017/04/11 | 10 years | (d)  | 30,000          | 29,960            | 29,968             |
| 19 BoComm 01      | RMB      | Mainland China | 4.10             | 30,000             | 2019/08/14 | 10 years | (e)  | 30,000          | 30,000            | –                  |
| 19 BoComm 02      | RMB      | Mainland China | 4.49             | 10,000             | 2019/08/14 | 15 years | (f)  | 10,000          | 10,000            | –                  |
| Subtotal          |          |                |                  |                    |            |          |      | 110,279         | 73,843            | 70,017             |
| Subsidiaries      |          |                |                  |                    |            |          |      |                 |                   |                    |
| 18 Leasing 02     | RMB      | Mainland China | 5.15             | 2,000              | 2018/09/18 | 10 years | (g)  | 2,000           | 1,994             | 1,994              |
| Subtotal          |          |                |                  |                    |            |          |      | 2,000           | 1,994             | 1,994              |
| Total             |          |                |                  |                    |            |          |      | 112,279         | 75,837            | 72,011             |

(a) The Group has redeemed full par value of 14 BoComm 01 by exercising redemption option on 19 August 2019.

(b) The Group has redeemed full face value of 14 BoComm 01-USD by exercising redemption option on 3 October 2019.

(c) The Group has an option to redeem 14 BoComm 01-Euro as a whole on 3 October 2021. If the issuer does not exercise the redemption right by 3 October 2021, the interest rate will be adjusted based on interest rate of 5-year Euro plus 300 basis points.

(d) The Group has an option to redeem them at the par value partially or as a whole on 13 April 2022, the first day upon the end of the fifth interest-bearing year, provided that CBIRC's permission is acquired in advance and the Group's capital structure fulfills the CBIRC requirements on capital if the redemption is exercised.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019  
(All amounts expressed in millions of RMB unless otherwise stated)

## 31 DEBT SECURITIES ISSUED (Continued)

### 31.2 Tier 2 capital bonds (Continued)

- (e) The Group has an option to redeem them at the par value partially or as a whole on 16 August 2024, the first day upon the end of the fifth interest-bearing year, provided that CBIRC's permission is acquired in advance and the Group's capital structure fulfills the CBIRC requirements on capital if the redemption is exercised.
- (f) The Group has an option to redeem them at the par value partially or as a whole on 16 August 2029, the first day upon the end of the tenth interest-bearing year, provided that CBIRC's permission is acquired in advance and the Group's capital structure fulfills the CBIRC requirements on capital if the redemption is exercised.
- (g) The Group has an option to redeem them at the par value partially or as a whole on 20 September 2023, the first day upon the end of the fifth interest-bearing year, provided that CBIRC's permission is acquired in advance.

These Tier 2 capital bonds have the write-down feature, which allows the Group to write down the entire principal of the bonds when regulatory triggering events as stipulated in the offering documents occur and any accumulated unpaid interest would become not payable. These bonds are regarded as Tier 2 capital without any guarantees provided and the proceeds of the debts cannot be used for compensating daily operating loss of the Group.

### 31.3 Bonds

Detailed information of bonds held at amortised cost is as follows:

|                                       | Currency | Issue place     | Coupon<br>rate % | Par value<br>(CCY) | Issue date | Maturity | Issue<br>amount | Ending<br>balance | Opening<br>balance |
|---------------------------------------|----------|-----------------|------------------|--------------------|------------|----------|-----------------|-------------------|--------------------|
| <b>The Bank</b>                       |          |                 |                  |                    |            |          |                 |                   |                    |
| 15 BoComm                             | RMB      | Mainland China  | 3.45             | 30,000             | 2015/12/17 | 5 years  | 30,000          | 30,000            | 30,000             |
| 16 BoComm Green Financial bond 01     | RMB      | Mainland China  | 2.94             | 10,000             | 2016/11/18 | 3 years  | 10,000          | –                 | 10,000             |
| 16 BoComm Green Financial bond 02     | RMB      | Mainland China  | 3.25             | 20,000             | 2016/11/18 | 5 years  | 20,000          | 20,000            | 20,000             |
| 17 BoComm Green Financial bond        | RMB      | Mainland China  | 4.29             | 20,000             | 2017/10/26 | 3 years  | 20,000          | 20,000            | 20,000             |
| 18 Bocom Micro Small Enterprises Bond | RMB      | Mainland China  | 3.79             | 10,000             | 2018/11/28 | 3 years  | 10,000          | 10,000            | 10,000             |
| 19 Bocomm 01                          | RMB      | Mainland China  | 3.35             | 50,000             | 2019/11/27 | 3 years  | 50,000          | 50,000            | –                  |
| 19 Bocomm 02                          | RMB      | Mainland China  | 3.36             | 40,000             | 2019/12/13 | 3 years  | 40,000          | 40,000            | –                  |
| 14 Formosa Bond B                     | RMB      | Taiwan China    | 3.85             | 500                | 2014/06/23 | 5 years  | 500             | –                 | 499                |
| 14 Formosa Bond C                     | RMB      | Taiwan China    | 4.15             | 500                | 2014/06/23 | 7 years  | 500             | 498               | 499                |
| 17 medium-term notes 01               | USD      | Hong Kong China | 3MLibor +0.78    | 700                | 2017/05/15 | 3 years  | 4,883           | 4,886             | 4,802              |
| 17 medium-term notes 02               | USD      | Hong Kong China | 3MLibor +0.88    | 300                | 2017/05/15 | 5 years  | 2,093           | 2,094             | 2,058              |
| 17 medium-term notes 03               | USD      | Hong Kong China | 3MLibor +0.80    | 400                | 2017/12/04 | 3 years  | 2,790           | 2,792             | 2,744              |
| 17 medium-term notes 04               | USD      | Hong Kong China | 3MLibor +0.90    | 600                | 2017/12/04 | 5 years  | 4,186           | 4,188             | 4,116              |
| 18 medium-term notes 01               | USD      | Hong Kong China | 3MLibor +0.75    | 600                | 2018/05/17 | 3 years  | 4,186           | 4,188             | 4,116              |
| 18 medium-term notes 02               | USD      | Hong Kong China | 3MLibor +0.85    | 700                | 2018/05/17 | 5 years  | 4,883           | 4,886             | 4,802              |
| P14JHTP1B                             | RMB      | Taiwan China    | 3.75             | 900                | 2014/12/04 | 5 years  | 900             | –                 | 898                |
| P14JHTP1C                             | RMB      | Taiwan China    | 3.90             | 700                | 2014/12/04 | 7 years  | 700             | 692               | 698                |
| P14JHTP1D                             | RMB      | Taiwan China    | 4.00             | 200                | 2014/12/04 | 10 years | 200             | 198               | 199                |
| Sub-total                             |          |                 |                  |                    |            |          | 205,821         | 194,422           | 115,431            |
| <b>Subsidiaries</b>                   |          |                 |                  |                    |            |          |                 |                   |                    |
| 13 Azure Orbit                        | USD      | Hong Kong China | 3.75             | 500                | 2013/03/06 | 10 years | 3,488           | 3,484             | 3,427              |
| 14 Azure Orbit                        | USD      | Hong Kong China | 3.375            | 500                | 2014/04/25 | 5 years  | 3,488           | –                 | 3,428              |
| 5 Year medium-term notes              | USD      | Hong Kong China | 3.125            | 385                | 2015/08/18 | 5 years  | 2,686           | 2,497             | 2,642              |
| 3 Year USD bond                       | USD      | Hong Kong China | 2.23             | 400                | 2016/03/15 | 3 years  | 2,790           | –                 | 2,745              |
| 5 Year USD bond                       | USD      | Hong Kong China | 2.748            | 600                | 2016/03/15 | 5 years  | 4,186           | 4,179             | 4,105              |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

## 31 DEBT SECURITIES ISSUED (Continued)

### 31.3 Bonds (Continued)

|                             | Currency | Issue place     | Coupon rate % | Par value (CCY) | Issue date | Maturity | Issue amount | Ending balance | Opening balance |
|-----------------------------|----------|-----------------|---------------|-----------------|------------|----------|--------------|----------------|-----------------|
| 3 Year USD bond             | USD      | Hong Kong China | 3.50          | 300             | 2018/01/25 | 3 years  | 2,093        | 2,090          | 2,035           |
| 5 Year USD bond             | USD      | Hong Kong China | 3.75          | 950             | 2018/01/25 | 5 years  | 6,627        | 6,592          | 6,496           |
| 10 Year USD bond            | USD      | Hong Kong China | 4.00          | 250             | 2018/01/25 | 10 years | 1,744        | 1,727          | 1,692           |
| 19 Brazil bonds             | BRL      | Brazil          | 110%SELIC     | 200             | 2019/01/30 | 5 years  | 339          | 66             | –               |
| 16 Leasing 01               | RMB      | Mainland China  | 3.17          | 4,000           | 2016/07/21 | 3 years  | 4,000        | –              | 3,898           |
| 16 Leasing 02               | RMB      | Mainland China  | 3.05          | 1,500           | 2016/09/07 | 3 years  | 1,500        | –              | 1,199           |
| 16 Leasing 03               | RMB      | Mainland China  | 3.25          | 500             | 2016/09/07 | 5 years  | 500          | 449            | 449             |
| 17 Leasing 01               | RMB      | Mainland China  | 4.53          | 2,000           | 2017/07/18 | 3 years  | 2,000        | 1,949          | 1,947           |
| 17 Leasing 02               | RMB      | Mainland China  | 4.60          | 3,000           | 2017/08/22 | 3 years  | 3,000        | 2,398          | 2,395           |
| 17 Leasing 03               | RMB      | Mainland China  | 4.70          | 3,000           | 2017/10/18 | 3 years  | 3,000        | 2,398          | 2,395           |
| 18 Leasing 02               | RMB      | Mainland China  | 4.14          | 4,000           | 2018/10/22 | 3 years  | 4,000        | 3,993          | 3,989           |
| Azure Nova                  | USD      | Hong Kong China | 2.25          | 500             | 2016/10/25 | 3 years  | 3,488        | –              | 3,431           |
| Azure Nova                  | USD      | Hong Kong China | 2.625         | 1,000           | 2016/10/25 | 5 years  | 6,976        | 6,956          | 6,847           |
| Azure Nova                  | USD      | Hong Kong China | 3.00          | 700             | 2017/03/21 | 3 years  | 4,883        | 4,882          | 4,788           |
| Azure Nova                  | USD      | Hong Kong China | 3.50          | 1,050           | 2017/03/21 | 5 years  | 7,325        | 7,308          | 7,171           |
| Azure Nova                  | USD      | Hong Kong China | 4.25          | 250             | 2017/03/21 | 10 years | 1,744        | 1,737          | 1,708           |
| 19 USD medium-term notes 01 | USD      | Hong Kong China | 4.00          | 800             | 2019/01/22 | 3 years  | 5,581        | 4,134          | –               |
| 19 USD medium-term notes 02 | USD      | Hong Kong China | 4.375         | 700             | 2019/01/22 | 5 years  | 4,883        | 3,139          | –               |
| 19 USD medium-term notes 03 | USD      | Hong Kong China | 3MLibor+1.2   | 120             | 2019/04/12 | 3 years  | 837          | 837            | –               |
| 19 Leasing 01               | RMB      | Mainland China  | 3.68          | 800             | 2019/05/20 | 3 years  | 5,000        | 4,550          | –               |
| 19 Leasing 02               | RMB      | Mainland China  | 3.65          | 700             | 2019/07/08 | 3 years  | 5,000        | 4,990          | –               |
| 19 USD medium-term notes 04 | USD      | Hong Kong China | 3MLibor+1.18  | 120             | 2019/09/05 | 5 years  | 2,790        | 1,408          | –               |
| 19 USD medium-term notes 05 | USD      | Hong Kong China | 2.625         | 120             | 2019/09/05 | 5 years  | 1,395        | 914            | –               |
| 18 Leasing 01               | RMB      | Mainland China  | 4.53          | 4,000           | 2018/07/05 | 3 years  | 4,000        | 3,994          | 3,990           |
| 19 Leasing 03               | RMB      | Mainland China  | 3.49          | 3,500           | 2019/10/22 | 3 years  | 3,500        | 3,492          | –               |
| 19 USD medium-term notes 06 | USD      | Hong Kong China | 2.99          | 180             | 2019/10/25 | 3 years  | 1,256        | 1,256          | –               |
| 19 USD medium-term notes 07 | USD      | Hong Kong China | 3MLibor+1.08  | 600             | 2019/12/10 | 3 years  | 4,186        | 2,269          | –               |
| Sub-total                   |          |                 |               |                 |            |          | 108,285      | 83,688         | 70,777          |
| Total                       |          |                 |               |                 |            |          | 314,106      | 278,110        | 186,208         |

Detailed information of bonds held at fair value is as follows:

|                                    | Currency | Issue place     | Coupon rate % | Par value (CCY) | Issue date | Maturity | Issue amount | Fair value at the end of the period | Fair value at the beginning of the period |
|------------------------------------|----------|-----------------|---------------|-----------------|------------|----------|--------------|-------------------------------------|---|
| 14 Hong Kong bond                  | HKD      | Hong Kong China | 4.00          | 500             | 2014/02/14 | 7 years  | 448          | 462                                 | 455                                       |
| 14 Hong Kong bond 02               | HKD      | Hong Kong China | 3.20          | 350             | 2014/04/02 | 5 years  | 314          | –                                   | 309                                       |
| 16 Hong Kong medium-term notes     | USD      | Hong Kong China | 2.25          | 500             | 2016/01/25 | 3 years  | 3,488        | –                                   | 3,462                                     |
| 16 Hong Kong USD medium-term notes | USD      | Hong Kong China | 3MLibor+0.88  | 550             | 2016/08/16 | 3 years  | 3,837        | –                                   | 3,792                                     |
| 17 Hong Kong USD medium-term notes | USD      | Hong Kong China | 3MLibor+0.78  | 850             | 2017/02/21 | 3 years  | 5,930        | 5,931                               | 5,856                                     |
| 18 Hong Kong medium-term notes     | HKD      | Hong Kong China | 2.95          | 3,000           | 2018/05/18 | 2 years  | 2,687        | 2,743                               | 2,682                                     |
| 19 Hong Kong RMB medium-term notes | RMB      | Hong Kong China | 3.40          | 2,500           | 2019/03/21 | 2 years  | 2,500        | 2,526                               | –   |
| 19 Hong Kong medium-term notes     | HKD      | Hong Kong China | 2.85          | 3,500           | 2019/03/21 | 5 years  | 3,135        | 3,186                               | –   |
| 19 Hong Kong USD medium-term notes | USD      | Hong Kong China | 3MLibor+0.78  | 800             | 2019/03/21 | 3 years  | 5,581        | 5,589                               | –   |
| Total                              |          |                 |               |                 |            |          | 27,920       | 20,437                              | 16,556                                    |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019  
(All amounts expressed in millions of RMB unless otherwise stated)

## 32 OTHER LIABILITIES

|   | As at<br>31 December 2019 | As at<br>31 December 2018 |
|---|---------------------------|---------------------------|
| Lease liabilities   | 6,344                     | Not applicable            |
| Insurance contracts reserve   | 31,936                    | 22,821                    |
| Settlement accounts   | 19,275                    | 21,692                    |
| Staff compensation payable  | 11,118                    | 9,309                     |
| Deposits received for finance lease                                 | 7,661                     | 7,677                     |
| VAT and other taxes payable   | 4,536                     | 4,515                     |
| Provision for outstanding litigations (a)                           | 1,029                     | 982                       |
| Allowance for impairment losses of off-balance sheet businesses (b) | 6,332                     | 5,081                     |
| Dividends payable   | 87                        | 77                        |
| Others  | 75,063                    | 59,560                    |
| <b>Total</b>  | <b>163,381</b>            | <b>131,714</b>            |

### (a) Movements in the provision for outstanding litigations

|                                       | As at<br>1 January<br>2019 | Amounts<br>accrued<br>during the<br>year | Amounts<br>settled<br>during the<br>year | Amounts<br>reversed<br>during the<br>year | Exchange<br>differences | As at<br>31 December<br>2019 |
|---------------------------------------|----------------------------|--|--|---|-------------------------|------------------------------|
| Provision for outstanding litigations | 982                        | 421                                      | (3)                                      | (371)                                     | –                       | 1,029                        |

|                                       | As at<br>1 January<br>2018 | Amounts<br>accrued<br>during the<br>year | Amounts<br>settled during<br>the year | Amounts<br>reversed<br>during the<br>year | Exchange<br>differences | As at<br>31 December<br>2018 |
|---------------------------------------|----------------------------|--|---------------------------------------|---|-------------------------|------------------------------|
| Provision for outstanding litigations | 449                        | 640                                      | (16)                                  | (91)                                      | –                       | 982                          |

### (b) Movements in the allowance for impairment losses of off-balance sheet businesses

|  | Stage 1<br>12-month ECL | Stage 2<br>Lifetime ECL | Stage 3<br>Lifetime ECL | Total        |
|--|-------------------------|-------------------------|-------------------------|--------------|
| <b>As at 1 January 2019</b>                      | 4,741                   | 340                     | –                       | 5,081        |
| Addition   | 1,068                   | 917                     | –                       | 1,985        |
| Transfer out                                     | (7)                     | (182)                   | –                       | (189)        |
| Transfers:                                       | (8)                     | 8                       | –                       | –            |
| <i>Transfer between Stage 1 and Stage 2, net</i> | (8)                     | 8                       | –                       | –            |
| Remeasurement                                    | (442)                   | (109)                   | –                       | (551)        |
| Exchange differences                             | 6                       | –                       | –                       | 6            |
| <b>As at 31 December 2019</b>                    | <b>5,358</b>            | <b>974</b>              | <b>–</b>                | <b>6,332</b> |

|  | Stage 1<br>12-month ECL | Stage 2<br>Lifetime ECL | Stage 3<br>Lifetime ECL | Total        |
|--|-------------------------|-------------------------|-------------------------|--------------|
| As at 1 January 2018                             | 5,475                   | 725                     | –                       | 6,200        |
| Reversal   | (864)                   | (106)                   | –                       | (970)        |
| Transfer in/(out)                                | –                       | –                       | –                       | –            |
| Transfers:                                       | 372                     | (372)                   | –                       | –            |
| <i>Transfer between Stage 1 and Stage 2, net</i> | 372                     | (372)                   | –                       | –            |
| Remeasurement                                    | (258)                   | 86                      | –                       | (172)        |
| Exchange differences                             | 16                      | 7                       | –                       | 23           |
| <b>As at 31 December 2018</b>                    | <b>4,741</b>            | <b>340</b>              | <b>–</b>                | <b>5,081</b> |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

### 33 SHARE CAPITAL AND CAPITAL SURPLUS

|                        | Number of<br>shares<br>(in millions) | Ordinary shares<br>of RMB1 each | Capital surplus | Total   |
|------------------------|--------------------------------------|---------------------------------|-----------------|---------|
| As at 1 January 2019   | 74,263                               | 74,263                          | 113,663         | 187,926 |
| As at 31 December 2019 | 74,263                               | 74,263                          | 113,663         | 187,926 |

|                        | Number of shares<br>(in millions) | Ordinary shares of<br>RMB1 each | Capital surplus | Total   |
|------------------------|-----------------------------------|---------------------------------|-----------------|---------|
| As at 1 January 2018   | 74,263                            | 74,263                          | 113,663         | 187,926 |
| As at 31 December 2018 | 74,263                            | 74,263                          | 113,663         | 187,926 |

As at 31 December 2019 and 31 December 2018, the number of A shares of the Group was 39,251 million, and the number of H shares of the Group was 35,012 million, both with par value of RMB1 per share.

As at 31 December 2019 and 31 December 2018, the Group's capital surplus is listed as follows:

|   | As at<br>1 January<br>2019 | Additions | Reductions | As at<br>31 December<br>2019 |
|---|----------------------------|-----------|------------|------------------------------|
| Share premium                               | 113,046                    | —         | —          | 113,046                      |
| Property revaluation gain designated by MOF | 472                        | —         | —          | 472                          |
| Donation of non-cash assets                 | 148                        | —         | —          | 148                          |
| Movements in non-controlling interests      | (41)                       | —         | —          | (41)                         |
| Capital increase in an associate            | 16                         | —         | —          | 16                           |
| Others                                      | 22                         | —         | —          | 22                           |
| Total                                       | 113,663                    | —         | —          | 113,663                      |

|   | As at<br>1 January<br>2018 | Additions | Reductions | As at<br>31 December<br>2018 |
|---|----------------------------|-----------|------------|------------------------------|
| Share premium                               | 113,046                    | —         | —          | 113,046                      |
| Property revaluation gain designated by MOF | 472                        | —         | —          | 472                          |
| Donation of non-cash assets                 | 148                        | —         | —          | 148                          |
| Movements in non-controlling interests      | (41)                       | —         | —          | (41)                         |
| Capital increase in an associate            | 16                         | —         | —          | 16                           |
| Others                                      | 22                         | —         | —          | 22                           |
| Total                                       | 113,663                    | —         | —          | 113,663                      |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019  
(All amounts expressed in millions of RMB unless otherwise stated)

## 34 OTHER EQUITY INSTRUMENTS

### 34.1 Preference shares

#### 34.1.1 Preference shares outstanding at the end of the period

|                                   | Issue date | Accounting classification | Dividend rate | Issue price  | Amount in shares | In original currency (in millions) | In RMB (in millions) | Maturity         | Conversion condition | Conversion                    |
|-----------------------------------|------------|---------------------------|---------------|--------------|------------------|------------------------------------|----------------------|------------------|----------------------|-------------------------------|
| <b>Offshore preference shares</b> |            |                           |               |              |                  |                                    |                      |                  |                      |                               |
| Preference shares in USD          | 2015-07-29 | Equity                    | 5.00%         | USD20/share  | 122,500,000      | 2,450                              | 14,982               | No maturity date | Mandatory            | No conversion during the year |
| <b>Domestic preference shares</b> |            |                           |               |              |                  |                                    |                      |                  |                      |                               |
| Preference shares in RMB          | 2016-09-02 | Equity                    | 3.90%         | RMB100/share | 450,000,000      | 45,000                             | 45,000               | No maturity date | Mandatory            | No conversion during the year |
| Total                             |            |                           |               |              |                  |                                    | 59,982               |                  |                      |                               |
| Less: Issuance fees               |            |                           |               |              |                  |                                    | (106)                |                  |                      |                               |
| Carrying amount                   |            |                           |               |              |                  |                                    | 59,876               |                  |                      |                               |

#### 34.1.2 Main clauses

##### Offshore preference shares

##### (a) Dividend

The offshore preference shares will accrue dividends on their issue price at the relevant dividend rate below:

- (1) From and including the issue date to but excluding the first reset date, at the rate of 5.00% per annum; and
- (2) The dividend rate will be re-priced every five years thereafter with reference to the five-year US treasury bonds yield plus a fixed premium of 3.344%. As authorised by the shareholders' annual general meeting, the Board of Directors has the sole discretion to declare and distribute dividends on offshore preference shares.

The dividend for offshore preference shares is non-cumulative. Where the Bank determines to cancel the dividend for offshore preference shares in whole or in part, the omitted dividend will not be carried forward and claimed in the future period. After receiving dividends at the agreed dividend rate, offshore preference shareholders of the Bank will not participate in the distribution of residual profits with ordinary shareholders. Domestic preference shares issued by the Bank have the same dividend distribution order as the offshore preference shares.

##### (b) Conditions to distribution of dividends

The Bank could pay dividends while the Bank still has distributable after-tax profit after making up previous years' losses, contributing to the statutory reserve and making general provisions, and the Bank's capital adequacy ratio meets regulatory requirements. Offshore preference shareholders of the Bank are senior to the ordinary shareholders on the right to dividends.

Subject to a resolution to be passed at a shareholders' general meeting of the Bank on each such occasion, the Bank may elect to cancel (in whole or in part) any dividend. The Bank shall not distribute any dividends to its ordinary shareholders before it declares such dividends to preference shareholders for the relevant periods.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

### 34 OTHER EQUITY INSTRUMENTS (Continued)

#### 34.1 Preference shares (Continued)

##### 34.1.2 Main clauses (Continued)

###### *Offshore preference shares (Continued)*

###### (c) Mandatory conversion trigger events

Upon occurrence of the triggering events as stipulated by the offering documents and subject to regulatory approval, offshore preference share shall be mandatorily converted into ordinary H Shares of the Bank (as converted into Hong Kong dollars at the fixed exchange rate of USD1.00 to HKD7.7555), partially or entirely. The initial mandatory convertible price is HKD6.51 per share. To balance the interest between preference shareholders and ordinary shareholders, the mandatory conversion price of the preference shares will be cumulatively adjusted in sequence where certain events occur including issuances of bonus shares, capitalisation of reserves, new issuances of ordinary shares at a price lower than the market price (excluding equity increases due to exercise of convertible financing instruments that can be converted into ordinary shares) and rights issues, subject to terms and formulas provided for in the offering documents. Appropriation of dividends to ordinary shareholders is not trigger event for price adjustment.

###### (d) Order of distribution and liquidation method

On winding-up of the Bank, distribution to offshore preference shareholders is made after all debts of the Bank (including subordinated debts) and obligations that are issued or guaranteed by the Bank and specifically stated to be distributed prior to the offshore preference shares; all offshore preference shareholders are ranked the same in the distribution sequence without priority among them and have the same repayment sequence rights as holders of obligations with equivalent rights. In addition, distribution is made to offshore preference shareholders prior to ordinary shareholders.

On winding-up of the Bank, any remaining assets of the Bank shall, after the distributions in accordance with the terms and conditions of the offshore preference shares have been made, be applied to the claims of the offshore preference shareholders equally in all respects with the claims of holders of any parity obligations (which term, for the avoidance of doubt, includes the domestic preference shares and any other preference shares of the Bank issued from time to time to investors outside the PRC) and in priority to the claims of the holders of ordinary shares.

The distribution amount obtained by the offshore preference shareholders shall be the total par value of the issued and outstanding preference shares plus dividends declared but not paid in the current period; if the distribution amount is insufficient, domestic and offshore preference shareholders will share the distribution amount on a proportional basis.

###### (e) Redemption

The offshore preference shares are perpetual and have no maturity date. The Bank may, subject to obtaining CBIRC approval and in compliance with the redemption preconditions, redeem all or some of the offshore preference shares on 29 July 2020 and on any dividend payment date thereafter. The redemption period ends at the date when shares are fully converted or redeemed.

###### *Domestic preference shares*

###### (a) Dividend

The domestic preference shares will accrue dividends on their issue price at the relevant dividend rate below:

- (1) From and including the issue date to but excluding the first reset date, at the rate of 3.90% per annum; and
- (2) The dividend rate will be re-priced every five years thereafter with reference to the arithmetic average value (rounding off to 0.01%) of five-year Chinese treasury bonds yield at the date which is 20 transaction days before the reset date (excluding the date) plus a fixed premium of 1.37%. As authorised by the shareholders' annual general meeting, the Board of Directors has the sole discretion to declare and distribute dividends on domestic preference shares.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

## 34 OTHER EQUITY INSTRUMENTS *(Continued)*

### 34.1 Preference shares *(Continued)*

#### **34.1.2 Main clauses** *(Continued)*

##### *Domestic preference shares (Continued)*

###### (a) Dividend *(Continued)*

The dividend for domestic preference shares is non-cumulative. Where the Bank determines to cancel the dividend for domestic preference shares in whole or in part, the omitted dividend will not be carried forward and claimed in the future period. After receiving dividends at the agreed dividend rate, domestic preference shareholders of the Bank will not participate in the distribution of residual profits with ordinary shareholders. Domestic preference shares issued by the Bank have the same dividend distribution order as the offshore preference shares.

###### (b) Conditions to distribution of dividends

The Bank could pay dividends while the Bank still has distributable after-tax profit after making up previous years' losses, contributing to the statutory reserve and making general provisions, and the Bank's capital adequacy ratio meets regulatory requirements. Domestic preference shareholders of the Bank are senior to the ordinary shareholders on the right to dividends.

Subject to a resolution to be passed at a shareholders' general meeting of the Bank on each such occasion, the Bank may elect to cancel (in whole or in part) any preference share dividend. The Bank shall not distribute any dividends to its ordinary shareholders before it declares such dividends to preference shareholders for the relevant periods.

###### (c) Mandatory conversion trigger events

Upon occurrence of the triggering events as stipulated by the offering documents and subject to regulatory approval, domestic preference shares shall be mandatorily converted into ordinary A Shares of the Bank, partially or entirely. The initial mandatory conversion price is RMB6.25 per share. To balance the interest between preference shareholders and ordinary shareholders, the mandatory conversion price of the preference shares will be cumulatively adjusted in sequence where certain events occur including issuances of bonus shares, capitalisation of reserves, new issuances of ordinary shares at a price lower than the market price (excluding equity increased due to exercise of convertible financing instruments that can be converted into ordinary shares) and rights issues, subject to terms and formulas provided for in the offering documents. Appropriation of dividends to ordinary shareholders is not trigger event for price adjustment.

###### (d) Order of distribution and liquidation method

On winding-up of the Bank, distribution to domestic preference shareholders is made after all debts of the Bank (including subordinated debts) and obligations that are issued or guaranteed by the Bank and specifically stated to be distributed prior to the domestic preference shares; all domestic preference shareholders are ranked at the same in the distribution sequence without priority among them and have the same repayment sequence rights as holders of obligations with equivalent rights. In addition, distribution is made to domestic preference shareholders prior to ordinary shareholders.

On winding-up of the Bank, any remaining assets of the Bank shall, after the distributions in accordance with the terms and conditions of the domestic preference shares have been made, be applied to the claims of the domestic preference shareholders equally in all respects with the claims of holders of any parity obligations (which term, for the avoidance of doubt, includes the domestic preference shares and any other preference shares of the Bank issued from time to time to investors outside the PRC) and in priority to the claims of the holders of ordinary shares.

The distribution amount obtained by the domestic preference shareholders shall be the total par value of the issued and outstanding preference shares plus dividends declared but not paid in the current period; if the distribution amount is insufficient, domestic and offshore preference shareholders will share the distribution amount on a proportional basis.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

### 34 OTHER EQUITY INSTRUMENTS (Continued)

#### 34.1 Preference shares (Continued)

##### 34.1.2 Main clauses (Continued)

##### Domestic preference shares (Continued)

##### (e) Redemption

The domestic preference shares are perpetual and have no maturity date. The Bank may, subject to obtaining CBIRC approval and in compliance with the redemption preconditions, redeem all or some of the domestic preference shares on 2 September 2021 and on any preference share dividend payment date thereafter. The redemption period ends at the date when shares are fully converted or redeemed.

##### 34.1.3 Movements of preference shares issued

|                                   | As at<br>1 January<br>2019 | Movements |           | As at<br>31 December<br>2019 |
|-----------------------------------|----------------------------|-----------|-----------|------------------------------|
|                                   |                            | Additions | Decreases |                              |
| <b>Offshore preference shares</b> |                            |           |           |                              |
| Amount (shares)                   | 122,500,000                | –         | –         | 122,500,000                  |
| In RMB (millions)                 | 14,924                     | –         | –         | 14,924                       |
| <b>Domestic preference shares</b> |                            |           |           |                              |
| Amount (shares)                   | 450,000,000                | –         | –         | 450,000,000                  |
| In RMB (millions)                 | 44,952                     | –         | –         | 44,952                       |

#### 34.2 Perpetual bonds

##### 34.2.1 Perpetual bonds outstanding at the end of the period

|                        | Issue date        | Accounting<br>classification | Original<br>interest rate | Issue price | Amount in<br>shares | In original<br>currency<br>(in millions) | In RMB<br>(in millions) | Maturity                     |
|------------------------|-------------------|------------------------------|---------------------------|-------------|---------------------|--|-------------------------|------------------------------|
| Perpetual bonds in RMB | 18 September 2019 | Equity                       | 4.20%                     | RMB100/bond | 400,000,000         | 40,000                                   | 40,000                  | No fixed<br>maturity<br>date |
| Total                  |                   |                              |                           |             |                     |  | 40,000                  |                              |
| Less: Issue fees       |                   |                              |                           |             |                     |  | (6)                     |                              |
| Carrying amount        |                   |                              |                           |             |                     |  | 39,994                  |                              |

##### 34.2.2 Main clauses

##### (1) Principal amount

The principal amount is RMB40 billion.

##### (2) Maturity date

The perpetual bonds will continue to be outstanding so long as the Bank's business continues to operate.

##### (3) Coupon rate

The coupon rate of the perpetual bonds will be adjusted every 5 years from the settlement date of issuance. During each coupon rate adjustment period, the interest payments will be calculated at the same coupon rate. The coupon rate at the time of issuance will be determined by book building and centralised allocation. The interest rate of the perpetual bonds does not contain any interest rate step-up mechanism or any other redemption incentives.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

## 34 OTHER EQUITY INSTRUMENTS *(Continued)*

### 34.2 Perpetual bonds *(Continued)*

#### **34.2.2 Main clauses** *(Continued)*

##### *(3) Coupon rate (Continued)*

The coupon rate is determined by a benchmark rate plus a fixed spread. The benchmark rate is the arithmetic average of the yields to maturity (rounded up to 0.01%) of 5 (exclusive) trading days prior to the announcement date of the subscription agreement, as indicated by the applicable ChinaBond Government Bond Yield Curve for five-year products published on [www.ChinaBond.com.cn](http://www.ChinaBond.com.cn) (or other websites approved by the China Central Depository & Clearing Co., Ltd.). The fixed spread is the difference between the coupon rate and the benchmark rate as determined at the time of issuance. The fixed spread will not be adjusted once determined.

##### *(4) Conditional redemption rights of the Bank*

The Bank has conditional redemption rights. After five years from the issuance of the perpetual bonds, the Bank may redeem the perpetual bonds in whole or in part on each distribution payment date (including the fifth distribution payment date since the issuance). If, after the issuance, the perpetual bonds no longer qualify as Additional Tier 1 Capital as a result of an unforeseeable change or amendment to relevant provisions of supervisory regulations, the Bank may redeem the whole but not part of the perpetual bonds.

##### *(5) Subordination*

The claims in respect of the perpetual bonds are subordinated to the claims of depositors, general creditors, and subordinated indebtedness that rank senior to the perpetual bonds; and will rank in priority to all classes of equity shares held by the Bank's shareholders and rank *pari passu* with the claims in respect of any other Additional Tier 1 Capital instruments of the Bank that rank *pari passu* with the perpetual bonds. If subsequent amendments to the PRC Enterprise Bankruptcy Law or relevant regulations are applicable to the Bank, such relevant laws and regulations shall prevail.

##### *(6) Write-down/Write-off clauses*

Upon the occurrence of Additional Tier 1 Capital Trigger Event, namely, the Bank's Core Tier 1 Capital Adequacy Ratio having fallen to 5.125% (or below), the Bank has the right, subject to the approval of the China Banking and Insurance Regulatory Commission but without the need for the consent of the bondholders, to write down whole or part of the aggregate amount of the perpetual bonds then issued and outstanding, in order to restore the Core Tier 1 Capital Adequacy Ratio to above 5.125%. In the case of a partial write-down, all of the perpetual bonds then issued and outstanding shall be written down on a *pro rata* basis, according to the outstanding par value, with all Additional Tier 1 Capital instruments with equivalent write-down clauses of the Bank. The perpetual bonds may be subject to write-down more than once, in order to restore the Core Tier 1 Capital Adequacy Ratio of the Bank to above 5.125%.

##### *(7) Distribution payment*

The Bank shall have the right to cancel, in whole or in part, distributions on the bonds and any such cancellation shall not constitute an event of default. When exercising such right, the Bank will take into full consideration the interest of the bondholders. The Bank may, at its sole discretion, use the proceeds from the cancelled distributions to meet other obligations as they fall due. Cancellation of any distributions on the bonds, no matter in whole or in part, will not impose any other restriction on the Bank, except in relation to dividend distributions to ordinary shares. Any cancellation of any distribution on the bonds, no matter in whole or in part, will require the deliberation and approval of the general shareholders meeting, and the Bank shall give notice to the investors on such cancellation in a timely manner.

The distributions on the perpetual bonds are non-cumulative, namely, upon cancellation, any amount of distribution unpaid to the holders of the perpetual bonds in the applicable period will not accumulate or compound to the subsequent distribution period thereafter.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

### 34 OTHER EQUITY INSTRUMENTS (Continued)

#### 34.2 Perpetual bonds (Continued)

##### 34.2.2 Main clauses (Continued)

###### (8) Put option

Investors have no right to redeem their subscription from the Bank.

The net proceeds from the Bank's issuance of the above bonds, after deducting offering related expenses, will be used to replenish the Additional Tier 1 Capital of the Bank.

#### 34.3 Interests attributable to holders of other equity instruments

|  | As at<br>31 December 2019 | As at<br>31 December 2018 |
|--|---------------------------|---------------------------|
| Total equity attributable to equity holders of the parent company    | 793,247                   | 698,405                   |
| Equity attributable to ordinary shareholders of the parent company   | 693,377                   | 638,529                   |
| Equity attributable to preference shareholders of the parent company | 59,876                    | 59,876                    |
| Equity attributable to perpetual bond holders of the parent company  | 39,994                    | –                         |
| <i>Including: Net profit attributable to preference shareholders</i> | <i>2,671</i>              | <i>2,618</i>              |
| <i>Dividends paid to preference shareholders during the year</i>     | <i>2,671</i>              | <i>2,618</i>              |
| Total equity attributable to non-controlling interests               | 7,665                     | 6,903                     |
| Equity attributable to non-controlling interests of ordinary shares  | 7,665                     | 6,903                     |

### 35 RESERVES AND RETAINED EARNINGS

Pursuant to the relevant PRC regulations, the appropriation of profits to the statutory general reserve, the discretionary reserve and the distribution of dividends in each year are based on the recommendations of the Directors and are subject to the resolutions to be passed at the General Meeting.

Pursuant to the relevant PRC regulations, the bank is required to appropriate 10% of its net profit for the year to the undistributable statutory surplus reserve until the reserve balance reaches 50% of its registered capital.

Pursuant to the relevant PRC banking regulations, the Bank is required to transfer a certain amount of its net income to the statutory general reserve through its profit appropriation. It is determined based on the overall unidentified loss exposure; normally no lower than 1.5% of the ending balance of risk assets. The statutory general reserve is an integral part of shareholders' equity but not subject to dividend distribution. Such statutory general reserve is recognised in the statement of financial position upon approval by the shareholders at the Annual General Meeting. Regulatory reserve of the Hong Kong branch required by the Hong Kong Monetary Authority is also included in above statutory general reserve.

Since 1 July 2012, pursuant to *Administrative Measures for the Provisioning of Financial Enterprises* (Cai Jin [2012] No. 20), the Bank made general reserve for the risk assets as defined by the policy. The Bank's subsidiaries and oversea branches, if required by local regulation requirements, also need to make such accrual for risk assets.

In accordance with the relevant PRC legislation, upon the approval by shareholders at the General Meeting, discretionary reserve can be appropriated following the appropriation of statutory reserve from the distributable profit of the Bank and its domestic subsidiaries.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019  
(All amounts expressed in millions of RMB unless otherwise stated)

## 35 RESERVES AND RETAINED EARNINGS (Continued)

The 2018 Annual General Meeting of Shareholders, held on 21 June 2019, considered and adopted the 2018 profit distribution scheme, which stipulates the follows:

|                           | Year ended 31 December |        |
|---------------------------|------------------------|--------|
|                           | 2019                   | 2018   |
| Statutory reserve         | –                      | 6,833  |
| Statutory general reserve | 2,738                  | 8,705  |
| Discretionary reserve     | –                      | –      |
| Total                     | 2,738                  | 15,538 |

During the year ended 31 December 2019, the Group and the Bank transferred RMB3,286 million (2018: RMB9,811 million) and RMB2,738 million (2018: RMB8,705 million) respectively to the General Reserve pursuant to the regulatory requirements in the PRC and overseas jurisdictions. Of this amount, RMB2,738 million (2018: RMB8,705 million) related to general reserve proposed for the Bank for the year ended 31 December 2018 was approved in the 2018 Annual General Meeting of Shareholders dated 21 June 2019.

### Revaluation reserve

The movements of revaluation reserve are set out below:

|  |         |
|--|---------|
| As at 31 December 2018   | 1,397   |
| Changes in fair value recorded in equity                         | 4,681   |
| Changes in fair value reclassified from equity to profit or loss | (1,031) |
| Income tax relating to components of other comprehensive income  | (1,637) |
| Transferred from other comprehensive income                      | 11      |
| As at 31 December 2019   | 3,421   |
| As at 31 December 2017   | (2,365) |
| Impact of adoption of IFRS 9 on opening balance                  | 1,891   |
| Opening balance under IFRS 9 (restated)                          | (474)   |
| Changes in fair value recorded in equity                         | 2,719   |
| Changes in fair value reclassified from equity to profit or loss | (228)   |
| Income tax relating to components of other comprehensive income  | (624)   |
| Transferred from other comprehensive income                      | 4       |
| As at 31 December 2018   | 1,397   |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

### 35 RESERVES AND RETAINED EARNINGS (Continued)

#### Retained earnings

The movements of retained earnings are set out below:

|  |          |
|--|----------|
| As at 31 December 2018                       | 129,161  |
| Impact from adoption of IFRS 16              | (616)    |
| Opening balance under IFRS 16 (restated)     | 128,545  |
| Profit for the year                          | 77,281   |
| Appropriation to statutory reserve           | (381)    |
| Appropriation to general reserve             | (3,286)  |
| Appropriation to discretionary reserve       | (57)     |
| Dividends payable to ordinary shareholders   | (22,279) |
| Dividends payable to preference shareholders | (2,671)  |
| Others                                       | (11)     |
| As at 31 December 2019                       | 177,141  |
| As at 31 December 2017                       | 124,514  |
| Impact from adoption of IFRS 9               | (28,257) |
| Opening balance under IFRS 9 (restated)      | 96,257   |
| Profit for the year                          | 73,630   |
| Appropriation to statutory reserve           | (7,055)  |
| Appropriation to general reserve             | (9,811)  |
| Appropriation to discretionary reserve       | (29)     |
| Dividends payable to ordinary shareholders   | (21,209) |
| Dividends payable to preference shareholders | (2,618)  |
| Others                                       | (4)      |
| As at 31 December 2018                       | 129,161  |

### 36 DIVIDENDS

|  | Year ended 31 December |        |
|--|------------------------|--------|
|  | 2019                   | 2018   |
| Dividends to ordinary shareholders of the Bank   | 22,279                 | 21,209 |
| Dividends to preference shareholders of the Bank | 2,671                  | 2,618  |

Under PRC Company Law and the Bank's Articles of Association, the net profit after tax as reported in the PRC statutory financial statements can only be distributed as dividends after allowances for the following:

- (1) Making up cumulative losses from prior years, if any;
- (2) Allocations to the non-distributable statutory reserve of 10% of the net profit of the Bank as determined under the relevant PRC accounting standards;
- (3) Allocations to statutory general reserve;
- (4) Allocations to the discretionary reserve upon approval by the Annual General Meeting. These funds form part of the shareholders' equity.

The cash dividends are recognised in the consolidated statement of financial position upon approval by the shareholders at Annual General Meeting.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019  
(All amounts expressed in millions of RMB unless otherwise stated)

## 36 DIVIDENDS (Continued)

Pursuant to the approval by the Annual General Meeting of Shareholders on 21 June 2019, the Bank appropriated RMB2,738 million to the statutory general reserve. It was also resolved that a cash dividend of RMB0.30 (before tax) for each ordinary share, with total amount of RMB22,279 million, calculated based on 74,263 million shares outstanding (the par value per share is RMB1) as at 31 December 2018, would be distributed to ordinary shareholders.

Pursuant to the approval by the Board meeting on 29 April 2019, the Bank appropriated overseas preference dividends on 29 July 2019 with a dividend yield of 5% (the actual dividend yield obtained by the preference shareholders) with total amount of USD136 million. Since 7 September 2019 is not a working day, the dividend payment day defers to 9 September 2019. The Bank will appropriate domestic preference dividends on 9 September 2019 with a dividend yield of 3.9% (the actual dividend yield obtained by the preference shareholders), with total amount of RMB1,755 million.

On 27 March 2020, the Board of Directors of the Bank proposed to appropriate RMB7,075 million to the statutory reserve and RMB4,454 million to the statutory general reserve. A cash dividend of RMB0.315 (before tax) for each share, totalling RMB23,393 million, calculated based on the total number of shares outstanding of 74,263 million shares (RMB1 per share) as at 31 December 2019 was also proposed. The proposal will be subject to the approval by the Shareholders' Meeting of the Bank.

## 37 FINANCIAL GUARANTEES AND CREDIT-RELATED COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES

### Financial guarantees and credit-related commitments

The following tables provide the contractual amounts of the Group's financial guarantees and credit-related commitments which the Group has committed to its customers:

|                               | As at<br>31 December 2019 | As at<br>31 December 2018 |
|-------------------------------|---------------------------|---------------------------|
| Letters of guarantee          | 268,812                   | 268,097                   |
| Letters of credit commitments | 139,948                   | 141,137                   |
| Acceptance bills              | 271,507                   | 228,550                   |
| Credit card commitments       | 736,039                   | 759,994                   |
| Loan commitments              |                           |                           |
| – Under 1 year                | 20,459                    | 12,709                    |
| – 1 year and above            | 35,405                    | 45,731                    |
|                               | 1,472,170                 | 1,456,218                 |

### Capital expenditure commitments

|                                 | As at<br>31 December 2019 | As at<br>31 December 2018 |
|---------------------------------|---------------------------|---------------------------|
| Contracted but not provided for | 60,310                    | 66,968                    |

### Operating lease commitments

Where the Group is the lessee, the future minimum lease payments on buildings and equipment under non-cancellable operating leases are as follows:

|   | As at<br>31 December 2018 |
|---|---------------------------|
| Within 1 year (inclusive)                           | 3,918                     |
| Beyond 1 year but no more than 2 years (inclusive)  | 2,772                     |
| Beyond 2 years but no more than 3 years (inclusive) | 1,908                     |
| Beyond 3 years but no more than 5 years (inclusive) | 2,215                     |
| More than 5 years                                   | 1,532                     |
|   | 12,345                    |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

### 37 FINANCIAL GUARANTEES AND CREDIT-RELATED COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES *(Continued)*

#### Operating lease commitments *(Continued)*

The Group acts as lessor in operating leases principally through aircraft and vessels leasing undertaken by its subsidiaries. The future minimum lease receivables on certain aircraft and vessel under irrevocable operating leases are as follows:

|   | As at<br>31 December 2019 | As at<br>31 December 2018 |
|---|---------------------------|---------------------------|
| Within 1 year (inclusive)                           | 13,496                    | 11,204                    |
| Beyond 1 year but no more than 2 years (inclusive)  | 12,818                    | 11,045                    |
| Beyond 2 years but no more than 3 years (inclusive) | 12,176                    | 10,768                    |
| Beyond 3 years but no more than 5 years (inclusive) | 22,920                    | 20,983                    |
| More than 5 years                                   | 42,024                    | 59,827                    |
|   | <b>103,434</b>            | <b>113,827</b>            |

#### Commitments on security underwriting and bond acceptance

The Group is entrusted by the Ministry of Finance ('MOF') to underwrite certain Certificated Bonds and Savings Bonds. The investors of Certificated Bonds and Savings Bonds have early redemption right while the Group has the obligation to buy back those Certificated Bonds and Savings Bonds. The redemption price is the principal value of the Certificated Bonds or Savings Bonds plus unpaid interest till redemption date. As at 31 December 2019, the principal value of the certain Certificated Bonds and Savings Bonds that the Group had the obligation to buy back amounted to RMB83,777 million (31 December 2018: RMB74,423 million). The MOF will not provide funding for the early redemption of these Certificated Bonds and Savings Bonds on a back-to-back basis but will pay interest and principal at maturity. The Group expects the amount of redemption before the maturity dates of these bonds through the Group will not be material.

The original maturities of these bonds vary from 1 to 5 years.

As at 31 December 2019, the Group had no announced but unfulfilled irrevocable commitment on security underwriting (31 December 2018: Nil).

#### Legal proceedings

The Group has been involved as defendants in certain lawsuits arising from its normal business operations. Management of the Group believes, based on legal advice, that the final result of these lawsuits will not have a material impact on the financial position or operations of the Group. Provision for litigation losses as advised by in-house or external legal professionals is disclosed in Note 32. The total outstanding claims against the Group (defendant) by a number of third parties at the end of the year are summarised as follows:

|  | As at<br>31 December 2019 | As at<br>31 December 2018 |
|--|---------------------------|---------------------------|
| Outstanding litigations                        | 5,011                     | 3,242                     |
| Provision for outstanding litigation (Note 32) | 1,029                     | 982                       |



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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(All amounts expressed in millions of RMB unless otherwise stated)

## 38 COLLATERALS

### (1) Assets pledged

The Group uses part of its assets as collaterals for interbank repurchase arrangements and other liabilities-related business. All of these arrangements mature within 12 months from the date they take effect. The carrying amount of these collaterals and the balance of operations related are listed below:

|                       | Pledged assets               |                              | Associated liabilities       |                              |
|-----------------------|------------------------------|------------------------------|------------------------------|------------------------------|
|                       | As at<br>31 December<br>2019 | As at<br>31 December<br>2018 | As at<br>31 December<br>2019 | As at<br>31 December<br>2018 |
| Investment securities | 468,085                      | 697,288                      | 387,547                      | 581,070                      |
| Bills                 | 78,041                       | 32,308                       | 78,041                       | 32,308                       |
| Total                 | 546,126                      | 729,596                      | 465,588                      | 613,378                      |

Financial assets sold under repurchase agreements included certain transactions under which, title of the pledged securities has been transferred to counterparties. These transactions have been disclosed in Note 43 transfers of financial assets.

### (2) Collateral accepted

The Group conducts resale agreements under usual and customary terms of placements, and holds collateral for these transactions. As at 31 December 2019, the Group did not hold any collateral for resale agreements which was permitted to sell or repledge in the absence of default for the transactions (31 December 2018: the fair value of such collaterals amounted to RMB2,758 million). All pledges are conducted under standard and normal business terms. As at 31 December 2019 and 31 December 2018, the Group did not sell or re-pledge any collaterals received.

## 39 OTHER COMPREHENSIVE INCOME

|  | Year ended 31 December 2019 |            |                   |
|--|-----------------------------|------------|-------------------|
|  | Before tax amount           | Tax effect | Net of tax amount |
| Other comprehensive income   |                             |            |                   |
| Loans and advances to customers – carried at FVOCI   | (391)                       | (322)      | (713)             |
| Amounts recorded in equity   | 113                         | (448)      | (335)             |
| Amounts reclassified to losses/(gains) in the current year   | (504)                       | 126        | (378)             |
| Debt investments at FVOCI  | 4,807                       | (1,487)    | 3,320             |
| Amounts recorded in equity   | 5,334                       | (1,619)    | 3,715             |
| Amounts reclassified to losses/(gains) in the current year   | (527)                       | 132        | (395)             |
| Effective portion of gains or losses on hedging instruments in cash flow hedges                              | (14)                        | 5          | (9)               |
| Amounts recorded in equity   | (210)                       | 54         | (156)             |
| Amounts reclassified to losses/(gains) in the current year   | 196                         | (49)       | 147               |
| Translation difference on foreign operations   | 1,141                       | –          | 1,141             |
| Changes in fair value of equity investments designated at FVOCI  | (748)                       | 188        | (560)             |
| Changes in fair value attributable to changes in the credit risk of financial liabilities designated at FVPL | 25                          | –          | 25                |
| Actuarial gains on pension benefits  | (20)                        | –          | (20)              |
| Others   | 18                          | –          | 18                |
| Other comprehensive income for the year  | 4,818                       | (1,616)    | 3,202             |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

### 39 OTHER COMPREHENSIVE INCOME (Continued)

|  | Year ended 31 December 2018 |            |                   |
|--|-----------------------------|------------|-------------------|
|  | Before tax amount           | Tax effect | Net of tax amount |
| Other comprehensive income   |                             |            |                   |
| Loans and advances to customers – carried at FVOCI   | 241                         | (139)      | 102               |
| <i>Amounts recorded in equity</i>  | 241                         | (139)      | 102               |
| <i>Amounts reclassified to losses in the current year</i>  | –                           | –          | –                 |
| Debt investments at FVOCI  | 2,367                       | (452)      | 1,915             |
| <i>Amounts recorded in equity</i>  | 2,595                       | (509)      | 2,086             |
| <i>Amounts reclassified to losses in the current year</i>  | (228)                       | 57         | (171)             |
| Effective portion of gains or losses on hedging instruments in cash flow hedges                              | 23                          | (6)        | 17                |
| <i>Changes in fair value recorded in equity</i>  | 147                         | (37)       | 110               |
| <i>Changes in fair value reclassified from equity to profit or loss</i>                                      | (124)                       | 31         | (93)              |
| Translation difference on foreign operations   | 1,998                       | –          | 1,998             |
| Changes in fair value of equity instruments designated at FVOCI  | 81                          | (20)       | 61                |
| Changes in fair value attributable to changes in the credit risk of financial liabilities designated at FVPL | (14)                        | –          | (14)              |
| Actuarial gains on pension benefits  | (25)                        | –          | (25)              |
| Others   | 18                          | –          | 18                |
| Other comprehensive income for the year  | 4,689                       | (617)      | 4,072             |

### 40 NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

#### Analysis of the balance of cash and cash equivalents

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise the following balances with original maturities of less than or equal to 90 days used for the purpose of meeting short-term cash commitments:

|   | As at<br>31 December 2019 | As at<br>31 December 2018 |
|---|---------------------------|---------------------------|
| Cash and balances with central banks                                | 85,246                    | 123,665                   |
| Due from and placements with banks and other financial institutions | 82,489                    | 119,827                   |
|   | 167,735                   | 243,492                   |

### 41 CONSOLIDATED STRUCTURED ENTITIES

Structured entities consolidated by the Group include certain trust investment plans, funds and securitization products issued, managed and invested by the Group. The Group controls these entities because the Group has power over, is exposed to, or has right to, variable returns from its involvement with these entities and has the ability to use its power over these entities to affect the amount of the Group's returns. As at 31 December 2019, the consolidated structured entities sponsored and managed by the Group amounted to 6,147 million, and the consolidated structured entities held by Group amounted to 19,846 million.

As at 31 December 2018, wealth management products where the Group provided financial guarantee amounted to 138,366 million, which have been matured and paid during 2019.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019  
(All amounts expressed in millions of RMB unless otherwise stated)

## 42 UNCONSOLIDATED STRUCTURED ENTITIES

The Group has been involved in other structured entities through investments in structured entities or acting as sponsors of structured entities that provide specialised investment opportunities to investors. These structured entities generally finance the purchase of assets by issuing units of the products. The Group does not control these structured entities and therefore, these structured entities are not consolidated.

As at 31 December 2019, those structured entities sponsored by the Group consist primarily of funds, trusts, asset management products, wealth management products with principals not guaranteed by the Group and securitization products. The Group earns commission income by providing management services to the investors of these structured entities. In addition, the Group is also involved in certain structured entities sponsored by the Group or third parties through direct investments. These investments are recognised as financial investments at fair value through profit or loss, financial investments at fair value through other comprehensive income, and financial investments at amortised cost.

As at 31 December 2019 and 31 December 2018, amount of unconsolidated structured entities sponsored by the Group are set out as below:

|                                      | Sponsored amount          |                           | Type of income    |
|--------------------------------------|---------------------------|---------------------------|-------------------|
|                                      | As at<br>31 December 2019 | As at<br>31 December 2018 |                   |
| Funds                                | 357,568                   | 242,502                   | Commission income |
| Trusts and asset management products | 893,739                   | 1,054,073                 | Commission income |
| Wealth management products ("WMPs")  | 1,003,226                 | 960,003                   | Commission income |
| Securitization products              | 295                       | –                         | Commission income |
| Total                                | 2,254,828                 | 2,256,578                 |                   |

For the year ended 31 December 2019, the Group's commission income from providing service to the investors of the structured entities managed by the Group was RMB3,948 million (For the year ended 31 December 2018: RMB2,936 million), and interest income from placements and repurchase transactions with those unconsolidated WMPs was RMB1,204 million (For the year ended 31 December 2018: RMB1,612 million).

As at 31 December 2019 and 31 December 2018, the carrying amount of interests in unconsolidated structured entities held by the Group through investment was set out as follows:

|                                      | As at 31 December 2019        |                                |   |                          | Type of income  |
|--------------------------------------|-------------------------------|--------------------------------|---|--------------------------|---|
|                                      | Carrying amount               |                                |   |                          |   |
|                                      | Financial investments at FVPL | Financial investments at FVOCI | Financial investments at amortised cost | Maximum exposure to loss |   |
| Funds                                | 160,522                       | –                              | –                                       | 160,522                  | Net gains arising from trading activities   |
| Trusts and asset management products | 8,207                         | –                              | 139,302                                 | 147,509                  | Net interest income, net gains arising from trading activities                          |
| Wealth management products           | 320                           | –                              | –                                       | 320                      | Net gains arising from trading activities   |
| Limited partnerships                 | 798                           | 584                            | –                                       | 1,382                    | Net gains arising from trading activities, net gains arising from financial investments |
| Securitization products              | –                             | –                              | 15                                      | 15                       | Net interest income   |
| Total                                | 169,847                       | 584                            | 139,317                                 | 309,748                  |   |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

### 42 UNCONSOLIDATED STRUCTURED ENTITIES (Continued)

The information of total size of the unconsolidated structured entities listed above is not readily available from the public domain.

|                                      | As at 31 December 2018        |   |                          |  |
|--------------------------------------|-------------------------------|---|--------------------------|--|
|                                      | Carrying amount               |   |                          |  |
|                                      | Financial investments at FVPL | Financial investments at amortised cost | Maximum exposure to loss | Type of income   |
| Funds                                | 180,547                       | –                                       | 180,547                  | Net gains arising from trading activities                      |
| Trusts and asset management products | 4,906                         | 200,861                                 | 205,767                  | Net interest income, net gains arising from trading activities |
| Wealth management products           | 2,101                         | –                                       | 2,101                    | Net gains arising from trading activities                      |
| Total                                | 187,554                       | 200,861                                 | 388,415                  |  |

### 43 TRANSFERS OF FINANCIAL ASSETS

#### 43.1 Financial assets sold under repurchase agreements

Sales and repurchase agreements are transactions in which the Group sells a security and simultaneously agrees to repurchase it (or an asset that is substantially the same) at a fixed price on a future date. Since the repurchase prices are fixed, the Group is still exposed to substantially all the credit risks and market risks and rewards of those securities sold. These securities, which the Group does not have the ability to use during the term of the arrangements, are not derecognised from the financial statements but regarded as “collateral” for the secured lending from these because the Group retains substantially all the risks and rewards of these securities. In addition, the Group recognises a financial liability for cash received.

As at 31 December 2019 and 31 December 2018, the Group entered into repurchase agreements with certain counterparties. The proceeds from selling such securities are presented as “financial assets sold under repurchase agreements” (Note 27).

The following table provides a summary of carrying amounts related to the transferred financial assets that are not derecognised and the associated liabilities:

|                       | Collaterals            |                        | Associated liabilities |                        |
|-----------------------|------------------------|------------------------|------------------------|------------------------|
|                       | As at 31 December 2019 | As at 31 December 2018 | As at 31 December 2019 | As at 31 December 2018 |
| Investment securities | 3,949                  | 4,094                  | 9,828                  | 3,797                  |

#### 43.2 Securities lending transactions

Transferred financial assets that do not qualify for de-recognition mainly include debt securities lent to counterparties under securities lending agreements. The counterparties are allowed to sell or repledge those securities lent under agreements to repurchase in the absence of default by the Group, but has an obligation to return the securities at the maturity of the contract. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. As at 31 December 2019, the carrying value of debt securities lent to counterparties was RMB6,620 million (31 December 2018: RMB3,810 million).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

## 43 TRANSFERS OF FINANCIAL ASSETS (Continued)

### 43.3 Asset securitisation

The Group enters into securitisation transactions in the normal course of business by which it transfers credit assets to structured entities which issue asset-backed securities to investors.

The Group may retain interests in the form of subordinated tranches which may give rise to the Group's continuing involvement in the transferred assets. Those financial assets are recognised on the statement of financial position to the extent of the Group's continuing involvement. The extent of the Group's continuing involvement is the extent to which the Group is exposed to changes in the value of the transferred assets.

As at 31 December 2019, loans with an original value of RMB55,702 million and carrying amount of RMB55,144 million (31 December 2018: RMB98,763 million and RMB93,777 million) have been securitised by the Group and the Bank.

As at 31 December 2019, the Group and the Bank retained their continued involvement in securitised credit assets by holding subordinated securities. The value of the assets that the Group and the Bank continued to recognise was RMB4,864 million (31 December 2018: RMB6,108 million).

### 43.4 Package disposal of impaired loans and advances to customers

The Group disposes impaired loans and advances to customers through transferring to third parties in the normal course of business. For the year ended 31 December 2019, the Group had transferred impaired loans and advances to customers with a gross carrying amount of RMB13,132 million (31 December 2018: RMB8,971 million) and collected cash totalling RMB4,733 million (31 December 2018: RMB3,448 million) from the transfer. The difference between the gross carrying amount and the cash collected had been written off. The Group de-recognised the impaired loans and advances to customers from the Group's financial statements at the time of disposal.

## 44 RELATED PARTY TRANSACTIONS

### (a) Transactions with the MOF

As at 31 December 2019, the MOF was holding 17,732 million (31 December 2018: 19,703 million) shares of Bank of Communications Co., Ltd. which represented 23.88% (31 December 2018: 26.53%) of the total share capital.

The MOF is a Chinese government ministry, primarily responsible for managing state fiscal revenue and expenditures, and establishing and enforcing taxation policies. The Group enters into banking transactions with the MOF under normal course of business and they mainly include the purchase and redemption of financial investments issued by the MOF and the deposits from the MOF.

The related party transaction volumes, outstanding balances at the end of the year and the revenue from related party transactions for the year are listed below:

|                     | As at<br>31 December 2019 | As at<br>31 December 2018 |
|---------------------|---------------------------|---------------------------|
| Bonds issued by MOF | 647,402                   | 524,736                   |
| Accrued interest    | 9,515                     | 8,017                     |

|                  | Year ended 31 December<br>2019 | 2018   |
|------------------|--------------------------------|--------|
| Interest income  | 18,935                         | 16,040 |
| Interest expense | —                              | 92     |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

### 44 RELATED PARTY TRANSACTIONS (Continued)

#### (a) Transactions with the MOF (Continued)

The interest rates of the transactions between the Group and MOF are summarised below:

|                     | Year ended 31 December |            |
|---------------------|------------------------|------------|
|                     | 2019                   | 2018       |
|                     | %                      | %          |
| Bonds issued by MOF | 0.13~5.41              | 1.927~5.05 |
| Due to customers    | Not applicable         | 3.71       |

#### (b) Transactions with National Council for Social Security Fund

As at 31 December 2019, National Council for Social Security Fund was holding 12,909 million (31 December 2018: 10,923 million) shares of Bank of Communications Co., Ltd. which represented 17.38% (31 December 2018: 14.71%) of the total share capital. The Group enters into transactions with National Council for Social Security Fund in the normal course of business and they mainly include deposits which are carried out under normal commercial terms and paid at market rates.

Details of transaction volumes and outstanding balances are summarised below:

|                  | As at<br>31 December 2019 | As at<br>31 December 2018 |
|------------------|---------------------------|---------------------------|
| Due to customers | 70,350                    | 26,650                    |
| Accrued interest | 964                       | 359                       |

|                  | Year ended 31 December |       |
|------------------|------------------------|-------|
|                  | 2019                   | 2018  |
| Interest expense | 1,031                  | 1,355 |

The interest rates of the transactions between the Group and the National Council for Social Security Fund are summarised below:

|                  | Year ended 31 December |           |
|------------------|------------------------|-----------|
|                  | 2019                   | 2018      |
|                  | %                      | %         |
| Due to customers | 3.85~6.10              | 3.85~6.10 |

#### (c) Transactions with the Hong Kong and Shanghai Banking Corporation Limited and its subsidiaries ("HSBC")

As at 31 December 2019, HSBC was holding 13,886 million (31 December 2018: 13,886 million) shares of the Bank of Communications Co., Ltd. which represented 18.70% (31 December 2018: 18.70%) of the total share capital. Transactions between the Group and HSBC are carried out under normal commercial terms and paid at market rates.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019  
(All amounts expressed in millions of RMB unless otherwise stated)

## 44 RELATED PARTY TRANSACTIONS (Continued)

### (c) Transactions with the Hong Kong and Shanghai Banking Corporation Limited and its subsidiaries ("HSBC") (Continued)

Details of transaction volumes and outstanding balances are summarised below:

|  | As at<br>31 December 2019 | As at<br>31 December 2018 |
|--|---------------------------|---------------------------|
| On-balance sheet items                                 |                           |                           |
| Due from banks and other financial institutions        | 1,302                     | 2,250                     |
| Derivative financial assets                            | 798                       | 1,592                     |
| Financial investments at FVPL                          | 1,323                     | 1,314                     |
| Financial investments at amortised cost                | 230                       | 230                       |
| Financial investments at FVOCI                         | 4,634                     | 4,410                     |
| Due to banks and other financial institutions          | 1,644                     | 1,289                     |
| Placements from banks and other financial institutions | 6,107                     | 13,298                    |
| Financial liabilities at FVPL                          | 2,424                     | 2,832                     |
| Certificates of deposit issued                         | 22,987                    | 48,776                    |
| Derivative financial liabilities                       | 979                       | 760                       |
| Financial assets sold under repurchase agreements      | 2,622                     | 1,807                     |
| Off-balance sheet items                                |                           |                           |
| Notional principal of derivative financial instruments | 161,086                   | 138,544                   |
|  | Year ended 31 December    |                           |
|  | 2019                      | 2018                      |
| Net losses from trading activities                     | (305)                     | (984)                     |
| Interest income  | 231                       | 162                       |
| Interest expense                                       | 1,535                     | 1,385                     |

The interest rates of the transactions between the Group and HSBC are summarised below:

|  |                        |             |
|--|------------------------|-------------|
|  | Year ended 31 December |             |
|  | 2019                   | 2018        |
|  | %                      | %           |
| Due from banks and other financial institutions        | 0.01~0.35              | 0.01~2.84   |
| Placements with banks and other financial institutions | 1.39~2.85              | 0.20~3.55   |
| Financial investments at FVPL                          | 3.30~4.13              | 3.30~6.68   |
| Financial investments at amortised cost                | 3.26~4.74              | 3.26~4.74   |
| Financial investments at FVOCI                         | 1.50~4.75              | 1.50~5.01   |
| Financial assets purchased under resale agreements     | 1.38~3.10              | 2.73~5.60   |
| Due to banks and other financial institutions          | 0.01~3.80              | 0.01~6.10   |
| Placements from banks and other financial institutions | (0.24)~3.46            | (0.01)~4.75 |
| Financial liabilities at FVPL                          | 0.48~0.75              | 0.47~1.00   |
| Certificates of deposit issued                         | 1.40~3.30              | 2.11~3.44   |
| Financial assets sold under repurchase agreements      | 0.02~2.80              | 2.34~5.30   |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

### 44 RELATED PARTY TRANSACTIONS (Continued)

#### (d) Transactions with state-owned entities in PRC

The Group operates in an economic environment predominated by enterprises directly or indirectly owned and/or controlled by the Government through its authorities, affiliates or other organisations (collectively the “state-owned entities”). During the period, the Group entered into extensive banking transactions with these state-owned entities including, but not limited to, the provision of credit and guarantees, deposits, foreign exchange, derivatives transactions, agency business, underwriting and distribution of bonds issued by the Government as well as trading and redemption of securities issued by the Government.

Management considers that transactions with state-owned entities are activities conducted in the ordinary course of business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and these state-owned entities are ultimately controlled or owned by the Government. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are state-owned entities.

#### (e) Transactions with subsidiaries

The pricing of the transactions with subsidiaries is determined based on normal commercial banks. These transactions are eliminated on consolidation.

Details of transaction volumes and outstanding balances are summarised below:

| The Bank   | As at<br>31 December 2019 | As at<br>31 December 2018 |
|--|---------------------------|---------------------------|
| Due from banks and other financial institutions        | 338                       | 484                       |
| Placements with banks and other financial institutions | 91,307                    | 74,791                    |
| Loans and advances to customers                        | 1,296                     | 7,298                     |
| Financial investments at FVPL                          | 1,915                     | –                         |
| Financial investments at amortised cost                | 2,266                     | 1,721                     |
| Financial investments at FVOCI                         | 13,055                    | –                         |
| Derivative financial assets                            | 429                       | 366                       |
| Other assets   | 137                       | 126                       |
| Due to banks and other financial institutions          | 9,651                     | 19,904                    |
| Placements from banks and other financial institutions | 10,245                    | 10,255                    |
| Derivative financial liabilities                       | 543                       | 860                       |
| Due to customers                                       | 3,544                     | 2,201                     |
| Debt securities issued                                 | 51                        | 51                        |
| Other liabilities                                      | 36                        | 31                        |
| Sale of financial investments at FVPL to subsidiaries  | 10,327                    | –                         |
| Sale of financial investments at FVOCI to subsidiaries | 28,312                    | –                         |

| The Bank                                  | Year ended 31 December<br>2019 | 2018  |
|---|--------------------------------|-------|
| Interest income                           | 2,531                          | 2,291 |
| Interest expense                          | 458                            | 603   |
| Fee and commission income                 | 943                            | 1,063 |
| Fee and commission expense                | 97                             | 27    |
| Other operating income                    | 562                            | 249   |
| Other operating expense                   | 212                            | 174   |
| Net gains arising from trading activities | 755                            | 201   |



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019  
(All amounts expressed in millions of RMB unless otherwise stated)

## 44 RELATED PARTY TRANSACTIONS (Continued)

### (e) Transactions with subsidiaries (Continued)

The interest rates of the transactions between the Bank and its subsidiaries are summarised below:

| The Bank   | Year ended 31 December |             |
|--|------------------------|-------------|
|  | 2019                   | 2018        |
|  | %                      | %           |
| Due from banks and other financial institutions        | 0.01~4.00              | 0.01~4.70   |
| Placements with banks and other financial institutions | (0.10)~5.40            | 0.03~5.45   |
| Financial investments at FVPL                          | 2.63~4.38              | –           |
| Financial investments at amortised cost                | 0.76~4.70              | 3.25~4.70   |
| Financial investments at FVOCI                         | 1.00~4.38              | –           |
| Loans and advances to customers                        | 2.18~3.97              | 0.03~5.52   |
| Due to banks and other financial institutions          | 0.02~9.15              | 0.01~5.50   |
| Placements from banks and other financial institutions | (0.10)~5.40            | (0.10)~5.45 |
| Due to customers                                       | 1.50~3.03              | 0.01~4.16   |
| Debt securities issued                                 | 5.75                   | 5.75        |

### (f) Transactions with directors and senior management

The Group enters into transactions, including loans and deposits with directors, senior management and controlled bodies corporate of connected entities with such directors and senior management under the normal course of business and they mainly include loans and deposits, which are carried out under commercial terms and paid at market rates.

Details of transaction volumes and outstanding balances are summarised below:

|                                 | As at<br>31 December 2019 | As at<br>31 December 2018 |
|---------------------------------|---------------------------|---------------------------|
| Due to customers                | 18                        | 8                         |
| Loans and advances to customers | 3                         | 4                         |

Compensations of directors and senior management are disclosed in Note 13.

### (g) Transactions with associates

The Group's investments in associates mainly include the investment in Jiangsu Changshu Rural Commercial Bank Co., Ltd. and Bank of Tibet Co., Ltd. Transactions between the Group and associates are carried out under normal commercial terms and paid at market rates.

Details of transaction volumes and outstanding balances are summarised below:

|  | As at<br>31 December 2019 | As at<br>31 December 2018 |
|--|---------------------------|---------------------------|
| On-balance sheet items                                 |                           |                           |
| Due from banks and other financial institutions        | –                         | 101                       |
| Due to banks and other financial institutions          | –                         | 10                        |
| Derivative financial assets                            | 4                         | –                         |
| Placements with banks and other financial institutions | 52                        | 222                       |
| Derivative financial liabilities                       | 3                         | –                         |
| Off-balance sheet items                                |                           |                           |
| National principal of derivative financial instruments | 5,193                     | –                         |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

### 44 RELATED PARTY TRANSACTIONS (Continued)

#### (g) Transactions with associates (Continued)

|                                   | Year ended 31 December |      |
|-----------------------------------|------------------------|------|
|                                   | 2019                   | 2018 |
| Net gains from trading activities | 1                      | –    |
| Interest income                   | 10                     | 2    |
| Interest expense                  | 2                      | 10   |

The interest rates of the transactions between the Group and associates are summarised below:

|  | Year ended 31 December |           |
|--|------------------------|-----------|
|  | 2019                   | 2018      |
|  | %                      | %         |
| Due from banks and other financial institutions        | 0.35~3.88              | 2.84~3.88 |
| Placements with banks and other financial institutions | 0.75~2.65              | 0.75      |
| Financial assets purchased under resale agreements     | 1.38~3.10              | 2.66~2.75 |
| Due to banks and other financial institutions          | 0.01~5.50              | 0.01~5.58 |

#### (h) Transactions with other related parties

Details of transaction volumes and outstanding balances are summarised below:

|   | As at<br>31 December 2019 | As at<br>31 December 2018 |
|---|---------------------------|---------------------------|
| Loans and advances to customers               | 2,354                     | 4,337                     |
| Accrued interest                              | 1                         | 6                         |
| Financial investments at amortised cost       | 200                       | –                         |
| Accrued interest                              | 4                         | –                         |
| Due to banks and other financial institutions | 1,851                     | 1,910                     |
| Accrued interest                              | 20                        | 18                        |
| Due to customers                              | 46,865                    | 42,094                    |
| Accrued interest                              | 1,253                     | 1,076                     |

|                  | Year ended 31 December |       |
|------------------|------------------------|-------|
|                  | 2019                   | 2018  |
| Interest income  | 74                     | 218   |
| Interest expense | 1,507                  | 1,265 |

The interest rates of the transactions between the Group and other related parties are summarised below:

|  | Year ended 31 December |            |
|--|------------------------|------------|
|  | 2019                   | 2018       |
|  | %                      | %          |
| Loans and advances to customers                      | 0.30~6.31              | 3.915~5.22 |
| Financial investments at amortised cost              | 3.19~3.78              | –          |
| Deposits from banks and other financial institutions | 2.70~5.80              | 0.35~5.80  |
| Due to customers                                     | 1.10~4.18              | 1.10~4.88  |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

## 45 SEGMENTAL ANALYSIS

The Group's senior management reviews the Group's operation by the particular economic areas in which the Group's branches and subsidiaries provide products or services. The Group's operating segments are decided based upon location of the assets, as the Group's branches and subsidiaries mainly serve local customers.

The reportable operating segments derive their revenue primarily from the commercial banking services provided to customers and investing activities, including deposits/loans, bills, trade finance, money market placements and takings and securities investments. The operating segments are:

- (1) Northern China – including Beijing, Tianjin, Hebei Province, Shanxi Province and Inner Mongolia Autonomous Region;
- (2) North Eastern China – including Liaoning Province, Jilin Province and Heilongjiang Province;
- (3) Eastern China – including Shanghai (excluding Head Office), Jiangsu Province, Zhejiang Province, Anhui Province, Fujian Province, Jiangxi Province and Shandong Province;
- (4) Central and Southern China – including Henan Province, Hunan Province, Hubei Province, Guangdong Province, Hainan Province and Guangxi Zhuang Autonomous Region;
- (5) Western China – including Chongqing, Sichuan Province, Guizhou Province, Yunnan Province, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Autonomous Region and Xinjiang Uyghur Autonomous Region;
- (6) Head Office;
- (7) Overseas – including overseas subsidiaries and the following branches: Hong Kong, New York, Tokyo, Singapore, Seoul, Frankfurt, Macau, Ho Chi Minh City, San Francisco, Sydney, Taipei, London, Luxembourg, Brisbane, Paris, Rome, Brazil, Toronto, Melbourne, Prague and other overseas affiliates.

There were no changes in the reportable segments during the year.

The revenue from external parties reported to the senior management is measured in a manner consistent with that in the consolidated statement of profit or loss and other comprehensive income.

As the Group's major revenue is derived by interest and the senior management relies primarily on net interest income to assess the performance of the segment, the total interest income and expenses for all reportable segments will be presented on a net basis.

The basis on which the Group's senior management reviews the segment performance is profit before tax. Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in inter-segment net interest income. Interest charged for these funds is based on the Group's cost of capital. There are no other material items of income or expenses between the segments.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

## 45 SEGMENTAL ANALYSIS (Continued)

### Operating segment information

|   | Year ended 31 December 2019 |                     |               |                            |               |               |               | Total          |
|---|-----------------------------|---------------------|---------------|----------------------------|---------------|---------------|---------------|----------------|
|   | Northern China              | North Eastern China | Eastern China | Central and Southern China | Western China | Overseas      | Head Office   |                |
| External interest income                              | 29,574                      | 8,829               | 85,922        | 50,550                     | 24,236        | 33,580        | 134,762       | 367,453        |
| External interest expense                             | (29,487)                    | (8,710)             | (58,943)      | (33,277)                   | (15,036)      | (24,203)      | (53,714)      | (223,370)      |
| Inter-segment net interest income/(expense)           | 17,180                      | 4,799               | 23,936        | 15,543                     | 5,724         | (370)         | (66,812)      | -              |
| <b>Net interest income</b>                            | <b>17,267</b>               | <b>4,918</b>        | <b>50,915</b> | <b>32,816</b>              | <b>14,924</b> | <b>9,007</b>  | <b>14,236</b> | <b>144,083</b> |
| Fee and commission income                             | 4,652                       | 1,531               | 13,610        | 8,480                      | 3,365         | 3,166         | 12,865        | 47,669         |
| Fee and commission expense                            | (37)                        | (16)                | (1,366)       | (93)                       | (31)          | (328)         | (2,173)       | (4,044)        |
| <b>Net fee and commission income</b>                  | <b>4,615</b>                | <b>1,515</b>        | <b>12,244</b> | <b>8,387</b>               | <b>3,334</b>  | <b>2,838</b>  | <b>10,692</b> | <b>43,625</b>  |
| Net gains arising from trading activities             | 344                         | 50                  | 2,295         | 537                        | 84            | 341           | 12,285        | 15,936         |
| Net gains/(losses) arising from financial investments | -                           | -                   | 114           | -                          | -             | 487           | (288)         | 313            |
| Insurance business income                             | -                           | -                   | 11,647        | -                          | -             | 40            | -             | 11,687         |
| Share of profits of associates and joint ventures     | -                           | -                   | -             | -                          | -             | 134           | 280           | 414            |
| Other operating income                                | 839                         | 168                 | 12,900        | 533                        | 583           | 1,711         | 65            | 16,799         |
| <b>Total operating income – net</b>                   | <b>23,065</b>               | <b>6,651</b>        | <b>90,115</b> | <b>42,273</b>              | <b>18,925</b> | <b>14,558</b> | <b>37,270</b> | <b>232,857</b> |
| Credit impairment losses                              | (2,034)                     | (4,882)             | (16,255)      | (6,268)                    | (3,591)       | (86)          | (18,838)      | (51,954)       |
| Other assets impairment losses                        | -                           | 1                   | (230)         | (10)                       | (15)          | (16)          | -             | (270)          |
| Insurance business expense                            | -                           | -                   | (11,424)      | -                          | -             | (8)           | -             | (11,432)       |
| Other operating expense                               | (7,400)                     | (3,298)             | (28,719)      | (11,441)                   | (5,967)       | (5,516)       | (18,660)      | (81,001)       |
| <b>Profit before tax</b>                              | <b>13,631</b>               | <b>(1,528)</b>      | <b>33,487</b> | <b>24,554</b>              | <b>9,352</b>  | <b>8,932</b>  | <b>(228)</b>  | <b>88,200</b>  |
| Income tax  |                             |                     |               |                            |               |               |               | (10,138)       |
| <b>Net profit for the year</b>                        |                             |                     |               |                            |               |               |               | <b>78,062</b>  |
| Depreciation and amortisation                         | (1,101)                     | (430)               | (2,326)       | (1,626)                    | (882)         | (608)         | (1,132)       | (8,105)        |
| Capital expenditure                                   | (356)                       | (227)               | (29,403)      | (917)                      | (382)         | (281)         | (810)         | (32,376)       |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019  
(All amounts expressed in millions of RMB unless otherwise stated)

## 45 SEGMENTAL ANALYSIS (Continued)

### Operating segment information (Continued)

|   | Year ended 31 December 2018 |                           |                  |                                  |                  |          |             | Total     |
|---|-----------------------------|---------------------------|------------------|----------------------------------|------------------|----------|-------------|-----------|
|   | Northern<br>China           | North<br>Eastern<br>China | Eastern<br>China | Central and<br>Southern<br>China | Western<br>China | Overseas | Head Office |           |
| External interest income                              | 28,500                      | 9,630                     | 78,890           | 43,787                           | 21,811           | 29,276   | 136,970     | 348,864   |
| External interest expense                             | (30,461)                    | (8,934)                   | (58,022)         | (32,062)                         | (14,467)         | (21,499) | (52,511)    | (217,956) |
| Inter-segment net interest income/(expense)           | 18,118                      | 4,570                     | 23,219           | 18,182                           | 6,288            | (426)    | (69,951)    | -         |
| <b>Net interest income</b>                            | 16,157                      | 5,266                     | 44,087           | 29,907                           | 13,632           | 7,351    | 14,508      | 130,908   |
| Fee and commission income                             | 4,342                       | 1,623                     | 13,606           | 8,160                            | 3,221            | 3,350    | 10,371      | 44,673    |
| Fee and commission expense                            | (226)                       | (53)                      | (1,508)          | (285)                            | (153)            | (351)    | (860)       | (3,436)   |
| <b>Net fee and commission income</b>                  | 4,116                       | 1,570                     | 12,098           | 7,875                            | 3,068            | 2,999    | 9,511       | 41,237    |
| Net gains arising from trading activities             | 326                         | 74                        | 1,310            | 455                              | 154              | 1,094    | 13,686      | 17,099    |
| Net gains/(losses) arising from financial investments | -                           | -                         | 149              | -                                | -                | 282      | (141)       | 290       |
| Insurance business income                             | -                           | -                         | 7,446            | -                                | -                | 35       | -           | 7,481     |
| Share of profits of associates and joint ventures     | -                           | -                         | -                | -                                | -                | 13       | 214         | 227       |
| Other operating income                                | 1,166                       | 218                       | 10,412           | 804                              | 591              | 1,511    | 1,111       | 15,813    |
| <b>Total operating income – net</b>                   | 21,765                      | 7,128                     | 75,502           | 39,041                           | 17,445           | 13,285   | 38,889      | 213,055   |
| Credit impairment losses                              | (2,395)                     | (7,716)                   | (10,425)         | (5,516)                          | (4,855)          | (399)    | (12,148)    | (43,454)  |
| Other assets impairment losses                        | -                           | -                         | (27)             | (24)                             | -                | (9)      | -           | (60)      |
| Insurance business expense                            | -                           | -                         | (6,712)          | -                                | -                | (10)     | -           | (6,722)   |
| Other operating expense                               | (7,234)                     | (3,321)                   | (25,618)         | (11,252)                         | (5,980)          | (4,968)  | (18,379)    | (76,752)  |
| <b>Profit before tax</b>                              | 12,136                      | (3,909)                   | 32,720           | 22,249                           | 6,610            | 7,899    | 8,362       | 86,067    |
| Income tax  |                             |                           |                  |                                  |                  |          |             | (11,902)  |
| <b>Net profit for the year</b>                        |                             |                           |                  |                                  |                  |          |             | 74,165    |
| Depreciation and amortisation                         | (734)                       | (335)                     | (1,683)          | (1,052)                          | (611)            | (235)    | (1,027)     | (5,677)   |
| Capital expenditure                                   | (361)                       | (170)                     | (27,597)         | (974)                            | (665)            | (780)    | (798)       | (31,345)  |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

### 45 SEGMENTAL ANALYSIS (Continued)

#### Operating segment information (Continued)

|  | As at 31 December 2019 |                     |               |                            |               |             |             |              | Total       |
|--|------------------------|---------------------|---------------|----------------------------|---------------|-------------|-------------|--------------|-------------|
|  | Northern China         | North Eastern China | Eastern China | Central and Southern China | Western China | Overseas    | Head Office | Eliminations |             |
| Segment assets                               | 1,219,762              | 344,260             | 2,814,349     | 1,519,238                  | 708,382       | 1,100,223   | 4,029,099   | (1,853,778)  | 9,881,535   |
| Including:                                   |                        |                     |               |                            |               |             |             |              |             |
| Investments in associates and joint ventures | -                      | -                   | 4             | 6                          | -             | 431         | 4,159       | -            | 4,600       |
| Unallocated assets                           |                        |                     |               |                            |               |             |             |              | 24,065      |
| Total assets                                 |                        |                     |               |                            |               |             |             |              | 9,905,600   |
| Segment liabilities                          | (1,202,152)            | (346,410)           | (2,648,846)   | (1,483,516)                | (697,188)     | (1,067,197) | (3,512,239) | 1,853,778    | (9,103,770) |
| Unallocated liabilities                      |                        |                     |               |                            |               |             |             |              | (918)       |
| Total liabilities                            |                        |                     |               |                            |               |             |             |              | (9,104,688) |

|  | As at 31 December 2018 |                     |               |                            |               |           |             |              | Total       |
|--|------------------------|---------------------|---------------|----------------------------|---------------|-----------|-------------|--------------|-------------|
|  | Northern China         | North Eastern China | Eastern China | Central and Southern China | Western China | Overseas  | Head Office | Eliminations |             |
| Segment assets                               | 1,157,867              | 339,827             | 2,669,816     | 1,434,255                  | 688,096       | 1,006,195 | 4,224,506   | (2,011,366)  | 9,509,196   |
| Including:                                   |                        |                     |               |                            |               |           |             |              |             |
| Investments in associates and joint ventures | -                      | -                   | 4             | 7                          | -             | 67        | 3,575       | -            | 3,653       |
| Unallocated assets                           |                        |                     |               |                            |               |           |             |              | 21,975      |
| Total assets                                 |                        |                     |               |                            |               |           |             |              | 9,531,171   |
| Segment liabilities                          | (1,140,638)            | (342,636)           | (2,534,865)   | (1,399,199)                | (681,169)     | (991,077) | (3,747,047) | 2,011,366    | (8,825,265) |
| Unallocated liabilities                      |                        |                     |               |                            |               |           |             |              | (598)       |
| Total liabilities                            |                        |                     |               |                            |               |           |             |              | (8,825,863) |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019  
(All amounts expressed in millions of RMB unless otherwise stated)

## 45 SEGMENTAL ANALYSIS (Continued)

### Business Information

The Group is engaged predominantly in banking and related financial activities. It comprises corporate banking, personal banking, treasury and other business. Corporate banking mainly comprises corporate loans, bills, trade finance, corporate deposits and remittance. Personal banking mainly comprises individual loans, individual deposits, credit cards and remittance. Treasury mainly comprises money market placements and takings, financial investment, and securities sold under repurchase agreements. The “Others Business” segment mainly comprises items which cannot be categorised in the above business segments.

The business information of the Group is summarised as follows:

|  | Year ended 31 December 2019 |                           |                   |                | Total          |
|--|-----------------------------|---------------------------|-------------------|----------------|----------------|
|  | Corporate Banking Business  | Personal Banking Business | Treasury Business | Other Business |                |
| External net interest income                       | 54,158                      | 45,514                    | 42,145            | 2,266          | 144,083        |
| Inter-segment net interest income/ (expense)       | 19,915                      | 15,277                    | (35,192)          | –              | –              |
| Net interest income                                | 74,073                      | 60,791                    | 6,953             | 2,266          | 144,083        |
| Net fee and commission income                      | 15,168                      | 25,585                    | 543               | 2,329          | 43,625         |
| Net gains/(losses) arising from trading activities | 1,708                       | (3)                       | 11,789            | 2,442          | 15,936         |
| Net gains arising from financial investments       | –                           | –                         | 313               | –              | 313            |
| Share of profits of associates and joint ventures  | –                           | –                         | –                 | 414            | 414            |
| Insurance business income                          | –                           | –                         | –                 | 11,687         | 11,687         |
| Other operating income                             | 13,763                      | 2,313                     | –                 | 723            | 16,799         |
| <b>Total operating income – net</b>                | <b>104,712</b>              | <b>88,686</b>             | <b>19,598</b>     | <b>19,861</b>  | <b>232,857</b> |
| Credit impairment losses                           | (31,854)                    | (20,803)                  | 1,014             | (311)          | (51,954)       |
| Other assets impairment losses                     | (233)                       | –                         | –                 | (37)           | (270)          |
| Insurance business expense                         | –                           | –                         | –                 | (11,432)       | (11,432)       |
| Other operating expense                            |                             |                           |                   |                |                |
| – Depreciation and amortisation                    | (2,917)                     | (4,347)                   | (406)             | (435)          | (8,105)        |
| – Others   | (31,335)                    | (34,412)                  | (2,858)           | (4,291)        | (72,896)       |
| <b>Profit before tax</b>                           | <b>38,373</b>               | <b>29,124</b>             | <b>17,348</b>     | <b>3,355</b>   | <b>88,200</b>  |
| Income tax   |                             |                           |                   |                | (10,138)       |
| <b>Net profit for the year</b>                     |                             |                           |                   |                | <b>78,062</b>  |
| Depreciation and amortisation                      | (2,917)                     | (4,347)                   | (406)             | (435)          | (8,105)        |
| Capital expenditure                                | (11,650)                    | (17,366)                  | (1,623)           | (1,737)        | (32,376)       |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

## 45 SEGMENTAL ANALYSIS (Continued)

|   | Year ended 31 December 2018      |                                 |                      |                |                |
|---|----------------------------------|---------------------------------|----------------------|----------------|----------------|
|   | Corporate<br>Banking<br>Business | Personal<br>Banking<br>Business | Treasury<br>Business | Other Business | Total          |
| External net interest income                          | 49,366                           | 41,779                          | 37,313               | 2,450          | 130,908        |
| Inter-segment net interest income/<br>(expense)       | 19,189                           | 9,011                           | (28,200)             | –              | –              |
| Net interest income                                   | 68,555                           | 50,790                          | 9,113                | 2,450          | 130,908        |
| Net fee and commission income                         | 14,392                           | 24,090                          | 604                  | 2,151          | 41,237         |
| Net gains/(losses) arising from trading<br>activities | 2,656                            | (53)                            | 13,876               | 620            | 17,099         |
| Net gains arising from financial<br>investments       | –                                | –                               | 290                  | –              | 290            |
| Share of profits of associates and joint<br>ventures  | –                                | –                               | –                    | 227            | 227            |
| Insurance business income                             | –                                | –                               | –                    | 7,481          | 7,481          |
| Other operating income                                | 11,487                           | 3,130                           | 2                    | 1,194          | 15,813         |
| <b>Total operating income – net</b>                   | <b>97,090</b>                    | <b>77,957</b>                   | <b>23,885</b>        | <b>14,123</b>  | <b>213,055</b> |
| Credit impairment losses                              | (29,726)                         | (13,607)                        | 141                  | (262)          | (43,454)       |
| Other assets impairment losses                        | (34)                             | –                               | –                    | (26)           | (60)           |
| Insurance business expense                            | –                                | –                               | –                    | (6,722)        | (6,722)        |
| Other operating expense                               |                                  |                                 |                      |                |                |
| – Depreciation and amortisation                       | (1,708)                          | (3,581)                         | (125)                | (263)          | (5,677)        |
| – Others  | (28,557)                         | (35,979)                        | (2,671)              | (3,868)        | (71,075)       |
| <b>Profit before tax</b>                              | <b>37,065</b>                    | <b>24,790</b>                   | <b>21,230</b>        | <b>2,982</b>   | <b>86,067</b>  |
| Income tax  |                                  |                                 |                      |                | (11,902)       |
| <b>Net profit for the year</b>                        |                                  |                                 |                      |                | <b>74,165</b>  |
| Depreciation and amortisation                         | (1,708)                          | (3,581)                         | (125)                | (263)          | (5,677)        |
| Capital expenditure                                   | (9,430)                          | (19,775)                        | (688)                | (1,452)        | (31,345)       |

|   | As at 31 December 2019           |                                 |                      |                |                    |
|---|----------------------------------|---------------------------------|----------------------|----------------|--------------------|
|   | Corporate<br>Banking<br>Business | Personal<br>Banking<br>Business | Treasury<br>Business | Other Business | Total              |
| Segment assets                                  | 3,524,914                        | 1,829,595                       | 4,429,717            | 97,309         | 9,881,535          |
| Including:                                      |                                  |                                 |                      |                |                    |
| Investments in associates and joint<br>ventures | –                                | –                               | –                    | 4,600          | 4,600              |
| Unallocated assets                              |                                  |                                 |                      |                | 24,065             |
| <b>Total assets</b>                             |                                  |                                 |                      |                | <b>9,905,600</b>   |
| Segment liabilities                             | (4,340,472)                      | (2,004,467)                     | (2,719,447)          | (39,384)       | (9,103,770)        |
| Unallocated liabilities                         |                                  |                                 |                      |                | (918)              |
| <b>Total liabilities</b>                        |                                  |                                 |                      |                | <b>(9,104,688)</b> |



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019  
(All amounts expressed in millions of RMB unless otherwise stated)

## 45 SEGMENTAL ANALYSIS (Continued)

|   | As at 31 December 2018           |                                 |                      |                | Total       |
|---|----------------------------------|---------------------------------|----------------------|----------------|-------------|
|   | Corporate<br>Banking<br>Business | Personal<br>Banking<br>Business | Treasury<br>Business | Other Business |             |
| <b>Segment assets</b>                               | 3,181,294                        | 1,721,526                       | 4,529,647            | 76,729         | 9,509,196   |
| Including:  |                                  |                                 |                      |                |             |
| <i>Investments in associates and joint ventures</i> | –                                | –                               | –                    | 3,653          | 3,653       |
| Unallocated assets                                  |                                  |                                 |                      |                | 21,975      |
| <b>Total assets</b>                                 |                                  |                                 |                      |                | 9,531,171   |
| Segment liabilities                                 | (4,247,625)                      | (1,806,316)                     | (2,742,362)          | (28,962)       | (8,825,265) |
| Unallocated liabilities                             |                                  |                                 |                      |                | (598)       |
| <b>Total liabilities</b>                            |                                  |                                 |                      |                | (8,825,863) |

There were no significant transactions with a single external customer that the Group mainly relied on.

## 46 FINANCIAL STATEMENTS OF THE BANK

### (a) Statement of financial position of the Bank

|  | As at<br>31 December 2019 | As at<br>31 December 2018 |
|--|---------------------------|---------------------------|
| <b>ASSETS</b>  |                           |                           |
| Cash and balances with central banks                                   | 756,179                   | 835,960                   |
| Due from and placements with banks and other financial institutions    | 719,284                   | 895,393                   |
| Derivative financial assets  | 19,960                    | 29,447                    |
| Loans and advances to customers  | 4,971,617                 | 4,556,775                 |
| Financial investments at fair value through profit or loss             | 337,752                   | 356,351                   |
| Financial investments at amortised cost                                | 1,905,492                 | 1,982,351                 |
| Financial investments at fair value through other comprehensive income | 548,454                   | 324,922                   |
| Investments in associates and joint ventures                           | 4,055                     | 3,454                     |
| Investments in subsidiaries  | 54,167                    | 46,110                    |
| Property and equipment   | 50,795                    | 52,740                    |
| Deferred income tax assets   | 22,571                    | 20,580                    |
| Other assets   | 61,539                    | 43,710                    |
| <b>Total assets</b>  | <b>9,451,865</b>          | <b>9,147,793</b>          |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

### 46 FINANCIAL STATEMENTS OF THE BANK (Continued)

#### (a) Statement of financial position of the Bank (Continued)

|   | As at<br>31 December 2019 | As at<br>31 December 2018 |
|---|---------------------------|---------------------------|
| <b>Liabilities</b>                            |                           |                           |
| Due to banks and other financial institutions | 1,809,364                 | 2,092,370                 |
| Financial liabilities at FVPL                 | 26,342                    | 23,109                    |
| Derivative financial liabilities              | 26,076                    | 28,801                    |
| Due to customers                              | 5,914,089                 | 5,644,733                 |
| Certificates of deposits issued               | 493,873                   | 360,766                   |
| Current income tax liabilities                | 5,524                     | 1,334                     |
| Deferred income tax liabilities               | 102                       | 46                        |
| Debt securities issued                        | 317,205                   | 244,163                   |
| Other liabilities                             | 97,535                    | 77,654                    |
| <b>Total liabilities</b>                      | <b>8,690,110</b>          | <b>8,472,976</b>          |
| <b>Equity</b>                                 |                           |                           |
| Share capital                                 | 74,263                    | 74,263                    |
| Other equity investments                      | 99,870                    | 59,876                    |
| <i>Including: Preference shares</i>           | <b>59,876</b>             | <b>59,876</b>             |
| <i>Perpetual bonds</i>                        | <b>39,994</b>             | <b>–</b>                  |
| Capital surplus                               | 113,427                   | 113,427                   |
| Other reserves                                | 318,251                   | 313,760                   |
| Retained earnings                             | 155,944                   | 113,491                   |
| <b>Total equity</b>                           | <b>761,755</b>            | <b>674,817</b>            |
| <b>Total equity and liabilities</b>           | <b>9,451,865</b>          | <b>9,147,793</b>          |

The financial statements of the Bank were approved and authorised for issuance by the Board of Directors on 27 March 2020 and signed on its behalf by:

Chairman, Executive Director and President: Ren Deqi

Executive Director and Vice President: Hou Weidong

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019  
(All amounts expressed in millions of RMB unless otherwise stated)

## 46 FINANCIAL STATEMENTS OF THE BANK (Continued)

### (b) Statement of changes in equity of the Bank

|   | Other reserves  |                   |                 |                 |                   |                       |                           |                     |                    |                         |   |                           |        |            |          | Retained earnings | Total |
|---|---|-------------------|-----------------|-----------------|-------------------|-----------------------|---------------------------|---------------------|--------------------|-------------------------|---|---------------------------|--------|------------|----------|-------------------|-------|
|   | Revaluation reserve for the changes in credit risk of the financial assets measured |                   |                 |                 |                   |                       |                           |                     |                    |                         |   |                           |        |            |          |                   |       |
|   | Revaluation reserve for the changes in credit risk of the financial assets measured |                   |                 |                 |                   |                       |                           |                     |                    |                         |   |                           |        |            |          |                   |       |
|   | Revaluation reserve for the changes in credit risk of the financial assets measured |                   |                 |                 |                   |                       |                           |                     |                    |                         |   |                           |        |            |          |                   |       |
|   | Revaluation reserve for the changes in credit risk of the financial assets measured |                   |                 |                 |                   |                       |                           |                     |                    |                         |   |                           |        |            |          |                   |       |
|   | Share capital   | Preference shares | Perpetual bonds | Capital surplus | Statutory reserve | Discretionary reserve | Statutory general reserve | at designated FVOCI | at designated FVPL | Cash flow hedge reserve | Translation reserve on foreign operations | Actuarial changes reserve | Others |            |          |                   |       |
|   | Note 33   | Note 34           | Note 34         | Note 33         | Note 35           | Note 35               | Note 35                   | Note 35             |                    |                         |   |                           |        | Note 35,36 |          |                   |       |
| As at 31 December 2018  | 74,263  | 59,876            | -               | 113,427         | 63,072            | 139,764               | 108,717                   | 1,247               | (20)               | 29                      | (404)                                     | 10                        | 1,345  | 113,491    | 674,817  |                   |       |
| Impact from adoption of IFRS 16                               | -   | -                 | -               | -               | -                 | -                     | -                         | -                   | -                  | -                       | -   | -                         | -      | (609)      | (609)    |                   |       |
| As at 1 January 2019 (restated)                               | 74,263  | 59,876            | -               | 113,427         | 63,072            | 139,764               | 108,717                   | 1,247               | (20)               | 29                      | (404)                                     | 10                        | 1,345  | 112,882    | 674,208  |                   |       |
| Net profit for the year                                       | -   | -                 | -               | -               | -                 | -                     | -                         | -                   | -                  | -                       | -   | -                         | -      | 70,752     | 70,752   |                   |       |
| Other comprehensive income                                    | -   | -                 | -               | -               | -                 | -                     | -                         | 1,078               | 25                 | (47)                    | 697                                       | (20)                      | 18     | -          | 1,751    |                   |       |
| Total comprehensive income                                    | -   | -                 | -               | -               | -                 | -                     | -                         | 1,078               | 25                 | (47)                    | 697                                       | (20)                      | 18     | 70,752     | 72,503   |                   |       |
| Capital contribution by holders of other equity instruments   | -   | -                 | 39,994          | -               | -                 | -                     | -                         | -                   | -                  | -                       | -   | -                         | -      | -          | 39,994   |                   |       |
| Dividends paid to ordinary shareholders                       | -   | -                 | -               | -               | -                 | -                     | -                         | -                   | -                  | -                       | -   | -                         | -      | (22,279)   | (22,279) |                   |       |
| Dividends paid to preference shareholders                     | -   | -                 | -               | -               | -                 | -                     | -                         | -                   | -                  | -                       | -   | -                         | -      | (2,671)    | (2,671)  |                   |       |
| Transfer to reserves  | -   | -                 | -               | -               | -                 | -                     | 2,738                     | -                   | -                  | -                       | -   | -                         | -      | (2,738)    | -        |                   |       |
| Transfer from other comprehensive income to retained earnings | -   | -                 | -               | -               | -                 | -                     | -                         | 2                   | -                  | -                       | -   | -                         | -      | (2)        | -        |                   |       |
| As at 31 December 2019  | 74,263  | 59,876            | 39,994          | 113,427         | 63,072            | 139,764               | 111,455                   | 2,327               | 5                  | (18)                    | 293                                       | (10)                      | 1,363  | 155,944    | 761,755  |                   |       |
| Not   |   |                   |                 |                 |                   |                       |                           |                     |                    |                         |   |                           |        |            |          |                   |       |
| As at 31 December 2017  | 74,263  | 59,876            | -               | 113,427         | 56,239            | 139,764               | 100,012                   | (2,053)             | applicable         | (5)                     | (1,473)                                   | 35                        | 1,327  | 112,544    | 653,956  |                   |       |
| Impact from adoption of IFRS 9                                | -   | -                 | -               | -               | -                 | -                     | -                         | 1,797               | (6)                | -                       | -   | -                         | -      | (28,012)   | (26,221) |                   |       |
| As at 1 January 2018 (restated)                               | 74,263  | 59,876            | -               | 113,427         | 56,239            | 139,764               | 100,012                   | (256)               | (6)                | (5)                     | (1,473)                                   | 35                        | 1,327  | 84,532     | 627,735  |                   |       |
| Net profit for the year                                       | -   | -                 | -               | -               | -                 | -                     | -                         | -                   | -                  | -                       | -   | -                         | -      | 68,324     | 68,324   |                   |       |
| Other comprehensive income                                    | -   | -                 | -               | -               | -                 | -                     | -                         | 1,503               | (14)               | 34                      | 1,069                                     | (25)                      | 18     | -          | 2,585    |                   |       |
| Total comprehensive income                                    | -   | -                 | -               | -               | -                 | -                     | -                         | 1,503               | (14)               | 34                      | 1,069                                     | (25)                      | 18     | 68,324     | 70,909   |                   |       |
| Capital contribution by holders of other equity instruments   | -   | -                 | -               | -               | -                 | -                     | -                         | -                   | -                  | -                       | -   | -                         | -      | -          | -        |                   |       |
| Dividends paid to ordinary shareholders                       | -   | -                 | -               | -               | -                 | -                     | -                         | -                   | -                  | -                       | -   | -                         | -      | (21,209)   | (21,209) |                   |       |
| Dividends paid to preference shareholders                     | -   | -                 | -               | -               | -                 | -                     | -                         | -                   | -                  | -                       | -   | -                         | -      | (2,618)    | (2,618)  |                   |       |
| Transfer to reserves  | -   | -                 | -               | -               | 6,833             | -                     | 8,705                     | -                   | -                  | -                       | -   | -                         | -      | (15,538)   | -        |                   |       |
| As at 31 December 2018  | 74,263  | 59,876            | -               | 113,427         | 63,072            | 139,764               | 108,717                   | 1,247               | (20)               | 29                      | (404)                                     | 10                        | 1,345  | 113,491    | 674,817  |                   |       |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

### 47 NON-ADJUSTING EVENT AFTER REPORTING PERIOD

In accordance with the resolution and authorization of the 7th meeting of the 9th Session of Board of Directors of the Bank, BOCOM International Holdings Company Limited, a subsidiary of the Bank, intends to initiate the establishment of a wholly-owned subsidiary, BOCOM Financial Technology Company Limited through its wholly-owned subsidiary BOCOM International (Shanghai) Equity Investment Management Co., Ltd. The Investment is subject to relevant regulatory approval.

In January 2020, the Board of Directors of the Bank approved a total capital increase to Bank of Communications (Hong Kong) Limited of no more than HKD30 billion. Such capital will be injected by instalments. Such proposal is subject to the ultimate approval by the Bank's Shareholders' General Meeting.

In January 2020, the Board of Directors of the Bank approved the issuance of undated capital bonds with write-down feature which has a total amount of no more than RMB90 billion or equivalent foreign currencies on the domestic and overseas markets, to replenish Additional Tier 1 Capital of the Bank. Such proposal is subject to the ultimate approval by the Bank's Shareholders' General Meeting.

In January 2020, the Board of Directors of the Bank approved the issuance of financial bonds with a total amount of no more than 1% of the total assets of the Group in its latest audited financial statements on the national inter-bank bond market, which can be implemented with stages during the authorised period. The duration of the bond shall not exceed five years.

In January 2020, the Bank's Hong Kong Branch issued three medium term notes with the face value of RMB2 billion due in 2022, USD1.3 billion due in 2023 and HKD2.8 billion due in 2022 respectively.

In March 2020, Bank of Communications (Hong Kong) Limited issued Non-Cumulative Subordinated Additional Tier 1 Capital Securities with the face value of USD0.5 billion.

In March 2020, Bank of Communications Financial Assets Investment Co., Ltd. issued two financial bonds with the face value of RMB 3 billion due 2023 and RMB 7 billion due 2025 respectively.

Since January 2020, the epidemic of COVID-19 has spread around the world, affecting commercial and economic activities. Consequently, it may to some extent influence the quality of credit assets and investment assets or ROE of the Group. The impacts depend on the duration of the epidemic, work of prevention and control, and regulatory policies. The Group will continue to pay close attention to the progression of the epidemic and actively assess and respond to its impacts on the Group's financial position and operating results. As at the reporting date, the assessment is still in progress.

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(All amounts expressed in millions of RMB unless otherwise stated)

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# UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(All amounts expressed in millions of RMB unless otherwise stated)

## 1 LIQUIDITY RATIO

The liquidity ratios that the Group submitted to the Regulators are calculated in accordance with the formula promulgated by CBIRC.

|                     | As at<br>31 December 2019 | As at<br>31 December 2018 |
|---------------------|---------------------------|---------------------------|
| Liquidity ratio (%) | 72.92                     | 68.73                     |

## 2 CURRENCY CONCENTRATIONS

|                               | USD         | HKD       | Others    | Total       |
|-------------------------------|-------------|-----------|-----------|-------------|
| <b>As at 31 December 2019</b> |             |           |           |             |
| Spot assets                   | 962,162     | 240,381   | 182,878   | 1,385,421   |
| Spot liabilities              | (935,924)   | (281,692) | (120,743) | (1,338,359) |
| Forward purchases             | 1,009,056   | 184,437   | 88,332    | 1,281,825   |
| Forward sales                 | (1,082,162) | (116,658) | (131,152) | (1,329,972) |
| Net option position           | (9,379)     | (1)       | (506)     | (9,886)     |
| Net long/(short) position     | (56,247)    | 26,467    | 18,809    | (10,971)    |
| Net structural position       | 123,773     | 18,922    | 5,175     | 147,870     |

|                               | USD         | HKD       | Others    | Total       |
|-------------------------------|-------------|-----------|-----------|-------------|
| <b>As at 31 December 2018</b> |             |           |           |             |
| Spot assets                   | 923,779     | 190,792   | 154,296   | 1,268,867   |
| Spot liabilities              | (980,657)   | (239,433) | (112,500) | (1,332,590) |
| Forward purchases             | 1,176,798   | 111,895   | 34,961    | 1,323,654   |
| Forward sales                 | (1,164,445) | (50,463)  | (67,904)  | (1,282,812) |
| Net option position           | (3,652)     | –         | (728)     | (4,380)     |
| Net long/(short) position     | (48,177)    | 12,791    | 8,125     | (27,261)    |
| Net structural position       | 103,330     | 18,941    | 5,048     | 127,319     |

The net options position is calculated using the approach as set out by CBIRC in the regulatory report. The net structural position of the Group includes the structural positions of the Group's overseas branches, banking subsidiaries and other subsidiaries substantially involved in foreign exchange. Structural assets and liabilities include:

- Investments in fixed assets and properties, net of depreciation charges;
- Capital and statutory reserve of overseas branches;
- Investments in overseas subsidiaries and related companies; and
- Loan capital

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(All amounts expressed in millions of RMB unless otherwise stated)

### 3 INTERNATIONAL CLAIMS

International claims are the sum of cross-border claims in all currencies and local claims in foreign currencies. The Group is principally engaged in business operations within Mainland China.

For the purpose of this unaudited supplementary financial information, Mainland China excludes Hong Kong Special Administrative Region of the PRC ("Hong Kong"), Macau Special Administrative Region of the PRC ("Macau") and Taiwan.

International claims include loans and advances to customers, deposits and placements with banks and non-bank financial institutions, holdings of trade bills and certificates of deposits and investment securities.

International claims have been disclosed by country or geographical area. A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfers are only made if risk exposure is transferred to other counterparty by risk resolving methods. Exposure to credit risk is also controlled by obtaining collaterals and corporate and individual guarantees.

| As at 31 December 2019                  | Bank    | Official sector | Non-bank<br>private sector | Others | Total     |
|---|---------|-----------------|----------------------------|--------|-----------|
| Asia Pacific                            | 483,803 | 34,641          | 570,466                    | –      | 1,088,910 |
| <i>Of which attributed to Hong Kong</i> | 145,993 | 16,732          | 236,836                    | –      | 399,561   |
| North and South America                 | 33,558  | 32,202          | 67,936                     | –      | 133,696   |
| Africa                                  | 4,704   | 594             | 10,615                     | –      | 15,913    |
| Europe                                  | 14,620  | 211             | 24,409                     | –      | 39,240    |
|   | 536,685 | 67,648          | 673,426                    | –      | 1,277,759 |

| As at 31 December 2018                  | Bank    | Official sector | Non-bank<br>private sector | Others | Total     |
|---|---------|-----------------|----------------------------|--------|-----------|
| Asia Pacific                            | 543,039 | 49,363          | 461,398                    | –      | 1,053,800 |
| <i>Of which attributed to Hong Kong</i> | 123,413 | 19,119          | 192,390                    | –      | 334,922   |
| North and South America                 | 57,414  | 14,001          | 50,278                     | –      | 121,693   |
| Africa                                  | –       | –               | –                          | –      | –         |
| Europe                                  | 22,481  | 1,125           | 57,266                     | –      | 80,872    |
|   | 622,934 | 64,489          | 568,942                    | –      | 1,256,365 |

### 4 OVERDUE AND RESTRUCTURED ASSETS

#### 4.1 Balance of overdue loans

|  | As at<br>31 December 2019 | As at<br>31 December 2018 |
|--|---------------------------|---------------------------|
| Loans and advances to customers which have been overdue for: |                           |                           |
| – Less than 3 months   | 28,923                    | 25,843                    |
| – 3 to 6 months  | 9,694                     | 10,983                    |
| – 6 to 12 months   | 18,924                    | 21,096                    |
| – Over 12 months   | 32,979                    | 31,242                    |
|  | 90,520                    | 89,164                    |
| Percentage (%):  |                           |                           |
| – Less than 3 months   | 0.55                      | 0.54                      |
| – 3 to 6 months  | 0.17                      | 0.23                      |
| – 6 to 12 months   | 0.36                      | 0.43                      |
| – Over 12 months   | 0.63                      | 0.64                      |
|  | 1.71                      | 1.84                      |

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(All amounts expressed in millions of RMB unless otherwise stated)

### 4.2 Overdue and restructured loans

|  | As at<br>31 December 2019 | As at<br>31 December 2018 |
|--|---------------------------|---------------------------|
| Total restructured loans and advances to customers   | 7,634                     | 9,415                     |
| <i>Including: Restructured loans and advances to customers overdue above 3 months</i>            | 1,949                     | 3,617                     |
| Percentage of restructured loans and advances to customers overdue above 3 months in total loans | 0.04                      | 0.07                      |

## 5 SEGMENTAL INFORMATION OF LOANS

### 5.1 Impaired loans and advances to customers by geographical area

|   | As at 31 December 2019                         |                                       | As at 31 December 2018                         |                                       |
|---|--|---------------------------------------|--|---------------------------------------|
|   | Impaired loans<br>and advances to<br>customers | Allowance for<br>impairment<br>losses | Impaired loans<br>and advances to<br>customers | Allowance for<br>impairment<br>losses |
| PRC domestic regions                          |  |                                       |  |                                       |
| – Northern China                              | 5,506  | (4,371)                               | 7,734  | (5,479)                               |
| – North Eastern China                         | 13,826   | (9,625)                               | 8,668  | (5,586)                               |
| – Eastern China                               | 21,573   | (14,778)                              | 21,895   | (13,549)                              |
| – Central and Southern China                  | 14,419   | (9,538)                               | 14,941   | (9,090)                               |
| – Western China                               | 10,373   | (7,569)                               | 10,329   | (6,084)                               |
| – Head office                                 | 11,133   | (11,514)                              | 7,681  | (7,320)                               |
|   | 76,830   | (57,395)                              | 71,248   | (47,108)                              |
| Hong Kong, Macau, Taiwan and overseas regions | 1,213  | (652)                                 | 1,264  | (915)                                 |
|   | 78,043   | (58,047)                              | 72,512   | (48,023)                              |

### 5.2 Overdue loans and advances to customers by geographical area

|   | As at 31 December 2019 |                                       | As at 31 December 2018 |                                       |
|---|------------------------|---------------------------------------|------------------------|---------------------------------------|
|   | Overdue loans          | Allowance for<br>impairment<br>losses | Overdue loans          | Allowance for<br>impairment<br>losses |
| PRC domestic regions                          |                        |                                       |                        |                                       |
| – Northern China                              | 5,923                  | (9,268)                               | 7,939                  | (5,346)                               |
| – North Eastern China                         | 15,384                 | (4,286)                               | 9,619                  | (5,742)                               |
| – Eastern China                               | 24,217                 | (13,903)                              | 25,229                 | (15,865)                              |
| – Central and Southern China                  | 15,164                 | (8,566)                               | 15,901                 | (9,594)                               |
| – Western China                               | 8,277                  | (6,117)                               | 10,536                 | (6,648)                               |
| – Head office                                 | 20,582                 | (13,877)                              | 18,374                 | (8,983)                               |
|   | 89,547                 | (56,017)                              | 87,598                 | (52,178)                              |
| Hong Kong, Macau, Taiwan and overseas regions | 973                    | (710)                                 | 1,566                  | (1,143)                               |
|   | 90,520                 | (56,727)                              | 89,164                 | (53,321)                              |
| Fair value of collaterals                     | 44,293                 | Not applicable                        | 43,899                 | Not applicable                        |



# UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(All amounts expressed in millions of RMB unless otherwise stated)

## 6 LOANS AND ADVANCES TO CUSTOMERS

### 6.1 The risk concentration analysis for loans and advances to customers by industry sectors (gross)

| Hong Kong   | As at 31 December 2019 |        |                               | As at 31 December 2018 |        |                               |
|---|------------------------|--------|-------------------------------|------------------------|--------|-------------------------------|
|   |                        | %      | Amount covered by collaterals |                        | %      | Amount covered by collaterals |
| Corporate loans   |                        |        |                               |                        |        |                               |
| Manufacturing   |                        |        |                               |                        |        |                               |
| – Petroleum and chemical  | 957                    | 0.44   | –                             | 1,265                  | 0.66   | –                             |
| – Electronics   | 863                    | 0.39   | 316                           | 668                    | 0.35   | 325                           |
| – Textile and clothing  | 3,079                  | 1.40   | 636                           | 2,990                  | 1.56   | 634                           |
| – Other manufacturing   | 30,300                 | 13.81  | 4,736                         | 29,120                 | 15.21  | 4,116                         |
| Production and supply of power, heat, gas and water                         | 1,529                  | 0.70   | 400                           | 1,187                  | 0.62   | 227                           |
| Construction  | 11,125                 | 5.07   | 1,012                         | 9,455                  | 4.94   | 1,106                         |
| Transportation, storage and postal service                                  | 16,682                 | 7.61   | 4,040                         | 13,435                 | 7.02   | 4,143                         |
| Information transmission, software and IT services                          | 1,059                  | 0.48   | 31                            | 835                    | 0.44   | 32                            |
| Wholesale and retail  | 37,106                 | 16.92  | 3,438                         | 36,487                 | 19.05  | 3,235                         |
| Accommodation and catering  | –                      | –      | –                             | –                      | –      | –                             |
| Finance   | 10,405                 | 4.74   | 2,354                         | 12,348                 | 6.45   | 3,211                         |
| Real estate   | 24,510                 | 11.17  | 10,677                        | 12,934                 | 6.75   | 6,736                         |
| Leasing and commercial services   | 8,840                  | 4.03   | 3,152                         | 5,358                  | 2.80   | 2,649                         |
| Education, science, culture and public health                               | –                      | –      | –                             | –                      | –      | –                             |
| Others  | 41,297                 | 18.84  | 5,932                         | 39,937                 | 20.84  | 4,506                         |
| Total corporate loans   | 187,752                | 85.60  | 36,724                        | 166,019                | 86.69  | 30,920                        |
| Individual loans  |                        |        |                               |                        |        |                               |
| Mortgage  | 17,496                 | 7.98   | 17,479                        | 14,445                 | 7.54   | 14,429                        |
| Credit cards  | 146                    | 0.07   | –                             | 156                    | 0.08   | –                             |
| Others  | 13,936                 | 6.35   | 12,876                        | 10,893                 | 5.69   | 9,912                         |
| Total individual loans  | 31,578                 | 14.40  | 30,355                        | 25,494                 | 13.31  | 24,341                        |
| Gross amount of loans and advances to customers before impairment allowance | 219,330                | 100.00 | 67,079                        | 191,513                | 100.00 | 55,261                        |
| Outside Hong Kong   | 5,084,945              |        |                               | 4,662,715              |        |                               |

Note: The classification of industries is consistent with the latest national standards for industry classification (Industrial classification for national economic activities (GB/T 4754-2017) issued by SAC and AQSIQ in 2017).

The risk concentration analysis for loans and advances to customers by industry sectors is based on the Group's internal classification system.

The ratio of collateral loans to the total loans of the Group was 47% as at 31 December 2019 (31 December 2018: 49%).

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(All amounts expressed in millions of RMB unless otherwise stated)

### 6 LOANS AND ADVANCES TO CUSTOMERS (Continued)

#### 6.2 Allowance on loans and advances to customers by type of loan

|                           | As at 31 December 2019 |                                 | As at 31 December 2018 |                                 |
|---------------------------|------------------------|---------------------------------|------------------------|---------------------------------|
|                           | Impaired loans         | Allowance for impairment losses | Impaired loans         | Allowance for impairment losses |
| Corporates                | 59,469                 | (42,085)                        | 57,172                 | (36,577)                        |
| Individuals               | 18,574                 | (15,962)                        | 15,340                 | (11,446)                        |
|                           | 78,043                 | (58,047)                        | 72,512                 | (48,023)                        |
| Fair value of collaterals | 29,398                 | Not applicable                  | 28,349                 | Not applicable                  |

Collaterals held against such loans mainly include cash deposits and mortgages over properties.

The amount of new provisions charged to statement of profit or loss, and the amount of loans and advances written off during the years are disclosed below:

|             | Year ended 31 December 2019 |   |  | Year ended 31 December 2018 |   |  |
|-------------|-----------------------------|---|--|-----------------------------|---|--|
|             | New provisions              | Loans and advances written off as uncollectible | Recoveries of loans and advances written off in previous years | New provisions              | Loans and advances written off as uncollectible | Recoveries of loans and advances written off in previous years |
| Corporates  | 29,605                      | (27,547)  | 1,464  | 29,759                      | (38,988)  | 1,062  |
| Individuals | 19,476                      | (14,436)  | 1,224  | 12,737                      | (11,180)  | 517  |
|             | 49,081                      | (41,983)  | 2,688  | 42,496                      | (50,168)  | 1,579  |

# SUPPLEMENTARY INFORMATION ON LEVERAGE RATIO, LIQUIDITY COVERAGE RATIO AND NET STABLE FUNDING RATIO

## APPENDIX 1: INFORMATION RELATED TO LEVERAGE RATIO

### Reconciliation of Regulatory Consolidation and Accounting Consolidation

(in millions of RMB)

| Serial Number | Item   | 31 December 2019  |
|---------------|--|-------------------|
| 1             | Total consolidated assets                                  | 9,905,600         |
| 2             | Adjustments of consolidation                               | (54,233)          |
| 3             | Adjustments item of customer's assets                      | 0                 |
| 4             | Adjustments of derivatives                                 | 40,470            |
| 5             | Adjustments of securities financing transactions           | 7,808             |
| 6             | Adjustments of off-balance-sheet item                      | 736,970           |
| 7             | Other Adjustments  | (5,595)           |
| 8             | <b>Balance of adjusted on-and-off-balance-sheet assets</b> | <b>10,631,020</b> |

### Leverage Ratio Information

(in millions of RMB unless otherwise stated)

| SN | Item  | 31 December 2019 |
|----|---|------------------|
| 1  | On-balance-sheet assets (excluding derivatives and securities financing transactions)   | 9,732,567        |
| 2  | Less: Deduction of Tier 1 Capital   | (5,595)          |
| 3  | <b>Balance of adjusted on-balance-sheet assets (excluding derivatives and securities financing transactions)</b>                            | <b>9,726,972</b> |
| 4  | Replacement costs of derivatives (less eligible margin)   | 20,934           |
| 5  | Potential risk exposure of derivatives  | 40,470           |
| 6  | Sum of collaterals deducted from the balance sheet  | 0                |
| 7  | Less: Assets receivable from providing eligible margin  | 0                |
| 8  | Less: Derivative assets resulting from the transactions with central counterparties in providing clearing settlement services for customers | 0                |
| 9  | Notional principal of sold credit derivatives   | 0                |
| 10 | Less: Deductible balance of sold credit derivatives   | 0                |
| 11 | <b>Derivative asset balance</b>   | <b>61,404</b>    |
| 12 | Accounting asset balance of securities financing transactions   | 97,866           |
| 13 | Less: Balance of deductible securities financing transaction assets   | 0                |
| 14 | Counterparty credit risk exposure of securities financing transactions  | 7,808            |
| 15 | Balance of securities financing transaction assets from acting for securities financing transactions  | 0                |
| 16 | <b>Securities financing assets balance</b>  | <b>105,674</b>   |
| 17 | Balance of off-balance-sheet items  | 1,708,677        |
| 18 | Less: Balance of off-balance-sheet items arising from the reduction of credit transfer  | (971,707)        |
| 19 | <b>Adjusted off-balance-sheet items balance</b>   | <b>736,970</b>   |
| 20 | Net Tier 1 Capital  | 789,546          |
| 21 | Adjusted balance of on-and-off-balance-sheet assets   | 10,631,020       |
| 22 | <b>Leverage ratio (%)</b>   | <b>7.43</b>      |

Note: Information disclosed in Appendix 1 according to the requirements of the Administrative Measures for the Leverage Ratio of Commercial Banks (Revised), which is the difference of items between regulatory consolidation and accounting consolidation.

## SUPPLEMENTARY INFORMATION ON LEVERAGE RATIO, LIQUIDITY COVERAGE RATIO AND NET STABLE FUNDING RATIO (CONTINUED)

### APPENDIX 2: THE DAILY AVERAGE LIQUIDITY COVERAGE RATIO AND ITS DETAILS OF THE GROUP IN THE FORTH QUARTER OF 2019

(in millions of RMB unless otherwise stated)

| Serial Number                                   |   | Amount before conversion | Amount after conversion        |
|---|---|--------------------------|--------------------------------|
| <b>The qualified high-quality liquid assets</b> |   |                          |                                |
| 1   | The qualified high-quality liquid assets                                |                          | 1,811,837                      |
| <b>Cash Outflow</b>                             |   |                          |                                |
| 2   | Retail deposits, small business deposits, including:                    | 1,605,982                | 150,688                        |
| 3   | Stable deposit  | 195,948                  | 9,685                          |
| 4   | Less stable deposit   | 1,410,034                | 141,003                        |
| 5   | Unsecured wholesale funding, including:                                 | 4,062,009                | 1,823,537                      |
| 6   | Business relationship deposit (excluding agency business)               | 2,272,002                | 566,710                        |
| 7   | Non-business relationship deposit (including all counterparties)        | 1,783,997                | 1,250,817                      |
| 8   | Unsecured debts   | 6,010                    | 6,010                          |
| 9   | Secured funding   |                          | 21,678                         |
| 10  | Other items, including:   | 1,501,138                | 687,193                        |
| 11  | Cash outflow relates to derivatives and other collateral/pledged assets | 651,484                  | 638,102                        |
| 12  | Cash outflow relates to loss of funding on asset-blocked securities     | 119                      | 119                            |
| 13  | Committed credit and liquidity facilities                               | 849,535                  | 48,972                         |
| 14  | Other contractual obligation to extend funds                            | 46,653                   | 46,653                         |
| 15  | Contingent funding obligations  | 1,161,116                | 40,055                         |
| 16  | Total expected cash outflow   |                          | 2,769,804                      |
| <b>Cash Inflow</b>                              |   |                          |                                |
| 17  | Secured lending (including reverse repos and securities borrowing)      | 51,739                   | 51,230                         |
| 18  | Inflows from fully performing exposure                                  | 814,295                  | 551,435                        |
| 19  | Other cash inflow   | 690,008                  | 663,607                        |
| 20  | Total expected cash inflow  | 1,556,042                | 1,266,272                      |
|   |   |                          | <b>Amount after adjustment</b> |
| 21  | The qualified high-quality liquid assets                                |                          | 1,811,837                      |
| 22  | Net cash outflow  |                          | 1,503,532                      |
| 23  | Liquidity Coverage Ratio (%)  |                          | 120.69                         |

# SUPPLEMENTARY INFORMATION ON LEVERAGE RATIO, LIQUIDITY COVERAGE RATIO AND NET STABLE FUNDING RATIO (CONTINUED)

## APPENDIX 3: NET STABLE FUNDING RATIO AND ITEMS FOR THE THIRD QUARTER OF 2019

(in millions of RMB unless otherwise stated)

| (in millions of PAB and unless otherwise stated) |   |             |  |             |             | Weighted value   |
|--|---|-------------|--|-------------|-------------|------------------|
| Serial Number                                    |   | No maturity | Unweighted value<br>Less than 6 months | 6-12 months | Over 1 year |                  |
| <b>Available Stable Funding Item</b>             |   |             |  |             |             |                  |
| 1  | Capital   | 777,744     | —                                      | —           | 102,403     | 880,147          |
| 2  | Regulatory Capital  | 777,744     | —                                      | —           | 82,303      | 860,047          |
| 3  | Other capital instruments   | —           | —                                      | —           | 20,100      | 20,100           |
| 4  | Retail deposits and deposits from small enterprises   | 798,026     | 1,236,609                              | 69,186      | 3,033       | 1,915,641        |
| 5  | Stable deposits   | 378,457     | 3,263                                  | 1,651       | 1,613       | 365,815          |
| 6  | Less stable deposits  | 419,569     | 1,233,347                              | 67,535      | 1,420       | 1,549,826        |
| 7  | Wholesale funding   | 2,084,262   | 3,223,660                              | 818,012     | 471,931     | 2,671,692        |
| 8  | Operational deposits  | 2,076,422   | 130,389                                | 32,268      | 5,707       | 1,125,247        |
| 9  | Other wholesale funding   | 7,840       | 3,093,271                              | 785,744     | 466,224     | 1,546,445        |
| 10   | Liabilities with matching interdependent assets   | —           | —                                      | —           | —           | —                |
| 11   | Other liabilities   | 40,987      | 18,635                                 | 5,521       | 234,005     | 224,488          |
| 12   | Net stable funding ratio derivative liabilities   |             | 41,598                                 |             |             |                  |
| 13   | All other liabilities and equities not included in the above categories   | 40,987      | 18,635                                 | 5,521       | 192,407     | 224,488          |
| 14   | <b>Total available stable funding</b>   |             |  |             |             | <b>5,691,968</b> |
| <b>Required Stable Funding Item</b>              |   |             |  |             |             |                  |
| 15   | Total net stable funding ratio high-quality liquid assets   |             |  |             |             | 373,070          |
| 16   | Deposits held at other financial institutions for business relationship   | 94,025      | 4,460                                  | —           | 498         | 49,740           |
| 17   | Loans and securities  | 59,083      | 1,884,157                              | 933,722     | 3,619,414   | 4,342,604        |
| 18   | Loans to financial institutions secured by Level 1 assets   | —           | 6,599                                  | —           | —           | 990              |
| 19   | Loans to financial institutions secured by non-Level 1 assets or unsecured  | —           | 542,905                                | 243,670     | 144,319     | 347,590          |
| 20   | Loans to retail and small business customers, non-financial institutions, sovereigns, central banks and public sector entities. | 7           | 1,310,632                              | 649,911     | 2,017,286   | 2,692,139        |
| 21   | Including: with a risk weight less than or equal to 35%   | —           | 37,726                                 | 10,325      | 16,048      | 34,457           |
| 22   | Residential mortgages   | —           | 530                                    | 659         | 1,070,717   | 910,704          |
| 23   | Including: with a risk weight less than or equal to 35%   | —           | —                                      | —           | —           | —                |
| 24   | Securities that are not in default and do not qualify as high-quality liquid assets, including exchange-traded equities         | 59,076      | 23,492                                 | 39,482      | 387,092     | 391,182          |
| 25   | Assets with matching interdependent liabilities   | —           | —                                      | —           | —           | —                |
| 26   | Other assets  | 164,775     | 72,172                                 | 9,801       | 42,137      | 252,682          |
| 27   | Physical traded commodities (including gold)  | 54,243      |  |             |             | 46,107           |
| 28   | Assets posted as initial margin for derivative contracts and contributions to default funds of central counterparties           |             | 4,190                                  | 3,562       |             |                  |
| 29   | Net stable funding ratio derivative assets  |             | 33,248                                 | —           |             |                  |
| 30   | Net stable funding ratio derivative liabilities with additional requirements  |             | 41,598                                 | 8,320       |             |                  |
| 31   | All other assets not included in the above  | 110,532     | 72,172                                 | 9,801       | 4,699       | 194,693          |
| 32   | Off-balance-sheet items   |             | 2,252,672                              | 94,794      |             |                  |
| 33   | <b>Total required stable funding</b>  |             |  |             |             | <b>5,112,890</b> |
| 34   | <b>Net stable funding ratio (%)</b>   |             |  |             |             | <b>111.33</b>    |

### Notes:

- Items to be reported in the “no maturity” bucket include, but are not limited to, capital with perpetual maturity, non-maturity (demand) deposits, short positions, open maturity positions, non-high-quality liquid assets equities, and physical traded commodities.
- The unweighted value of item 30 “Net stable funding ratio derivative liabilities with additional requirements” is the net stable funding ratio derivative liabilities before the deduction of the variation margin, without differentiation of maturity, and not included in the unweighted value of item 26 “Other assets”.

# SUPPLEMENTARY INFORMATION ON LEVERAGE RATIO, LIQUIDITY COVERAGE RATIO AND NET STABLE FUNDING RATIO (CONTINUED)

## APPENDIX 4: NET STABLE FUNDING RATIO AND ITEMS FOR THE FOURTH QUARTER OF 2019

(in millions of RMB unless otherwise stated)

| (in millions of P.A.M. unless otherwise stated) |   |             |  |             |             | Weighted value   |
|---|---|-------------|--|-------------|-------------|------------------|
| Serial Number                                   |   | No maturity | Unweighted value<br>Less than 6 months | 6-12 months | Over 1 year |                  |
| Available Stable Funding Item                   |   |             |  |             |             |                  |
| 1   | Capital   | 795,515     | —                                      | —           | 93,942      | 889,457          |
| 2   | Regulatory Capital  | 795,515     | —                                      | —           | 73,842      | 869,357          |
| 3   | Other capital instruments   | —           | —                                      | —           | 20,100      | 20,100           |
| 4   | Retail deposits and deposits from small enterprises   | 853,292     | 1,229,204                              | 39,892      | 4,422       | 1,935,326        |
| 5   | Stable deposits   | 410,996     | 2,705                                  | 1,398       | 1,496       | 395,839          |
| 6   | Less stable deposits  | 442,297     | 1,226,499                              | 38,495      | 2,926       | 1,539,487        |
| 7   | Wholesale funding   | 2,139,239   | 3,013,639                              | 728,116     | 506,440     | 2,650,461        |
| 8   | Operational deposits  | 2,122,298   | 111,836                                | 31,319      | 5,554       | 1,138,280        |
| 9   | Other wholesale funding   | 16,941      | 2,901,803                              | 696,797     | 500,886     | 1,512,181        |
| 10  | Liabilities with matching interdependent assets   | —           | —                                      | —           | —           | —                |
| 11  | Other liabilities   | 49,924      | 146,965                                | 55,548      | 195,229     | 233,952          |
| 12  | Net stable funding ratio derivative liabilities   |             | 26,421                                 |             |             |                  |
| 13  | All other liabilities and equities not included in the above categories   | 49,924      | 146,965                                | 55,548      | 168,807     | 233,952          |
| 14  | <b>Total available stable funding</b>   |             |  |             |             | <b>5,709,197</b> |
| Required Stable Funding Item                    |   |             |  |             |             |                  |
| 15  | Total net stable funding ratio high-quality liquid assets   |             |  |             |             | 327,080          |
| 16  | Deposits held at other financial institutions for business relationship   | 71,237      | 832                                    | —           | 498         | 36,532           |
| 17  | Loans and securities  | 27,044      | 1,689,396                              | 968,586     | 3,678,284   | 4,348,607        |
| 18  | Loans to financial institutions secured by Level 1 assets   | —           | 2,648                                  | —           | —           | 397              |
| 19  | Loans to financial institutions secured by non-Level 1 assets or unsecured  | —           | 399,915                                | 207,500     | 156,723     | 320,460          |
| 20  | Loans to retail and small business customers, non-financial institutions, sovereigns, central banks and public sector entities. | —           | 1,252,162                              | 732,684     | 2,038,118   | 2,720,633        |
| 21  | Including: with a risk weight less than or equal to 35%   | —           | 16,462                                 | 9,690       | 22,585      | 27,756           |
| 22  | Residential mortgages   | —           | 534                                    | 674         | 1,105,955   | 940,666          |
| 23  | Including: with a risk weight less than or equal to 35%   | —           | —                                      | —           | —           | —                |
| 24  | Securities that are not in default and do not qualify as high-quality liquid assets, including exchange-traded equities         | 27,044      | 34,137                                 | 27,728      | 377,487     | 366,451          |
| 25  | Assets with matching interdependent liabilities   | —           | —                                      | —           | —           | —                |
| 26  | Other assets  | 158,349     | 76,598                                 | 10,463      | 160,194     | 375,316          |
| 27  | Physical traded commodities (including gold)  | 51,293      |  |             |             | 43,599           |
| 28  | Assets posted as initial margin for derivative contracts and contributions to default funds of central counterparties           |             | 6,029                                  | 5,124       |             |                  |
| 29  | Net stable funding ratio derivative assets  |             | 20,934                                 | —           |             |                  |
| 30  | Net stable funding ratio derivative liabilities with additional requirements  |             | 26,421                                 | 5,284       |             |                  |
| 31  | All other assets not included in the above  | 107,056     | 76,598                                 | 10,463      | 133,231     | 321,307          |
| 32  | Off-balance-sheet items   |             | 2,399,531                              | 101,881     |             |                  |
| 33  | <b>Total required stable funding</b>  |             |  |             |             | <b>5,189,416</b> |
| 34  | <b>Net stable funding ratio (%)</b>   |             |  |             |             | <b>110.02</b>    |

### Notes

- Items to be reported in the “no maturity” bucket include, but are not limited to, capital with perpetual maturity, non-maturity (demand) deposits, short positions, open maturity positions, non-high-quality liquid assets equities, and physical traded commodities.
- The unweighted value of item 30 “Net stable funding ratio derivative liabilities with additional requirements” is the net stable funding ratio derivative liabilities before the deduction of the variation margin, without differentiation of maturity, and not included in the unweighted value of item 26 “Other assets”.

# INDEPENDENT AUDITOR'S REPORT

## **To The Shareholders of Bank of Communications Co., Ltd.**

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

## OPINION

### What we have audited

The consolidated financial statements of Bank of Communications Co., Ltd. (the "Bank") and its subsidiaries (the "Group") set out on pages 148 to 297, which comprise:

- the consolidated statement of financial position as at 31 December 2020;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

### Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

KEY AUDIT MATTERS *(Continued)*

Key audit matters identified in our audit are summarised as follows:

1. Expected credit impairment allowance of loans and advances to customers, financial investments at amortised cost, credit related commitments and financial guarantees
2. Consolidation assessment of structured entities
3. Valuation of financial assets measured at fair value classified as level 3

| Key Audit Matter  | How our audit addressed the Key Audit Matter  |
|---|---|
| <b><i>Expected credit impairment allowance of loans and advances to customers, financial investments at amortised cost, credit related commitments and financial guarantees</i></b>   |   |
| <p>Refer to Notes 2.3, 2.29 (a), 3.1.1 (a), 3.1.1 (b), 3.1.1 (c), 3.1.1 (d), 3.1.2, 3.1.3.1, 22.2, 23, 34 and 40 to the Group's consolidated financial statements.</p> <p>As at 31 December 2020, the Group's gross loans and advances to customers amounted to RMB5,861,404 million, and an expected credit loss ("ECL") allowance of RMB140,836 million was recognised in the Group's consolidated statement of financial position; the gross amount of financial investments at amortised cost was RMB2,022,579 million and an ECL allowance of RMB3,050 million was recognised; the exposure of credit related commitments and financial guarantees was RMB1,676,712 million, for which a provision of RMB10,500 million was recognised.</p> <p>The ECL on loans and advances to customers, financial investments at amortised cost and credit related commitments and financial guarantees recognised in the Group's consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2020 amounted to RMB60,036 million.</p> <p>The Group assesses whether or not loans and advances to customers, financial investments at amortised cost and credit related commitments and financial guarantees have a significant increase in credit risk or a default was incurred, and applies a three-stage impairment model and discounted cash flow model ("DCF") to calculate their ECL. For loans and advances to customers, financial investments at amortised cost and credit related commitments and financial guarantees using the three-stage impairment model, the management assesses loss allowance using the risk parameter modelling approach that incorporates key parameters, including probability of default, loss given default and exposure at default. For loans and advances to customers and financial investments at amortised cost using DCF to calculate ECL, the management assesses loss allowance by estimating the cash flows from the business.</p> | <p>We understood, evaluated and tested the internal controls relating to ECL for loans and advances to customers, financial investments at amortised cost and credit related commitments and financial guarantees, primarily comprising:</p> <ol style="list-style-type: none"> <li>(1) Governance over ECL models, including the selection, approval and application of the accounting policies and ECL modelling methodology; and the internal controls relating to the ongoing monitoring and optimization of the models;</li> <li>(2) Internal controls relating to significant management judgments and assumptions, including the assessment and approval of portfolio segmentation, model selections, parameters estimation, the judgement of significant increase in credit risk, or of defaults or credit-impaired, forward-looking and management overlay adjustments;</li> <li>(3) Internal controls over the accuracy and completeness of key inputs used by the models;</li> <li>(4) Internal controls relating to estimation of future cash flows and calculations of present values of such cash flows for loans and advances to customers and financial investments at amortised cost using DCF to calculate loss allowances;</li> <li>(5) Internal controls over the information systems for ECL measurement.</li> </ol> <p>The substantive procedures we performed, primarily comprised:</p> <p>Based on the risk profile of the asset portfolio, we evaluated the reasonableness of the portfolio segmentation. By comparing with regulatory guidance and industry practice, we assessed the reasonableness of modelling methodologies for ECL measurement of different portfolios. We examined the calculation for the model measurement on selected samples, to test whether or not the models reflect the modelling methodologies documented by management.</p> |



KEY AUDIT MATTERS *(Continued)*

| Key Audit Matter  | How our audit addressed the Key Audit Matter  |
|---|---|
| <b><i>Expected credit impairment allowance of loans and advances to customers, financial investments at amortised cost, credit related commitments and financial guarantees (Continued)</i></b>   |   |
| <p>The models of ECL involves significant management judgments and assumptions, primarily including:</p> <ol style="list-style-type: none"> <li>(1) Segmentation of business operations sharing similar credit risk characteristics, selection of appropriate models and determination of relevant key measurement parameters;</li> <li>(2) Criteria for determining whether or not there was a significant increase in credit risk, or a default or impairment loss was incurred;</li> <li>(3) Economic indicators for forward-looking measurement, and the application of economic scenarios and weightings;</li> <li>(4) Management overlay adjustments due to significant uncertain factors not covered in the models; and</li> <li>(5) The estimated future cash flows for loans and advances to customers and financial investments at amortised cost for which DCF model was used to calculate ECL.</li> </ol> <p>The Group established governance processes and controls for the measurement of ECL.</p> <p>For measuring ECL, the Group adopted complex models, employed numerous parameters and data inputs, and applied significant management judgments and assumptions. In addition, the loans and advances to customers, financial investments at amortised cost, exposures of credit related commitments and financial guarantees and the related ECL allowance and provision involve significant amounts. In view of these reasons, we identified this as a key audit matter.</p> | <p>We also performed back-testing of the actual defaults against expected defaults generated from the model as at the end of the previous year on sample basis to assess the reasonableness of the model.</p> <p>We examined key data inputs to the ECL models on selected samples, including historical data and data at the measurement date, to assess their accuracy and completeness.</p> <p>We selected samples, in consideration of the financial information and non-financial information of the borrowers, relevant external evidence and other factors, to assess the appropriateness of the management's criteria of significant increase in credit risk, defaults and credit-impaired loans.</p> <p>For forward-looking measurements, we applied statistical methods to assess management's selection of economic indicators and their analysis of co-relations with credit risk portfolios. We further tested the reasonableness of the prediction of economic indicators by comparing with available external expert estimates. In addition, we performed sensitivity test of economic indicators and weightings of economic scenarios.</p> <p>In addition, we assessed the reasonableness of the selection of significant uncertain factors, its application and measurement in the management overlay adjustments, and examined the accuracy of the relevant mathematical calculations.</p> <p>For loans and advances to customers and financial investments at amortised cost that DCF model used to calculate ECL, we examined, on a sample basis, forecasted future cash flows prepared by the Group based on financial information of borrowers and guarantors, latest collateral valuations and other available information together with discount rates in supporting the computation of ECL.</p> <p>Based on our procedures performed, we considered that the models, key parameters, significant judgements and assumptions adopted in the ECL measurement together with the measurement results were considered acceptable.</p> |

## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

KEY AUDIT MATTERS *(Continued)*

| Key Audit Matter   | How our audit addressed the Key Audit Matter   |
|--|--|
| <b>Consolidation assessment of structured entities</b>   |  |
| <p>Refer to Notes 2.2, 2.29 (d), 44 and 45 to the Group's consolidated financial statements.</p> <p>The Group has managed or invested in a number of structured entities. As at 31 December 2020, the carrying amount of unconsolidated structured entities invested by the Group amounted to RMB353,017 million. In addition, as at 31 December 2020, the balances of the non-principal guaranteed wealth management products, trust plans, funds and asset management plans and others originated and managed by the Group amounted to RMB1,211,959 million, RMB569,841 million, RMB339,871 million and RMB273,699 million respectively.</p> <p>The management performed assessment on each of the three elements of control (power to direct relevant activities of structured entities, exposure to variable returns and the Group's ability to use its power to affect its variable returns from the structured entities) in determining whether structured entities managed or invested in by the Group should be consolidated or not. In performing the assessment, significant judgment was involved to determine the role of the Group in the arrangement as either a principal or an agent. If the Group acts as a principal, the structured entities should be consolidated.</p> <p>We focused on this area because the amount of the Group's structured entities was significant and the consolidation assessment of these structured entities involved significant judgments.</p> | <p>We understood, evaluated and validated the design and operating effectiveness of relevant controls over management's assessment of consolidation of structured entities.</p> <p>In addition, we selected samples of the structured entities that the Group invested in or managed, and performed the following procedures on the management's assessment of consolidation of structured entities:</p> <ol style="list-style-type: none"> <li>(1) Analysed the transaction structures, inspected related contract terms, and evaluated whether the Group had the power to direct the relevant activities of these structured entities;</li> <li>(2) Inspected contract terms related to the Group's variable returns from these selected structured entities, including management fee, expected investment returns and returns from liquidity support, and agreed these information to the corresponding inputs used in the management's assessment;</li> <li>(3) Recalculated the magnitude and variability of the variable returns to the Group from these structured entities based on contract terms;</li> <li>(4) Assessed the Group's role in these structured entities as a principal or an agent through analysis of the scope of its decision-making authority over the structured entities, the remuneration to which the Group was entitled for its management services provided to the structured entities, its exposure to variability of returns from other interests that it held in them, and the rights held by other parties, and compared our assessment results with the management's assessment outcomes.</li> </ol> <p>Based on the work undertaken above, we found the overall consolidation assessment of structured entities performed by management acceptable.</p> |

KEY AUDIT MATTERS *(Continued)*

| Key Audit Matter  | How our audit addressed the Key Audit Matter  |
|---|---|
| <b>Valuation of financial assets measured at fair value classified as level 3</b>   |   |
| <p>Refer to Notes 2.3, 2.29(b) and 3.4 to the Group's consolidated financial statements.</p> <p>Convertible bonds, unlisted equities, unlisted funds, certain trusts and asset management plans, equity derivatives and certain loans and advances to customers held by the Group, whose fair value are determined based on certain unobservable inputs, were classified by the Group as level 3 in fair value measurement. The management determines the fair value of these financial assets using a variety of techniques. The valuation methods mainly include discounted cash flow and comparable values, involving various unobservable inputs such as cash flow, risk-adjusted discount rate, price to book value ratio, price to earning ratio and liquidity discounts, etc.</p> <p>As at 31 December 2020, financial assets measured at fair value classified as level 3 amounted to RMB73,190 million.</p> <p>Financial assets measured at fair value classified as level 3 involve significant amounts, and unobservable inputs adopted by the Group involve significant judgement. In view of these, valuation of these financial assets is identified as a key audit matter.</p> | <p>We understood, evaluated and validated the internal controls established by management over valuation on financial assets measured at fair valued classified as level 3, mainly comprising:</p> <ol style="list-style-type: none"> <li>(1) Internal controls relating to selection, approval and application of valuation methods;</li> <li>(2) Internal controls relating to the determination of the valuation inputs.</li> </ol> <p>The substantive procedures we performed, primarily included:</p> <ol style="list-style-type: none"> <li>(1) Assessed on sample basis the appropriateness of valuation methods adopted in the valuation of level 3 financial assets based on industry practice;</li> <li>(2) Leveraging our internal valuation specialists, evaluated the appropriateness and accuracy of various unobservable inputs involved in measuring financial assets measured at fair value classified as level 3 such as cash flow, risk-adjusted discount rate, price to book value ratio, price to earning ratio and liquidity discounts on sample basis;</li> <li>(3) Tested the mathematical accuracy of the calculation of fair value of financial assets on measured at fair value classified as level 3 sample basis.</li> </ol> <p>Based on the work undertaken above, we found that the overall valuation of financial assets measured at fair value classified as level 3 performed by the management was acceptable.</p> |

## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

### OTHER INFORMATION

The directors of the Bank are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Bank are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

### AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- 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.

### AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Ling Tung Man, Tom.

**PricewaterhouseCoopers**  
*Certified Public Accountants*

Hong Kong, 26 March 2021

# CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(All amounts expressed in millions of RMB unless otherwise stated)

|  | Note | Year ended 31 December |           |
|--|------|------------------------|-----------|
|  |      | 2020                   | 2019      |
| Interest income  |      | 369,101                | 367,453   |
| Interest expense   |      | (215,765)              | (223,370) |
| <b>Net interest income</b>   | 4    | <b>153,336</b>         | 144,083   |
| Fee and commission income  | 5    | 49,298                 | 47,669    |
| Fee and commission expense   | 6    | (4,212)                | (4,044)   |
| <b>Net fee and commission income</b>   |      | <b>45,086</b>          | 43,625    |
| Net gains arising from trading activities  | 7    | 13,844                 | 15,936    |
| Net gains arising from financial investments   |      | 1,177                  | 313       |
| <i>Including: Net gains/(losses) on derecognition of financial assets measured at amortised cost</i> |      | <b>27</b>              | (281)     |
| Share of profits of associates and joint ventures  |      | 222                    | 414       |
| Insurance business income  | 8    | 15,170                 | 11,687    |
| Other operating income   | 9    | 17,889                 | 16,799    |
| Credit impairment losses   | 10   | (62,059)               | (51,954)  |
| Other assets impairment losses   | 11   | (484)                  | (270)     |
| Insurance business expense   | 12   | (15,729)               | (11,432)  |
| Other operating expenses   | 13   | (82,027)               | (81,001)  |
| <b>Profit before tax</b>   |      | <b>86,425</b>          | 88,200    |
| Income tax   | 16   | (6,855)                | (10,138)  |
| <b>Net profit for the year</b>   |      | <b>79,570</b>          | 78,062    |
| <b>Other comprehensive income, net of tax</b>  |      |                        |           |
| <i>Items that may be reclassified subsequently to profit or loss:</i>                                |      |                        |           |
| Loans and advances to customers at fair value through other comprehensive income                     |      |                        |           |
| <i>Amount recognised in equity</i>   |      | <b>19</b>              | (335)     |
| <i>Amount reclassified to profit or loss</i>   |      | <b>(183)</b>           | (378)     |
| Debt investments at fair value through other comprehensive income                                    |      |                        |           |
| <i>Amount recognised in equity</i>   |      | <b>(920)</b>           | 3,715     |
| <i>Amount reclassified to profit or loss</i>   |      | <b>(825)</b>           | (395)     |
| Effective portion of gains or losses on hedging instruments in cash flow hedges                      |      |                        |           |
| <i>Amount recognised in equity</i>   |      | <b>(1,362)</b>         | (156)     |
| <i>Amount reclassified to profit or loss</i>   |      | <b>815</b>             | 147       |
| Translation difference on foreign operations   |      | (4,776)                | 1,141     |
| Others   |      | (8)                    | 18        |
| <b>Subtotal</b>  |      | <b>(7,240)</b>         | 3,757     |

## CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(Continued)

(All amounts expressed in millions of RMB unless otherwise stated)

|   |      | Year ended 31 December |               |
|---|------|------------------------|---------------|
|   | Note | 2020                   | 2019          |
| <i>Items that will not be reclassified subsequently to profit or loss:</i>  |      |                        |               |
| Changes in fair value of equity investments designated at fair value through other comprehensive income                                 |      | (1,204)                | (560)         |
| Actuarial losses on pension benefits  |      | (132)                  | (20)          |
| Changes in fair value attributable to changes in the credit risk of financial liability designated at fair value through profit or loss |      | 7                      | 25            |
| Others  |      | 20                     | –             |
| Subtotal  |      | (1,309)                | (555)         |
| Other comprehensive income, net of tax  | 42   | (8,549)                | 3,202         |
| <b>Total Comprehensive income for the year</b>  |      | <b>71,021</b>          | <b>81,264</b> |
| <b>Net profit attributable to:</b>  |      |                        |               |
| Shareholders of the Bank  |      | 78,274                 | 77,281        |
| Non-controlling interests   |      | 1,296                  | 781           |
|   |      | 79,570                 | 78,062        |
| <b>Total comprehensive income attributable to:</b>  |      |                        |               |
| Shareholders of the Bank  |      | 69,960                 | 80,414        |
| Non-controlling interests   |      | 1,061                  | 850           |
|   |      | 71,021                 | 81,264        |
| <b>Basic and diluted earnings per share for profit attributable to the shareholders of the Bank (in RMB yuan)</b>                       |      |                        |               |
|   | 17   | 0.99                   | 1.00          |

The accompanying notes form a part of these consolidated financial statements.

## CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(All amounts expressed in millions of RMB unless otherwise stated)

|  | Notes | As at 31<br>December 2020 | As at 31<br>December 2019 |
|--|-------|---------------------------|---------------------------|
| <b>ASSETS</b>  |       |                           |                           |
| Cash and balances with central banks   | 18    | 817,561                   | 760,185                   |
| Due from and placements with banks and other financial institutions          | 19    | 571,130                   | 648,488                   |
| Derivative financial assets  | 21    | 54,212                    | 20,937                    |
| Loans and advances to customers  | 22    | 5,720,568                 | 5,183,653                 |
| Financial investments at fair value through profit or loss                   | 20    | 482,588                   | 406,498                   |
| Financial investments at amortised cost                                      | 23    | 2,019,529                 | 1,929,689                 |
| Financial investments at fair value through other comprehensive income       | 23    | 735,220                   | 669,656                   |
| Investments in associates and joint ventures                                 | 25    | 4,681                     | 4,600                     |
| Property and equipment   | 26    | 169,471                   | 171,179                   |
| Deferred income tax assets   | 27    | 27,991                    | 24,065                    |
| Other assets   | 28    | 94,665                    | 86,650                    |
| <b>Total assets</b>  |       | <b>10,697,616</b>         | <b>9,905,600</b>          |
| <b>LIABILITIES</b>   |       |                           |                           |
| Due to and placements from banks and other financial institutions            | 29    | 1,787,491                 | 1,904,082                 |
| Financial liabilities at fair value through profit or loss                   | 30    | 29,279                    | 26,980                    |
| Derivative financial liabilities   | 21    | 55,942                    | 26,424                    |
| Due to customers   | 31    | 6,607,330                 | 6,072,908                 |
| Certificates of deposits issued  | 32    | 634,297                   | 498,991                   |
| Current income tax liabilities   |       | 3,786                     | 7,086                     |
| Deferred income tax liabilities  | 27    | 1,286                     | 918                       |
| Debt securities issued   | 33    | 497,755                   | 403,918                   |
| Other liabilities  | 34    | 201,822                   | 163,381                   |
| <b>Total liabilities</b>   |       | <b>9,818,988</b>          | <b>9,104,688</b>          |
| <b>EQUITY</b>  |       |                           |                           |
| Share capital  | 35    | 74,263                    | 74,263                    |
| Other equity instruments   | 36    | 133,292                   | 99,870                    |
| <i>Including: Preference shares</i>  |       | <i>44,952</i>             | <i>59,876</i>             |
| <i>Perpetual bonds</i>   |       | <i>88,340</i>             | <i>39,994</i>             |
| Capital surplus  | 35    | 111,428                   | 113,663                   |
| Other reserves   |       | 333,176                   | 328,310                   |
| Retained earnings  |       | 214,448                   | 177,141                   |
| <b>Equity attributable to shareholders of the Bank</b>                       |       | <b>866,607</b>            | <b>793,247</b>            |
| Equity attributable to non-controlling interests of ordinary shares          |       | 8,763                     | 7,665                     |
| Equity attributable to non-controlling interests of other equity instruments | 39    | 3,258                     | –                         |
| Non-controlling interests  |       | 12,021                    | 7,665                     |
| <b>Total equity</b>  |       | <b>878,628</b>            | <b>800,912</b>            |
| <b>Total equity and liabilities</b>  |       | <b>10,697,616</b>         | <b>9,905,600</b>          |

The consolidated financial statements were approved and authorised for issuance by the Board of Directors on 26 March 2021 and signed on its behalf by:

**Chairman and Executive Director: Ren Deqi**

**Vice Chairman, Executive Director and President: Liu Jun**

The accompanying notes form a part of these consolidated financial statements.



# CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(All amounts expressed in millions of RMB unless otherwise stated)

|   | Other equity instruments |                              |                            |                            | Other reserves               |                                  |                            |                                 |                        |                     |                       |   |                              |          | Non-controlling interests   |  |   |          |  |
|---|--------------------------|------------------------------|----------------------------|----------------------------|------------------------------|----------------------------------|----------------------------|---------------------------------|------------------------|---------------------|-----------------------|---|------------------------------|----------|---|--|---|----------|--|
|   | Share capital<br>Note 35 | Preference Shares<br>Note 36 | Perpetual bonds<br>Note 36 | Capital surplus<br>Note 35 | Statutory reserve<br>Note 37 | Discretionary reserve<br>Note 37 | general reserve<br>Note 37 | comprehensive income<br>Note 37 | through profit or loss | in cash flow hedges | on foreign operations | Translation reserve<br>on foreign operations<br>reserve | Actuarial changes<br>reserve | Others   | Retained earnings<br>of the Bank<br>shareholders of ordinary shares | Attributable to non-controlling interests of ordinary shares | Attributable to non-controlling interests of other equity instruments | Total    |  |
|   |                          |                              |                            |                            |                              |                                  |                            |                                 |                        |                     |                       |   |                              |          |   |  |   |          |  |
|   |                          |                              |                            |                            |                              |                                  |                            |                                 |                        |                     |                       |   |                              |          |   |  |   |          |  |
|   |                          |                              |                            |                            |                              |                                  |                            |                                 |                        |                     |                       |   |                              |          |   |  |   |          |  |
|   |                          |                              |                            |                            |                              |                                  |                            |                                 |                        |                     |                       |   |                              |          |   |  |   |          |  |
|   |                          |                              |                            |                            |                              |                                  |                            |                                 |                        |                     |                       |   |                              |          |   |  |   |          |  |
| Note 37,38  |                          |                              |                            |                            |                              |                                  |                            |                                 |                        |                     |                       |   |                              |          |   |  |   |          |  |
| As at 1 January 2020  | 74,263                   | 59,876                       | 39,994                     | 113,663                    | 64,897                       | 139,853                          | 117,567                    | 3,421                           | 5                      | 15                  | 1,199                 | (10)  | 1,363                        | 177,141  | 793,247   | 7,665  | -   | 800,912  |  |
| Net profit for the year   | -                        | -                            | -                          | -                          | -                            | -                                | -                          | -                               | -                      | -                   | -                     | -   | -                            | 78,274   | 78,274  | 1,231  | 65  | 79,570   |  |
| Other comprehensive income  | -                        | -                            | -                          | -                          | -                            | -                                | -                          | (2,938)                         | 7                      | (547)               | (4,716)               | (132)   | 12                           | -        | (8,314)   | (35)   | (200)   | (8,549)  |  |
| Total comprehensive income  | -                        | -                            | -                          | -                          | -                            | -                                | -                          | (2,938)                         | 7                      | (547)               | (4,716)               | (132)   | 12                           | 78,274   | 69,960  | 1,196  | (135)   | 71,021   |  |
| Capital contribution by other equity instruments holders                                  | -                        | (14,924)                     | 48,346                     | (2,201)                    | -                            | -                                | -                          | -                               | -                      | -                   | -                     | -   | -                            | -        | 31,221  | -  | 3,458   | 34,679   |  |
| Dividends paid to ordinary shares   | -                        | -                            | -                          | -                          | -                            | -                                | -                          | -                               | -                      | -                   | -                     | -   | -                            | (23,393) | (23,393)  | (132)  | -   | (23,525) |  |
| Dividends paid to preference shares   | -                        | -                            | -                          | -                          | -                            | -                                | -                          | -                               | -                      | -                   | -                     | -   | -                            | (2,714)  | (2,714)   | -  | -   | (2,714)  |  |
| Interest paid to perpetual bond holders   | -                        | -                            | -                          | -                          | -                            | -                                | -                          | -                               | -                      | -                   | -                     | -   | -                            | (1,680)  | (1,680)   | -  | -   | (1,680)  |  |
| Interest paid to non-cumulative subordinated additional tier-1 capital securities holders | -                        | -                            | -                          | -                          | -                            | -                                | -                          | -                               | -                      | -                   | -                     | -   | -                            | -        | -   | -  | (65)  | (65)     |  |
| Transfer to reserves  | -                        | -                            | -                          | -                          | 7,534                        | 77                               | 5,596                      | -                               | -                      | -                   | -                     | -   | -                            | (13,207) | -   | -  | -   | -        |  |
| Transferred from other comprehensive income   | -                        | -                            | -                          | -                          | -                            | -                                | -                          | (27)                            | -                      | -                   | -                     | -   | -                            | 27       | -   | -  | -   | -        |  |
| Others  | -                        | -                            | -                          | (34)                       | -                            | -                                | -                          | -                               | -                      | -                   | -                     | -   | -                            | -        | (34)  | 34   | -   | -        |  |
| As at 31 December 2020  | 74,263                   | 44,952                       | 88,340                     | 111,428                    | 72,431                       | 139,930                          | 123,163                    | 456                             | 12                     | (532)               | (3,517)               | (142)   | 1,375                        | 214,448  | 866,607   | 8,763  | 3,258   | 878,628  |  |
| As at 31 December 2018  | 74,263                   | 59,876                       | -                          | 113,663                    | 64,516                       | 139,796                          | 114,281                    | 1,397                           | (20)                   | 24                  | 93                    | 10  | 1,345                        | 129,161  | 698,405   | 6,903  | -   | 705,308  |  |
| Impact of adoption of IFRS 16   | -                        | -                            | -                          | -                          | -                            | -                                | -                          | -                               | -                      | -                   | -                     | -   | -                            | (616)    | (616)   | (7)  | -   | (623)    |  |
| As at 1 January 2019  | 74,263                   | 59,876                       | -                          | 113,663                    | 64,516                       | 139,796                          | 114,281                    | 1,397                           | (20)                   | 24                  | 93                    | 10  | 1,345                        | 128,545  | 697,789   | 6,896  | -   | 704,685  |  |
| Net profit for the year   | -                        | -                            | -                          | -                          | -                            | -                                | -                          | -                               | -                      | -                   | -                     | -   | -                            | 77,281   | 77,281  | 781  | -   | 78,062   |  |
| Other comprehensive income  | -                        | -                            | -                          | -                          | -                            | -                                | -                          | 2,013                           | 25                     | (9)                 | 1,106                 | (20)  | 18                           | -        | 3,133   | 69   | -   | 3,202    |  |
| Total comprehensive income  | -                        | -                            | -                          | -                          | -                            | -                                | -                          | 2,013                           | 25                     | (9)                 | 1,106                 | (20)  | 18                           | 77,281   | 80,414  | 850  | -   | 81,264   |  |
| Capital contribution by other equity instruments holders                                  | -                        | -                            | 39,994                     | -                          | -                            | -                                | -                          | -                               | -                      | -                   | -                     | -   | -                            | -        | 39,994  | -  | -   | 39,994   |  |
| Dividends paid to ordinary shares   | -                        | -                            | -                          | -                          | -                            | -                                | -                          | -                               | -                      | -                   | -                     | -   | -                            | (22,279) | (22,279)  | (81)   | -   | (22,360) |  |
| Dividends paid to preference shares   | -                        | -                            | -                          | -                          | -                            | -                                | -                          | -                               | -                      | -                   | -                     | -   | -                            | (2,671)  | (2,671)   | -  | -   | (2,671)  |  |
| Transfer to reserves  | -                        | -                            | -                          | -                          | 381                          | 57                               | 3,286                      | -                               | -                      | -                   | -                     | -   | -                            | (3,724)  | -   | -  | -   | -        |  |
| Transferred from other comprehensive income   | -                        | -                            | -                          | -                          | -                            | -                                | -                          | 11                              | -                      | -                   | -                     | -   | -                            | (11)     | -   | -  | -   | -        |  |
| As at 31 December 2019  | 74,263                   | 59,876                       | 39,994                     | 113,663                    | 64,897                       | 139,853                          | 117,567                    | 3,421                           | 5                      | 15                  | 1,199                 | (10)  | 1,363                        | 177,141  | 793,247   | 7,665  | -   | 800,912  |  |

The accompanying notes form a part of these consolidated financial statements.

## CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## CONSOLIDATED STATEMENT OF CASH FLOWS

(All amounts expressed in millions of RMB unless otherwise stated)

|   | Notes | Year ended 31 December |                 |
|---|-------|------------------------|-----------------|
|   |       | 2020                   | 2019            |
| <b>Cash flows from operating activities:</b>  |       |                        |                 |
| Profit before tax:  |       | 86,425                 | 88,200          |
| Adjustments for:  |       |                        |                 |
| Provision for impairment losses   |       | 62,059                 | 51,954          |
| Provision for other assets impairment losses  |       | 484                    | 270             |
| Provision for insurance contracts reserve   |       | 15,495                 | 9,115           |
| Depreciation and amortisation   |       | 14,776                 | 13,982          |
| Provision for outstanding litigation  |       | 32                     | 50              |
| Net gains on the disposal of property, equipment and other assets                   |       | (166)                  | (287)           |
| Interest income from financial investments  |       | (90,683)               | (88,647)        |
| Accreted interests on impaired financial assets                                     |       | (1,369)                | (1,467)         |
| Fair value (gains)/losses   |       | (5,951)                | 1,027           |
| Share of profit of associates and joint ventures                                    |       | (222)                  | (414)           |
| Net gains arising from financial investments  |       | (1,177)                | (313)           |
| Interest expense on debt securities issued  |       | 14,566                 | 11,519          |
| Operating cash flows before movements in operating assets and liabilities           |       | 94,269                 | 84,989          |
| Net decrease in balances with central banks   |       | 29,357                 | 41,487          |
| Net decrease in due from and placements with banks and other financial institutions |       | 127,404                | 160,720         |
| Net increase in financial assets at fair value through profit or loss               |       | (83,695)               | (24,219)        |
| Net increase in loans and advances to customers                                     |       | (597,926)              | (491,230)       |
| Net decrease/(increase) in other assets   |       | 7,907                  | (27,120)        |
| Net decrease in due to and placements from banks and other financial institutions   |       | (113,503)              | (239,042)       |
| Net increase in financial liabilities at fair value through profit or loss          |       | 8,899                  | 3,491           |
| Net increase in due to customers and certificates of deposits issued                |       | 669,890                | 414,859         |
| Net increase in other liabilities   |       | 19,878                 | 2,220           |
| Net (decrease)/increase in value-added tax and surcharge payable                    |       | (328)                  | 21              |
| Income tax paid   |       | (12,754)               | (8,721)         |
| <b>Net cash flows generated from/(used in) operating activities</b>                 |       | <b>149,398</b>         | <b>(82,545)</b> |

## CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

(All amounts expressed in millions of RMB unless otherwise stated)

|   |       | Year ended 31 December |                 |
|---|-------|------------------------|-----------------|
|   | Notes | 2020                   | 2019            |
| <b>Cash flows from investing activities:</b>                        |       |                        |                 |
| Purchase of financial investments                                   |       | (838,096)              | (705,173)       |
| Disposal or redemption of financial investments                     |       | 671,877                | 565,819         |
| Dividends received  |       | 1,562                  | 537             |
| Interest received from financial investments                        |       | 89,464                 | 86,428          |
| Acquisition of intangible assets and other assets                   |       | (2,735)                | (1,822)         |
| Disposal of intangible assets and other assets                      |       | 372                    | 350             |
| Purchase and construction of property and equipment                 |       | (21,414)               | (30,554)        |
| Disposal of property and equipment                                  |       | 4,379                  | 2,607           |
| <b>Net cash flows used in investing activities</b>                  |       | <b>(94,591)</b>        | <b>(81,808)</b> |
| <b>Cash flows from financing activities:</b>                        |       |                        |                 |
| Cash received from issuing other equity instruments                 |       | 51,804                 | 39,994          |
| Cash received on debt securities issued                             |       | 177,486                | 168,271         |
| Repayment of principals and interests of lease liabilities          |       | (2,415)                | (2,652)         |
| Repayment of principals of debt securities issued                   |       | (80,476)               | (84,176)        |
| Cash payments for interest on debt securities                       |       | (13,050)               | (9,688)         |
| Cash payments for distribution of dividends                         |       | (27,785)               | (24,940)        |
| Redemption of other equity instruments                              |       | (17,125)               | –               |
| Dividends paid to non-controlling interests                         |       | (162)                  | (81)            |
| <b>Net cash flows generated from financing activities</b>           |       | <b>88,277</b>          | <b>86,728</b>   |
| <b>Effect of exchange rate changes on cash and cash equivalents</b> |       | <b>(3,699)</b>         | <b>1,868</b>    |
| <b>Net increase/(decrease) in cash and cash equivalents</b>         |       | <b>139,385</b>         | <b>(75,757)</b> |
| <b>Cash and cash equivalents at the beginning of the year</b>       |       | <b>167,735</b>         | <b>243,492</b>  |
| <b>Cash and cash equivalents at the end of the year</b>             | 43    | <b>307,120</b>         | <b>167,735</b>  |
| <b>Net cash flows from operating activities include:</b>            |       |                        |                 |
| Interest received   |       | 285,937                | 283,899         |
| Interest paid   |       | (205,169)              | (233,397)       |

The accompanying notes form a part of these consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

## 1 GENERAL

Bank of Communications Co., Ltd. (the “Bank”) is a joint-stock national state-owned commercial bank, reorganised on 1 April 1987 at the approval of notice Guo Fa (1986) No. 81 issued by the State Council of the PRC and notice Yin Fa (1987) No. 40 issued by the People’s Bank of China (the “PBOC”). Headquartered in Shanghai, the Bank operates 245 branches in Mainland China and 23 branches (sub-branches), subsidiary banks and representative offices overseas. Principal subsidiaries consolidated by the Group during the year have been disclosed in Note 24. The Bank’s A shares are listed on Shanghai Stock Exchange and H shares on Hong Kong Stock Exchange.

The Bank obtained its finance permit No. B0005H131000001 from the China Banking and Insurance Regulatory Commission (the “CBIRC”) of the PRC. The Bank obtained its business license with unified social credit code 9131000010000595XD from the State Administration for Industry and Commerce of the PRC. The registered capital is RMB74,263 million. The legal representative is Ren Deqi.

The Bank’s stock codes of A Shares and H Shares listed on the Shanghai Stock Exchange and the Stock Exchange of Hong Kong Limited are 601328 and 03328, respectively. The Bank’s domestic preference shares are listed on the Shanghai Stock Exchange and the stock codes are 360021.

The principal activities of the Bank and its subsidiaries (collectively referred to as the “Group”) include corporate and personal banking services, interbank and financial market business, fund management, trustees, financial leasing, insurance, overseas securities debt-to-equity swap, asset management and other financial services.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to the periods presented unless otherwise stated.

### 2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all the applicable International Financial Reporting Standards (“IFRSs”) and disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and the Hong Kong Companies Ordinance (Cap.622). The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments and investment property which are measured at fair value.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 2.29.

#### 2.1.1 New and amended standards adopted by the Group

The Group has adopted the following new or amendments to the International Financial Reporting Standards (“IFRSs”):

|  |  |
|--|--|
| Amendments to IAS 1 and IAS 8                        | Definition of Material                       |
| Amendments to IFRS 3                                 | Definition of a Business                     |
| Revised Conceptual Framework for Financial Reporting | Conceptual Framework for Financial Reporting |
| Amendments to IFRS 9, IAS 39 and IFRS 7              | Interest Rate Benchmark Reform               |
| Amendments to IFRS 16                                | COVID-19-related Rent Concessions            |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 2.1 Basis of preparation (Continued)

##### 2.1.1 New and amended standards adopted by the Group (Continued)

###### *Amendments to IAS 1 and IAS 8*

The IASB has made amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors which use a consistent definition of materiality throughout International Financial Reporting Standards and the Conceptual Framework for Financial Reporting, clarify when information is material and incorporate some of the guidance in IAS 1 about immaterial information.

In particular, the amendments clarify:

- that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information, and that an entity assesses materiality in the context of the financial statements as a whole, and
- the meaning of 'primary users of general purpose financial statements' to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need.

###### *Amendments to IFRS 3*

The amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs. The definition of the term 'outputs' is amended to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits.

The amendments will likely result in more acquisitions being accounted for as asset acquisitions.

###### *Revised Conceptual Framework for Financial Reporting*

The IASB has issued a revised Conceptual Framework which will be used in standard-setting decisions with immediate effect. Key changes include:

- increasing the prominence of stewardship in the objective of financial reporting
- reinstating prudence as a component of neutrality
- defining a reporting entity, which may be a legal entity, or a portion of an entity
- revising the definitions of an asset and a liability
- removing the probability threshold for recognition and adding guidance on derecognition
- adding guidance on different measurement basis, and
- stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

No changes will be made to any of the current accounting standards. However, entities that rely on the Framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards will need to apply the revised Framework from 1 January 2020. These entities will need to consider whether their accounting policies are still appropriate under the revised Framework.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.1 Basis of preparation *(Continued)*

##### **2.1.1 New and amended standards adopted by the Group** *(Continued)*

###### *Amendments to IFRS 9, IAS 39 and IFRS 7*

The IASB has published amendments to IFRS 9, IAS 39 and IFRS 7 as a first reaction to the potential effects the Interest Rate Benchmark Reform (“IBOR”) could have on financial reporting. The amendments provide targeted relief for financial instruments qualifying for hedge accounting in the lead up to IBOR reform. Key changes include:

- Modifying specific hedge accounting requirements so that entities would apply those hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform;
- Under the amendments, an entity assumes that the interest rate benchmark on which the cash flows of the hedged item, hedging instrument or hedged risk are based is not altered by IBOR reform; and
- In some hedges, the hedged item or hedged risk is a non-contractually specified IBOR risk component. Under the amendments, the risk component only needs to be separately identifiable at initial hedge designation and not on an ongoing basis; and
- The amendment requires disclosure of the nominal amount of hedging instruments to which the reliefs are applied, any significant assumptions or judgements made in applying the reliefs, and qualitative disclosures about how the entity is impacted by IBOR reform and is managing the transition process.

###### *Amendments to IFRS 16*

The IASB has published COVID-19-related Rent Concessions (Amendment to IFRS 16). Its key amendments include:

- Lessees were provided an exemption from assessing a rent concession related to COVID-19 is a lease modification.
- Lessees applying the exemption need to account for rent concessions as if they were not lease modification.
- Lessees that apply the exemption need to disclose that fact.
- Lessees need to apply the exemption retrospectively as required by IAS 8 without restatement of comparative amount for prior period.

The adoption of the new IFRSs and amendments to IFRSs above does not have a material impact on the Group’s operating results, financial position or other comprehensive income.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020  
(All amounts expressed in millions of RMB unless otherwise stated)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.1 Basis of preparation (Continued)

#### 2.1.2 Standards and amendments issued but not yet effective

|   |   | Effective for annual period commencing on or after   |
|---|---|--|
| Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4, and IFRS 16 | Interest Rate Benchmark Reform – Phase 2  | 1 January 2021   |
| Amendments to IFRS 10 and IAS 28                          | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | The amendments were originally intended to be effective for annual periods beginning on or after 1 January 2016. The effective date has now been deferred/removed. |
| Amendments to IAS 16                                      | Property, Plant and Equipment: Proceeds before Intended Use                           | 1 January 2022   |
| IFRS 17 and its amendments                                | Insurance Contracts   | 1 January 2023   |
| Amendments to IFRS 3                                      | Reference to the Conceptual Framework   | 1 January 2022   |
| Amendments to IAS 37                                      | Onerous Contracts – Cost of Fulfilling a Contract                                     | 1 January 2022   |
| Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41          | Annual Improvements to IFRS Standards 2018-2020                                       | 1 January 2022   |

#### *Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16*

The IASB has issued amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (“Interest Rate Benchmark Reform–Phase 2”). The amendments are effective for annual periods beginning on or after 1 January 2021, with early application permitted.

Interest Rate Benchmark Reform–Phase 2 provides additional temporary reliefs from applying specific IFRS 9 hedge accounting requirements to hedging relationships directly affected by IBOR reform, including:

- For instruments to which the amortised cost measurement applies, the amendments require entities, as a practical expedient, to account for a change in the basis for determining the contractual cash flows as a result of IBOR reform by updating the effective interest rate using the guidance in paragraph B5.4.5 of IFRS 9. As a result, no immediate gain or loss is recognised.
- Require an entity to prospectively cease to apply the Phase 1 reliefs to a non-contractually specified risk component at the earlier of when changes are made to the non-contractually specified risk component, or when the hedging relationship is discontinued.
- Additional temporary exceptions from applying specific hedge accounting requirement.
- Additional IFRS 7 disclosure requirements related to IBOR reform.

The Group is assessing the impact on the Group’s operating results and financial position of adopting Interest Rate Benchmark Reform–Phase 2.

#### *Amendments to IFRS 10 and IAS 28*

The amendments address an inconsistency between IFRS 10 and IAS 28 in the sale or contribution of assets between an investor and its associate or joint venture.

A full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.1 Basis of preparation *(Continued)*

##### **2.1.2 Standards and amendments issued but not yet effective** *(Continued)*

###### *Amendments to IAS 16*

The amendment to IAS 16 Property, Plant and Equipment (PP&E) prohibits an entity from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment.

Entities must disclose separately the amounts of proceeds and costs relating to items produced that are not an output of the entity's ordinary activities.

###### *IFRS 17 and its amendments*

IFRS 17 Insurance Contracts was issued in May 2017 as replacement for IFRS 4. It requires a current measurement model where estimates are re-measured in each reporting period. Contracts are measured using the building blocks of discounted probability weighted cash flows, an explicit risk adjustment, and a contractual service margin ("CSM") representing the unearned profit of the contract which is recognised as revenue over the coverage period.

The standard allows a choice between recognising changes in discount rates either in the statement of profit or loss or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9.

An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.

There is a modification of the general measurement model called the "variable fee approach" for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the CSM. The results of insurers using this model are therefore likely to be less volatile than under the general model.

The IASB issued the amendments to IFRS 17 Insurance contracts, on 25 June 2020, together with an amendment to IFRS 4, so that eligible insurers can still apply IFRS 9 alongside IFRS 17. This concluded the IASB's targeted amendments to IFRS 17 which aimed to ease implementation of the standard by reducing implementation costs and making it easier for entities to explain, to investors and others, the results from applying IFRS 17. The amendments to IFRS 17 include:

- **Effective date**

The effective date of IFRS 17 (incorporating the amendments) has been deferred by two years to annual reporting periods beginning on or after 1 January 2023; and the fixed expiry date of the temporary exemption from applying IFRS 9 in IFRS 4 has also been deferred to annual reporting periods beginning on or after 1 January 2023.

- **Expected recovery of insurance acquisition cash flows**

An entity is required to allocate part of the acquisition costs to related expected contract renewals, and to recognise those costs as an asset until the entity recognises the contract renewals. Entities are required to assess the recoverability of the asset at each reporting date, and to provide specific information about the asset in the notes to the financial statements.

- **Contractual service margin attributable to investment services**

Coverage units should be identified, considering the quantity of benefits and expected period of both insurance coverage and investment services, for contracts under the variable fee approach and for other contracts with an 'investment-return service' under the general model. Costs related to investment activities should be included as cash flows within the boundary of an insurance contract, to the extent that the entity performs such activities to enhance benefits from insurance coverage for the policyholder.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.1 Basis of preparation (Continued)

#### 2.1.2 Standards and amendments issued but not yet effective (Continued)

##### *IFRS 17 and its amendments (continued)*

- Reinsurance contracts held – recovery of losses

When an entity recognises a loss on initial recognition of an onerous group of underlying insurance contracts, or on addition of onerous underlying contracts to a group, an entity should adjust the contractual service margin of a related group of reinsurance contracts held and recognise a gain on the reinsurance contracts held. The amount of the loss recovered from a reinsurance contract held is determined by multiplying the loss recognised on underlying insurance contracts and the percentage of claims on underlying insurance contracts that the entity expects to recover from the reinsurance contract held. This requirement would apply only when the reinsurance contract held is recognised before or at the same time as the loss is recognised on the underlying insurance contracts.

- Other amendments to IFRS 17 include:
  - Scope exclusions for some credit card (or similar) contracts, and some loan contracts;
  - Presentation of insurance contract assets and liabilities in the statement of financial position in portfolios instead of groups;
  - Applicability of the risk mitigation option when mitigating financial risks using reinsurance contracts held and non-derivative financial instruments at fair value through profit or loss;
  - An accounting policy choice to change the estimates made in previous interim financial statements when applying IFRS 17;
  - Inclusion of income tax payments and receipts that are specifically chargeable to the policyholder under the terms of an insurance contract in the fulfilment cash flows;
  - Selected transition reliefs and other minor amendments.

The Group is assessing the impact on the Group's operating results and financial position of adopting IFRS 17.

##### *Amendments to IFRS 3*

The amendments to IFRS 3, 'Business combinations', referred to the 2018 Conceptual Framework for Financial Reporting, are in order to determine what constitutes an asset or a liability in a business combination. In addition, the amendments add a new exception in IFRS 3 for liabilities and contingent liabilities. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37, 'Provisions, Contingent Liabilities and Contingent Assets', or IFRIC 21, 'Leases', rather than the 2018 Conceptual Framework. The amendments also clarify that the acquirer should not recognise contingent assets, as defined in IAS 37, at the acquisition date.

##### *Amendments to IAS 37*

The amendment clarifies the meaning of 'costs to fulfil a contract' and explains that the direct cost of fulfilling a contract comprises:

- The incremental costs of fulfilling that contract (for example, direct labour and materials); and
- An allocation of other costs that relate directly to fulfilling contracts (for example, an allocation of the depreciation charge for an item of PP&E used to fulfil the contract).

The amendment also clarifies that, before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.1 Basis of preparation *(Continued)*

##### **2.1.2 Standards and amendments issued but not yet effective** *(Continued)*

*Annual Improvements to IFRS Standards 2018-2020*

The Annual Improvements to IFRSs 2018-2020 Cycle include a number of amendments to various IFRSs:

- IFRS 9 Financial Instruments – clarifies which fees should be included in the 10% test for derecognition of financial liabilities.
- IFRS 16 Leases – amendment of its illustrative example to remove the illustration of payments from the lessor relating to leasehold improvements, to remove any confusion about the treatment of lease incentives.
- IFRS 1 First-time Adoption of International Financial Reporting Standards – allows entities that have measured their assets and liabilities at carrying amounts recorded in their parent's books to also measure any cumulative translation differences using the amounts reported by the parent. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption.
- IAS 41 Agriculture – removal of the requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis.

Except for the above-mentioned impact of Interest Rate Benchmark Reform–Phase 2 and Amendments to IFRS 17, the adoption of the above new standards and amendments issued but not yet effective is not expected to have a material effect on the Group's operating results, financial position or other comprehensive income.

#### 2.2 Consolidation

##### **2.2.1 Subsidiary undertakings**

The consolidated financial statements incorporate the financial statements of the Bank and entities (including structured entities) controlled by the Bank and its subsidiaries. Control is achieved when the Bank:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are not consolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred in a business combinations is measured at fair value, which is calculated as the sum of the acquisition date fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition related costs are recognised in the consolidated income statement as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interests in the acquiree at the non-controlling interests' proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the identifiable net assets of the acquiree in the case of a bargain purchase, the difference is recognised in profit or loss.

All intra-Group transactions, balances, income and expenses are eliminated in full on consolidation. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.2 Consolidation (Continued)

#### 2.2.2 Transactions with non-controlling interests

For acquisition of additional interests in subsidiaries from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiaries is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group loses control of a subsidiary due to the disposal of a portion of an equity investment, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive are reclassified to profit or loss and retained earning.

#### 2.2.3 Structured entities

Structured entities are entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entities, for example when any voting rights relate to administrative tasks only, and key activities are directed by contractual agreement. Structured entities often have restricted activities and a narrow and well-defined objective. Examples of structured entities include investment funds, trusts, securitisation vehicles and asset backed financings. Involvement with consolidated and unconsolidated structured entities is disclosed in Note 44 and 45.

#### 2.2.4 Investment in associates and joint ventures

An associate is an entity over 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 policies.

A joint venture is an arrangement whereby the Group and other parties contractually agree to share control of the arrangement through a separate entity, and have rights to the net assets of the arrangement based on legal form, contract terms, and other facts and circumstances. Joint control is the contractually agreed sharing of control over an activity, and exists only when the decisions relating to the activity require the unanimous consent of the Group and other parties sharing the control.

The results of an associate or a joint venture are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or a joint venture equals or exceeds its interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate or joint venture.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate or a joint venture recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.2 Consolidation *(Continued)*

##### **2.2.4 Investment in associates and joint ventures** *(Continued)*

Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, is recognised immediately in profit or loss.

At the end of reporting period, the Group assesses whether there is an indication of possible impairment with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested as a single asset for impairment in accordance with IAS 36 "Impairment of assets" by comparing its recoverable amount (the higher of value in use and fair value less costs of sale) with its carrying amount, any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its associate or joint venture, profits and losses resulting from the transactions with the associate or joint venture are recognised only to the extent of interests in the associate or joint venture that are not related to the Group.

##### **2.2.5 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 at least once a year.

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.3 Financial instruments

#### **Initial recognition and measurement**

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset.

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss for the period. Immediately after initial recognition, an expected credit loss allowance is recognised for financial assets measured at amortised cost and debt investments measured at fair value through other comprehensive income, which results in an accounting loss being recognised in profit or loss for the period when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognises the difference as follows:

- (a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.
- (b) In all other cases, the difference is deferred, and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

#### **The method of determining fair value**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction at the measurement date. For financial instruments with active markets, the Group uses quotations from active markets to determine their fair value, and for financial instruments where there is no active market, the Group uses valuation techniques to determine its fair value. Valuation techniques include references to prices used in recent market transactions by parties familiar with the situation and voluntary transactions, the current fair value of other financial instruments with reference to the same substantially, the discounted cash flow method and the option pricing model.

#### **Measurement methods**

##### *Amortised cost and effective interest rate*

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired ('POCI') financial assets – assets that are credit-impaired at initial recognition – the Group calculates the credit-adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

When the Group revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.3 Financial instruments *(Continued)*

##### 2.3.1 Financial assets

###### *Classification and subsequent measurement*

The Group has classified its financial assets in the following measurement categories:

- Fair value through profit or loss (FVPL);
- Fair value through other comprehensive income (FVOCI); or
- Amortised cost.

The classification requirements for debt and equity instruments are described below:

###### Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

Classification and subsequent measurement of debt instruments depend on:

- (i) The Group's business model for managing the asset; and
- (ii) The cash flow characteristics of the asset.

Based on these factors, the Group classifies its debt instruments into one of the following three measurement categories:

**Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured from these financial assets. According to the business category, these financial assets are presented as 'Cash and balances with central banks', 'Due from banks and other financial institutions', 'Loans and advances to customers' and 'Financial investments at amortised cost' respectively. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

**Fair value through other comprehensive income (FVOCI):** Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. According to the business category, respectively, these financial assets are presented as 'Loans to customers' and 'Debt investments at fair value through other comprehensive income'. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and recognised in 'Net gains arising from financial investments'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

**Fair value through profit or loss:** Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on the debt investment, which is measured at fair value through profit or loss and is not part of a hedging relationship, is recognised in profit or loss and presented as 'Net gains arising from trading activities'.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.3 Financial instruments *(Continued)*

#### 2.3.1 Financial assets *(Continued)*

*Classification and subsequent measurement (Continued)*

Debt instruments *(Continued)*

Business model: the business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPL. Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

When, and only when, the Group changes the business model for managing its financial assets, shall it reclassify all affected financial assets, and apply the reclassification prospectively from the reclassification date. The Group does not restate any previously recognised gains, losses (including impairment gains or losses) or interest. Reclassification date is the first day of the first reporting period following the change in business model that results in the Group reclassifying financial assets.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Group subsequently measures all equity investments at fair value through profit or loss, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income, listed as 'Financial investments at FVPL'. The Group's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to sell. When this election is used, fair value gains or losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as 'Net gains arising from financial investments' when the Group's right to receive payments is established.

Gains or losses on equity investments at FVPL are recognised as 'Net gains arising from trading activities'.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.3 Financial instruments *(Continued)*

##### 2.3.1 Financial assets *(Continued)*

###### *Impairment*

On a forward-looking basis, the Group assesses the expected credit losses ('ECL') of debt instrument assets at amortised cost and FVOCI, exposures arising from credit related commitments and financial guarantees. The Group recognises a loss allowance accordingly at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Regarding these judgment and estimates, please refer to note 3.1.

###### *Write-off*

The book value of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. A write-off constitutes a derecognition event. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

###### *Modification of loans*

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms. The Group does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 2.3 Financial instruments (Continued)

##### 2.3.1 Financial assets (Continued)

###### *Modification of loans (Continued)*

If the terms are substantially different, the Group derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

###### *Derecognition other than on a modification*

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Group transfers substantially all the risks and rewards of ownership, or (ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control.

The Group enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if the Group:

- (i) Has no obligation to make payments unless it collects equivalent amounts from the assets;
- (ii) Is prohibited from selling or pledging the assets; and
- (iii) Has an obligation to remit any cash it collects from the assets without material delay.

Collateral (shares and bonds) furnished by the Group under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitisation transactions in which the Group retains a subordinated residual interest.

When the contractual rights to receive the cash flows from the assets have been transferred, and the Group neither transfers nor retains substantially all the risks and rewards of ownership, and the Group has retained control of the transferred assets, the Group applies continuing involvement approach. Under this approach, the Group continues to recognise the transferred asset to the extent of its continuing involvement and recognise the associated liability, to reflect the rights and obligations retained by the Group. The net carrying amount of the transferred asset and associated liability is: (a) the amortised cost of the rights and obligations retained by the Group, if the transferred asset is measured at amortised cost; or (b) equal to the fair value of the rights and obligations retained by the Group when measured on a stand-alone basis, if the transferred asset is measured at fair value.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.3 Financial instruments *(Continued)*

##### 2.3.1 Financial assets *(Continued)*

###### *Asset securitisation*

As part of its operational activities, the Group securitises financial assets, generally through the sale of these assets to structured entities which then issue securities to investors. The Group holds part or all of the subordinated tranche notes, which are not transferrable before both the principals and interests of the senior tranche notes are repaid. The Group serves as the asset management supplier, providing services including loan collection for the investment pool, keeping accounting records related to the investment pool and issuing reports as the service agency. The assets under securitisation are used to repay the principals and interests of the senior tranche notes first after deducting related taxation and expenses, and the remaining assets under securitisation are repaid to the Group and subordinated tranche notes investors. The Group derecognises the transferred assets in full or in part based on the extent of the risks and rewards retained over.

The Group evaluates the extent to which it transfers the risks and rewards of ownership of the financial assets to the other party and determines whether it retains control while applying the accounting policy in respect of asset securitisation.

- (1) The financial asset is derecognised when the Group transfers substantially all the risks and rewards of ownership of the financial asset.
- (2) The financial asset continues to be recognised when the Group retains substantially all the risks and rewards of ownership of the financial asset.
- (3) When the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset and does not retain control it derecognises the financial asset and recognises separately as assets or liabilities any rights and obligations created or retained in the transfer.
- (4) When the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset and retains control, it continues to recognise the financial asset to the extent of its continuing involvement in the financial asset. The Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.3 Financial instruments (Continued)

#### 2.3.2 Financial liabilities

##### *Classification and subsequent measurement*

In both the current and prior period, financial liabilities are classified as liabilities measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains or losses attributable to changes in the credit risk of the liability are also presented in profit or loss;
- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition or when the continuing involvement approach applies. When the transfer of financial asset did not qualify for derecognition, a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Group recognises any expense incurred on the financial liability; when continuing involvement approach applies, see note 2.3.1; and
- Credit related commitments and financial guarantees (refer to Note 2.26)

##### *Derecognition*

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

The exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is more than 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

##### *Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

A financial instrument is an equity instrument if, and only if, both conditions (i) and (ii) below are met:

- (i) The financial instrument includes no contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; and
- (ii) If the financial instrument will or may be settled in the Group's own equity instruments, it is a non-derivative instrument that includes no contractual obligations for the Group to deliver a variable number of its own equity instruments; or a derivative that will be settled only by the Group exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

Equity instruments issued by the Group are recorded at the fair value of proceeds received, net of direct issuance expenses.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.3 Financial instruments *(Continued)*

##### **2.3.3 Derivative financial instruments and hedge accounting**

Derivatives are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the hybrid (combined) instrument vary in a way similar to a stand-alone derivative. If the hybrid contract contains a host that is a financial asset, then the Group assesses the entire contract as described in the financial assets section above for classification and measurement purposes. Otherwise, the embedded derivatives are treated as separate derivatives when:

- (i) The economic characteristics and risks are not closely related to those of the host contract;
- (ii) A separate instrument with the same terms would meet the definition of a derivative; and
- (iii) The hybrid contract is not measured at fair value through profit or loss.

These embedded derivatives are separately accounted for at fair value, with changes in fair value recognised in the statement of profit or loss unless the Group chooses to designate the hybrid contracts at fair value through profit or loss.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated and qualifies as a hedging instrument, and if so, the nature of the item being hedged. For derivatives not designated or qualified as hedging instruments, including those intended to provide effective economic hedges of specific interest rate and foreign exchange risks, but do not qualify for hedge accounting, changes in the fair value of these derivatives are recognised in "Net trading gains" in the income statement.

The Group documents, at the inception of the hedge, the relationship between hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment of hedging effectiveness both at hedge inception and on an ongoing basis, that is, the extent to which changes in the fair value or cash flow of the hedge instrument can offset the changes in fair values or cash flows of hedged items resulting from the hedge risk.

The hedging relationship should meet all of the following hedge effectiveness requirements:

- (i) There is an economic relationship between the hedged item and the hedging instrument. That means the hedging instrument and hedged item have values that generally move in the opposite direction because of the same risk, which is the hedged risk.
- (ii) The effect of credit risk does not dominate the value changes that result from that economic relationship; and
- (iii) The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of the hedged item. However, that designation shall not reflect an imbalance between the weightings of the hedged item and the hedging instrument that would create hedge ineffectiveness that could result in an accounting outcome that would be inconsistent with the purpose of hedge accounting.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.3 Financial instruments (Continued)

#### 2.3.3 Derivative financial instruments and hedge accounting (Continued)

Possible sources of ineffectiveness are as follows:

- (i) Increase or decrease in the amounts of hedged items or hedging instruments;
- (ii) Significant changes in counterparties' credit risk.

The Group discontinues hedge accounting prospectively when the hedging instrument expires or is sold, terminated or exercised (the replacement or rollover of a hedging instrument into another hedging instrument does not constitute an expiration or termination), or the hedging relationship ceases to meet the risk management objective, or to meet other qualifying criteria for hedging accounting.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship so that it meets the qualifying criteria again.

##### (a) Fair value hedge

Fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or a component of any such item, that is attributable to a particular risk and could affect profit or loss.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the statement of profit or loss, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss no later than when the hedged item ceases to be adjusted for hedging gains and losses over the period to maturity and recorded as net interest income.

##### (b) Cash flow hedge

Cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with all, or a component of, a recognised asset or liability or a highly probable forecast transaction, and could affect profit or loss.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the statement of profit or loss.

Amounts accumulated in equity are recycled to the statement of profit or loss in the periods when the hedged item affects profit or loss. They are recorded in the income or expense lines in which the revenue or expense associated with the related hedged item is reported.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised in the periods when the hedged item affects profit or loss. When a forecast transaction is no longer expected to occur (for example, the recognised hedged asset is disposed of), the cumulative gain or loss previously recognised in other comprehensive income is immediately reclassified to the statement of profit or loss.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.3 Financial instruments *(Continued)*

##### **2.3.4 Offsetting financial assets and financial liabilities**

When the Group has a currently enforceable legal right to offset recognised financial assets and financial liabilities, and intends either to settle on a net basis or to realise the financial asset and settle the financial liability at the same time, the financial assets and liabilities are offset with the net amount presented in the consolidated statement of financial position. Otherwise, financial assets and financial liabilities are presented separately. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

#### 2.4 Interest income and expense

The “Interest income” and “Interest expense” in the Group’s income statement are the interest income and expense calculated by using the effective interest method on debt investment at amortised cost, debt investment at fair value through other comprehensive income and financial liabilities at amortised cost, etc.

For those purchased or originated credit-impaired financial assets, the Group calculates the interest income by applying the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition. For those financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets, the Group calculates the interest income by applying the effective interest rate to the amortised cost of the financial asset in subsequent reporting periods.

#### 2.5 Fee and commission income

Fee and commission income is recognised when the Group fulfills its performance obligation, either over time or at a point in time when a customer obtains control of the service.

For the performance obligations satisfied at a point in time, the Group recognises revenue when control is passed to the customer at a certain point in time. For the performance obligations satisfied over time, the Group recognises revenue according to the progress toward satisfaction of the obligation over the time.

#### 2.6 Dividend income

Dividends are recognised when the right to receive the dividends is established.

#### 2.7 Assets transferred under repurchase agreements

##### **(a) Financial assets sold under repurchase agreements**

Financial assets sold subject to agreements with a commitment to repurchase at a specific future date at a fixed or determinable price are not derecognised in the statement of financial position. The proceeds from selling such assets are presented under “due to banks and other financial institutions” in the statement of financial position. The difference between the selling price and repurchasing price is recognised as interest expense during the term of the agreement using the effective interest method.

##### **(b) Financial assets purchased under resale agreements**

Financial assets that have been purchased under agreements with a commitment to resell at a specific future date are not recognised in the statement of financial position. The cost of purchasing such assets is presented under “due from banks and other financial institutions” in the statement of financial position. The difference between the purchasing price and reselling price is recognised as interest income during the term of the agreement using the effective interest method.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 2.8 Precious metals

Precious metals that are not related to the Group's trading activities are initially measured at acquisition cost and subsequently measured at the lower of cost and net realisable value. Precious metals that are related to the Group's trading activities are initially and subsequently recognised at fair value, with changes in fair value arising from re-measurement recognised directly in profit or loss in the period in which they arise.

#### 2.9 Property and equipment

The Group's property and equipment mainly comprise land and buildings, construction in progress, equipment, transportation equipment and property improvement.

The assets purchased or constructed are initially measured at acquisition cost.

Subsequent expenditures incurred for the property and equipment are included in the cost of the property and equipment if it is probable that economic benefits associated with the asset will flow to the Group and the subsequent expenditures can be measured reliably. Meanwhile the carrying amount of the replaced part is derecognised. Other subsequent expenditures are recognised in profit or loss in the period in which they are incurred.

Depreciation is calculated on a straight-line basis to write down the cost of such assets to their residual values over their estimated useful lives. The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each financial reporting date.

Buildings comprise primarily office premises. The estimated useful lives, depreciation rate and estimated residual value rate of buildings, equipment, transportation equipment and property improvement are as follows:

| Type of assets  | Estimated<br>useful lives      | Estimated<br>residual<br>value rate | Depreciation<br>rate |
|---|--------------------------------|-------------------------------------|----------------------|
| Buildings   | 25 years – 50 years            | 3%                                  | 1.94% – 3.88%        |
| Equipment   | 3 years – 11 years             | 3%                                  | 8.82% – 32.33%       |
| Transportation equipment (excluding equipment under operating leases) | 4 years – 8 years              | 3%                                  | 12.13% – 24.25%      |
| Property improvement  | Over the economic useful lives |                                     |                      |

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Construction in progress is measured at its actual costs. The actual costs include various construction expenditures during the construction period and other relevant costs. Construction in progress is not depreciated. Construction in progress is transferred to a property and equipment when it is ready for intended use.

Equipment under operating leases where the Group is the lessor is aircraft or vessel. The estimated useful lives and depreciation rate of the aircraft or vessel are determined considering their conditions and the estimated residual values are determined by external appraiser using historical data on an item-by-item basis. The estimated useful lives range from 5 to 25 years.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.10 Foreclosed assets

Foreclosed financial assets are initially recognised at fair value, and foreclosed non-financial assets are initially recognised at cost. At the end of each reporting period, foreclosed non-financial assets are measured at the lower of the carrying amount and the net realisable value. When the net realisable value is lower than the carrying amount, an impairment allowance is recognised.

When a foreclosed asset is disposed, the difference between the disposal proceeds and the carrying amount is recognised in profit or loss.

The Group disposes of foreclosed assets through various means. In principle, foreclosed assets should not be transferred for own use, but, in the event that they are needed for the Group's own business or management purposes, they are transferred at their net carrying amounts and managed as newly acquired property and equipment.

When a foreclosed asset needs to be transferred for own use, it is transferred at its carrying amount including the impairment allowance at the transition day.

Foreclosed assets of the Group mainly include buildings and land use rights.

#### 2.11 Land use rights

Land use rights are classified as other assets and amortised using the straight-line method over the lease term.

#### 2.12 Intangible assets

An intangible asset is measured initially at cost. When an intangible asset with a finite useful life is available for use, its original cost is amortised over its estimated useful life using the straight-line method. An intangible asset with an indefinite useful life is not amortised.

For an intangible asset with a finite useful life, the Group reviews the useful life and amortisation method at the end of each reporting period, and makes adjustments when necessary.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

#### 2.13 Investment property

Investment property is a property held to earn rentals or for capital appreciation or both and initially measured at cost.

As there is an active property market in the location in which the Group's investment property is situated, and the Group can obtain the market price and other relevant information regarding the same or similar type of property from the property market so as to reasonably estimate the fair value of the investment property; therefore, the Group uses the fair value model for subsequent measurement of the investment property, with changes in the fair value included in profit or loss for the period in which they arise.

When an investment property is sold, transferred, retired or damaged, the Group recognises the amount of any proceeds on disposal net of the carrying amount and related taxes in profit or loss for the period.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.14 Impairment of assets

The Group determines the impairment of assets, other than the impairment of deferred tax assets and financial assets, with 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 exists, 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 based on the CGU to which the asset belongs.

CGU is the smallest identifiable group of assets, and the cash inflows generated by a CGU are largely independent 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 at least 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. Under 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. Under such circumstances, the Group 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.15 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.

##### **(a) The Group as Lessee**

The Group recognises the right-of-use asset on the start date of the lease term and recognises the lease liability at the present value of the remaining lease payments. The lease payments include fixed payments and payments to be made when it is reasonably determined to exercise purchase option or terminate lease option. Variable rent determined based on a certain proportion of sales is not included in the lease payments and is recognised in profit or loss when incurred.

The Group's right-of-use assets include leased properties, venues, parking lots, advertising spaces, vehicles and equipment etc. The right-of-use asset is initially measured at cost, which includes the initial measurement of the lease liability, the lease payments already paid on or before the lease start date, the initial direct costs etc., and deducts any lease incentives received. The leased asset is depreciated on a straight-line basis over its remaining useful life if the Group could reasonably determine to obtain the ownership at the expiration of the lease term; if it is unsure whether the ownership of the leased asset can be obtained at the expiration of the lease term, the right-of-use asset is depreciated over the shorter of its remaining useful life and the lease term on a straight-line basis. When the recoverable value is lower than the book value of the right-of-use asset, the Group reduces the book value to the recoverable value.

For short-term leases with a lease term shorter than 12 months and leases of asset with low value when it is new, the Group recognises relevant rental expenses on a straight-line basis in profit or loss or in the related asset costs in each lease period rather than recognising the right-of-use assets or lease liabilities.

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 lease modification that is not accounted for as a separate lease, in the case where the COVID-19 directly caused contract changes, a simplified method is adopted; otherwise, at the effective date of the lease modification, the Group remeasures the lease term and the lease liability by discounting the revised lease payments using a revised discount rate. The Group decreases the carrying amount of the right-of-use asset for lease modifications that decrease the scope or term of the lease, and recognised the gain or loss relating to the partial or full termination of the lease in profit or loss. The Group makes a corresponding adjustment to the right-of-use asset for all other lease modifications.

For rent concessions that are directly related to COVID-19 and applicable only before 30 June 2021, the Group uses a expedient, with the undiscounted concessions recognised in profit or loss and lease liabilities adjusted accordingly when original payments are exempted upon agreement.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.15 Leases (Continued)

#### (b) The Group as Lessor

##### Operating Lease

When the Group leases out its own buildings and properties, equipment and transportation vehicles, the rental income arising from operating leases is recognised on a straight-line basis over the lease term. Variable rent determined based on a certain proportion of sales is recognised in rental income when incurred.

##### Finance Lease

As lessor of the finance lease, the Group recognises the finance lease receivables for the finance lease on the commencement date of the lease period and derecognises the related assets. Finance lease receivables are recognised at the net lease investment to “Loans and advances to customers” for the initial measurement. The net lease investment is the sum of the unsecured residual value and the present value of the lease payments unreceived at the commencement date of the lease period discounted at the interest rate implicit in lease.

Finance lease receivables are derecognised when the contractual rights of receiving cash from the finance lease receivables have expired or have been transferred and all substantial risks and rewards regarding the lease have been transferred.

During the lease period, the lessor applies the fixed periodic interest rate to calculate the interest income for each period. Contingent rentals are recognised in profit or loss when incurred.

### 2.16 Cash and cash equivalents

Cash and cash equivalents are short-term and highly liquid assets, which are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value. Cash and cash equivalents include cash and assets with maturities of three months or less from the date of purchase under balances with central banks, due from banks and other financial institutions.

### 2.17 Provisions

Provisions are recognised when the Group has a present obligation related to a contingency, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account factors pertaining to a contingency such as the risks, uncertainties and time value of money. Where the effect of the time value of money is material, the amount of the provision is determined by discounting the related future cash outflows.

Where all or some of the expenditure required to settle a provision is expected to be reimbursed by a third party, the reimbursement is recognised as a separate asset only when it is virtually certain that reimbursement will be received, and the amount of reimbursement recognised does not exceed the carrying amount of the provision.

### 2.18 Income taxes

Income tax represents the sum of the tax currently payable and deferred tax.

#### (a) Current income tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.18 Income taxes *(Continued)*

##### **(b) Deferred income tax**

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income, in which case the current and deferred tax are also recognised in other comprehensive income.

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

#### 2.19 Share capital

##### **(a) Share capital**

Share capital comprises ordinary shares issued.

##### **(b) Share issue costs**

External costs directly attributable to the issuance of new shares are shown in equity as a deduction from the proceeds.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020  
(All amounts expressed in millions of RMB unless otherwise stated)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.20 Dividend distribution

#### (a) Dividends on ordinary shares

Dividends on ordinary shares are recognised in the period in which they are declared and approved by the Bank's shareholders.

#### (b) Dividends on preference shares

Preference share dividend distribution is recognised as a liability in the Group's and the Bank's financial statements in the period in which the dividends are approved by the Board of Directors of the Bank.

#### (c) Distribution on perpetual bonds

Perpetual bond interest distribution is recognised as a liability in the Group's and the Bank's financial statements in the period in which the interest distribution approved by the Board of Directors of the Bank.

### 2.21 Acceptances

Acceptances comprise the Group's commitments on payment for bills that are issued to customers. Acceptances are accounted for as credit related commitments and financial guarantees and are disclosed as contingent liabilities and commitments.

### 2.22 Staff costs and benefits

#### (a) Staff costs

Staff costs include salaries, bonuses, allowance and subsidies, staff welfare, medical insurance, employment injury insurance, maternity insurance, housing funds, labor union fees as well as staff education expenses and housing allowance. During the reporting period in which employees have rendered services, the Group recognises the staff costs payable as a liability with a corresponding charge to profit or loss or the cost of assets where appropriate.

The Group participates in the employee social security systems established by the government, including medical insurance, housing funds and other social securities, in accordance with relevant requirements. Related expenses are recognised in profit or loss when incurred.

#### (b) 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 fund and will have no obligation to pay further contributions. Defined benefit plans are post-employment benefit plans other than defined contribution plans. During the reporting period, post-employment benefits for the employees of the Group mainly include payment to basic retirement insurance, unemployment insurance, annuity plan and supplementary retirement benefits.

##### *Basic retirement insurance*

Employees of the Group have joined basic retirement insurance arranged by local ministry of labour and social security. The Group makes monthly contributions to the retirement insurance according to the base and proportion set by local government. When employees retire, local ministry of labour and social security is responsible for the payment of the basic pension to the retired employees. Such basic retirement insurance is a defined contribution plan. During the reporting period in which employees have rendered services, the Group recognises the amounts payable as a liability with a corresponding charge to profit or loss or the cost of assets where appropriate.

##### *Annuity plan*

Employees of domestic branches who retire at or after 1 January 2009 participate in the annuity plan established by the Group. The Group contributes a certain portion of employees' gross salaries to the annuity plan. Such annuity plan is a defined benefit plan. Related expenses are recognised in profit or loss when incurred.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.22 Staff costs and benefits *(Continued)*

##### **(b) Post-employment benefits *(Continued)***

###### *Supplementary retirement benefits*

The Group pays supplementary retirement benefits to employees of domestic branches who retired at or before 31 December 2008. Such supplementary retirement benefits are defined benefit plans. The Group accrues a liability based on actuarial techniques and recognises all actuarial gains or losses in other comprehensive income. Such actuarial gains or losses will not be reversed to profit or loss subsequently. Past service costs are recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability and recognised in profit or loss when incurred.

##### **(c) Early retirement expenses**

The Group pays the welfare benefits for employees, who have not yet reached the statutory retirement age limit and are approved by the Group to voluntarily retire from their employment, from the early retirement date to the statutory retirement age limit. These welfare benefits are recognised in profit or loss based on the discounted cash flow calculation over the implementation period. The Group reviews present value of the welfare benefits on each reporting date, with any changes recognised in profit or loss.

#### 2.23 Foreign currency translation

Renminbi ("RMB") is the currency of the primary economic environment in which the Bank and the Group's domestic subsidiaries operate. Therefore, the Bank and the Group's domestic subsidiaries choose RMB as their functional currency. The Bank and the Group's foreign subsidiaries choose their respective functional currencies on the basis of the primary economic environment in which they operate. The Group adopts RMB to prepare its consolidated financial statements.

In preparing the financial statements of each individual Group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

At the reporting date, foreign currency monetary items are translated into functional currency using the spot exchange rates at the reporting date. Exchange differences arising from the differences between the spot exchange rates prevailing at the reporting date and those on initial recognition or at the previous reporting date are recognised in profit or loss for the period, except that (1) exchange differences related to hedging instruments for the purpose of hedging against foreign exchange risks are accounted for using hedge accounting; (2) exchange differences arising from non-monetary items at fair value through other comprehensive income (such as shares) denominated in foreign currencies and changes in the carrying amounts (other than the amortised cost) of monetary items at fair value through other comprehensive income are recognised as other comprehensive income; and (3) exchange differences arising on a foreign currency monetary item that forms part of the Bank's net investment in a foreign operation.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the spot exchange rates at the date of the transactions or a rate that approximates the spot exchange rates of the date of the transaction. Exchange differences arising, if any, are recognised in other comprehensive income.

On disposal of the Group's entire interest in a foreign operation, or upon a loss of control over a foreign operation due to disposal of certain interest in it or other reasons, the Group transfers the accumulated exchange differences arising on translation of financial statements of this foreign operation and foreign currency monetary items that form part of the net investment in such foreign operation attributable to the owners' equity of the Group and presented under shareholder's equity in the statement of financial position, to profit or loss in the period in which the disposal occurs.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020  
(All amounts expressed in millions of RMB unless otherwise stated)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.23 Foreign currency translation (Continued)

In case of a disposal or other reason that does not result in the Group losing control over a foreign operation, the proportionate share of accumulated exchange differences arising on translation of financial statements are re-attributed to non-controlling interests and are not recognised in profit and loss. For partial disposals of equity interests in foreign operations which are associates and joint ventures, the proportionate share of the accumulated exchange differences arising on translation of financial statements of foreign operations is reclassified to profit or loss.

### 2.24 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably. Contingent liabilities are disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable and can be reliably estimated, it will then be recognised as a provision.

### 2.25 Insurance contracts

#### 2.25 Insurance contracts

##### (a) Insurance contracts classification and division

Insurance contracts are those contracts under which the Group has undertaken significant insurance risk, relative to an insured event or occurrence. The Group issues primarily life insurance contracts, which insure events associated with mortality over a long duration. The Group also issues non-life insurance contracts, which cover short-term casualty and health insurance risk. When necessary, the Group enters into reinsurance contracts to transfer insurance risks to a reinsurer. A significant insurance risk test is performed at inception of the insurance contracts.

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.

##### (b) Insurance income recognition

Insurance premium income is recognised when all of the following criteria are met:

- (i) The insurance contract is issued, and related insurance risk is undertaken by the Group;
- (ii) The related economic benefits are likely to flow to the Group; and
- (iii) Related income can be reliably measured.

Premiums from long-term life insurance contracts are recognised as revenue when due from policyholders. Premiums related to short-term non-life insurance contracts are recognised when received at the inception of the policy, as unearned insurance premiums in the consolidated statement of financial position, and are amortised on a straight-line basis into the consolidated income statement over the term of the policy. When the Group has transferred insurance risk through reinsurance contracts, the Group calculates the amount of premium ceded and the reinsurers' share of expenses and recognises them through the consolidated income statement in accordance with the terms of the reinsurance contracts.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.25 Insurance contracts *(Continued)*

##### **(c) Insurance contract reserves**

Insurance contract liabilities are measured based on a reasonable estimate of the amount of payments that the Group will be required to make to fulfil its obligations under the insurance contracts, which represents the difference between expected future cash outflows and inflows related to such contracts. A reasonable estimate of expected future net cash flows is determined based on information currently available as at the end of the reporting period. The Group has considered the impact of time value in the liability calculation for long-term life insurance.

The Group performs liability adequacy tests based on information currently available, as at the reporting date. Additional insurance contract liabilities should be recorded if any deficiency exists.

#### 2.26 Credit related commitments and financial guarantees

Financial guarantees are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument.

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 credit related commitments and financial guarantees, 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.

#### 2.27 Fiduciary activities

In activities where the Group acts in a fiduciary capacity such as trustee, custodian or agent, the assets and income arising from the transaction together with the related undertakings to return the assets to customers are excluded from the Group's consolidated financial statements.

The Group conducts entrusted lending for the third-party lenders. The Group grants loans to borrowers, as trustee, according to the instruction of the third-party lenders who fund these loans. The Group is responsible for the arrangement and collection of the entrusted loans and receives a commission for the services rendered. As the Group does not assume the risks and rewards of the entrusted loans and does not provide funding for the corresponding entrusted funds, the entrusted loans are not recognised as assets and liabilities of the Group.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020  
(All amounts expressed in millions of RMB unless otherwise stated)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.28 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the person or Group that allocates resources to and assesses the performance of the operating segments of an entity. The Group has determined the Board of Directors and the senior management team represented by the governor as its chief operating decision maker.

An operating segment is a component of the Group with all of the following conditions are satisfied: (1) that component can earn revenues and incur expenses from ordinary activities; (2) the component's operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and (3) discrete financial information for the component is available to the Group. If two or more operating segments have similar economic characteristics, and certain conditions are satisfied, they may be aggregated into a single operating segment. Intra-segment income and expenses are eliminated. Income and expenses directly associated with each segment are considered in determining segment performance.

The Group has the following segments: Yangtze River Delta, Pearl River Delta, Bohai Rim Economic Zone, Central China, Western China, Northeastern China, Overseas and Head Office.

### 2.29 Critical accounting estimates and judgments in applying accounting policies

The preparation of financial statements in conformity with IFRSs and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and of the Hong Kong Companies Ordinance require the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies.

#### **(a) Measurement of the expected credit loss allowance**

The measurement of the expected credit loss allowance for financial assets measured at amortised cost, debt investment measured at fair value through other comprehensive income and credit related commitments and financial guarantees, is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (e.g. the likelihood of customers defaulting and the resulting losses). Note 3.1 specifies the parameters, assumptions and estimation techniques used in the measurement of expected credit loss and also discloses the sensitivity of expected credit losses to changes in these factors.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Segmentation of business operations sharing similar credit risk characteristics, selection of appropriate models and determination of relevant key measurement parameters;
- Criteria for determining whether or not there was a significant increase in credit risk, or a default or impairment loss was incurred;
- Economic indicators for forward-looking measurement, and the application of economic scenarios and weightings;
- Management overlay adjustments due to significant uncertain factors not covered in the models; and
- The estimated future cash flows for loans and advances to customers and financial investments at amortised cost for which DCF model was used to calculate ECL.

Detailed information about the judgements and estimates made by the Group in the above areas is set out in Note 3.1.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.29 Critical accounting estimates and judgments in applying accounting policies *(Continued)*

##### **(b) Fair value of financial instruments**

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. These valuation techniques include the use of recent arm's length transactions, observable prices for similar instruments, discounted cash flow analysis using risk-adjusted interest rates, and commonly used market pricing models. To the extent practical, models use observable data such as interest rate yield curves, foreign currency rates and implied option volatilities, however areas such as credit risk (both own and counterparty's), volatilities and correlations require management to make estimates. Where market observable inputs are not available, they are estimated using assumptions that are calibrated as closely as possible to market observable data. Changes in assumptions about these factors could affect reported fair value of financial instruments.

The Group assesses assumptions and estimates used in valuation techniques including review of valuation model assumptions and characteristics, changes to model assumptions, the quality of market data, whether markets are active or inactive, other fair value adjustments not specifically captured by models and consistency of application of techniques between reporting periods as part of its normal review and approval processes. Valuation techniques are validated and periodically reviewed and, where appropriate, have been updated to reflect market conditions at the financial reporting date.

Detailed information about the judgements and estimates made by the Group in the above areas is set out in Note 3.4.

##### **(c) Income taxes**

The Group is subject to income tax various jurisdictions; principally, in Mainland China and Hong Kong Special Administrative Region of the PRC. There are certain transactions and activities for which the ultimate tax determination is uncertain during the ordinary course of business. The Group has made estimates for application of tax legislation and items of uncertainty taking into account existing tax legislation and past practice. Where the final tax outcome of these matters is different from the amounts that were initially estimated, such differences will impact the current income tax and deferred income tax in the period during which such a determination is made.

##### **(d) Consolidation of structured entities**

Where the Group acts as asset manager of or investor in structured entities, the Group makes significant judgement on whether the Group controls and should consolidate these structured entities. When performing this assessment, the Group assesses the Group's contractual rights and obligations in light of the transaction structures, and evaluates the Group's power over the structured entities, performs analysis and tests on the variable returns from the structured entities, including but not limited to commission income and asset management fees earned as the asset manager, the retention of residual income, and, if any, the liquidity and other support provided to the structured entities. The Group also assesses whether it acts as a principal or an agent through analysis of the scope of its decision-making authority over the structured entities, the remuneration to which it is entitled for asset management services, the Group's exposure to variability of returns from its other interests in the structured entities, and the rights held by other parties in the structured entities.

##### **(e) Derecognition of financial assets**

In judging whether the transaction in which a loan transfer through packaging and asset securitisation is consistent with the termination confirmation of a financial asset, the Group needs to assess whether the Group meets the criteria for the transfer of financial assets and whether almost all risks and rewards in the ownership of the loan are transferred. If there is neither a transfer nor a retention of almost all the risks and rewards on the ownership of the transferred loan, the Group will further assess whether control over the transferred loan has been retained. In assessing and judging, the Group has taken into account a wide range of factors, such as whether trading arrangements are accompanied by repurchase clauses. The Group sets situational assumptions and uses the future cash flow discount model for risk and compensation transfer testing. The Group derecognised the loan only if the loan has been transferred and almost all risks and benefits in ownership have been transferred to another subject. If the Group retains almost all the risks and rewards associated with the ownership of the transferred loan, it shall continue to confirm the loan and at the same time recognise the proceeds received as a financial liability. If the Group has neither transferred nor retained almost all of the risks and rewards in the ownership of the loan and has not waived its control over the loan, the financial assets concerned are recognised to the extent that the loan continues to be involved and the relevant liability is recognised accordingly.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020  
(All amounts expressed in millions of RMB unless otherwise stated)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.29 Critical accounting estimates and judgments in applying accounting policies *(Continued)*

##### ***(f) Impairment of non-financial assets***

Non-financial assets are periodically reviewed for impairment and where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and the present value of the asset's expected future cash flow.

Fair value is usually based on market prices, and the management obtains it from professional appraisal agencies. Disposal costs include legal fees and taxes related to the asset disposal. When estimating the present value of the expected future cash flow fixed assets leased out by the subsidiary, the management takes the rents agreed in the leasing contracts and the asset value at the end of the lease term as the basis of estimation and uses appropriate discount rates to determine the present value of future cash flows. Since the outbreak of the pandemic influenced the liquidity of some lessees, the Group considers various scenarios of these lessees under the circumstances of the pandemic and makes estimations of future cash flows under different scenarios. The asset value at the end of the lease term is obtained from professional appraisal agencies. Due to the uncertainty over the development and prevention of the pandemic, there remains uncertainty over the future cash flows and pre-tax discount rates of the rents in the calculation of the present value of future cash flow.

### 3 FINANCIAL RISK MANAGEMENT

#### Overview

The Group's activities expose it to a variety of financial risks and those activities involve analysis, evaluation, acceptance and management of a certain degree of risks or a portfolio of risks. The Group's aim is to achieve an appropriate balance between risks and returns and minimise potential adverse effects on the Group's financial performance. The main types of financial risks are credit risk, liquidity risk, market risk, operational risk, etc.

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, monitor the risks and to control the risk limits through reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets and products and the latest best practice.

#### Risk management framework

The Board of Directors sets out risk management strategies, overall risk preference and risk tolerance level. The senior management establishes risk management policies and procedures according to the strategies set by the Board of Directors. The Risk Management Department (Internal Control and Crime Prevention Office) at Head Office leads the risk management. The risk management division in each operation department at Head Office, in each domestic and overseas branch and in each subsidiary undertakes specific risk management function. Internal Audit Department is responsible for independent review of risk management and control environment.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

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### 3 FINANCIAL RISK MANAGEMENT *(Continued)*

#### 3.1 Credit risk

Credit risk is the risk of loss that a borrower or counterparty fails to or is unwilling to meet its obligations. Credit risk arises principally from loans and advances to customers, financial investments, derivative instruments and due from and placements with banks and other financial institutions. There is also credit risk in off-balance sheet items such as credit related commitments and financial guarantees, acceptances and letters of credit. Credit risk is a major risk to which the Bank is exposed. Therefore, the Group manages and controls the overall credit risk integrated into comprehensive risk management, in a prudent manner, and reports regularly to the Senior Management and the Board of Directors of the Group.

##### 3.1.1 Credit risk management

The Group's credit risk management is assumed by major functions such as Corporate Business Department, Inclusive Finance Department, Personal Finance Business Department, Pacific Credit Card Centre, Credit Authorisation Department, Credit Approval Department, Risk Management Department (Internal Control and Crime Prevention Office) and Asset Preservation Department. They are responsible for the standardised management of corporate and retail credit businesses in terms of guidance on credit investment, credit investigation and report, credit approval, loan granting, post-loan management and non-performing loan management.

##### *(a) Loans and advances to customers and off-balance sheet commitments*

As for corporate loans, the Group's relationship managers are responsible for receiving application files submitted by the applicants, conducting pre-loan investigation, assessing the credit risk, and raising the proposed rating. The Group adopts the hierarchical approval system at the branch and Head Office level based on the credit approval authority. Credit line is determined by taking into account the credit record, financial position, collaterals and guarantees of the applicant, overall credit risk of the credit portfolio, macroeconomic regulation and control policies and relevant laws and regulations. The Group keeps a close eye on the economic and financial trend and credit risk profile in the industry, provides more guidance on credit investment, formulate guidance for different industries, strengthens daily risk pre-warning, monitoring and specific risk investigation, identify customers under major risks and material potential risk points, enhances the refinement of post-loan management and centers on customer credit risk management to carry out post-loan management. The independent loan granting center shall review the compliance, completeness and effectiveness of relevant credit files before loan granting according to the applications for drawdown of credit line. The Group's relationship managers are primarily responsible for post-loan management. The Group adopts a series of tools and approaches, such as risk filtering, list management, risk warning and risk investigation, in daily risk monitoring of corporate loans. The Group manages non-performing loans mainly through (1) collection; (2) restructuring; (3) disposal of collaterals or recourse to the guarantors; (4) litigation or arbitration.

For retail credit assets, the Group manages the overall risk profile of retail credit business through on-site review and adoption of reporting system on material matters, strengthens daily risk monitoring and pre-warning through optimising management system, standardises operation process of retail credit business through formulating manuals for personal loans and small-enterprise loans, identifies and reveals material potential risks on a timely manner through strengthening risk monitoring and early-warning, and understands and forecasts the quality trends so as to adopt targeted risk control measures in advance by using stress testing and quality migration analysis. In addition, the Group continues to carry out fast response mechanism to address emergencies properly and maintains a list to manage those key risk projects through risk monitoring, guidance, collection and mitigation.

The Group adopts categorised management for retail credit assets on the basis of overdue ageing and guarantee type. With regard to retail credit customers with overdue loans, different approaches are adopted to collect such loans based on their overdue days.

Credit Card Centre of the Group is in charge of the operation and management of credit card business. Credit Card Centre of the Group adopts various supervisory and preventive measures. It reinforces data cross-validation to enhance risk prevention in the approval process, tightens credit line to high risk customers through subsequent credit investigation and enters into the collection process earlier than scheduled, effectively improves collection result through reasonable allocation of available resources, and optimises data analytic system to further enhance the management of credit card business.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

### 3 FINANCIAL RISK MANAGEMENT *(Continued)*

#### 3.1 Credit risk *(Continued)*

##### 3.1.1 Credit risk management *(Continued)*

###### *(b) Treasury business*

For treasury business (including debt investments), the Group chooses banks and other financial institutions prudently and balances the credit risk and return rate of investments. By making reference to internal and external credit rating information, the Group approves credits of different levels and uses an appropriate credit limit management system to review and adjust credit lines, aiming to manage the credit risk exposed to the treasury business.

For debt securities, internal and external ratings (such as Standard and Poor's) are used by the Group when available for managing the credit risk exposed to debt securities and bills. The investment in those debts and bills is to have better credit quality assets while maintaining readily available liquidity resource. The bond issuers involved with the Group are subject to the credit granting review and approval of the Head Office and credit limits are placed on such issuers.

Debt investments other than debt securities include investments in fund trust schemes, asset management plans and wealth management products set up by banking financial institutions. Fund trust schemes and asset management plans, the funds of which ultimately go to trust loans, are mainly managed and operated by third-party trustees and asset managers. The Group implements a rating system for accepting trust companies, securities companies and fund companies, sets credit limits for repurchase parties of trust beneficiary right, ultimate borrowers of targeted asset management plans, and issuers of inter-bank wealth management products, and carries out follow-up risk management on a regular basis.

As for derivative instruments, the Group maintains strict limits on net open derivative investment positions (i.e., the difference between long and short contracts), by both amount and maturity. At any time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e., assets where their fair value is positive), which, in relation to derivative instruments, is only a fraction of the contract's notional amount used to express the amount outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market fluctuations. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except when the Group requires margin deposits from counterparties. The management has set limits of these contracts according to counterparty, and regularly monitor and control the actual credit risk when the Group concludes foreign exchange and interest rate contracts with other financial institutions and clients.

The Group manages the credit quality of due from and placements with banks and other financial institutions, and balances arising from transactions for precious metals, by considering the size, financial position, the internal and external credit rating of the banks and other financial institutions. The Head Office monitors and reviews the credit risk of due from and placements with banks and other financial institutions by counterparties regularly. Limits are placed on different counterparties.

###### *(c) Credit-related commitments*

Credit risk exposures to financial guarantees are the same as that of loans. However, commercial letters of credit are usually pledged by the relevant shipped goods, and therefore are subject to lower risk compared with direct loans. Credit-related commitments are included in the management of overall credit line granted to the applicant. For customers with transactions beyond the credit limit or infrequent transactions, the applicant shall be requested to provide relevant margin deposits in order to reduce credit risk exposures.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

### 3 FINANCIAL RISK MANAGEMENT *(Continued)*

#### 3.1 Credit risk *(Continued)*

##### 3.1.1 Credit risk management *(Continued)*

###### (d) Credit risk quality

In accordance with the Guideline for Loan Credit Risk Classification issued by the China Banking and Insurance Regulatory Commission (the “CBIRC”), the Group measures and manages the quality of corporate and personal loans and advances by classifying loans into the following five categories: normal, special-mention, substandard, doubtful and loss, of which substandard, doubtful and loss loans are regarded as non-performing loans.

The five categories of loan classification into which the Group classifies its loans and advances to customers are set out below:

|                  |  |
|------------------|--|
| Normal:          | Borrowers can honour the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.  |
| Special-mention: | Borrowers are able to service their loans currently, although repayment may be adversely affected by specific factors.   |
| Substandard:     | Borrowers' ability to service their loans is in question and they cannot rely entirely on normal operating revenues to repay principal and interest. Losses may ensue even when collaterals or guarantees are invoked. |
| Doubtful:        | Borrowers cannot repay principal and interest in full and significant losses will need to be recognised even when collaterals or guarantees are invoked.   |
| Loss:            | Only a small portion or none of the principal and interest can be recovered after taking all possible measures and exhausting all legal remedies.  |

##### 3.1.2 Expected credit loss (“ECL”)

The Group measures the ECL of financial instruments at amortised cost or debt investments at fair value through other comprehensive income. The Group divides them into 3 stages by assessing whether there has been a significant increase in credit risk since initial recognition.

The Group measures the ECL of a financial instrument in a way that reflects:

- (1) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- (2) the time value of money;
- (3) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

###### Stage classification

The Group divides them into 3 stages. Stage 1 is “financial assets without significant increase in credit risk since initial recognition”, at which the Group only needs to measure ECL in the next 12 months. Stage 2 is “financial assets with significant increase in credit risk” and stage 3 is “credit-impaired financial assets”, at both of which the Group needs to measure lifetime ECL.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

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## 3 FINANCIAL RISK MANAGEMENT *(Continued)*

### 3.1 Credit risk *(Continued)*

#### 3.1.2 Expected credit loss ("ECL") *(Continued)*

##### *Stage classification (Continued)*

##### *Definition of credit-impaired*

The criteria adopted by the Group to determine whether a credit impairment occurs under IFRS 9 is consistent with the internal credit risk management objectives for relevant financial instrument, in addition to consideration of quantitative and qualitative indicators.

The Group considers a financial instrument to be credit-impaired when one or more of the following criteria have been met:

- (1) Principal (including advances, applies to below) or interest of the asset is more than 90 days past due;
- (2) The issuer or obligor is in significant financial difficulty, or has already become insolvent
- (3) It is becoming probable that the obligor will enter bankruptcy;
- (4) An active market for that financial asset has disappeared because of financial difficulties of issuers;
- (5) Other objective evidence indicating impairment of the financial asset.

The Group considers a financial instrument is in default, when it is credit-impaired. In general, the financial instruments that are more than 90 days past due are identified as in default.

##### *A significant increase in credit risk*

The Group assesses quarterly whether the credit risk on a financial instrument has increased significantly since initial recognition. In determining the stage classification of a financial asset, the Group considers all reasonable and supportable information which reflects whether there have been significant changes in credit risk, including that which is forward-looking. Based on an individual financial instrument or a portfolio of financial instruments with similar credit risk characteristics, the Group compares risk of default occurring at reporting date as with initial recognition, in order to determine possible changes in risk of default occurring during the expected life of the financial instrument. The Group considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following criteria have been met:

- (1) Principal or interest of the instrument is more than 30 days past due;
- (2) Credit rating of obligor changes significantly. Credit rating is based on both internal and external rating results, and the criteria are as follow: (a) a significant increase in credit risk is determined when internal and external rating during the reporting period is below the Group's credit acceptance standards; (b) The non-retail assets' internal ratings are downgraded by 3 ranks or above upon initial recognition;
- (3) Significant adverse issues have negative impacts on obligator's repayment ability;
- (4) Other circumstances of significant increase in credit risk. For example, appearance of other risk alarm indicators which imply growing potential risk, and could cause losses of financial assets to the Group.

The financial assets are moveable between stages. For instance, financial instruments originally classified at stage 1 should be downgraded to stage 2 if events occur such as a significant increase in credit risk. Financial instruments at stage 2 could be upgraded to stage 1 if credit risk decreases and the criteria for the determination of "a significant increase in credit risk" are no longer met.

After the outbreak of the pandemic of COVID-19, the Group strictly followed the regulatory policies and requirements and prudently evaluates the repayment ability of the clients who apply for payment holiday. On the premise that the subsequent risks will not be enlarged and subsequent settlement will not be affected, the Group provided relief measures to those clients meeting specific criteria by extending the maturity and so on. The Group has assessed whether the relief measures would cause a significant increase in credit risks and has adjusted the stage classification as appropriate.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

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### 3 FINANCIAL RISK MANAGEMENT *(Continued)*

#### 3.1 Credit risk *(Continued)*

##### **3.1.2 Expected credit loss (“ECL”) *(Continued)***

*Description of parameters, assumptions and estimation techniques*

The Group recognises a loss allowance to different financial instruments at an amount equal to 12-month or lifetime expected credit loss based on whether there has been a significant increase in credit risk and whether the financial instrument is credit-impaired. ECL is the result of discounted product of the weighted average of “probability of default (PD)”, “loss given default (LGD)”, “exposure at default (EAD)” under the three scenarios, which are defined as follows:

Probability of default (PD) is the probability of default occurring of a client and its assets in a given period of time in the future.

Exposure at default (EAD) represents the total amount of on-balance sheet and off-balance sheet exposure at the time of default by debtor, reflecting the total amount of possible losses likely to be incurred. In general, this includes the utilised credit limit, interest receivable, the anticipated usage of unused credit facilities as well as the related expenses to be incurred.

Loss given default (LGD) represents the percentage of amount of loss to be incurred in the event of default to the total risk exposure. It typically varies by nature of debtor, type and seniority of claim and the availability of collaterals or other credit risk mitigation.

Definition of default has been consistently applied to model establishment of probability of default (PD), exposure at default (EAD), loss given default (LGD) in ECL calculation throughout the Group.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

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## 3 FINANCIAL RISK MANAGEMENT *(Continued)*

### 3.1 Credit risk *(Continued)*

#### **3.1.2 Expected credit loss (“ECL”) *(Continued)***

*Description of parameters, assumptions and estimation techniques (Continued)*

Estimation of ECL: the impairment models

The impairment models adopt a top down approach. Through grouping, the models cover the risk exposures of financial institutions, corporates and retailers. The Group has established a macro-economic forecast model driven by the year-on-year Gross Domestic Product (GDP) growth rate to forecast values of macro-economic indicators in multiple categories, including national accounts, price index, foreign trades, fixed asset investments, currency and interest rates, under three scenarios, namely “Basic Scenario”, “Optimistic Scenario” and “Pessimistic Scenario”. The forecasts, after evaluation and confirmation by economic experts and senior management of the Bank, are used in asset impairment model. The macro scenario settings and the rationality of the weightings are reviewed and adjusted quarterly, based on changes in the internal and external economic environment.

In 2020, The Group forecasts the 2021 year-on-year growth rate of GDP to be 8.2% in the Basic Scenario, 9.00% in the Optimistic Scenario and 6.00% in the Pessimistic Scenario. The Group fully considered the uncertainty caused by COVID-19 in 2020 when evaluating the forecast information used in the impairment model, and made prudential adjustments to the macro scenario settings.

Where impairment models could not be established due to lack of data support, the Group endeavoured to select appropriate methods in order to make prospective estimation. The Group made prospective adjustments to impairment calculation of overseas branches and subsidiaries regularly based on macro-forecast data from authoritative institutions (such as IMF and the World Bank). For asset portfolios not covered by impairment models, expected loss rate was set by referring to that of similar asset portfolios with impairment models available.

When the management believed that the model forecast could not fully reflect recent credit or economic events, management overlay adjustments could be used to supplement ECL allowances. In 2020, the Group increased ECL allowances as management overlay adjustments for loans under the government’s relief policy and financial instruments affected by the default events in bond markets. The amount of management overlay adjustments in total did not have a significant impact on the Group’s ECL allowance.

Grouping of instruments with similar credit risk characteristics

To calculate the relevance between ECL allowance and macro-economic indicators, a grouping of exposure is performed for assets with similar credit risk characteristics. In performing this grouping, the Group has obtained sufficient information to ensure the data reliability for statistical purposes. Where sufficient information is not available internally, the Group has leveraged supplementary data from both internal and external environments to help establish impairment model. Non-retail assets of the Group are mainly grouped according to industries, while retail assets are mainly grouped based on product types, repayment methods and so on.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

**3 FINANCIAL RISK MANAGEMENT** *(Continued)***3.1 Credit risk** *(Continued)***3.1.2 Expected credit loss (“ECL”)** *(Continued)**Description of parameters, assumptions and estimation techniques (Continued)*

Sensitivity analysis

As at the balance sheet date, the basic scenario weighting is higher than the non-basic scenario weighting. The probability-weighted impairment allowance under three scenarios is higher than the basic scenario impairment allowance by the following amounts:

|   | As at<br>31 December 2020 | As at<br>31 December 2019 |
|---|---------------------------|---------------------------|
| Corporate loans   | 337                       | 468                       |
| Personal loans  | 96                        | 29                        |
| Debt investments at amortise cost and fair value through other comprehensive income | 10                        | 21                        |

If the optimistic scenario weighting increases by 10%, and the basic scenario weighting decreases by 10%, the impairment allowance of loans and advances will decrease by RMB484 million (31 December 2019: RMB419 million), and the impairment allowance of debt investments at amortise cost and fair value through other comprehensive income will decrease by RMB 6 million (31 December 2019: RMB14 million). If the Pessimistic scenario weighting increases by 10%, and the Basic scenario weighting decreases by 10%, the impairment allowance of loans and advances will increase by RMB1,402 million (31 December 2019: RMB917 million), and the impairment allowance of debt investments at amortise cost and fair value through other comprehensive income will increase by RMB23 million (31 December 2019: RMB34 million).

**3.1.3 Maximum exposure to credit risk****3.1.3.1 Maximum exposure to credit risk – financial instruments included in impairment assessment**

The Group categorises asset risk characteristics based on the quality of the assets, differentiating financial instruments that are likely to incur expected credit losses calculation as “Low risk”, “Medium risk”, “High risk” and “Impaired”. “Low risk” refers to counterparty with strong repayment ability, low probability of impairment in the future, and minor effect of adverse external factors. “Medium risk” refers to counterparty with certain repayment ability, but business, finance, and economic conditions that are continuously unstable and worsening will potentially cause its repayment ability to descend; “High risk” refers to counterparty with adverse factors that are likely to impact its repayment ability significantly or with high probability of impairment in the future. And “Impaired” refers to the assets met the Group’s definition of credit-impaired.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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## 3 FINANCIAL RISK MANAGEMENT (Continued)

### 3.1 Credit risk (Continued)

#### 3.1.3 Maximum exposure to credit risk (Continued)

##### 3.1.3.1 Maximum exposure to credit risk – financial instruments included in impairment assessment (Continued)

The table below analyses exposure to credit risk of financial instruments included in expected credit losses assessment. The balance of financial instruments below is the maximum exposure to credit risk of these instruments in the Group.

| As at 31 December 2020   | Low risk  | Medium risk | High risk | Impaired | Domestic branches | Overseas and subsidiaries | Group total | Allowance for impairment losses | Group carrying amount |
|--|-----------|-------------|-----------|----------|-------------------|---------------------------|-------------|---------------------------------|-----------------------|
| <b>On-balance sheet item</b>   |           |             |           |          |                   |                           |             |                                 |                       |
| <b>Cash and balances with central banks (Stage 1)</b>                                | 731,772   | -           | -         | -        | 731,772           | 70,436                    | 802,208     | -                               | 802,208               |
| <b>Loans and advances to customers (Corporate)</b>                                   |           |             |           |          |                   |                           |             |                                 |                       |
| - at amortised cost  | 1,862,280 | 1,155,378   | 70,714    | 72,874   | 3,161,246         | 495,804                   | 3,657,050   | (104,425)                       | 3,552,625             |
| Stage 1  | 1,860,944 | 1,077,691   | 5,140     | -        | 2,943,775         | 475,755                   | 3,419,530   | (27,418)                        | 3,392,112             |
| Stage 2  | 1,336     | 77,687      | 65,574    | -        | 144,597           | 14,093                    | 158,690     | (29,034)                        | 129,656               |
| Stage 3  | -         | -           | -         | 72,874   | 72,874            | 5,956                     | 78,830      | (47,973)                        | 30,857                |
| - at FVOCI   | 94,543    | 106,440     | 9,335     | 95       | 210,413           | 79                        | 210,492     | -                               | 210,492               |
| Stage 1  | 94,542    | 105,458     | 3,627     | -        | 203,627           | 79                        | 203,706     | -                               | 203,706               |
| Stage 2  | 1         | 982         | 5,708     | -        | 6,691             | -                         | 6,691       | -                               | 6,691                 |
| Stage 3  | -         | -           | -         | 95       | 95                | -                         | 95          | -                               | 95                    |
| <b>Loans and advances to customers (Personal)</b>                                    |           |             |           |          |                   |                           |             |                                 |                       |
| - at amortised cost  | 1,341,584 | 542,393     | 31,885    | 18,610   | 1,934,472         | 46,410                    | 1,980,882   | (34,849)                        | 1,946,033             |
| Stage 1  | 1,341,429 | 541,708     | 24,607    | -        | 1,907,744         | 46,020                    | 1,953,764   | (16,008)                        | 1,937,756             |
| Stage 2  | 155       | 685         | 7,278     | -        | 8,118             | 227                       | 8,345       | (3,836)                         | 4,509                 |
| Stage 3  | -         | -           | -         | 18,610   | 18,610            | 163                       | 18,773      | (15,005)                        | 3,768                 |
| <b>Due from and placements with banks and other financial institutions (Stage 1)</b> | 370,162   | 259         | -         | -        | 370,421           | 201,957                   | 572,378     | (1,248)                         | 571,130               |
| <b>Financial investments at amortised cost</b>                                       | 1,936,199 | 26,277      | 793       | 465      | 1,963,734         | 58,845                    | 2,022,579   | (3,050)                         | 2,019,529             |
| Stage 1  | 1,936,199 | 20,930      | -         | -        | 1,957,129         | 56,207                    | 2,013,336   | (1,844)                         | 2,011,492             |
| Stage 2  | -         | 5,347       | 793       | -        | 6,140             | 2,309                     | 8,449       | (682)                           | 7,767                 |
| Stage 3  | -         | -           | -         | 465      | 465               | 329                       | 794         | (524)                           | 270                   |
| <b>Debt investments at FVOCI</b>   | 291,786   | 2,515       | -         | -        | 294,301           | 429,572                   | 723,873     | -                               | 723,873               |
| Stage 1  | 291,786   | 2,515       | -         | -        | 294,301           | 429,222                   | 723,523     | -                               | 723,523               |
| Stage 2  | -         | -           | -         | -        | -                 | 278                       | 278         | -                               | 278                   |
| Stage 3  | -         | -           | -         | -        | -                 | 72                        | 72          | -                               | 72                    |
| <b>Other financial assets at amortised cost</b>                                      | 14,624    | 8,560       | 127       | 3,842    | 27,153            | 13,908                    | 41,061      | (4,088)                         | 36,973                |
| Stage 1  | 14,455    | 8,353       | -         | -        | 22,808            | 13,838                    | 36,646      | (166)                           | 36,480                |
| Stage 2  | 45        | 83          | 28        | 10       | 166               | -                         | 166         | (115)                           | 51                    |
| Stage 3  | 124       | 124         | 99        | 3,832    | 4,179             | 70                        | 4,249       | (3,807)                         | 442                   |
| <b>On-balance sheet total</b>  | 6,642,950 | 1,841,822   | 112,854   | 95,886   | 8,693,512         | 1,317,011                 | 10,010,523  | (147,660)                       | 9,862,863             |
| <b>Credit related commitments and financial guarantees</b>                           |           |             |           |          |                   |                           |             |                                 |                       |
| Stage 1  | 1,283,391 | 319,352     | 2,499     | -        | 1,605,242         | 61,620                    | 1,666,862   | (6,858)                         | 1,660,004             |
| Stage 2  | -         | 4,422       | 5,031     | -        | 9,453             | 397                       | 9,850       | (3,642)                         | 6,208                 |
| <b>Off-balance sheet total</b>   | 1,283,391 | 323,774     | 7,530     | -        | 1,614,695         | 62,017                    | 1,676,712   | (10,500)                        | 1,666,212             |
| <b>Total</b>   | 7,926,341 | 2,165,596   | 120,384   | 95,886   | 10,308,207        | 1,379,028                 | 11,687,235  | (158,160)                       | 11,529,075            |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

## 3.1 Credit risk (Continued)

## 3.1.3 Maximum exposure to credit risk (Continued)

## 3.1.3.1 Maximum exposure to credit risk – financial instruments included in impairment assessment (Continued)

| As at 31 December 2019   | Low risk         | Medium risk      | High risk      | Impaired      | Domestic branches | Overseas and subsidiaries | Group total       | Allowance for impairment losses | Group carrying amount |
|--|------------------|------------------|----------------|---------------|-------------------|---------------------------|-------------------|---------------------------------|-----------------------|
| <b>On-balance sheet item</b>   |                  |                  |                |               |                   |                           |                   |                                 |                       |
| <b>Cash and balances with central banks</b>                                |                  |                  |                |               |                   |                           |                   |                                 |                       |
| (Stage 1)  | 729,859          | –                | –              | –             | 729,859           | 15,845                    | 745,704           | –                               | 745,704               |
| <b>Loans and advances to customers</b>                                     |                  |                  |                |               |                   |                           |                   |                                 |                       |
| <b>(Corporate)</b>   |                  |                  |                |               |                   |                           |                   |                                 |                       |
| – at amortised cost  | 1,501,665        | 1,103,396        | 106,046        | 56,508        | 2,767,615         | 546,481                   | 3,314,096         | (105,170)                       | 3,208,926             |
| Stage 1  | 1,500,753        | 1,074,724        | 2,796          | –             | 2,578,273         | 536,706                   | 3,114,979         | (23,125)                        | 3,091,854             |
| Stage 2  | 912              | 28,672           | 103,250        | –             | 132,834           | 6,867                     | 139,701           | (39,960)                        | 99,741                |
| Stage 3  | –                | –                | –              | 56,508        | 56,508            | 2,908                     | 59,416            | (42,085)                        | 17,331                |
| – at FVOCI   | 113,994          | 113,800          | 7,567          | 53            | 235,414           | –                         | 235,414           | –                               | 235,414               |
| Stage 1  | 113,994          | 112,323          | 2,640          | –             | 228,957           | –                         | 228,957           | –                               | 228,957               |
| Stage 2  | –                | 1,477            | 4,927          | –             | 6,404             | –                         | 6,404             | –                               | 6,404                 |
| Stage 3  | –                | –                | –              | 53            | 53                | –                         | 53                | –                               | 53                    |
| <b>Loans and advances to customers</b>                                     |                  |                  |                |               |                   |                           |                   |                                 |                       |
| <b>(Personal)</b>  |                  |                  |                |               |                   |                           |                   |                                 |                       |
| – at amortised cost  | 1,030,543        | 645,992          | 19,533         | 18,357        | 1,714,425         | 40,340                    | 1,754,765         | (27,549)                        | 1,727,216             |
| Stage 1  | 1,030,197        | 644,783          | 12,138         | –             | 1,687,118         | 39,988                    | 1,727,106         | (8,394)                         | 1,718,712             |
| Stage 2  | 346              | 1,209            | 7,395          | –             | 8,950             | 135                       | 9,085             | (3,193)                         | 5,892                 |
| Stage 3  | –                | –                | –              | 18,357        | 18,357            | 217                       | 18,574            | (15,962)                        | 2,612                 |
| <b>Due from and placements with banks and other financial institutions</b> |                  |                  |                |               |                   |                           |                   |                                 |                       |
| (Stage 1)  | 395,742          | 1,005            | –              | –             | 396,747           | 252,800                   | 649,547           | (1,059)                         | 648,488               |
| <b>Financial investments at amortised cost</b>                             |                  |                  |                |               |                   |                           |                   |                                 |                       |
| Stage 1  | 1,853,796        | 29,868           | 793            | 1,064         | 1,885,521         | 47,431                    | 1,932,952         | (3,263)                         | 1,929,689             |
| Stage 2  | –                | –                | 793            | –             | 793               | 704                       | 1,497             | (178)                           | 1,319                 |
| Stage 3  | –                | –                | –              | 1,064         | 1,064             | 319                       | 1,383             | (630)                           | 753                   |
| <b>Debt investments at FVOCI</b>   |                  |                  |                |               |                   |                           |                   |                                 |                       |
| Stage 1  | 263,029          | 2,054            | –              | –             | 265,083           | 395,628                   | 660,711           | –                               | 660,711               |
| Stage 2  | –                | –                | –              | –             | –                 | –                         | –                 | –                               | –                     |
| Stage 3  | –                | –                | –              | –             | –                 | –                         | –                 | –                               | –                     |
| <b>Other financial assets at amortised cost</b>                            |                  |                  |                |               |                   |                           |                   |                                 |                       |
| Stage 1  | 18,259           | 7,910            | 182            | 3,179         | 29,530            | 15,147                    | 44,677            | (3,437)                         | 41,240                |
| Stage 2  | 18,079           | 7,697            | –              | –             | 25,776            | 14,937                    | 40,713            | (143)                           | 40,570                |
| Stage 3  | 57               | 95               | 51             | 243           | 446               | –                         | 446               | (287)                           | 159                   |
| Stage 3  | 123              | 118              | 131            | 2,936         | 3,308             | 210                       | 3,518             | (3,007)                         | 511                   |
| <b>On-balance sheet total</b>  | <b>5,906,887</b> | <b>1,904,025</b> | <b>134,121</b> | <b>79,161</b> | <b>8,024,194</b>  | <b>1,313,672</b>          | <b>9,337,866</b>  | <b>(140,478)</b>                | <b>9,197,388</b>      |
| <b>Credit related commitments and financial guarantees</b>                 |                  |                  |                |               |                   |                           |                   |                                 |                       |
| Stage 1  | 970,178          | 420,254          | 977            | –             | 1,391,409         | 67,906                    | 1,459,315         | (5,358)                         | 1,453,957             |
| Stage 2  | –                | 2,465            | 9,792          | –             | 12,257            | 598                       | 12,855            | (974)                           | 11,881                |
| <b>Off-balance sheet total</b>   | <b>970,178</b>   | <b>422,719</b>   | <b>10,769</b>  | <b>–</b>      | <b>1,403,666</b>  | <b>68,504</b>             | <b>1,472,170</b>  | <b>(6,332)</b>                  | <b>1,465,838</b>      |
| <b>Total</b>   | <b>6,877,065</b> | <b>2,326,744</b> | <b>144,890</b> | <b>79,161</b> | <b>9,427,860</b>  | <b>1,382,176</b>          | <b>10,810,036</b> | <b>(146,810)</b>                | <b>10,663,226</b>     |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020  
(All amounts expressed in millions of RMB unless otherwise stated)

### 3 FINANCIAL RISK MANAGEMENT (Continued)

#### 3.1 Credit risk (Continued)

##### 3.1.3 Maximum exposure to credit risk (Continued)

##### 3.1.3.2 Maximum exposure to credit risk – financial instruments not included in impairment assessment

The analysis of credit risk exposure of those financial assets which are not included in the impairment assessment are as follows:

|   | Maximum exposure to credit risk |                  |
|---|---------------------------------|------------------|
|   | 31 December 2020                | 31 December 2019 |
| Financial assets at fair value through profit or loss |                                 |                  |
| Derivative financial instruments                      | 54,212                          | 20,937           |
| Debt securities                                       | 153,034                         | 134,950          |
| Fund investments and other asset management products  | 252,098                         | 170,435          |
| Precious metal contracts                              | 19,975                          | 51,396           |
| Total   | 479,319                         | 377,718          |

##### 3.1.3.3 Collaterals and other credit enhancements

The Group manages, limits and controls concentrations of credit risk wherever they are identified, in particular, to individual counterparty, groups, industry segments and geographical regions.

The Group optimises its credit risk structure by placing limits in relation to one borrower, or group of borrowers. Such risks are monitored by the Group on a regular basis and subject to annual or more frequent review, whenever necessary.

The exposure to any single borrower including banks and brokers is further restricted by sub-limits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. The Group monitors the actual credit risk exposure and credit limits on a daily basis.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet principal and interest repayment obligations. The Group will change their lending limits when appropriate based on the analysis.

Some other specific control and risk mitigation measures are outlined below.

#### (a) Collaterals

The Group employs a range of policies and practices to mitigate credit risk. The most common practice is to accept collaterals or pledges. The Group implements guidelines on the acceptability of specific classes of collaterals and pledges. The principal types of collaterals and pledges for loans and advances to customers are:

- Residential properties;
- Business assets such as premises, inventory and receivables;
- Financial instruments such as debt securities and stocks.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

### 3 FINANCIAL RISK MANAGEMENT *(Continued)*

#### 3.1 Credit risk *(Continued)*

##### 3.1.3 Maximum exposure to credit risk *(Continued)*

##### 3.1.3.3 Collaterals and other credit enhancements *(Continued)*

##### (a) Collaterals *(Continued)*

The value of collaterals at the time of loan origination is subject to loan-to-value ratio limits based on collateral types. The principal types of collaterals for corporate loans and personal loans are as follows:

| Collaterals                                   | Maximum<br>loan-to-value ratio |
|---|--------------------------------|
| Cash deposits with the Group                  | 90%                            |
| PRC treasury bonds                            | 90%                            |
| Financial institution bonds                   | 90%                            |
| Publicly traded stocks                        | 60%                            |
| Rights to collect fees or right of management | 65%                            |
| Properties                                    | 70%                            |
| Land use rights                               | 70%                            |
| Vehicles                                      | 50%                            |

Long-term loans and advances to corporate and individual customers are generally secured, while revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss the Group will seek additional collaterals and pledges from the counterparties as soon as impairment indicators are noted for the personal loans and advances.

For loans guaranteed by a third-party guarantor, the Group will assess the financial condition, credit history and ability to meet obligations of the guarantor.

Collaterals and pledges held as security for financial assets other than loans and advances to customers are determined by the nature of the instrument. Debt securities, PRC treasury bonds and the PBOC bills are generally unsecured, with the exception of asset-backed securities, which are secured by portfolios of financial instruments.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020  
(All amounts expressed in millions of RMB unless otherwise stated)

### 3 FINANCIAL RISK MANAGEMENT (Continued)

#### 3.1 Credit risk (Continued)

##### 3.1.3 Maximum exposure to credit risk (Continued)

##### 3.1.3.3 Collaterals and other credit enhancements (Continued)

##### (a) Collaterals (Continued)

The Group closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Group will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

|  | Gross exposure | Impairment allowance | Carrying amount | Fair value of collateral held |
|--|----------------|----------------------|-----------------|-------------------------------|
| <b>As at 31 December 2020</b>  |                |                      |                 |                               |
| Credit-impaired assets   |                |                      |                 |                               |
| Loans and advances to customers  |                |                      |                 |                               |
| Loans and advances to customers at amortised cost                                | 97,603         | (62,978)             | 34,625          | 46,264                        |
| Loans and advances to customers at fair value through other comprehensive income | 95             | –                    | 95              | 95                            |
| Financial investments  |                |                      |                 |                               |
| Financial investments at amortised cost  | 794            | (524)                | 270             | 2                             |
| Debt investments at fair value through other comprehensive income                | 72             | –                    | 72              | –                             |
|  | Gross exposure | Impairment allowance | Carrying amount | Fair value of collateral held |
| <b>As at 31 December 2019</b>  |                |                      |                 |                               |
| Credit-impaired assets   |                |                      |                 |                               |
| Loans and advances to customers  |                |                      |                 |                               |
| Loans and advances to customers at amortised cost                                | 77,990         | (58,047)             | 19,943          | 29,345                        |
| Loans and advances to customers at fair value through other comprehensive income | 53             | –                    | 53              | 53                            |
| Financial investments  |                |                      |                 |                               |
| Financial investments at amortised cost  | 1,383          | (630)                | 753             | 1,043                         |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

**3 FINANCIAL RISK MANAGEMENT** *(Continued)***3.1 Credit risk** *(Continued)***3.1.3 Maximum exposure to credit risk** *(Continued)***3.1.3.3 Collaterals and other credit enhancements** *(Continued)***(b) Master netting arrangements**

The Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of assets and liabilities in the statement of financial position, as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Group's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as each transaction subject to the arrangement affects credit risk.

**3.1.4 Derivative instruments**

The Group undertakes its transactions in foreign exchange, commodity, interest rate and other derivative contracts with other financial institutions and customers. The management has established limits for these contracts based on counterparties, industry sectors and countries. Actual credit risk exposures are regularly monitored and controlled by the management.

*Credit risk-weighted amounts*

|  | As at<br>31 December 2020 | As at<br>31 December 2019 |
|--|---------------------------|---------------------------|
| Counterparty credit risk-weighted amount | 50,052                    | 36,175                    |

The credit risk-weighted amounts are the amounts calculated with reference to the guidelines issued by the CBIRC and are dependent on, amongst other factors, the creditworthiness of the counterparty and the maturity of each type of contract.

The credit risk-weighted amounts stated above have not taken the effects of netting arrangements into account.

**3.1.5 Foreclosed assets**

|                             | As at<br>31 December 2020 | As at<br>31 December 2019 |
|-----------------------------|---------------------------|---------------------------|
| Buildings                   | 1,085                     | 873                       |
| Land use rights             | 10                        | 20                        |
| Others                      | 14                        | 14                        |
| Gross                       | 1,109                     | 907                       |
| Less: Impairment allowances | (142)                     | (148)                     |
| Net                         | 967                       | 759                       |

Foreclosed assets are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness. The Group does not generally occupy foreclosed assets for its own business use. Foreclosed assets are classified as other assets in the statement of financial position.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020  
(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### 3.1 Credit risk (Continued)

#### 3.1.6 Concentration risk analysis for financial assets with credit risk exposure

The Group mainly manages concentration risk for loans and advances to customers by industry sectors and also manages concentration risk for financial assets by geographical sectors.

#### Geographical sectors

|   | Mainland China | Hong Kong | Others  | Total      |
|---|----------------|-----------|---------|------------|
| <b>As at 31 December 2020</b>                                       |                |           |         |            |
| <b>Financial assets</b>   |                |           |         |            |
| Balances with central banks   | 733,895        | 33,431    | 34,562  | 801,888    |
| Due from and placements with banks and other financial institutions | 365,731        | 113,071   | 92,328  | 571,130    |
| Derivative financial assets   | 42,150         | 9,617     | 2,445   | 54,212     |
| Financial investments at FVPL                                       | 375,566        | 7,813     | 41,729  | 425,108    |
| Loans and advances to customers                                     | 5,362,745      | 194,300   | 163,523 | 5,720,568  |
| Debt investments at FVOCI   | 373,966        | 120,315   | 229,592 | 723,873    |
| Financial investments at amortised cost                             | 1,967,344      | 6,195     | 45,990  | 2,019,529  |
| Other financial assets  | 28,229         | 15,436    | 2,772   | 46,437     |
|   | 9,249,626      | 500,178   | 612,941 | 10,362,745 |
| <b>Off-balance sheet exposures</b>                                  |                |           |         |            |
| Guarantees, acceptances and letters of credit                       | 796,707        | 9,979     | 9,151   | 815,837    |
| Loan commitments and other credit related commitments               | 825,973        | 25,552    | 9,350   | 860,875    |
|   | 1,622,680      | 35,531    | 18,501  | 1,676,712  |
|   |                |           |         |            |
|   | Mainland China | Hong Kong | Others  | Total      |
| <b>As at 31 December 2019</b>                                       |                |           |         |            |
| <b>Financial assets</b>   |                |           |         |            |
| Balances with central banks   | 732,414        | 1,027     | 11,972  | 745,413    |
| Due from and placements with banks and other financial institutions | 546,171        | 30,082    | 72,235  | 648,488    |
| Derivative financial assets   | 15,636         | 4,295     | 1,006   | 20,937     |
| Financial investments at FVPL                                       | 321,366        | 10,064    | 25,351  | 356,781    |
| Loans and advances to customers                                     | 4,792,758      | 218,575   | 172,320 | 5,183,653  |
| Financial investments at FVOCI                                      | 347,311        | 112,537   | 200,863 | 660,711    |
| Financial investments at amortised cost                             | 1,915,749      | 4,181     | 9,759   | 1,929,689  |
| Other financial assets  | 37,301         | 15,414    | 2,513   | 55,228     |
|   | 8,708,706      | 396,175   | 496,019 | 9,600,900  |
| <b>Off-balance sheet exposures</b>                                  |                |           |         |            |
| Guarantees, acceptances and letters of credit                       | 652,860        | 13,761    | 13,646  | 680,267    |
| Loan commitments and other credit related commitments               | 750,807        | 30,572    | 10,524  | 791,903    |
|   | 1,403,667      | 44,333    | 24,170  | 1,472,170  |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

**3 FINANCIAL RISK MANAGEMENT** *(Continued)***3.1 Credit risk** *(Continued)***3.1.6 Concentration risk analysis for financial assets with credit risk exposure** *(Continued)**(a) Geographical risk concentration for loans and advances to customers*

|   | As at 31 December 2020 |        | As at 31 December 2019 |        |
|---|------------------------|--------|------------------------|--------|
|   |                        | %      |                        | %      |
| Yangtze River Delta                             | 1,576,465              | 26.96  | 1,434,280              | 27.04  |
| Pearl River Delta                               | 701,865                | 12.00  | 572,226                | 10.79  |
| Bohai Rim Economic Zone                         | 831,454                | 14.22  | 740,248                | 13.96  |
| Central China                                   | 958,527                | 16.39  | 827,110                | 15.59  |
| Western China                                   | 680,088                | 11.63  | 585,712                | 11.04  |
| North Eastern China                             | 232,864                | 3.98   | 212,871                | 4.01   |
| Overseas  | 359,368                | 6.14   | 391,517                | 7.38   |
| Head Office                                     | 507,793                | 8.68   | 540,311                | 10.19  |
| Gross amount of loans and advances to customers | 5,848,424              | 100.00 | 5,304,275              | 100.00 |

Note: The definitions of geographical operating segments are set out in Note 48.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020  
(All amounts expressed in millions of RMB unless otherwise stated)

### 3 FINANCIAL RISK MANAGEMENT (Continued)

#### 3.1 Credit risk (Continued)

##### 3.1.6 Concentration risk analysis for financial assets with credit risk exposure (Continued)

(b) Industry analysis for loans and advances to customers

|  | As at 31 December 2020 |               | As at 31 December 2019 |               |
|--|------------------------|---------------|------------------------|---------------|
|  |                        | %             |                        | %             |
| <b>Corporate loans</b>   |                        |               |                        |               |
| Mining   | 125,367                | 2.14          | 117,555                | 2.22          |
| Manufacturing  |                        |               |                        |               |
| – Petroleum and chemical   | 118,387                | 2.02          | 106,108                | 2.00          |
| – Electronics  | 130,836                | 2.24          | 95,736                 | 1.80          |
| – Steel  | 41,680                 | 0.71          | 35,156                 | 0.66          |
| – Machinery  | 100,571                | 1.72          | 93,393                 | 1.76          |
| – Textile and clothing   | 27,057                 | 0.46          | 27,049                 | 0.51          |
| – Other manufacturing  | 239,672                | 4.10          | 243,701                | 4.60          |
| Production and supply of power, heat, gas and water                    | 221,313                | 3.78          | 215,642                | 4.07          |
| Construction   | 135,732                | 2.32          | 135,998                | 2.56          |
| Transportation, storage and postal service                             | 708,649                | 12.12         | 637,943                | 12.03         |
| Information transmission, software and IT services                     | 41,148                 | 0.70          | 28,346                 | 0.53          |
| Wholesale and retail   | 204,856                | 3.50          | 221,381                | 4.17          |
| Accommodation and catering   | 34,886                 | 0.60          | 32,259                 | 0.61          |
| Finance  | 118,702                | 2.03          | 107,865                | 2.03          |
| Real estate  | 348,185                | 5.95          | 264,495                | 4.99          |
| Leasing and commercial services  | 577,500                | 9.87          | 508,863                | 9.59          |
| Water conservancy, environmental and other public services             | 334,399                | 5.72          | 284,797                | 5.37          |
| Education, science, culture and public health                          | 112,961                | 1.93          | 96,875                 | 1.83          |
| Others   | 85,570                 | 1.48          | 93,314                 | 1.76          |
| Discounted bills   | 160,071                | 2.74          | 203,034                | 3.83          |
| <b>Total corporate loans</b>   | <b>3,867,542</b>       | <b>66.13</b>  | <b>3,549,510</b>       | <b>66.92</b>  |
| <b>Personal loans</b>  |                        |               |                        |               |
| Mortgages  | 1,293,773              | 22.12         | 1,135,428              | 21.41         |
| Credit cards   | 464,110                | 7.94          | 467,387                | 8.81          |
| Others   | 222,999                | 3.81          | 151,950                | 2.86          |
| <b>Total Personal loans</b>  | <b>1,980,882</b>       | <b>33.87</b>  | <b>1,754,765</b>       | <b>33.08</b>  |
| <b>Gross amount of loans and advances before impairment allowances</b> | <b>5,848,424</b>       | <b>100.00</b> | <b>5,304,275</b>       | <b>100.00</b> |

Note: The classification of industries is consistent with the latest national standards for industry classification (Industrial classification for national economic activities (GB/T 4754-2017) issued by SAC and AQSIQ in 2017).

The industry risk concentration analysis for loans and advances to customers is based on the type of industry of the borrowers.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

### 3 FINANCIAL RISK MANAGEMENT *(Continued)*

#### 3.2 Market risk

##### 3.2.1 Overview

Market risk is risk of loss on the Group's on balance sheet and off balance sheet businesses, which is originated from the unfavourable changes and fluctuations in interest rates, foreign exchange rates, commodity price and equity product price. Market risk consists of interest rate risk, foreign exchange rate risk, equity product price risk and commodity price risk. The market risk of the Group mainly comprises interest rate risk and foreign exchange rate risk.

The Group established an integrated market risk management system, formed a market risk management structure with the separation of front and middle-end platforms and specified the responsibilities, the division of labor and the reporting route of the Board of Directors, Board of Supervisors, Senior Management, Special Committees and other relevant departments to ensure the compliance and effectiveness of market risk management.

In accordance with the requirements of the CBIRC, the Group's financial instrument positions are divided into trading book and banking book. The trading book consists of financial instruments held either for trading intent or economic hedging against risks of the trading book. The banking book consists of all financial instruments other than those included in trading book. The Group recognises, measures, monitors and controls the market risks in trading book and banking book according to their nature and characteristics.

With regard to the exchange rate risk and the interest rate risk of trading book, the Group established an effective limit management system by implementing Net Position, Risk Sensitivity, Value at Risk ("VaR") and other indicators. Meanwhile, with regard to the interest risk of banking book, net interest income simulation and gap analysis are the major tools used by the Group to monitor the interest risk of its overall businesses. In addition, through adequate repricing management and structure adjustment of assets and liabilities, the Group strives to maximise its rate of return while keeping its risks under control.

The Group has continuously improved the management system of market risk. The Group conducted stress tests on historical scenarios and hypothetical scenarios in the consideration of the Group's major market risk factors. The Group has realised daily automatic collection of trading data and market data in the system. The Group conducted the management of risk capital and VaR quota, and formulated the quota allocation plans.

The Group also applies sensitivity analysis to assess and measure the market risk of trading book and banking book. Sensitivity analysis indicates the impact on the relevant market risk assuming that only a single variable changes. As any risk variable rarely changes isolatedly, and the correlation between variables will have a significant effect on the final impact amount of the change of a risk variable, the results of sensitivity analysis can only provide limited market risk information.

The major measurement techniques used to measure and control market risk are outlined below:

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020  
(All amounts expressed in millions of RMB unless otherwise stated)

### 3 FINANCIAL RISK MANAGEMENT (Continued)

#### 3.2 Market risk (Continued)

##### 3.2.2 VaR

VaR refers to the maximum loss that an investment portfolio may incur at a given confidence level and holding period caused by the changes in market price factors such as interest rates and exchange rates etc. The Group adopted the historical simulation method to calculate daily VaR (99% confidence interval, the holding period of one day).

A summary of VaR by risk type including foreign exchange rate risk and interest rate risk of the trading book of the Group's portfolios is as follows:

##### Items

|                               | Year ended 31 December 2020 |         |         |         |
|-------------------------------|-----------------------------|---------|---------|---------|
|                               | 31 December<br>2020         | Average | Maximum | Minimum |
| VaR                           | 594                         | 501     | 617     | 423     |
| Including: Interest rate risk | 268                         | 296     | 472     | 127     |
| Foreign exchange risk         | 464                         | 485     | 555     | 417     |

##### Items

|                               | Year ended 31 December 2019 |         |         |         |
|-------------------------------|-----------------------------|---------|---------|---------|
|                               | 31 December<br>2019         | Average | Maximum | Minimum |
| VaR                           | 464                         | 586     | 788     | 462     |
| Including: Interest rate risk | 167                         | 171     | 209     | 112     |
| Foreign exchange risk         | 500                         | 632     | 846     | 492     |

##### 3.2.3 Sensitivity analysis

###### Interest rate sensitivity analysis

The table below illustrates the impact on net profit of the Group for the following year based on the structure of financial assets and liabilities as at the date of statement of financial position, resulting from a parallel upward or downward shift of 100 basis points in related yield curves.

|  | Changes in net profit     |                           |
|--|---------------------------|---------------------------|
|  | As at<br>31 December 2020 | As at<br>31 December 2019 |
| +100 basis points parallel shift in yield curves | 13,551                    | 15,794                    |
| -100 basis points parallel shift in yield curves | (13,551)                  | (15,794)                  |

The table below illustrates the impact on other comprehensive income of the Group for the following year based on the structure of financial assets and liabilities as at the date of statement of financial position, resulting from a parallel upward or downward shift of 100 basis points in related yield curves.

|  | Changes in other comprehensive income |                           |
|--|---------------------------------------|---------------------------|
|  | As at<br>31 December 2020             | As at<br>31 December 2019 |
| +100 basis points parallel shift in yield curves | (11,882)                              | (11,748)                  |
| -100 basis points parallel shift in yield curves | 12,363                                | 11,570                    |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

## 3.2 Market risk (Continued)

## 3.2.3 Sensitivity analysis (Continued)

The above-mentioned impact on other comprehensive income arises from the changes in the fair value of fixed-interest-rate bonds at fair value through other comprehensive income, and loans and advances to customers at fair value through other comprehensive income.

The results of the interest rate sensitivity analysis set out in the table above are illustrative only and are based on simplified scenarios. The figures represent the projected impact to the net profit and other comprehensive income caused by the projected movement of current interest risk structure yield curves. This effect, however, does not take into account actions that would be taken by the Group to mitigate the impact of interest rate changes. The projections above also assume that interest rates of all maturities excluding demand deposits move by the same amount and, therefore, do not reflect the potential impact on net profit due to changes in certain rates while others remain unchanged. The projections are based on other simplified assumptions as well, including that all positions are to be held to maturity. There will be changes to the projection if positions are not held to maturity but it is not expected that the changes would be material.

The Group believes the assumption does not represent the Group's policy on use of funds and interest rate risk management. As a result, the above impact may differ from the actual situation.

## Foreign exchange sensitivity analysis

The table below illustrates the impact of a concurrent appreciation or depreciation of RMB spot and forward rates against HKD and USD by 5% on the Group's net profit:

|                        | Changes in net profit     |                           |
|------------------------|---------------------------|---------------------------|
|                        | As at<br>31 December 2020 | As at<br>31 December 2019 |
| 5% appreciation of RMB | (1,662)                   | (1,758)                   |
| 5% depreciation of RMB | 1,662                     | 1,758                     |

The table below illustrates the impact of a concurrent appreciation or depreciation of RMB spot and forward rates against HKD and USD by 5% on the Group's other comprehensive income:

|                        | Changes in other comprehensive income |                           |
|------------------------|---------------------------------------|---------------------------|
|                        | As at<br>31 December 2020             | As at<br>31 December 2019 |
| 5% appreciation of RMB | (1,397)                               | (954)                     |
| 5% depreciation of RMB | 1,397                                 | 954                       |

The impact on net profit arises from the influences of RMB exchange rate fluctuation on the net position of monetary assets (excluding other book value other than amortised cost of monetary assets at fair value through other comprehensive income) and liabilities denominated in foreign currencies, the net position of non-monetary financial assets (excluding non-monetary items denominated in foreign currencies measured at fair value through other comprehensive income) and liabilities denominated in foreign currencies measured at fair value, and the fair value of currency derivatives denominated in RMB.

The impact on other comprehensive income arises from the influences of RMB exchange rate fluctuation on the differences on translation of foreign currency financial statements of foreign operators, the overseas investment portion of monetary assets denominated in foreign currencies, other book value other than amortised cost of the non-monetary items denominated in foreign currencies measured at fair value through other comprehensive income (such as stock) and monetary items at fair value through other comprehensive income.

The above impact on net profit is based on the assumption that the sensitive position of the Group's year-end exchange rate and currency derivatives denominated in RMB remain unchanged around the year. While in practice, the Group will, based on its judgement on the trend of exchange rate, actively adjust the foreign currency position and use appropriate derivative instruments to mitigate the impact of the foreign currency risk. Therefore, the above impact might differ from the actual situation.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### 3.2 Market risk (Continued)

#### 3.2.4 Interest rate risk

The Group's interest rate risk mainly arises from interest rate repricing and maturity mismatching of assets and liabilities, and the fluctuation of market interest rates, as well as from the adjustments in the interest rate policies made by the People's Bank of China (the "PBOC"). On 20 July 2013, the PBOC cancelled the lower limit of benchmark interest rates of loans dominated in RMB, allowing financial institutions to determine the loan interest rates independently based on commercial principles. The PBOC cancelled the upper limit of the benchmark interest rates for deposits on 24 October 2015 and established RMB Loan Prime Rate (LPR) as a new pricing benchmark of new loans in 2019. The Group conducts most of its domestic deposit businesses at benchmark interest rates for deposits and conducts most of its domestic loan businesses at LPR published by the PBOC.

Following the financial crisis, the reform of London Interbank-Offered Rate (LIBOR) has become a priority for global regulators. In March 2021, the Financial Conduct Authority (FCA) announced that after 2021, libors in sterling, euro, Swiss franc and Japanese yen, as well as one week and two month libors in US dollars will be stopped, and the remaining term libors in US dollars will cease to be provided in the middle of 2023. Regulatory authorities and working groups on benchmark interest rate reform of all nations are actively promoting LIBOR reform. On 31 August 2020, PBOC has published the White Paper of 'Participating in International Benchmark Interest Rate Reform and Improving China's Benchmark Interest Rate System'. Based on the general idea of drawing on international consensus and best practices, China is, in line with the progress of the reform of international benchmark interest rates, simultaneously promoting the design and application of new benchmark contracts and the transition of benchmark interest rates of legacy LIBOR contracts, so as to promote the transition of international benchmark interest rates in a steady and orderly manner. The alternative benchmark for USD will be replaced by SOFR. The major difference between USD LIBOR and the alternative rate SOFR is that the former, as a term rate, which means that it is published for a borrowing period, and it is "forward-looking" as USD LIBOR is published at the beginning of the borrowing period. Alternative interest rate SOFR is "backward-looking" rate, it's based on overnight rates from actual transactions, and are published on the next trade day. In addition, the alternative benchmark SOFR is risk-free, while LIBOR includes a credit spread over the risk-free rate. Therefore, the USD LIBOR reform will bring about great changes to the interest rate rules of various financial products. The balance of the LIBOR-referenced contracts of the Group, mainly on the USD LIBOR, take a relatively small proportion in the total assets, whose risk exposure is generally controllable. The Group has established a task force consisting of key finance, risk, information technology, treasury, business, legal and compliance personnel and representatives of overseas branches, to speed up the implementation of the Group's LIBOR reform. The Group has put in place a reform implementing scheme, covering multiple aspects such as exposure monitoring, system updates, contract amendments, data procurement, risk management, model optimisation, internal training, client communication and accounting issues etc., so as to ensure an orderly transition to the new benchmark interest rate and to minimise the risks arising from transition. Overall, the reform progress of the Group is basically consistent with the market.

The Group has initially established a relatively complete interest rate risk monitoring system. By using the gap analysis system, the Group regularly monitors the repricing maturity gap of interest rate-sensitive assets and liabilities throughout the Group, takes the initiative to adjust the proportion of interest-bearing assets at floating interest rates and fixed interest rates, and adjusts the repricing term structure of interest rate and manages interest rate risk by applying appropriate derivatives such as interest rate swaps based on allocation strategy of assets and liabilities. Consequently, the Group is less vulnerable to interest rate risk.

During the reporting period, the Group closely monitored the interest rate trend for RMB and foreign currencies, conducted specific management of risk limits, and strengthened comprehensive operations and limit monitoring. In addition, the Group, by rationally adjusting the loan repricing strategies, reinforced the specific management of price negotiation to maximise its rate of return while keeping its risks under control.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

## 3.2 Market risk (Continued)

## 3.2.4 Interest rate risk (Continued)

At the date of statement of financial position, the Group's assets and liabilities categorised by the repricing date or maturity date (whichever is earlier) are as follows:

|  | Up to<br>1 month   | 1 – 3<br>months    | 3 – 12<br>months   | 1 – 5 years        | Over<br>5 years  | Non-interest<br>bearing | Total              |
|--|--------------------|--------------------|--------------------|--------------------|------------------|-------------------------|--------------------|
| <b>As at 31 December 2020</b>  |                    |                    |                    |                    |                  |                         |                    |
| <b>Assets</b>  |                    |                    |                    |                    |                  |                         |                    |
| Cash and balances with central banks                                   | 795,102            | –                  | –                  | –                  | –                | 22,459                  | 817,561            |
| Due from and placements with banks<br>and other financial institutions | 291,121            | 97,782             | 162,611            | 13,718             | 2,792            | 3,106                   | 571,130            |
| Derivative financial assets  | –                  | –                  | –                  | –                  | –                | 54,212                  | 54,212             |
| Financial investments at FVPL  | 22,761             | 21,369             | 34,378             | 31,955             | 51,251           | 320,874                 | 482,588            |
| Loans and advances to customers  | 1,661,920          | 749,592            | 2,420,672          | 334,404            | 260,828          | 293,152                 | 5,720,568          |
| Financial investments at FVOCI   | 82,187             | 134,536            | 83,786             | 237,760            | 179,006          | 17,945                  | 735,220            |
| Financial investments at amortised cost                                | 41,734             | 49,906             | 258,697            | 962,447            | 678,347          | 28,398                  | 2,019,529          |
| Other assets   | 466                | –                  | –                  | –                  | –                | 296,342                 | 296,808            |
| <b>Total assets</b>  | <b>2,895,291</b>   | <b>1,053,185</b>   | <b>2,960,144</b>   | <b>1,580,284</b>   | <b>1,172,224</b> | <b>1,036,488</b>        | <b>10,697,616</b>  |
| <b>Liabilities</b>   |                    |                    |                    |                    |                  |                         |                    |
| Due to and placements from banks<br>and other financial institutions   | (913,880)          | (265,073)          | (537,732)          | (47,277)           | (13,181)         | (10,348)                | (1,787,491)        |
| Financial liabilities at FVPL  | (6,291)            | (6,340)            | (6,985)            | (134)              | –                | (9,529)                 | (29,279)           |
| Derivative financial liabilities                                       | –                  | –                  | –                  | –                  | –                | (55,942)                | (55,942)           |
| Due to customers   | (3,515,457)        | (552,070)          | (924,291)          | (1,529,725)        | (2)              | (85,785)                | (6,607,330)        |
| Other liabilities  | (90,687)           | (214,973)          | (366,449)          | (329,911)          | (192,715)        | (144,211)               | (1,338,946)        |
| <b>Total liabilities</b>   | <b>(4,526,315)</b> | <b>(1,038,456)</b> | <b>(1,835,457)</b> | <b>(1,907,047)</b> | <b>(205,898)</b> | <b>(305,815)</b>        | <b>(9,818,988)</b> |
| <b>Total interest sensitivity gap</b>                                  | <b>(1,631,024)</b> | <b>14,729</b>      | <b>1,124,687</b>   | <b>(326,763)</b>   | <b>966,326</b>   | <b>730,673</b>          | <b>878,628</b>     |
| <b>As at 31 December 2019</b>  |                    |                    |                    |                    |                  |                         |                    |
| <b>Assets</b>  |                    |                    |                    |                    |                  |                         |                    |
| Cash and balances with central banks                                   | 729,335            | –                  | –                  | –                  | –                | 30,850                  | 760,185            |
| Due from and placements with banks<br>and other financial institutions | 217,899            | 94,206             | 262,663            | 57,535             | 10,639           | 5,546                   | 648,488            |
| Derivative financial assets  | –                  | –                  | –                  | –                  | –                | 20,937                  | 20,937             |
| Financial investments at FVPL  | 24,970             | 27,425             | 49,446             | 39,634             | 35,329           | 229,694                 | 406,498            |
| Loans and advances to customers  | 2,422,040          | 475,631            | 1,695,459          | 190,829            | 91,463           | 308,231                 | 5,183,653          |
| Financial investments at FVOCI   | 61,795             | 152,393            | 87,723             | 243,110            | 109,231          | 15,404                  | 669,656            |
| Financial investments at amortised cost                                | 21,782             | 39,197             | 249,195            | 1,027,815          | 562,411          | 29,289                  | 1,929,689          |
| Other assets   | 493                | –                  | –                  | –                  | –                | 286,001                 | 286,494            |
| <b>Total assets</b>  | <b>3,478,314</b>   | <b>788,852</b>     | <b>2,344,486</b>   | <b>1,558,923</b>   | <b>809,073</b>   | <b>925,952</b>          | <b>9,905,600</b>   |
| <b>Liabilities</b>   |                    |                    |                    |                    |                  |                         |                    |
| Due to and placements from banks<br>and other financial institutions   | (720,024)          | (273,836)          | (837,746)          | (39,236)           | (19,803)         | (13,437)                | (1,904,082)        |
| Financial liabilities at FVPL  | (4,103)            | (6,006)            | (6,779)            | (8,190)            | –                | (1,902)                 | (26,980)           |
| Derivative financial liabilities                                       | –                  | –                  | –                  | –                  | –                | (26,424)                | (26,424)           |
| Due to customers   | (3,188,008)        | (668,974)          | (998,242)          | (1,102,269)        | (26,026)         | (89,389)                | (6,072,908)        |
| Other liabilities  | (47,541)           | (123,654)          | (391,494)          | (241,821)          | (136,354)        | (133,430)               | (1,074,294)        |
| <b>Total liabilities</b>   | <b>(3,959,676)</b> | <b>(1,072,470)</b> | <b>(2,234,261)</b> | <b>(1,391,516)</b> | <b>(182,183)</b> | <b>(264,582)</b>        | <b>(9,104,688)</b> |
| <b>Total interest sensitivity gap</b>                                  | <b>(481,362)</b>   | <b>(283,618)</b>   | <b>110,225</b>     | <b>167,407</b>     | <b>626,890</b>   | <b>661,370</b>          | <b>800,912</b>     |



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020  
(All amounts expressed in millions of RMB unless otherwise stated)

### 3 FINANCIAL RISK MANAGEMENT (Continued)

#### 3.2 Market risk (Continued)

##### 3.2.5 Foreign exchange risk

The Group conducts the majority of its businesses in RMB, and the recording currency is RMB. Certain foreign transactions are conducted in USD, HKD and other currencies. The exchange rate of RMB to USD, HKD or other currencies is subject to the trading rules of China Foreign Exchange Trade System. Exchange rate risk mainly results from currency mismatch between foreign currency assets and liabilities and between off balance sheet currency exposure. The Group has formulated management measures for exchange rate risks, defining the functional division and scope of work of the exchange rate risk management department, risk identification, measurement, monitoring and control methods, and specific measures. Moreover, the Group controls exchange rate risk by setting relevant limits, taking the initiative to adjust the structure of foreign currency assets for a proper matching of currency structure of assets and liabilities, and applying appropriate exchange rate financial derivatives for transfers and hedging based on its own risk tolerance and operating level.

As at 31 December 2020, the exchange rates for US dollar and HK dollar are 1 US dollar to RMB6.5249 (31 December 2019: RMB6.9762) and 1 HK dollar to RMB0.8416 (31 December 2019: RMB0.8958), respectively.

Carrying amounts of the Group's total assets and liabilities categorised by the original currency as at the date of statement of financial position are as follows:

|  | RMB                | USD (RMB<br>Equivalent) | HKD (RMB<br>Equivalent) | Others (RMB<br>Equivalent) | Total              |
|--|--------------------|-------------------------|-------------------------|----------------------------|--------------------|
| <b>As at 31 December 2020</b>  |                    |                         |                         |                            |                    |
| <b>Assets</b>  |                    |                         |                         |                            |                    |
| Cash and balances with central banks                                   | 729,631            | 31,298                  | 35,151                  | 21,481                     | 817,561            |
| Due from and placements with banks<br>and other financial institutions | 218,074            | 319,227                 | 16,750                  | 17,079                     | 571,130            |
| Derivative financial assets  | 46,761             | 4,082                   | 2,669                   | 700                        | 54,212             |
| Financial investments at FVPL  | 407,126            | 41,616                  | 2,484                   | 31,362                     | 482,588            |
| Loans and advances to customers  | 5,248,201          | 240,514                 | 149,366                 | 82,487                     | 5,720,568          |
| Financial investments at FVOCI   | 329,481            | 305,772                 | 49,133                  | 50,834                     | 735,220            |
| Financial investments at amortised cost                                | 2,000,225          | 15,357                  | 50                      | 3,897                      | 2,019,529          |
| Other assets   | 153,647            | 130,805                 | 8,453                   | 3,903                      | 296,808            |
| <b>Total assets</b>  | <b>9,133,146</b>   | <b>1,088,671</b>        | <b>264,056</b>          | <b>211,743</b>             | <b>10,697,616</b>  |
| <b>Liabilities</b>   |                    |                         |                         |                            |                    |
| Due to and placements from banks<br>and other financial institutions   | (1,421,873)        | (299,201)               | (7,899)                 | (58,518)                   | (1,787,491)        |
| Financial liabilities at FVPL  | (7,703)            | (1,251)                 | (6,419)                 | (13,906)                   | (29,279)           |
| Derivative financial liabilities                                       | (41,556)           | (10,217)                | (2,360)                 | (1,809)                    | (55,942)           |
| Due to customers   | (5,894,179)        | (378,083)               | (301,781)               | (33,287)                   | (6,607,330)        |
| Other liabilities  | (1,101,641)        | (188,070)               | (23,211)                | (26,024)                   | (1,338,946)        |
| <b>Total liabilities</b>   | <b>(8,466,952)</b> | <b>(876,822)</b>        | <b>(341,670)</b>        | <b>(133,544)</b>           | <b>(9,818,988)</b> |
| <b>Net position</b>  | <b>666,194</b>     | <b>211,849</b>          | <b>(77,614)</b>         | <b>78,199</b>              | <b>878,628</b>     |
| <b>Credit related commitments and<br/>financial guarantees</b>         | <b>1,534,447</b>   | <b>106,293</b>          | <b>20,787</b>           | <b>15,185</b>              | <b>1,676,712</b>   |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

## 3.2 Market risk (Continued)

## 3.2.5 Foreign exchange risk (Continued)

|  | RMB                | USD (RMB<br>Equivalent) | HKD (RMB<br>Equivalent) | Others (RMB<br>Equivalent) | Total              |
|--|--------------------|-------------------------|-------------------------|----------------------------|--------------------|
| <b>As at 31 December 2019</b>  |                    |                         |                         |                            |                    |
| <b>Assets</b>  |                    |                         |                         |                            |                    |
| Cash and balances with central banks                                   | 730,031            | 17,082                  | 1,874                   | 11,198                     | 760,185            |
| Due from and placements with banks<br>and other financial institutions | 296,047            | 308,665                 | 22,958                  | 20,818                     | 648,488            |
| Derivative financial assets  | 17,991             | 1,503                   | 1,206                   | 237                        | 20,937             |
| Financial investments at FVPL  | 336,039            | 43,167                  | 2,947                   | 24,345                     | 406,498            |
| Loans and advances to customers  | 4,664,589          | 282,461                 | 162,892                 | 73,711                     | 5,183,653          |
| Financial investments at FVOCI   | 277,710            | 282,552                 | 55,646                  | 53,748                     | 669,656            |
| Financial investments at amortised cost                                | 1,910,731          | 16,213                  | –                       | 2,745                      | 1,929,689          |
| Other assets   | 142,776            | 132,093                 | 10,646                  | 979                        | 286,494            |
| <b>Total assets</b>  | <b>8,375,914</b>   | <b>1,083,736</b>        | <b>258,169</b>          | <b>187,781</b>             | <b>9,905,600</b>   |
| <b>Liabilities</b>   |                    |                         |                         |                            |                    |
| Due to and placements from banks<br>and other financial institutions   | (1,489,552)        | (354,673)               | (7,031)                 | (52,826)                   | (1,904,082)        |
| Financial liabilities at FVPL  | (2,273)            | (1,882)                 | (10,963)                | (11,862)                   | (26,980)           |
| Derivative financial liabilities                                       | (21,149)           | (3,058)                 | (1,815)                 | (402)                      | (26,424)           |
| Due to customers   | (5,403,579)        | (391,803)               | (241,714)               | (35,812)                   | (6,072,908)        |
| Other liabilities  | (844,270)          | (187,717)               | (22,048)                | (20,259)                   | (1,074,294)        |
| <b>Total liabilities</b>   | <b>(7,760,823)</b> | <b>(939,133)</b>        | <b>(283,571)</b>        | <b>(121,161)</b>           | <b>(9,104,688)</b> |
| <b>Net position</b>  | <b>615,091</b>     | <b>144,603</b>          | <b>(25,402)</b>         | <b>66,620</b>              | <b>800,912</b>     |
| <b>Credit related commitments and<br/>financial guarantees</b>         |                    |                         |                         |                            |                    |
|  | 1,327,987          | 110,286                 | 18,482                  | 15,415                     | 1,472,170          |

## 3.2.6 Other price risk

The Group is exposed to other price risk arising from financial assets such as equity investments and derivatives linked to commodity price. The equity investments arise from the proprietary trading of the Group's subsidiaries which hold the qualification of securities dealing and brokerage as well. As for the proprietary trading exposure, the Group enforces strict management of the risk exposure limit and the balance is insignificant to the Group's financial assets. The Group considers the exposure to the other price risk to be insignificant.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020  
(All amounts expressed in millions of RMB unless otherwise stated)

### 3 FINANCIAL RISK MANAGEMENT *(Continued)*

#### 3.3 Liquidity risk

##### **3.3.1 Overview**

Liquidity risk is the risk that occurs when the Group cannot obtain sufficient funds in time and at a reasonable cost to repay debts when they are due, fulfill other payment obligations, or meet other funding needs in the normal course of business. The Group's liquidity risk mainly comes from depositors' early or centralised withdrawals, borrowers' deferred repayment of loans, the amount of assets and liabilities and maturity mismatches.

##### **3.3.2 Liquidity risk management process**

The Group implements centralised management of liquidity risk and, on the basis of forecasting liquidity requirements, formulates corresponding liquidity management plans and actively manages the liquidity of the Bank. The specific measures mainly include:

- Pay close attention to changes in the macroeconomic situation, central bank monetary policy, capital market dynamics, etc.
- Enhance weighting of core deposits as a percentage of liabilities, so as to improve the stability of liabilities;
- Monitor and manage liquidity position bank-wide by implementing a series of indicators and restrictions;
- Liquidity position management and cash utilisation functions are centralised by the Head offices;
- Maintain an appropriate level of central bank reserves, overnight inter-bank transactions, highly liquid debt investment, actively involve in capital management through open market, monetary market and bond market in order to ensure optimal financing capability at market places;
- Minimise liquidity risk by proper management of asset maturity structures and multi-level liquidity portfolios.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

## 3.3 Liquidity risk (Continued)

## 3.3.3 Non-derivative financial instruments cash flows

The table below presents the structural analysis by contracted maturities on non-derivative financial assets and liabilities of the Group at the balance sheet date. The amount of financial assets and liabilities for each period is the amount of undiscounted cash flows. The Group's expected cash flows on these financial instruments may vary significantly from the following analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance although they have been classified as repayable on demand in the following tables.

|   | Overdue | Undated | On Demand   | Up to<br>1 month | 1 – 3<br>months | 3 – 12<br>months | 1 – 5<br>years | Over<br>5 years | Total       |
|---|---------|---------|-------------|------------------|-----------------|------------------|----------------|-----------------|-------------|
| <b>As at 31 December 2020</b>   |         |         |             |                  |                 |                  |                |                 |             |
| <b>Liabilities</b>  |         |         |             |                  |                 |                  |                |                 |             |
| Due to and placements from banks and other financial institutions           | -       | -       | (664,483)   | (249,435)        | (272,305)       | (555,383)        | (51,554)       | (13,537)        | (1,806,697) |
| Financial liabilities at FVPL   | -       | -       | (2,199)     | (6,323)          | (5,778)         | (15,352)         | (137)          | -               | (29,789)    |
| Due to customers  | -       | -       | (2,826,645) | (720,090)        | (564,855)       | (961,376)        | (1,633,891)    | (2)             | (6,706,859) |
| Certificates of deposit issued  | -       | -       | -           | (88,752)         | (209,113)       | (315,930)        | (27,036)       | (42)            | (640,873)   |
| Debt securities issued  | -       | -       | -           | (2,459)          | (7,700)         | (65,629)         | (327,846)      | (165,290)       | (568,924)   |
| Other financial liabilities   | -       | -       | (50,017)    | (173)            | (783)           | (1,675)          | (20,363)       | (55,710)        | (128,721)   |
| <b>Total liabilities (contractual maturity dates)</b>                       | -       | -       | (3,543,344) | (1,067,232)      | (1,060,534)     | (1,915,345)      | (2,060,827)    | (234,581)       | (9,881,863) |
| <b>Assets</b>   |         |         |             |                  |                 |                  |                |                 |             |
| Cash and balances with central banks  | -       | 641,025 | 176,216     | -                | 320             | -                | -              | -               | 817,561     |
| Due from and placements with banks and other financial institutions         | -       | -       | 111,953     | 175,013          | 92,064          | 158,106          | 39,227         | 7,165           | 583,528     |
| Financial investments at FVPL   | 314     | 316,982 | 2,100       | 9,963            | 13,373          | 39,918           | 49,113         | 65,737          | 497,500     |
| Loans and advances to customers   | 44,408  | -       | -           | 503,713          | 357,214         | 1,451,002        | 1,677,966      | 4,134,699       | 8,169,002   |
| Financial investments at FVOCI  | 72      | 11,347  | -           | 29,004           | 47,520          | 136,836          | 368,919        | 204,359         | 798,057     |
| Financial investments at amortised cost                                     | 270     | -       | -           | 41,759           | 52,029          | 315,772          | 1,148,818      | 799,669         | 2,358,317   |
| Other financial assets  | 4,432   | -       | 42,005      | -                | -               | -                | -              | -               | 46,437      |
| <b>Assets held for managing liquidity risk (contractual maturity dates)</b> | 49,496  | 969,354 | 332,274     | 759,452          | 562,520         | 2,101,634        | 3,284,043      | 5,211,629       | 13,270,402  |
| <b>Net position</b>   | 49,496  | 969,354 | (3,211,070) | (307,780)        | (498,014)       | 186,289          | 1,223,216      | 4,977,048       | 3,388,539   |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020  
(All amounts expressed in millions of RMB unless otherwise stated)

### 3 FINANCIAL RISK MANAGEMENT (Continued)

#### 3.3 Liquidity risk (Continued)

##### 3.3.3 Non-derivative financial instruments cash flows (Continued)

|   | Overdue       | Undated        | On Demand          | Up to<br>1 month | 1 – 3<br>months    | 3 – 12<br>months   | 1 – 5 years        | Over<br>5 years  | Total              |
|---|---------------|----------------|--------------------|------------------|--------------------|--------------------|--------------------|------------------|--------------------|
| <b>As at 31 December 2019</b>   |               |                |                    |                  |                    |                    |                    |                  |                    |
| <b>Liabilities</b>  |               |                |                    |                  |                    |                    |                    |                  |                    |
| Due to and placements from banks and<br>other financial institutions            | –             | –              | (409,571)          | (312,459)        | (279,062)          | (861,415)          | (41,653)           | (24,479)         | (1,928,639)        |
| Financial liabilities at FVPL   | –             | –              | (1,087)            | (4,129)          | (6,110)            | (7,644)            | (8,370)            | –                | (27,340)           |
| Due to customers  | –             | –              | (2,608,940)        | (620,749)        | (687,767)          | (1,032,419)        | (1,184,740)        | (26,470)         | (6,161,085)        |
| Certificates of deposit issued  | –             | –              | –                  | (47,583)         | (112,660)          | (326,884)          | (19,723)           | (104)            | (506,954)          |
| Debt securities issued  | –             | –              | –                  | (356)            | (11,595)           | (83,202)           | (246,898)          | (124,044)        | (466,095)          |
| Other financial liabilities   | –             | –              | (62,915)           | (157)            | (980)              | (2,364)            | (13,368)           | (45,291)         | (125,075)          |
| <b>Total liabilities (contractual maturity dates)</b>                           | <b>–</b>      | <b>–</b>       | <b>(3,082,513)</b> | <b>(985,433)</b> | <b>(1,098,174)</b> | <b>(2,313,928)</b> | <b>(1,514,752)</b> | <b>(220,388)</b> | <b>(9,215,188)</b> |
| <b>Assets</b>   |               |                |                    |                  |                    |                    |                    |                  |                    |
| Cash and balances with central banks  | –             | 669,268        | 90,626             | –                | 291                | –                  | –                  | –                | 760,185            |
| Due from and placements with banks and<br>other financial institutions          | –             | –              | 68,990             | 150,526          | 96,100             | 271,267            | 60,169             | 13,316           | 660,368            |
| Financial investments at FVPL   | –             | 221,829        | 7,455              | 5,633            | 17,275             | 53,313             | 68,842             | 53,129           | 427,476            |
| Loans and advances to customers   | 41,983        | –              | –                  | 662,690          | 350,205            | 1,349,166          | 1,675,654          | 3,135,246        | 7,214,944          |
| Financial investments at FVOCI  | –             | 8,945          | –                  | 11,356           | 37,795             | 124,191            | 422,104            | 127,664          | 732,055            |
| Financial investments at amortised cost   | 740           | –              | –                  | 22,301           | 39,748             | 303,842            | 1,206,797          | 628,632          | 2,202,060          |
| Other financial assets  | 4,524         | –              | 45,990             | –                | –                  | –                  | –                  | –                | 50,514             |
| <b>Assets held for managing liquidity risk<br/>(contractual maturity dates)</b> | <b>47,247</b> | <b>900,042</b> | <b>213,061</b>     | <b>852,506</b>   | <b>541,414</b>     | <b>2,101,779</b>   | <b>3,433,566</b>   | <b>3,957,987</b> | <b>12,047,602</b>  |
| <b>Net position</b>   | <b>47,247</b> | <b>900,042</b> | <b>(2,869,452)</b> | <b>(132,927)</b> | <b>(556,760)</b>   | <b>(212,149)</b>   | <b>1,918,814</b>   | <b>3,737,599</b> | <b>2,832,414</b>   |

Assets available to repay all of the liabilities and fulfill loan commitments include cash, balances with central banks, due from and placements with banks and other financial institutions, financial investment at fair value through profit or loss, etc. In the normal course of business, a majority of matured deposits will not be withdrew immediately on the maturity date but will continue to be kept by the Group. In addition, financial investments at fair value through other comprehensive income can also be disposed of when necessary to obtain funds for repayment of matured debts.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

## 3.3 Liquidity risk (Continued)

## 3.3.4 Derivative financial instruments cash flows

The Group's derivative financial instruments are either settled on a net basis or a gross basis.

## (a) Derivative settled on a net basis

The Group's derivative financial instruments that will be settled on a net basis include foreign exchange contracts, commodity contracts, interest rate contracts and others.

The table below analyses the undiscounted cash flows of the Group's derivative financial instruments which will be settled on a net basis and are classified based on the remaining contractual period from the balance sheet date to maturity date.

|  | Up to<br>1 month | 1 – 3<br>months | 3 – 12<br>months | 1 – 5 years     | Over<br>5 years | Total           |
|--|------------------|-----------------|------------------|-----------------|-----------------|-----------------|
| <b>As at 31 December 2020</b>              |                  |                 |                  |                 |                 |                 |
| <b>Assets</b>                              |                  |                 |                  |                 |                 |                 |
| Derivative financial instruments           |                  |                 |                  |                 |                 |                 |
| – Foreign exchange and commodity contracts | 3                | 2               | 54               | –               | –               | 59              |
| – Interest rate contracts and others       | 215              | 590             | 2,730            | 5,990           | 247             | 9,772           |
| <b>Total</b>                               | <b>218</b>       | <b>592</b>      | <b>2,784</b>     | <b>5,990</b>    | <b>247</b>      | <b>9,831</b>    |
| <b>Liabilities</b>                         |                  |                 |                  |                 |                 |                 |
| Derivative financial instruments           |                  |                 |                  |                 |                 |                 |
| – Foreign exchange and commodity contracts | (44)             | (51)            | (29)             | –               | –               | (124)           |
| – Interest rate contracts and others       | (291)            | (751)           | (3,825)          | (10,349)        | (1,173)         | (16,389)        |
| <b>Total</b>                               | <b>(335)</b>     | <b>(802)</b>    | <b>(3,854)</b>   | <b>(10,349)</b> | <b>(1,173)</b>  | <b>(16,513)</b> |
|  | Up to<br>1 month | 1 – 3<br>months | 3 – 12<br>months | 1 – 5 years     | Over<br>5 years | Total           |
| <b>As at 31 December 2019</b>              |                  |                 |                  |                 |                 |                 |
| <b>Assets</b>                              |                  |                 |                  |                 |                 |                 |
| Derivative financial instruments           |                  |                 |                  |                 |                 |                 |
| – Foreign exchange and commodity contracts | –                | –               | –                | –               | –               | –               |
| – Interest rate contracts and others       | 163              | 315             | 1,148            | 2,547           | 208             | 4,381           |
| <b>Total</b>                               | <b>163</b>       | <b>315</b>      | <b>1,148</b>     | <b>2,547</b>    | <b>208</b>      | <b>4,381</b>    |
| <b>Liabilities</b>                         |                  |                 |                  |                 |                 |                 |
| Derivative financial instruments           |                  |                 |                  |                 |                 |                 |
| – Foreign exchange and commodity contracts | (203)            | (728)           | (1,545)          | –               | –               | (2,476)         |
| – Interest rate contracts and others       | (178)            | (396)           | (1,387)          | (3,720)         | (526)           | (6,207)         |
| <b>Total</b>                               | <b>(381)</b>     | <b>(1,124)</b>  | <b>(2,932)</b>   | <b>(3,720)</b>  | <b>(526)</b>    | <b>(8,683)</b>  |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020  
(All amounts expressed in millions of RMB unless otherwise stated)

### 3 FINANCIAL RISK MANAGEMENT (Continued)

#### 3.3 Liquidity risk (Continued)

##### 3.3.4 Derivative financial instruments cash flows (Continued)

(b) Derivative settled on a gross basis

The Group's derivative financial instruments that will be settled on a gross basis mainly include foreign exchange and commodity derivatives. The table below analyses the undiscounted cash flows of the Group's derivative financial instruments which will be settled on a gross basis and are classified based on the remaining contractual period from the balance sheet date to maturity date.

|  | Up to<br>1 month | 1 – 3<br>months | 3 – 12<br>months | 1 – 5 years  | Over<br>5 years | Total          |
|--|------------------|-----------------|------------------|--------------|-----------------|----------------|
| <b>As at 31 December 2020</b>  |                  |                 |                  |              |                 |                |
| <b>Derivative financial instruments<br/>settled on a gross basis</b> |                  |                 |                  |              |                 |                |
| – Outflow  | (775,033)        | (567,895)       | (979,175)        | (86,979)     | (5,464)         | (2,414,546)    |
| – Inflow   | 776,108          | 567,520         | 981,843          | 88,209       | 7,732           | 2,421,412      |
| <b>Total</b>   | <b>1,075</b>     | <b>(375)</b>    | <b>2,668</b>     | <b>1,230</b> | <b>2,268</b>    | <b>6,866</b>   |
|  | Up to<br>1 month | 1 – 3<br>months | 3 – 12<br>months | 1 – 5 years  | Over<br>5 years | Total          |
| <b>As at 31 December 2019</b>  |                  |                 |                  |              |                 |                |
| <b>Derivative financial instruments<br/>settled on a gross basis</b> |                  |                 |                  |              |                 |                |
| – Outflow  | (652,146)        | (611,954)       | (1,031,667)      | (96,867)     | (1,451)         | (2,394,085)    |
| – Inflow   | 652,036          | 610,048         | 1,028,315        | 96,800       | 3,443           | 2,390,642      |
| <b>Total</b>   | <b>(110)</b>     | <b>(1,906)</b>  | <b>(3,352)</b>   | <b>(67)</b>  | <b>1,992</b>    | <b>(3,443)</b> |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

## 3.3 Liquidity risk (Continued)

## 3.3.5 Maturity analysis

The table below analyses the Group's assets and liabilities into relevant maturity groupings based on the remaining period at the end of reporting date to the contractual maturity date..

|  | On demand          | Up to<br>1 month   | 1 – 3<br>months    | 3 – 12<br>months   | 1 – 5 years        | Over<br>5 years  | Overdue       | Undated          | Total              |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|------------------|---------------|------------------|--------------------|
| <b>As at 31 December 2020</b>  |                    |                    |                    |                    |                    |                  |               |                  |                    |
| <b>Assets</b>  |                    |                    |                    |                    |                    |                  |               |                  |                    |
| Cash and balances with central banks                                   | 176,216            | -                  | 320                | -                  | -                  | -                | -             | 641,025          | 817,561            |
| Due from and placements with banks and<br>other financial institutions | 111,953            | 174,623            | 91,078             | 153,121            | 33,242             | 7,113            | -             | -                | 571,130            |
| Derivative financial assets  | -                  | 9,718              | 11,570             | 22,283             | 9,068              | 1,573            | -             | -                | 54,212             |
| Financial investments at FVPL  | 2,100              | 9,722              | 12,857             | 37,651             | 44,167             | 58,795           | 314           | 316,982          | 482,588            |
| Loans and advances to customers  | -                  | 484,371            | 319,698            | 1,305,770          | 1,103,053          | 2,476,035        | 31,641        | -                | 5,720,568          |
| Financial investments at FVOCI   | -                  | 28,930             | 46,507             | 126,501            | 339,517            | 182,346          | 72            | 11,347           | 735,220            |
| Financial investments at amortised cost                                | -                  | 41,210             | 49,086             | 278,043            | 972,565            | 678,355          | 270           | -                | 2,019,529          |
| Other assets   | 61,973             | 286                | 19                 | 15,410             | 16,448             | 4,047            | 4,432         | 194,193          | 296,808            |
| <b>Total assets</b>  | <b>352,242</b>     | <b>748,860</b>     | <b>531,135</b>     | <b>1,938,779</b>   | <b>2,518,060</b>   | <b>3,408,264</b> | <b>36,729</b> | <b>1,163,547</b> | <b>10,697,616</b>  |
| <b>Liabilities</b>   |                    |                    |                    |                    |                    |                  |               |                  |                    |
| Due to and placements from banks and<br>other financial institutions   | (664,483)          | (247,467)          | (268,704)          | (544,824)          | (48,745)           | (13,268)         | -             | -                | (1,787,491)        |
| Financial liabilities at FVPL  | (2,199)            | (6,291)            | (5,722)            | (14,933)           | (134)              | -                | -             | -                | (29,279)           |
| Derivative financial liabilities                                       | -                  | (8,357)            | (10,798)           | (20,858)           | (12,210)           | (3,719)          | -             | -                | (55,942)           |
| Due to customers   | (2,826,643)        | (716,981)          | (560,281)          | (942,581)          | (1,560,842)        | (2)              | -             | -                | (6,607,330)        |
| Other liabilities  | (68,467)           | (94,306)           | (235,723)          | (374,652)          | (367,189)          | (198,609)        | -             | -                | (1,338,946)        |
| <b>Total liabilities</b>   | <b>(3,561,792)</b> | <b>(1,073,402)</b> | <b>(1,081,228)</b> | <b>(1,897,848)</b> | <b>(1,989,120)</b> | <b>(215,598)</b> | <b>-</b>      | <b>-</b>         | <b>(9,818,988)</b> |
| <b>Net amount on liquidity gap</b>                                     | <b>(3,209,550)</b> | <b>(324,542)</b>   | <b>(550,093)</b>   | <b>40,931</b>      | <b>528,940</b>     | <b>3,192,666</b> | <b>36,729</b> | <b>1,163,547</b> | <b>878,628</b>     |



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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### 3 FINANCIAL RISK MANAGEMENT (Continued)

#### 3.3 Liquidity risk (Continued)

##### 3.3.5 Maturity analysis (Continued)

|  | On demand          | Up to<br>1 month | 1 – 3<br>months    | 3 – 12<br>months   | 1 – 5 years        | Over<br>5 years  | Overdue       | Undated          | Total              |
|--|--------------------|------------------|--------------------|--------------------|--------------------|------------------|---------------|------------------|--------------------|
| <b>As at 31 December 2019</b>  |                    |                  |                    |                    |                    |                  |               |                  |                    |
| <b>Assets</b>  |                    |                  |                    |                    |                    |                  |               |                  |                    |
| Cash and balances with central banks                                   | 90,626             | –                | 291                | –                  | –                  | –                | –             | 669,268          | 760,185            |
| Due from and placements with banks and<br>other financial institutions | 68,990             | 149,937          | 95,479             | 265,628            | 57,812             | 10,642           | –             | –                | 648,488            |
| Derivative financial assets  | –                  | 3,350            | 4,941              | 7,339              | 3,971              | 1,336            | –             | –                | 20,937             |
| Financial investments at FVPL  | 7,455              | 5,468            | 16,748             | 50,326             | 58,460             | 47,292           | –             | 220,749          | 406,498            |
| Loans and advances to customers  | –                  | 645,176          | 316,350            | 1,217,899          | 1,168,046          | 1,802,390        | 33,792        | –                | 5,183,653          |
| Financial investments at FVOCI   | –                  | 11,231           | 36,586             | 112,932            | 386,254            | 113,708          | –             | 8,945            | 669,656            |
| Financial investments at amortised cost                                | –                  | 21,690           | 36,753             | 267,765            | 1,040,314          | 562,427          | 740           | –                | 1,929,689          |
| Other assets   | 61,712             | 5                | 15                 | 7,807              | 20,326             | 3,802            | 4,524         | 188,303          | 286,494            |
| <b>Total assets</b>  | <b>228,783</b>     | <b>836,857</b>   | <b>507,163</b>     | <b>1,929,696</b>   | <b>2,735,183</b>   | <b>2,541,597</b> | <b>39,056</b> | <b>1,087,265</b> | <b>9,905,600</b>   |
| <b>Liabilities</b>   |                    |                  |                    |                    |                    |                  |               |                  |                    |
| Due to and placements from banks and<br>other financial institutions   | (409,571)          | (312,213)        | (276,142)          | (846,554)          | (39,762)           | (19,840)         | –             | –                | (1,904,082)        |
| Financial liabilities at FVPL  | (1,087)            | (4,103)          | (6,026)            | (7,453)            | (8,311)            | –                | –             | –                | (26,980)           |
| Derivative financial liabilities                                       | –                  | (3,494)          | (5,876)            | (10,477)           | (5,121)            | (1,456)          | –             | –                | (26,424)           |
| Due to customers   | (2,608,492)        | (616,996)        | (680,301)          | (1,018,114)        | (1,122,574)        | (26,431)         | –             | –                | (6,072,908)        |
| Other liabilities  | (60,594)           | (50,219)         | (145,757)          | (398,664)          | (277,546)          | (141,514)        | –             | –                | (1,074,294)        |
| <b>Total liabilities</b>   | <b>(3,079,744)</b> | <b>(987,025)</b> | <b>(1,114,102)</b> | <b>(2,281,262)</b> | <b>(1,453,314)</b> | <b>(189,241)</b> | <b>–</b>      | <b>–</b>         | <b>(9,104,688)</b> |
| <b>Net amount on liquidity gap</b>                                     | <b>(2,850,961)</b> | <b>(150,168)</b> | <b>(606,939)</b>   | <b>(351,566)</b>   | <b>1,281,869</b>   | <b>2,352,356</b> | <b>39,056</b> | <b>1,087,265</b> | <b>800,912</b>     |

##### 3.3.6 Off-balance sheet items

The off-balance sheet items of the Group primarily comprise loan commitments, credit card commitments, letter of credit commitments, guarantee and letters of guarantee issued, acceptance notes, etc. The table below lists the liquidity analysis of the off-balance sheet items of the Group, and financial guarantees are included at notional amounts and based on the earliest contractual maturity date.

|  | Up to 1 year     | 1 – 5 years    | Over 5 years  | Total            |
|--|------------------|----------------|---------------|------------------|
| <b>As at 31 December 2020</b>                            |                  |                |               |                  |
| Loan commitments and other credit related<br>commitments | <b>813,687</b>   | <b>26,668</b>  | <b>20,520</b> | <b>860,875</b>   |
| Guarantees, acceptances and letters of credit            | <b>682,540</b>   | <b>126,206</b> | <b>7,091</b>  | <b>815,837</b>   |
| <b>Total</b>   | <b>1,496,227</b> | <b>152,874</b> | <b>27,611</b> | <b>1,676,712</b> |
| <b>As at 31 December 2019</b>                            |                  |                |               |                  |
| Loan commitments and other credit related<br>commitments | 761,484          | 22,389         | 8,030         | 791,903          |
| Guarantees, acceptances and letters of credit            | 570,426          | 104,593        | 5,248         | 680,267          |
| <b>Total</b>   | <b>1,331,910</b> | <b>126,982</b> | <b>13,278</b> | <b>1,472,170</b> |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

### 3 FINANCIAL RISK MANAGEMENT *(Continued)*

#### 3.4 Fair value of financial assets and liabilities

##### **(a) Determination of fair value and valuation techniques**

Certain financial assets and liabilities of the Group are measured at fair value or with fair value disclosed for financial reporting purposes. The fair value has been determined using appropriate valuation techniques and inputs for fair value measurements. The appropriateness of the valuation techniques and the inputs to the fair value measurements are reviewed by the Board of Directors periodically.

Fair value measurements are categorised into level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- (1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- (2) Level 2 inputs are inputs, other than quoted prices included within level 1, that are observable for the asset or liability, either directly or indirectly; and
- (3) Level 3 inputs are unobservable inputs for the asset or liability.

The fair value of financial instruments with unadjusted quoted prices for identical instruments in active markets is determined by the open market quotations. These instruments are classified as level 1.

The Group uses valuation techniques to determine the fair value of financial instruments when an open market quotation in active markets is not obtainable.

If the key parameters used in valuation techniques for financial instruments are substantially observable and obtainable from active open market, the instruments are classified as level 2. The second hierarchy of financial instruments held by the Group mainly includes derivatives, debt securities, certificates of deposit without quotations from active market, loans and advances to customers carried at FVOCI, precious metals, debt securities issued and restricted shares. The fair value of RMB denominated bonds is mainly valued based on the yield curves of the bonds from China Central Depository & Clearing Co., Ltd., while the fair value of the foreign currency denominated bonds is determined based on the valuation results published by Bloomberg. The fair value of foreign currency forwards, swaps, interest rate swaps, foreign currency options is estimated by the discounted cash flow method and Black-Scholes model; the fair value of precious metal contract is mainly determined in accordance with the closing prices of the Shanghai Gold Exchange or the settlement prices of the Shanghai Futures Exchange. The main parameters used in discounted cash flow model include recent market prices, the relevant yield curve, exchange rates and counterparty's credit spread. Main parameters used in Black-Scholes model include the relevant yield curve, exchange rate, level of volatilities and counterparty's credit spread, etc. All parameters used in valuation techniques are substantially observable and obtainable from active open market.

For loans and advances to customers at fair value through other comprehensive income, trust and asset management plan at fair value through profit or loss, the fair value is determined based on discounted cash flow model using unobservable discount rates that reflect credit risk. These financial instruments are classified as level 3.

For convertible bonds, unlisted equities, unlisted funds and equity derivatives held by the Group, the fair value of these financial instruments are determined with reference to certain unobservable inputs, and therefore the instruments have been classified by the Group as level 3. The management determines the fair value of these financial instruments using a variety of techniques, including using valuation models that incorporate and take into account unobservable inputs such as Discount for Lack of Marketability (DLOM). The Group has established internal control procedures to monitor the Group's exposure to such financial instruments.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020  
(All amounts expressed in millions of RMB unless otherwise stated)

### 3 FINANCIAL RISK MANAGEMENT (Continued)

#### 3.4 Fair value of financial assets and liabilities (Continued)

##### (b) Financial instruments not measured at fair value

The table below summarises the carrying amount and fair value of those financial assets and liabilities that are not presented at fair value as at the date of statement of financial position. Financial assets and liabilities with carrying amount approximate to fair value, such as cash and balances with central banks, due from and placements with banks and other financial institutions, loans and advances to customers at amortised cost, due to and placements from banks and other financial institutions, and due to customers, are not included in the table below.

|   | As at 31 December 2020 |            | As at 31 December 2019 |            |
|---|------------------------|------------|------------------------|------------|
|   | Carrying amount        | Fair value | Carrying amount        | Fair value |
| <b>Financial assets</b>                 |                        |            |                        |            |
| Financial investments at amortised cost | 2,019,529              | 2,031,222  | 1,929,689              | 1,954,341  |
| <b>Financial liabilities</b>            |                        |            |                        |            |
| Debt securities issued                  | (484,382)              | (485,175)  | (383,481)              | (388,177)  |

##### Fair value hierarchy of financial instruments not measured at fair value

|   | Level 1 | Level 2   | Level 3 | Total     |
|---|---------|-----------|---------|-----------|
| <b>As at 31 December 2020</b>           |         |           |         |           |
| <b>Financial assets</b>                 |         |           |         |           |
| Financial investments at amortised cost | 2,530   | 1,920,866 | 107,826 | 2,031,222 |
| <b>Financial liabilities</b>            |         |           |         |           |
| Debt securities issued                  | –       | (485,175) | –       | (485,175) |
|   | Level 1 | Level 2   | Level 3 | Total     |
| <b>As at 31 December 2019</b>           |         |           |         |           |
| <b>Financial assets</b>                 |         |           |         |           |
| Financial investments at amortised cost | 7,655   | 1,806,199 | 140,487 | 1,954,341 |
| <b>Financial liabilities</b>            |         |           |         |           |
| Debt securities issued                  | –       | (388,177) | –       | (388,177) |

The carrying amounts and fair values of other financial assets and liabilities (including loans and advances to customers at amortised cost, due from and placements with banks and other financial institutions, due to and placements from banks and other financial institutions) are approximately the same, because the interest rates of most of these assets and liabilities are adjusted following the changes in interest rates determined by the PBOC, other regulatory bodies or market.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

## 3.4 Fair value of financial assets and liabilities (Continued)

## (c) Financial assets and financial liabilities measured at fair value on a recurring basis

The financial assets and liabilities measured at fair value on a recurring basis by the three levels are analysed below:

|   | Level 1 | Level 2   | Level 3 | Total     |
|---|---------|-----------|---------|-----------|
| <b>As at 31 December 2020</b>                               |         |           |         |           |
| <b>At fair value through profit or loss</b>                 |         |           |         |           |
| Debt securities   |         |           |         |           |
| – Governments and central banks                             | 3,191   | 3,343     | –       | 6,534     |
| – Public sector entities                                    | –       | 1,585     | –       | 1,585     |
| – Banks and other financial institutions                    | 7,673   | 91,904    | 94      | 99,671    |
| – Corporate entities  | 2,312   | 39,642    | 3,290   | 45,244    |
| Fund investments and other asset management products        | 370     | 238,963   | 12,765  | 252,098   |
| Equity securities and others                                | 6,270   | 3,233     | 47,978  | 57,481    |
| Precious metal contracts                                    | –       | 19,975    | –       | 19,975    |
| Derivative financial instruments                            |         |           |         |           |
| – Foreign exchange and commodity contracts                  | –       | 44,435    | –       | 44,435    |
| – Interest rate contracts and others                        | –       | 8,880     | 897     | 9,777     |
|   | 19,816  | 451,960   | 65,024  | 536,800   |
| <b>At fair value through other comprehensive income</b>     |         |           |         |           |
| Debt Investments at FVOCI                                   |         |           |         |           |
| – Governments and central banks                             | 72,209  | 268,514   | –       | 340,723   |
| – Public sector entities                                    | 1,273   | 2,103     | –       | 3,376     |
| – Banks and other financial institutions                    | 123,223 | 181,467   | –       | 304,690   |
| – Corporate entities  | 49,033  | 25,687    | 364     | 75,084    |
| Investments in equity instruments designated at FVOCI       | 1,798   | 1,842     | 7,707   | 11,347    |
| Loans and advances to customers at FVOCI                    | –       | 210,397   | 95      | 210,492   |
|   | 247,536 | 690,010   | 8,166   | 945,712   |
| <b>Total assets</b>   | 267,352 | 1,141,970 | 73,190  | 1,482,512 |
| Financial liabilities at FVPL                               |         |           |         |           |
| – Certificates of deposits issued                           | –       | (7,868)   | –       | (7,868)   |
| – Financial liabilities related to precious metal contracts | –       | (16,104)  | –       | (16,104)  |
| – Notes issued  | –       | (417)     | –       | (417)     |
| – Others  | –       | (4,890)   | –       | (4,890)   |
| Derivative financial instruments                            |         |           |         |           |
| – Foreign exchange and commodity contracts                  | –       | (40,914)  | –       | (40,914)  |
| – Interest rate contracts and others                        | –       | (15,028)  | –       | (15,028)  |
| Debt securities issued                                      | –       | (13,373)  | –       | (13,373)  |
| <b>Total liabilities</b>                                    | –       | (98,594)  | –       | (98,594)  |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020  
(All amounts expressed in millions of RMB unless otherwise stated)

### 3 FINANCIAL RISK MANAGEMENT (Continued)

#### 3.4 Fair value of financial assets and liabilities (Continued)

##### (c) Financial assets and financial liabilities measured at fair value on a recurring basis (Continued)

|   | Level 1        | Level 2          | Level 3       | Total            |
|---|----------------|------------------|---------------|------------------|
| <b>As at 31 December 2019</b>                               |                |                  |               |                  |
| <b>At fair value through profit or loss</b>                 |                |                  |               |                  |
| Debt securities   |                |                  |               |                  |
| – Governments and central banks                             | 4,220          | 3,382            | –             | 7,602            |
| – Public sector entities                                    | –              | 2,000            | –             | 2,000            |
| – Banks and other financial institutions                    | 8,757          | 79,922           | 104           | 88,783           |
| – Corporate entities  | 4,625          | 28,178           | 3,762         | 36,565           |
| Fund investments and other asset management products        | 56             | 158,698          | 11,681        | 170,435          |
| Equity securities and others                                | 2,576          | –                | 47,141        | 49,717           |
| Precious metal contracts                                    | –              | 39,532           | –             | 39,532           |
| Placements with banks and other financial institutions      | –              | 11,864           | –             | 11,864           |
| Derivative financial instruments                            |                |                  |               |                  |
| – Foreign exchange and commodity contracts                  | –              | 15,784           | –             | 15,784           |
| – Interest rate contracts and others                        | –              | 4,145            | 1,008         | 5,153            |
|   | 20,234         | 343,505          | 63,696        | 427,435          |
| <b>At fair value through other comprehensive income</b>     |                |                  |               |                  |
| Debt Investments at FVOCI                                   |                |                  |               |                  |
| – Governments and central banks                             | 57,694         | 201,265          | –             | 258,959          |
| – Public sector entities                                    | 136            | 1,972            | –             | 2,108            |
| – Banks and other financial institutions                    | 134,110        | 195,593          | –             | 329,703          |
| – Corporate entities  | 39,804         | 29,299           | 838           | 69,941           |
| Investments in equity instruments designated at FVOCI       | 1,895          | 421              | 6,629         | 8,945            |
| Loans and advances to customers at FVOCI                    | –              | 235,361          | 53            | 235,414          |
|   | 233,639        | 663,911          | 7,520         | 905,070          |
| <b>Total assets</b>   | <b>253,873</b> | <b>1,007,416</b> | <b>71,216</b> | <b>1,332,505</b> |
| Financial liabilities at FVPL                               |                |                  |               |                  |
| – Certificates of deposits issued                           | –              | (13,392)         | –             | (13,392)         |
| – Financial liabilities related to precious metal contracts | –              | (12,950)         | –             | (12,950)         |
| – Notes issued  | –              | (638)            | –             | (638)            |
| Derivative financial instruments                            |                |                  |               |                  |
| – Foreign exchange and commodity contracts                  | –              | (20,423)         | –             | (20,423)         |
| – Interest rate contracts and others                        | –              | (6,001)          | –             | (6,001)          |
| Debt securities issued                                      | –              | (20,437)         | –             | (20,437)         |
| <b>Total liabilities</b>                                    | <b>–</b>       | <b>(73,841)</b>  | <b>–</b>      | <b>(73,841)</b>  |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

## 3.4 Fair value of financial assets and liabilities (Continued)

## (c) Financial assets and financial liabilities measured at fair value on a recurring basis (Continued)

Reconciliation of Level 3 items

|   | Financial assets<br>at FVPL | Financial assets<br>at FVOCI |
|---|-----------------------------|------------------------------|
| Balance at 1 January 2020   | 63,696                      | 7,520                        |
| Total gains or losses   |                             |                              |
| – Net gains/(losses) arising from trading activities  | 1,291                       | (40)                         |
| – Other comprehensive income  | –                           | (1,696)                      |
| Additions   | 11,587                      | 2,932                        |
| Disposals and settlement  | (11,550)                    | (550)                        |
| Balance at 31 December 2020   | 65,024                      | 8,166                        |
| Total gains/(losses) generated by financial assets and liabilities held by the Group as at 31 December 2020 |                             |                              |
| – Realised gains  | 2,218                       | 2                            |
| – Unrealised losses   | (975)                       | (1,738)                      |

|  | Financial assets<br>at FVPL | Financial assets<br>at FVOCI |
|--|-----------------------------|------------------------------|
| Balance at 1 January 2019                                | 21,050                      | 5,698                        |
| Total gains or losses                                    |                             |                              |
| – Net gains arising from trading activities              | 1,120                       | 64                           |
| – Other comprehensive income                             | –                           | (429)                        |
| Additions  | 53,632                      | 3,235                        |
| Disposals and settlement                                 | (9,891)                     | (941)                        |
| Transfer to other levels                                 | (2,215)                     | (107)                        |
| Balance at 31 December 2019                              | 63,696                      | 7,520                        |
| Total gains/(losses) for the year ended 31 December 2019 |                             |                              |
| – Realised gains/(losses)                                | 974                         | 68                           |
| – Unrealised gains/(losses)                              | 104                         | (435)                        |

These financial instruments with fair values determined based on unobservable inputs are primarily convertible bonds, unlisted equities, unlisted funds, part of the trust and asset management plan, equity derivatives and part of loans and advances to customers. The fair value of these financial instruments is determined primarily using discounted cash flow method and market comparison method. These valuation methods involve inputs from various unobservable assumptions such as cash flow, risk-adjusted discount rate, price to book value ratio, price to earning ratio and liquidity discounts.

## 3.5 Offsetting financial assets and financial liabilities

Certain financial assets and financial liabilities of the Group are subject to enforceable master netting arrangements or similar agreements. The agreement between the Group and the counterparty generally allows for net settlement of the relevant financial assets and financial liabilities when both elect to settle on a net basis. In the absence of such a mutual consent, financial assets and financial liabilities will be settled on a gross basis. However, each party to the master netting arrangements or similar agreements will have the option to settle all such amounts on a net basis in the event of default of the other party. These financial assets and financial liabilities of the Group are not offset in accordance with IFRSs.

As at 31 December 2020, the amount of the financial assets and financial liabilities subject to enforceable master netting arrangements or similar agreements is not material to the Group.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020  
(All amounts expressed in millions of RMB unless otherwise stated)

### 3 FINANCIAL RISK MANAGEMENT *(Continued)*

#### 3.6 Capital management

The “capital” in capital management is a broader concept than “shareholders’ equity” on the statement of financial position. The Group’s objectives in capital management are:

- To comply with the capital requirements set by the regulators of the markets where the Group operates;
- To ensure the Group’s ability to maintain a stable operation so as to continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

The Group management adopts administrative measures issued by the CBIRC, which was developed based on guideline issued by the Basel Committee, in monitoring its capital adequacy ratio and the usage of regulatory capital on a quarterly basis. The quarterly monitored information is then submitted to CBIRC.

The Administrative Measures for the Capital of Commercial Banks (Provisional) specified the regulatory requirements for minimum capital, capital conservation buffer, additional capital surcharge for systemically important banks, countercyclical buffer and Pillar II capital as follows:

- Minimum regulatory requirements for core tier-1 capital adequacy ratio, tier-1 capital adequacy ratio and capital adequacy ratio are 5%, 6% and 8%, respectively;
- Capital conservation buffer requires additional 2.5% on core tier-1 capital adequacy ratio;
- Additional capital surcharge for systemically important banks requires additional 1% on core tier-1 capital adequacy ratio;
- Should the regulators require countercyclical buffer under particular circumstances or regulators impose additional Pillar II capital requirements for specific banks, these requirements shall be met within the specified time limits.

The Group’s capital as monitored by its Planning and Finance Department consists of the following:

- Core tier-1 capital, including ordinary shares, eligible portion of capital surplus, statutory reserve, statutory general reserve, retained earnings, eligible portion of non-controlling interests and translation reserve on foreign operations;
- Additional tier-1 capital, including Additional tier-1 capital instruments issued and related premium and eligible portion of non-controlling interests;
- Tier-2 capital, including tier-2 capital instruments issued and related premium, excess loan loss provisions and eligible portion of non-controlling interests.

The Group’s deductible items from core tier-1 capital include: Goodwill, other intangible assets (except land use rights), investments in core tier-1 capital of financial institutions with controlling interests but outside the scope of regulatory consolidation.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

## 3.6 Capital management (Continued)

In April 2014, the CBIRC officially approved the implementation of the advanced approach of capital management adopted by the Group. In this approach, the Group elected to use elementary internal rating based (“IRB”) approach for corporate risk exposure, IRB approach for retail risk exposure, internal models approach for market risk and standardised approach for operational risk exposure which is compliant with regulatory requirements. For risk exposures not covered by the advanced approaches, the corresponding portion shall be calculated by adopting non-advanced approaches. The capital ratios calculated based on Administrative Measures for the Capital of Commercial Banks (Provisional) are as follows:

| Item                                   | As at<br>31 December 2020 | As at<br>31 December 2019 |
|--|---------------------------|---------------------------|
| Core tier-1 capital adequacy ratio (%) | 10.87                     | 11.22                     |
| Tier-1 capital adequacy ratio (%)      | 12.88                     | 12.85                     |
| Capital adequacy ratio (%)             | 15.25                     | 14.83                     |
| Core tier-1 capital                    | 732,863                   | 695,084                   |
| Core tier-1 capital deductions         | (5,252)                   | (5,595)                   |
| Net core tier-1 capital                | 727,611                   | 689,489                   |
| Additional tier-1 capital              | 134,610                   | 100,057                   |
| Net tier-1 capital                     | 862,221                   | 789,546                   |
| Tier-2 capital                         | 159,025                   | 121,710                   |
| Net Capital                            | 1,021,246                 | 911,256                   |
| Risk-weighted asset                    | 6,695,462                 | 6,144,459                 |

## 4 NET INTEREST INCOME

|   | Year ended 31 December |           |
|---|------------------------|-----------|
|   | 2020                   | 2019      |
| <b>Interest income</b>  |                        |           |
| Loans and advances to customers                                     | 251,468                | 242,948   |
| Financial investments   | 90,683                 | 88,647    |
| Due from and placements with banks and other financial institutions | 16,180                 | 24,167    |
| Balances with central banks   | 10,770                 | 11,691    |
|   | 369,101                | 367,453   |
| <b>Interest expense</b>   |                        |           |
| Due to customers  | (139,142)              | (139,153) |
| Due to and placements from banks and other financial institutions   | (46,653)               | (57,650)  |
| Certificates of deposit issued                                      | (15,404)               | (15,048)  |
| Debt securities issued  | (14,566)               | (11,519)  |
|   | (215,765)              | (223,370) |
| <b>Net interest income</b>  | 153,336                | 144,083   |
| Including:  |                        |           |
| Interest income on impaired financial assets                        | 1,369                  | 1,467     |



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020  
(All amounts expressed in millions of RMB unless otherwise stated)

### 5 FEE AND COMMISSION INCOME

|                          | Year ended 31 December |        |
|--------------------------|------------------------|--------|
|                          | 2020                   | 2019   |
| Bank cards               | 20,107                 | 21,050 |
| Management services      | 16,889                 | 14,400 |
| Investment banking       | 3,706                  | 4,337  |
| Agency services          | 4,200                  | 3,098  |
| Guarantee and commitment | 2,617                  | 2,520  |
| Settlement services      | 1,531                  | 2,024  |
| Others                   | 248                    | 240    |
|                          | 49,298                 | 47,669 |

|  | Year ended 31 December |       |
|--|------------------------|-------|
|  | 2020                   | 2019  |
| Fee income, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading or designated at FVPL | 1,342                  | 943   |
| Fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers   | 3,458                  | 3,541 |

### 6 FEE AND COMMISSION EXPENSE

|                     | Year ended 31 December |       |
|---------------------|------------------------|-------|
|                     | 2020                   | 2019  |
| Bank card business  | 2,473                  | 2,884 |
| Settlement services | 1,321                  | 821   |
| Others              | 418                    | 339   |
|                     | 4,212                  | 4,044 |

|   | Year ended 31 December |      |
|---|------------------------|------|
|   | 2020                   | 2019 |
| Fee expense, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading or designated at FVPL | —                      | 7    |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

## 7 NET GAINS ARISING FROM TRADING ACTIVITIES

|                                      | Year ended 31 December |        |
|--------------------------------------|------------------------|--------|
|                                      | 2020                   | 2019   |
| Financial instruments at FVPL        | 14,277                 | 13,415 |
| Foreign exchange                     | 1,100                  | 2,629  |
| Interest rate instruments and others | (1,533)                | (108)  |
|                                      | 13,844                 | 15,936 |

Net gains or losses on foreign exchange include trading gains or losses and fair value changes of derivative instruments such as spot and forward contracts, currency swaps, cross currency interest rate swaps, currency options and the translation of foreign currency monetary assets and liabilities into RMB.

Net gains or losses on interest rate instruments and others include trading gains or losses and fair value changes of interest rate swaps, interest rate options, commodity and other derivatives.

Net gains arising from trading activities for the year ended 31 December 2020 included a loss of RMB184 million (for the year ended 31 December 2019: a loss of RMB56 million) in relation to changes in the fair value of financial liabilities designated at fair value through profit or loss.

## 8 INSURANCE BUSINESS INCOME

|                      | Year ended 31 December |        |
|----------------------|------------------------|--------|
|                      | 2020                   | 2019   |
| Premiums earned      | 15,731                 | 12,268 |
| Less: Premiums ceded | (561)                  | (581)  |
|                      | 15,170                 | 11,687 |

## 9 OTHER OPERATING INCOME

|   | Year ended 31 December |        |
|---|------------------------|--------|
|   | 2020                   | 2019   |
| Leasing income  | 13,436                 | 12,821 |
| Income from sales of precious metal merchandise         | 1,848                  | 1,370  |
| Revaluation of investment properties                    | 180                    | 31     |
| Net gain on the disposal of fixed and foreclosed assets | 166                    | 287    |
| Other miscellaneous income                              | 2,259                  | 2,290  |
|   | 17,889                 | 16,799 |

Other miscellaneous income mainly includes income arising from miscellaneous banking services provided to the Group's customers.

## 10 CREDIT IMPAIRMENT LOSSES

|   | Year ended 31 December |        |
|---|------------------------|--------|
|   | 2020                   | 2019   |
| Due from and placements with banks and other financial institutions | 225                    | (731)  |
| Loans and advances to customers at amortised cost                   | 55,303                 | 49,749 |
| Loans and advances to customers at FVOCI                            | (12)                   | (346)  |
| Credit related commitments and financial guarantees                 | 4,874                  | 1,434  |
| Financial investments at amortised cost                             | (129)                  | (120)  |
| Debt investments at FVOCI   | 316                    | (160)  |
| Other receivables   | 855                    | 1,610  |
| Others  | 627                    | 518    |
|   | 62,059                 | 51,954 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020  
(All amounts expressed in millions of RMB unless otherwise stated)

### 11 OTHER ASSETS IMPAIRMENT LOSSES

|   | Year ended 31 December |      |
|---|------------------------|------|
|   | 2020                   | 2019 |
| Impairment losses on operating lease assets | 485                    | 233  |
| Impairment losses on foreclosed assets      | (1)                    | 37   |
|   | 484                    | 270  |

### 12 INSURANCE BUSINESS EXPENSE

|  | Year ended 31 December |        |
|--|------------------------|--------|
|  | 2020                   | 2019   |
| Change in insurance reserves                                 | 13,282                 | 9,054  |
| Less: Change in insurance reserves recovered from reinsurers | (401)                  | (343)  |
| Surrenders   | 2,288                  | 2,410  |
| Others   | 560                    | 311    |
|  | 15,729                 | 11,432 |

### 13 OTHER OPERATING EXPENSES

|   | Year ended 31 December |        |
|---|------------------------|--------|
|   | 2020                   | 2019   |
| Staff costs and benefits (Note 14)            | 32,467                 | 33,285 |
| General operating and administrative expenses | 25,649                 | 25,170 |
| Depreciation and amortisation                 | 7,888                  | 8,105  |
| Costs of operating lease business             | 9,518                  | 8,934  |
| Tax and surcharges                            | 2,823                  | 2,697  |
| Provision for outstanding litigations         | 32                     | 50     |
| Others  | 3,650                  | 2,760  |
|   | 82,027                 | 81,001 |

Since the presentation of “Staff costs and benefits” and “General operating and administrative expenses” has been changed, we have restated the comparative information of the year before.

### 14 STAFF COSTS AND BENEFITS

|   | Year ended 31 December |        |
|---|------------------------|--------|
|   | 2020                   | 2019   |
| Salaries, bonuses, allowances and subsidies | 22,638                 | 22,291 |
| Post-employment benefit (a)                 | 3,062                  | 4,208  |
| Other social security and benefit costs     | 6,767                  | 6,786  |
|   | 32,467                 | 33,285 |

#### (a) Post-employment benefit

##### **Defined contribution plans**

The Group participates in various defined contribution retirement benefit plans organised by municipal and provincial governments in Mainland China, under which it is required to make monthly contributions to these plans at rates ranging from 10% to 27% of the employees' basic salary for the year. The Group's contributions to these pension plans are charged to profit or loss and other comprehensive income in the year to which they relate.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

## 14 STAFF COSTS AND BENEFITS (Continued)

## (a) Post-employment benefit (Continued)

**Defined contribution plans** (Continued)

Employees who retire at or after 1 January 2009 can voluntarily participate in an Annuity Plan. The Bank contributes to the Annuity Plan based on certain percentage of the employees' gross salary which is recognised in profit or loss as incurred.

The amount recognised in profit or loss is as follows:

|   | Year ended 31 December |       |
|---|------------------------|-------|
|   | 2020                   | 2019  |
| Expenses incurred for retirement benefit plans and unemployment insurance | 1,577                  | 2,331 |
| Expenses incurred for annuity plan  | 1,468                  | 1,855 |
| Total   | 3,045                  | 4,186 |

The amount payable at the end of the year is as follows:

|   | As at<br>31 December 2020 | As at<br>31 December 2019 |
|---|---------------------------|---------------------------|
|   |                           |                           |
| Expenses incurred for retirement benefit plans and unemployment insurance | 69                        | 65                        |
| Expenses incurred for annuity plan  | 73                        | 966                       |
| Total   | 142                       | 1,031                     |

**Defined benefit plans**

The Group pays supplementary retirement benefits to employees in Mainland China, who retired at or before 31 December 2008. The Group's obligations in respect of supplementary retirement benefits are calculated by estimating the amount of future benefits that the Group is committed to pay to the employees after their retirement using actuarial techniques. Such benefits, which are estimated by using key parameters such as inflation rate and mortality ratio, are discounted to their present values. The discount rate is the yield on government bonds at the end of reporting date, the maturity dates of which approximate to the terms of the Group's obligations. Actuarial gains or losses and changes in actuarial assumptions are recognised in other comprehensive income, and amendments to pension plan are recognised in profit or loss in the period of a plan amendment. The amounts recognised in the statement of financial position represent the present value of unfunded obligations.

The Group's retirement benefit obligations in locations other than Mainland China are immaterial and are made in accordance with the relevant local policies and regulations.

|                                    | As at<br>31 December 2020 | As at<br>31 December 2019 |
|------------------------------------|---------------------------|---------------------------|
|                                    |                           |                           |
| Statement of financial position    |                           |                           |
| – Obligations for pension benefits | 467                       | 399                       |

Amounts recognised in comprehensive income in respect of the supplementary retirement benefits are as follows:

|  | Year ended 31 December |      |
|--|------------------------|------|
|  | 2020                   | 2019 |
| Components of defined benefit costs recognised in profit or loss             | 17                     | 22   |
| Components of defined benefit costs recognised in other comprehensive income | 132                    | 20   |
| Total  | 149                    | 42   |

Past service cost and interest expense are recognised in other operating expenses in the income statement.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020  
(All amounts expressed in millions of RMB unless otherwise stated)

### 14 STAFF COSTS AND BENEFITS (Continued)

#### (a) Post-employment benefit (Continued)

##### **Defined benefit plan (Continued)**

Movements in the unfunded obligations over the year are as follows:

|  | Year ended 31 December |      |
|--|------------------------|------|
|  | 2020                   | 2019 |
| Present value of unfunded obligations at the beginning of the year | 399                    | 408  |
| Retirement benefits paid during the year                           | (81)                   | (51) |
| Interest expense   | 14                     | 20   |
| Past service cost  | 3                      | 2    |
| Net actuarial losses recognised in the current year                | 132                    | 20   |
| Present value of unfunded obligations at the end of the year       | 467                    | 399  |

The average duration of the supplementary retirement benefits plan at 31 December 2020 is 13.20 years (31 December 2019: 10.21 years).

The Group expects to make a contribution of RMB40 million (2019: RMB40 million) to the defined benefit plan during the next financial year.

The supplementary retirement benefits plan exposes the Group to actuarial risks such as interest risk, longevity risk and inflation risk. A decrease in the government bond yield will increase the present value of unfunded obligations. The present value of unfunded obligations is calculated by reference to the best estimate of the mortality of plan participants. An increase in the life expectancy of the plan participants will increase the plan's liability. The present value of unfunded obligations is also measured by future payment standards, which are determined by inflation rate. Hence, an increase in inflation rate will increase the present value of the unfunded obligations.

The principal actuarial assumptions regarding interest risk and inflation risk used by the Group are discount rate and inflation rate, which were 3.51% (31 December 2019: 3.22%) and 2.87% (31 December 2019: 2.68%) respectively as at 31 December 2020. In the meantime, assumptions regarding future mortality rate are set based on published statistics by China Banking and Insurance Regulatory Commission. As at 31 December 2020, an average longevity of a pensioner after retirement at age 60 for male is 23.13 years (31 December 2019: 19.70 years) while a pensioner after retirement at age 55 for female is 33.13 years (31 December 2019: 28.70 years).

Significant actuarial assumptions for the determination of the unfunded obligation are discount rate, inflation rate and mortality. The sensitivity analysis below is based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

- (1) If the discount rate is 100 basis points higher (lower), the defined benefit obligation would decrease by RMB35 million (increase by RMB40 million).
- (2) If the expected inflation rate increases (decreases) by 1%, the defined benefit obligation would increase by RMB39 million (decrease by RMB35 million).
- (3) If the life expectancy increases (decreases) by one year for men and women, the defined benefit obligation would increase by RMB29 million (decrease by RMB30 million).

The sensitivity analysis above may not be representative of the actual change in the unfunded obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

In presenting the above sensitivity analysis, the present value at the end of the reporting period of the unfunded obligation has been calculated in the same method as that applied in calculating the unfunded obligation liability recognised in the statement of financial position.

There was no change in the methods and assumptions used in preparing the sensitivity analysis in prior years.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

## 15 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

## (a) Directors', supervisors' and senior management's emoluments before taxation

| <i>(in thousands of RMB)</i>               |            | Year ended 31 December 2020 |                |       |
|--|------------|-----------------------------|----------------|-------|
| Name                                       | Emoluments | Remuneration                | Other benefits | Total |
| <b>Executive directors</b>                 |            |                             |                |       |
| Mr. Ren, Deqi                              | –          | 619                         | 161            | 780   |
| Mr. Liu, Jun                               | –          | 361                         | 93             | 454   |
| <b>Non-executive directors</b>             |            |                             |                |       |
| Mr. He, Zhaobin                            | –          | 866                         | 161            | 1,027 |
| Mr. Chan Siu Chung                         | –          | –                           | –              | –     |
| Mr. Song, Hongjun                          | –          | –                           | –              | –     |
| Mr. Chen, Junkui                           | –          | –                           | –              | –     |
| Mr. Liu, Haoyang                           | –          | –                           | –              | –     |
| Mr. Li, Longcheng                          | –          | –                           | –              | –     |
| Mr. Wang, Linping                          | –          | –                           | –              | –     |
| Mr. Chang, Baosheng                        | –          | –                           | –              | –     |
| <b>Independent non-executive directors</b> |            |                             |                |       |
| Jason Yeung Chi Wai                        | 310        | –                           | –              | 310   |
| Raymond Woo Chin Wan                       | 310        | –                           | –              | 310   |
| Mr. Cai, Haoyi                             | –          | –                           | –              | –     |
| Mr. Shi, Lei                               | 310        | –                           | –              | 310   |
| Mr. Zhang, Xiangdong                       | –          | –                           | –              | –     |
| Ms. Li, Xiaohui                            | 39         | –                           | –              | 39    |
| <b>Supervisors</b>                         |            |                             |                |       |
| Mr. Cai, Yunge                             | –          | 155                         | 41             | 196   |
| Mr. Zhang, Minsheng                        | –          | –                           | –              | –     |
| Mr. Wang, Xueqing                          | –          | –                           | –              | –     |
| Ms. Xia, Zhihua                            | –          | –                           | –              | –     |
| Mr. Li, Yao                                | –          | 270                         | –              | 270   |
| Mr. Chen, Hanwen                           | –          | 260                         | –              | 260   |
| Mr. Ju, Jiandong                           | –          | 130                         | –              | 130   |
| Mr. Du, Yarong                             | –          | 946                         | 167            | 1,113 |
| Mr. Guan, Xingshe                          | –          | 905                         | 167            | 1,072 |
| Ms. Lin, Zhihong                           | –          | –                           | –              | –     |
| Ms. Feng, Bing                             | –          | –                           | –              | –     |
| Total                                      | 969        | 4,512                       | 790            | 6,271 |
| <b>Former directors and supervisors</b>    |            |                             |                |       |
| Mr. Hou, Weidong                           | –          | 186                         | 52             | 238   |
| Mr. Wang, Taiyin                           | –          | 444                         | 75             | 519   |
| Mr. Song, Guobin                           | –          | 574                         | 101            | 675   |
| Ms. Li, Jian                               | 291        | –                           | –              | 291   |
| Mr. Liu, Li                                | 211        | –                           | –              | 211   |
| Ms. Tang, Xinyu                            | –          | –                           | –              | –     |
| Ms. Chen, Qing                             | –          | 569                         | 91             | 660   |
| Mr. Wang, Xuewu                            | –          | 921                         | 167            | 1,088 |
| Total                                      | 502        | 2,694                       | 486            | 3,682 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020  
(All amounts expressed in millions of RMB unless otherwise stated)

## 15 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

### (a) Directors', supervisors' and senior management's emoluments before taxation (Continued)

| (in thousands of RMB)                   |            | Year ended 31 December 2019 |                |       |
|---|------------|-----------------------------|----------------|-------|
| Name                                    | Emoluments | Remuneration                | Other benefits | Total |
| <b>Executive directors</b>              |            |                             |                |       |
| Mr. Ren, Deqi                           | –          | 579                         | 200            | 779   |
| Mr. Hou, Weidong                        | –          | 521                         | 183            | 704   |
| <b>Non-executive directors</b>          |            |                             |                |       |
| Mr. Wang, Taiyin                        | –          | 672                         | 178            | 850   |
| Mr. Song, Guobin                        | –          | 672                         | 191            | 863   |
| Mr. He, Zhaobin                         | –          | 672                         | 191            | 863   |
| Mr. Chan Siu Chung                      | –          | –                           | –              | –     |
| Mr. Song, Hongjun                       | –          | –                           | –              | –     |
| Mr. Chen, Junkui                        | –          | –                           | –              | –     |
| Mr. Liu, Haoyang                        | –          | –                           | –              | –     |
| Ms. Li, Jian                            | 292        | –                           | –              | 292   |
| Mr. Liu, Li                             | 292        | –                           | –              | 292   |
| Mr. Jason Yeung Chi Wai                 | 282        | –                           | –              | 282   |
| Mr. Raymond Woo Chin Wan                | 282        | –                           | –              | 282   |
| Mr. Cai, Haoyi                          | –          | –                           | –              | –     |
| Mr. Shi, Lei                            | 6          | –                           | –              | 6     |
| <b>Supervisors</b>                      |            |                             |                |       |
| Mr. Zhang, Minsheng                     | –          | –                           | –              | –     |
| Mr. Wang, Xueqing                       | –          | –                           | –              | –     |
| Ms. Tang, Xinyu                         | –          | –                           | –              | –     |
| Ms. Xia, Zhihua                         | –          | –                           | –              | –     |
| Mr. Li, Yao                             | –          | 232                         | –              | 232   |
| Mr. Chen, Hanwen                        | –          | 137                         | –              | 137   |
| Ms. Chen, Qing                          | –          | 853                         | 169            | 1,022 |
| Mr. Du, Yarong                          | –          | 841                         | 169            | 1,010 |
| Mr. Guan, Xingshe                       | –          | 800                         | 169            | 969   |
| Mr. Wang, Xuewu                         | –          | 408                         | 86             | 494   |
| Total                                   | 1,154      | 6,387                       | 1,536          | 9,077 |
| <b>Former directors and supervisors</b> |            |                             |                |       |
| Mr. Peng, Chun                          | –          | 145                         | 45             | 190   |
| Mr. Peter Wong Tung Shun                | –          | –                           | –              | –     |
| Mr. Wu, Wei                             | –          | 304                         | 105            | 409   |
| Ms. Helen Wong Pik Kuen                 | –          | –                           | –              | –     |
| Mr. Liu, Hanxing                        | –          | –                           | –              | –     |
| Mr. Luo, Mingde                         | –          | –                           | –              | –     |
| Mr. Yu, Yongshun                        | –          | –                           | –              | –     |
| Mr. Song, Shuguang                      | –          | 48                          | 17             | 65    |
| Mr. Gu, Huizhong                        | –          | –                           | –              | –     |
| Mr. Zhao, Yuguo                         | –          | –                           | –              | –     |
| Mr. Liu, Mingxing                       | –          | –                           | –              | –     |
| Ms. Zhang, Lili                         | –          | –                           | –              | –     |
| Mr. Fen, Xiaodong                       | –          | –                           | –              | –     |
| Mr. Xu, Ming                            | –          | 417                         | 83             | 500   |
| Total                                   | –          | 914                         | 250            | 1,164 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

15 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(Continued)*(a) Directors', supervisors' and senior management's emoluments before taxation *(Continued)*

- (1) The total compensation package for directors and supervisors for the year ended 31 December 2020 has not yet been finalised in accordance with regulations of the relevant national authorities. The amount of the compensation not provided for is not expected to have significant impact to the Group's financial statements for the year ended 31 December 2020.. The final compensation will be disclosed in a separate announcement when determined. The final total compensation for the year ended 31 December 2019 was disclosed in the Information on the Second Extraordinary General Meeting of Shareholders in 2020 issued on 29 October 2020.
- (2) Employee supervisors Mr. Du, Yarong, Mr. Guan, Xingshe, Ms. Lin Zhihong and Ms. Feng Bing received compensation according to their positions as employees of the Bank and did not receive additional compensation as employee supervisors.
- (3) During 2020 and 2019, there was no arrangement under which a director or a supervisor waived or agreed to waive any remuneration.
- (4) Other benefits include social insurance, housing allowances, enterprise annuity paid by the Bank.
- (5) Mr. Wang Linping and Mr. Chang Baosheng begin to assume office on the 8 January 2021.

## (b) Five highest paid individuals

The five highest paid individuals in the Group for the related years are as follows:

|  | Year ended 31 December |      |
|--|------------------------|------|
|  | 2020                   | 2019 |
| Salary   | 14                     | 14   |
| Discretionary bonuses  | 15                     | 14   |
| Employer's contribution to pension scheme and other benefits | 2                      | 2    |
| Total  | 31                     | 30   |

Emoluments of the above five highest paid individuals in the Group are within the following bands:

|                            | Number of individuals<br>As at 31 December |      |
|----------------------------|--|------|
|                            | 2020                                       | 2019 |
| HKD4,500,001 - 5,000,000   | 2  | 3    |
| HKD5,000,001 - 5,500,000   | 2  | 1    |
| HKD5,500,001 - 6,000,000   | —  | —    |
| HKD6,000,001 - 6,500,000   | —  | —    |
| HKD6,500,001 - 7,000,000   | —  | —    |
| HKD7,000,001 - 7,500,000   | —  | —    |
| HKD7,500,001 - 8,000,000   | —  | —    |
| HKD8,000,001 - 8,500,000   | —  | —    |
| HKD8,500,001 - 9,000,000   | —  | —    |
| HKD9,000,001 - 9,500,000   | —  | —    |
| HKD9,500,001 - 10,000,000  | —  | —    |
| HKD10,000,001 - 10,500,000 | —  | 1    |
| HKD10,500,001 - 11,000,000 | —  | —    |
| HKD11,000,001 - 11,500,000 | 1  | —    |
|                            | 5  | 5    |

During 2020 and 2019, no emolument was paid by the Group to any of the directors, supervisors and the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020  
(All amounts expressed in millions of RMB unless otherwise stated)

### 16 INCOME TAX

|  | Year ended 31 December |         |
|--|------------------------|---------|
|  | 2020                   | 2019    |
| Current income tax   |                        |         |
| – Mainland China enterprise income tax                               | 8,247                  | 11,789  |
| – Hong Kong profits tax  | 630                    | 1,059   |
| – Income tax arising in Macao, Taiwan and other countries or regions | 577                    | 680     |
| Subtotal   | 9,454                  | 13,528  |
| Deferred income tax (Note 27)  | (2,599)                | (3,390) |
| Total  | 6,855                  | 10,138  |

The provision for enterprise income tax in Mainland China is calculated based on the statutory rate of 25% (2019: 25%) of the assessable income of the Bank and each of the subsidiary established in Mainland China. Taxation arising in other jurisdictions (including Hong Kong) is calculated at the rates prevailing in the relevant jurisdictions, the shortfall arising from the differential in tax rates of overseas branches as compared with the Mainland China tax rate shall be reported and paid by head office.

The actual taxation on the Group differs from the theoretical amount calculated using the Group's profit before tax at the tax rate of 25% (2019: 25%). The major reconciliation items are as follows:

|  | Year ended 31 December |          |
|--|------------------------|----------|
|  | 2020                   | 2019     |
| Profit before tax  | 86,425                 | 88,200   |
| Tax calculated at statutory rate of 25%  | 21,606                 | 22,050   |
| Effects of different tax rates prevailing in Hong Kong, Macao, Taiwan and other countries or regions | (152)                  | (206)    |
| Effects of non-deductible expenses (1)   | 3,644                  | 3,094    |
| Effects of non-taxable income (2)  | (17,393)               | (15,231) |
| Adjustments for income tax of prior years  | (430)                  | 431      |
| Others   | (420)                  | –        |
| Income tax   | 6,855                  | 10,138   |

- (1) Non-deductible expenses primarily represent non-deductible write-offs.
- (2) Non-taxable income primarily represents interest income from PRC treasury bonds and municipal government bonds and fund investment income gained in Mainland China.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

## 17 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit attributable to shareholders of the Bank by the weighted average number of ordinary shares in issue during the period.

|   | Year ended 31 December |         |
|---|------------------------|---------|
|   | 2020                   | 2019    |
| Net profit attributable to shareholders of the Bank   | 78,274                 | 77,281  |
| Less: Dividends paid to preference shareholders   | (2,714)                | (2,671) |
| Interest paid to perpetual bond holders   | (1,680)                | –       |
| Net profit attributable to ordinary shareholders of the Bank  | 73,880                 | 74,610  |
| Weighted average number of ordinary shares in issue<br>(expressed in millions) at the end of the year | 74,263                 | 74,263  |
| Basic and diluted earnings per share (expressed in RMB per share)                                     | 0.99                   | 1.00    |

For the purpose of calculating basic earnings per share, a cash dividend of RMB2,714 million on non-cumulative preference shares declared for the period was deducted from the amounts attributable to shareholders of the Bank. The conversion feature of preference shares may lead to the possible existence of contingently issuable ordinary shares. The triggering events of conversion did not occur for the year ended 31 December 2020, and therefore the conversion feature of preference shares has no effect on the calculation of the basic and diluted earnings per share.

For the calculation of basic earnings per share, distributions on non-cumulative perpetual bonds declared for the period was deducted from the amounts attributable to shareholders of the Bank. The Bank has declared an interest of RMB1,680 million on perpetual bonds during the year ended 31 December 2020.

## 18 CASH AND BALANCES WITH CENTRAL BANKS

|                            | As at<br>31 December 2020 | As at<br>31 December 2019 |
|----------------------------|---------------------------|---------------------------|
| Cash                       | 15,353                    | 14,481                    |
| Mandatory reserve deposits | 634,239                   | 653,190                   |
| Excess reserve deposits    | 160,863                   | 76,145                    |
| Fiscal deposits and others | 6,786                     | 16,078                    |
| Accrued interest           | 320                       | 291                       |
|                            | 817,561                   | 760,185                   |

The Group places mandatory reserves with the PBOC and several other central banks of overseas countries and regions. Such mandatory reserves are not available for use by the Group in its day-to-day operations.

The Bank's domestic mandatory deposit reserve rates as at the balance sheet date are as follows:

|  | As at<br>31 December 2020<br>% | As at<br>31 December 2019<br>% |
|--|--------------------------------|--------------------------------|
| Domestic mandatory reserve rate for deposits denominated in RMB                | 11.00                          | 12.50                          |
| Domestic mandatory reserve rate for deposits denominated in foreign currencies | 5.00                           | 5.00                           |

Reserve rate for deposits denominated in RMB of the Group's subsidiaries in Mainland China is subject to relevant regulations of the PBOC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020  
(All amounts expressed in millions of RMB unless otherwise stated)

### 18 CASH AND BALANCES WITH CENTRAL BANKS *(Continued)*

Mandatory reserve rate for deposits with central banks of overseas countries and regions is subject to regulations of local regulatory bodies.

Excess reserve deposits with central banks are mainly used for capital settlement, financial institution transfer, etc.

### 19 DUE FROM AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

|  | As at<br>31 December 2020 | As at<br>31 December 2019 |
|--|---------------------------|---------------------------|
| Due from banks and other financial institutions                                    |                           |                           |
| – Banks and other financial institutions operating in Mainland China               | 90,965                    | 96,489                    |
| – Banks and other financial institutions operating outside Mainland China          | 68,274                    | 39,783                    |
| Accrued interest   | 196                       | 559                       |
| Less: Allowance for impairment losses  | (265)                     | (176)                     |
| Financial assets purchased under resale agreements                                 |                           |                           |
| Securities   |                           |                           |
| – Governments  | 6,332                     | 4,787                     |
| – Policy banks   | 3,657                     | 950                       |
| – Financial institutions   | 27,905                    | 9,030                     |
| – Corporates   | –                         | 450                       |
| Bills  | 3,670                     | 329                       |
| Accrued interest   | 26                        | 20                        |
| Less: Allowance for impairment losses  | (34)                      | (11)                      |
| Placements with and loans to banks   |                           |                           |
| – Banks operating in Mainland China  | 113,890                   | 100,074                   |
| – Banks operating outside Mainland China   | 95,886                    | 55,132                    |
| Placements with and loans to other financial institutions                          |                           |                           |
| – Placements with and loans to other financial institutions in Mainland China      | 118,172                   | 262,885                   |
| – Placements with and loans to other financial institutions outside Mainland China | 40,515                    | 74,080                    |
| Accrued interest   | 2,890                     | 4,979                     |
| Less: Allowance for impairment losses  | (949)                     | (872)                     |
|  | 571,130                   | 648,488                   |

As at 31 December 2020, placements and bonds purchased under resale agreements sponsored by the group upon certain unconsolidated wealth management products had been matured and the amounts had been fully repaid (31 December 2019: RMB4,500 million). The average exposure of the above transactions for the year ended 31 December 2020 was RMB102 million and the weighted average outstanding period was 1.05 days (The average exposure during 2019 was RMB47,930 million and the weighted average outstanding period was 2.42 days). The Group were not contractually obliged to make such arrangements. The maximum exposure to loss of those transactions approximated the carrying amount of the placements and bonds purchased under resale agreements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

## 20 FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

|  | As at<br>31 December 2020 | As at<br>31 December 2019 |
|--|---------------------------|---------------------------|
| Government bonds                                     |                           |                           |
| – Listed in Hong Kong                                | 2,370                     | 2,829                     |
| – Listed outside Hong Kong (a)                       | 3,043                     | 3,176                     |
| – Unlisted   | 1,121                     | 1,597                     |
| Other debt securities                                |                           |                           |
| – Listed in Hong Kong                                | 23,853                    | 21,244                    |
| – Listed outside Hong Kong (a)                       | 109,422                   | 100,680                   |
| – Unlisted – corporate entities                      | 4,445                     | 3,869                     |
| – Unlisted – banks                                   | 8,780                     | 1,555                     |
| Equity securities and others                         |                           |                           |
| – Listed in Hong Kong                                | 1,419                     | 820                       |
| – Listed outside Hong Kong                           | 7,956                     | 1,756                     |
| – Unlisted   | 48,106                    | 47,141                    |
| Fund investments and other asset management products |                           |                           |
| – Listed outside Hong Kong                           | 474                       | 92                        |
| – Unlisted   | 251,624                   | 170,343                   |
| Precious metal contracts                             | 19,975                    | 51,396                    |
| <b>Total</b>   | <b>482,588</b>            | <b>406,498</b>            |

(a) Debt securities traded in the China domestic inter-bank bond market are included in “Listed outside Hong Kong”.

Debt securities at fair value through profit or loss are analysed by issuer as follows:

|  | As at<br>31 December 2020 | As at<br>31 December 2019 |
|--|---------------------------|---------------------------|
| – Banks and other financial institutions | 99,671                    | 88,783                    |
| – Corporate entities                     | 45,244                    | 36,565                    |
| – Governments and central banks          | 6,534                     | 7,602                     |
| – Public sector entities                 | 1,585                     | 2,000                     |
|  | <b>153,034</b>            | <b>134,950</b>            |

The financial investments at fair value through profit or loss include financial assets held for trading and financial assets that cannot pass the ‘SPPI test’.

## 21 DERIVATIVE FINANCIAL INSTRUMENTS

The following derivative financial instruments are utilised by the Group for trading or hedging purposes:

Currency and commodity forwards are contracts between two parties to buy or sell certain currencies or commodities at a specified future date at a predetermined price. The party agreeing to buy the underlying currency or commodities in the future assumes a long position, and the party agreeing to sell the currency or commodities in the future assumes a short position. The price agreed upon is called the delivery price, which is equal to the forward price at the time the contract is entered into.

Currency, commodity and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies, commodities or interest rates (i.e. fixed-for-floating swaps) or a combination of these (i.e. cross-currency interest rate swaps). The Group’s credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020  
(All amounts expressed in millions of RMB unless otherwise stated)

### 21 DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

Currency, commodity and interest rate options are contractual agreements under which the seller (writer) grants the buyer (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) on or before a set date or during a set period, a specific amount of a currency or commodity at a predetermined price or to receive an interest payment based on a variable interest rate and pay at a fixed interest rate or vice versa. The seller receives a premium from the buyer in consideration for assuming foreign exchange, interest rate risk or commodity price fluctuations. Options may be either exchange-traded or negotiated between the Group and a customer (over the counter market).

The notional amounts of certain types of financial instruments provide a reference of the amounts recognised in the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative financial instruments may become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates, foreign exchange rates or commodity price relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The fair values of derivative financial instruments held are set out in the following tables.

|   | Contractual/<br>Notional<br>Amount | Fair values<br>Assets | Liabilities |
|---|------------------------------------|-----------------------|-------------|
| <b>As at 31 December 2020</b>                               |                                    |                       |             |
| Foreign exchange and commodity contracts                    | 2,435,423                          | 44,435                | (40,914)    |
| Interest rate contracts and others                          | 3,101,818                          | 9,777                 | (15,028)    |
| Total amount of derivative financial instruments recognised | 5,537,241                          | 54,212                | (55,942)    |

|   | Contractual/<br>Notional<br>Amount | Fair values<br>Assets | Liabilities |
|---|------------------------------------|-----------------------|-------------|
| <b>As at 31 December 2019</b>                               |                                    |                       |             |
| Foreign exchange and commodity contracts                    | 2,173,598                          | 15,784                | (20,423)    |
| Interest rate contracts and others                          | 3,826,987                          | 5,153                 | (6,001)     |
| Total amount of derivative financial instruments recognised | 6,000,585                          | 20,937                | (26,424)    |

The tables above provide a breakdown of the contractual or notional amounts and the fair values of the Group's derivative financial instruments outstanding at year end. These instruments, comprising foreign exchange, interest rate and commodity derivatives allow the Group and its customers to transfer, mitigate or reduce their foreign exchange, interest rate and commodity price fluctuation risks.

The Group undertakes its transactions in foreign exchange, interest rates and commodity contracts with other financial institutions and customers. Management has established limits for these contracts based on counterparty types, industry sectors and countries. Related risks are regularly monitored and controlled by management.

Notional amounts of derivative financial instruments by original currency:

|        | As at<br>31 December 2020 | As at<br>31 December 2019 |
|--------|---------------------------|---------------------------|
| RMB    | 3,772,066                 | 4,442,337                 |
| USD    | 1,387,805                 | 1,209,161                 |
| HKD    | 247,659                   | 204,007                   |
| Others | 129,711                   | 145,080                   |
| Total  | 5,537,241                 | 6,000,585                 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

## 21 DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

## Hedge accounting

The above derivative financial instruments including those designated as hedging instruments by the Group are as follows:

|   | Contractual/<br>Notional<br>Amount | Fair values<br>Assets | Liabilities    |
|---|------------------------------------|-----------------------|----------------|
| <b>As at 31 December 2020</b>   |                                    |                       |                |
| Derivative financial instruments designated as hedging instruments in fair value hedges | 139,555                            | 184                   | (4,689)        |
| Derivative financial instruments designated as hedging instruments in cash flow hedges  | 58,382                             | 268                   | (1,901)        |
| <b>Total</b>  | <b>197,937</b>                     | <b>452</b>            | <b>(6,590)</b> |

|   | Contractual/<br>Notional<br>Amount | Fair values<br>Assets | Liabilities    |
|---|------------------------------------|-----------------------|----------------|
| <b>As at 31 December 2019</b>   |                                    |                       |                |
| Derivative financial instruments designated as hedging instruments in fair value hedges | 121,791                            | 295                   | (1,794)        |
| Derivative financial instruments designated as hedging instruments in cash flow hedges  | 29,379                             | 130                   | (168)          |
| <b>Total</b>  | <b>151,170</b>                     | <b>425</b>            | <b>(1,962)</b> |

## (a) Fair value hedge

The Group uses interest rate swaps to hedge against changes in fair value arising from changes in interest rates. Some purchased interest rate swap contracts are designated as hedging instruments, whose terms are identical with those of the corresponding hedged items regarding interest rate, maturity and currency. The Group uses regression analysis to evaluate the effectiveness of hedging. With the support of testing results, the Group's management considers the hedging relationship to be highly effective. The hedged items include due from and placements with banks and other financial institutions, debt investments at FVOCI, due to and placements from banks and other financial institutions, loans and advances to customers and certificates of deposits issued.

The following table shows the profit or loss effects of the fair value hedges:

|  | Year ended 31 December |              |
|--|------------------------|--------------|
|  | 2020                   | 2019         |
| Net gains/(losses) from fair value hedges:   |                        |              |
| Hedging instruments                          | (4,314)                | (2,504)      |
| Hedged items attributable to the hedged risk | 4,462                  | 2,250        |
| <b>Total</b>                                 | <b>148</b>             | <b>(254)</b> |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020  
(All amounts expressed in millions of RMB unless otherwise stated)

### 21 DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

#### Hedge accounting (Continued)

##### (b) Cash flow hedge

The Group uses foreign exchange contracts to hedge against exposures to cash flow variability primarily resulting from foreign exchange risks, and uses interest rate swaps to hedge against exposures to cash flow variability primarily resulting from interest rate risks. The hedged items include debt investments at FVOCI, due from and placements with banks and other financial institutions, debt securities issued, loans and advances to customers, due to and placements from banks and other financial institutions and certificates of deposits issued. The Group mainly uses regression analysis to evaluate the effectiveness of hedging. With the supporting of testing results, the Group's management considers the hedging relationship to be highly effective.

For the year ended 31 December 2020, the Group recognised a loss of RMB1,761 million (31 December 2019: a loss of RMB210 million) from effective portion of cash flow hedge in other comprehensive income. The Group reclassifies a profit of RMB1,085 million from other comprehensive income to profit or loss (31 December 2019: a profit of RMB196 million). Gains or losses arising from ineffective portion of cash flow hedge were immaterial. There were no transactions for which cash flow hedge accounting had to be ceased as a result of the highly probable cash flows no longer being expected to occur.

##### (c) Effect of IBOR reform on Hedge accounting

During the transition period of interest rate benchmark reform, interest rate benchmarks are assumed to continue being unaltered for the purposes of hedge accounting until such time as the uncertainty is resolved.

Significant judgement will be required in determining when uncertainty is expected to be resolved and therefore when the temporary exceptions will cease to apply. However, the Group has determined that the uncertainty continued to exist at 31 December 2020 and so the temporary exceptions apply to all of the Group's hedge accounting relationships that are subject to benchmark reform.

### 22 LOANS AND ADVANCES TO CUSTOMERS

#### 22.1 Loans and advances to customers

|   | As at<br>31 December 2020 | As at<br>31 December 2019 |
|---|---------------------------|---------------------------|
| Loans and advances to customers                           |                           |                           |
| – Carried at amortised cost                               | 5,637,932                 | 5,068,861                 |
| – Carried at FVOCI  | 210,492                   | 235,414                   |
| Less: Allowance for impairment losses                     | (139,274)                 | (132,719)                 |
| Accrued interest  | 12,980                    | 14,648                    |
| Less: Allowance for impairment losses of accrued interest | (1,562)                   | (2,551)                   |
|   | 5,720,568                 | 5,183,653                 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

22 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

## 22.2 Movements of gross carrying amount and ECL allowance

Movements of gross carrying amount – Corporate loan at amortised cost:

|  | Stage 1          | Stage 2         | Stage 3       | Total            |
|--|------------------|-----------------|---------------|------------------|
| <b>As at 1 January 2020</b>                      | <b>3,114,979</b> | <b>139,701</b>  | <b>59,416</b> | <b>3,314,096</b> |
| Addition, net                                    | 466,884          | (70,303)        | (11,437)      | 385,144          |
| Written-offs and disposals                       | –                | –               | (33,214)      | (33,214)         |
| Transfers:                                       | (153,797)        | 89,415          | 64,382        | –                |
| <i>Transfer between Stage 1 and Stage 2, net</i> | <i>(131,542)</i> | <i>131,542</i>  | –             | –                |
| <i>Transfer between Stage 1 and Stage 3, net</i> | <i>(22,255)</i>  | –               | 22,255        | –                |
| <i>Transfer between Stage 2 and Stage 3, net</i> | –                | <i>(42,127)</i> | <i>42,127</i> | –                |
| Exchange differences                             | (8,536)          | (123)           | (317)         | (8,976)          |
| <b>As at 31 December 2020</b>                    | <b>3,419,530</b> | <b>158,690</b>  | <b>78,830</b> | <b>3,657,050</b> |

|  | Stage 1          | Stage 2         | Stage 3       | Total            |
|--|------------------|-----------------|---------------|------------------|
| <b>As at 1 January 2019</b>                      | <b>2,848,956</b> | <b>127,820</b>  | <b>57,147</b> | <b>3,033,923</b> |
| Addition, net                                    | 365,202          | (58,842)        | (5,046)       | 301,314          |
| Written-offs and disposals                       | –                | (217)           | (27,330)      | (27,547)         |
| Transfers:                                       | (105,437)        | 70,823          | 34,614        | –                |
| <i>Transfer between Stage 1 and Stage 2, net</i> | <i>(95,474)</i>  | <i>95,474</i>   | –             | –                |
| <i>Transfer between Stage 1 and Stage 3, net</i> | <i>(9,963)</i>   | –               | 9,963         | –                |
| <i>Transfer between Stage 2 and Stage 3, net</i> | –                | <i>(24,651)</i> | <i>24,651</i> | –                |
| Exchange differences                             | 6,258            | 117             | 31            | 6,406            |
| <b>As at 31 December 2019</b>                    | <b>3,114,979</b> | <b>139,701</b>  | <b>59,416</b> | <b>3,314,096</b> |



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020  
(All amounts expressed in millions of RMB unless otherwise stated)

### 22 LOANS AND ADVANCES TO CUSTOMERS (Continued)

#### 22.2 Movements of gross carrying amount and ECL allowance (Continued)

Movements of ECL allowance – Corporate loan at amortised cost:

|   | Stage 1         | Stage 2         | Stage 3         |                |
|---|-----------------|-----------------|-----------------|----------------|
|   | 12-month<br>ECL | Lifetime<br>ECL | Lifetime<br>ECL | Total          |
| <b>As at 1 January 2020</b>                       | <b>23,125</b>   | <b>39,960</b>   | <b>42,085</b>   | <b>105,170</b> |
| Addition/(Reversal), net                          | 2,477           | (7,358)         | (7,717)         | (12,598)       |
| Transfer in                                       | –               | 686             | –               | 686            |
| Written-offs and disposals                        | –               | –               | (33,214)        | (33,214)       |
| Transfers:  | (838)           | (15,668)        | 16,506          | –              |
| <i>Transfer between Stage 1 and Stage 2, net</i>  | <i>(762)</i>    | <i>762</i>      | <i>–</i>        | <i>–</i>       |
| <i>Transfer between Stage 1 and Stage 3, net</i>  | <i>(76)</i>     | <i>–</i>        | <i>76</i>       | <i>–</i>       |
| <i>Transfer between Stage 2 and Stage 3, net</i>  | <i>–</i>        | <i>(16,430)</i> | <i>16,430</i>   | <i>–</i>       |
| Remeasurement                                     | 2,805           | 11,452          | 28,208          | 42,465         |
| Recoveries of loans written-off in previous years | –               | –               | 3,340           | 3,340          |
| Unwind of discount                                | –               | –               | (1,138)         | (1,138)        |
| Exchange differences                              | (151)           | (38)            | (97)            | (286)          |
| <b>As at 31 December 2020</b>                     | <b>27,418</b>   | <b>29,034</b>   | <b>47,973</b>   | <b>104,425</b> |

|   | Stage 1         | Stage 2         | Stage 3         |                |
|---|-----------------|-----------------|-----------------|----------------|
|   | 12-month<br>ECL | Lifetime<br>ECL | Lifetime<br>ECL | Total          |
| <b>As at 1 January 2019</b>                       | <b>23,323</b>   | <b>42,503</b>   | <b>36,577</b>   | <b>102,403</b> |
| Addition/(Reversal), net                          | 3,443           | (3,596)         | (4,142)         | (4,295)        |
| Transfer in/(out)                                 | (51)            | 189             | –               | 138            |
| Written-offs and disposals                        | –               | (217)           | (27,330)        | (27,547)       |
| Transfers:  | 844             | (13,068)        | 12,224          | –              |
| <i>Transfer between Stage 1 and Stage 2, net</i>  | <i>1,148</i>    | <i>(1,148)</i>  | <i>–</i>        | <i>–</i>       |
| <i>Transfer between Stage 1 and Stage 3, net</i>  | <i>(304)</i>    | <i>–</i>        | <i>304</i>      | <i>–</i>       |
| <i>Transfer between Stage 2 and Stage 3, net</i>  | <i>–</i>        | <i>(11,920)</i> | <i>11,920</i>   | <i>–</i>       |
| Remeasurement                                     | (4,459)         | 14,145          | 24,560          | 34,246         |
| Recoveries of loans written-off in previous years | –               | –               | 1,464           | 1,464          |
| Unwind of discount                                | –               | –               | (1,292)         | (1,292)        |
| Exchange differences                              | 25              | 4               | 24              | 53             |
| <b>As at 31 December 2019</b>                     | <b>23,125</b>   | <b>39,960</b>   | <b>42,085</b>   | <b>105,170</b> |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

## 22 LOANS AND ADVANCES TO CUSTOMERS (Continued)

## 22.2 Movements of gross carrying amount and ECL allowance (Continued)

Movements of principal gross carrying amount – Personal loan at amortised cost:

|   | Stage 1          | Stage 2      | Stage 3       | Total            |
|---|------------------|--------------|---------------|------------------|
| <b>As at 1 January 2020</b>               | <b>1,727,106</b> | <b>9,085</b> | <b>18,574</b> | <b>1,754,765</b> |
| Addition, net                             | 254,353          | (2,056)      | (2,943)       | 249,354          |
| Written-offs and disposals                | –                | –            | (20,580)      | (20,580)         |
| Transfers:                                | (25,057)         | 1,328        | 23,729        | –                |
| Transfer between Stage 1 and Stage 2, net | (6,125)          | 6,125        | –             | –                |
| Transfer between Stage 1 and Stage 3, net | (18,932)         | –            | 18,932        | –                |
| Transfer between Stage 2 and Stage 3, net | –                | (4,797)      | 4,797         | –                |
| Exchange differences                      | (2,638)          | (12)         | (7)           | (2,657)          |
| <b>As at 31 December 2020</b>             | <b>1,953,764</b> | <b>8,345</b> | <b>18,773</b> | <b>1,980,882</b> |

|   | Stage 1          | Stage 2      | Stage 3       | Total            |
|---|------------------|--------------|---------------|------------------|
| <b>As at 1 January 2019</b>               | <b>1,612,415</b> | <b>7,872</b> | <b>15,340</b> | <b>1,635,627</b> |
| Addition, net                             | 138,887          | (1,906)      | (4,226)       | 132,755          |
| Written-offs and disposals                | –                | –            | (14,436)      | (14,436)         |
| Transfers:                                | (25,008)         | 3,116        | 21,892        | –                |
| Transfer between Stage 1 and Stage 2, net | (7,504)          | 7,504        | –             | –                |
| Transfer between Stage 1 and Stage 3, net | (17,504)         | –            | 17,504        | –                |
| Transfer between Stage 2 and Stage 3, net | –                | (4,388)      | 4,388         | –                |
| Exchange differences                      | 812              | 3            | 4             | 819              |
| <b>As at 31 December 2019</b>             | <b>1,727,106</b> | <b>9,085</b> | <b>18,574</b> | <b>1,754,765</b> |

Movements of ECL allowance – Personal loan at amortised cost:

|   | Stage 1       | Stage 2      | Stage 3       | Total         |
|---|---------------|--------------|---------------|---------------|
|   | 12-month ECL  | Lifetime ECL | Lifetime ECL  |               |
| <b>As at 1 January 2020</b>                       | <b>8,394</b>  | <b>3,193</b> | <b>15,962</b> | <b>27,549</b> |
| Addition/(Reversal), net                          | 2,001         | (100)        | (1,102)       | 799           |
| Written-offs and disposals                        | –             | –            | (20,580)      | (20,580)      |
| Transfers:  | 270           | (1,078)      | 808           | –             |
| Transfer between Stage 1 and Stage 2, net         | 378           | (378)        | –             | –             |
| Transfer between Stage 1 and Stage 3, net         | (108)         | –            | 108           | –             |
| Transfer between Stage 2 and Stage 3, net         | –             | (700)        | 700           | –             |
| Remeasurement                                     | 5,349         | 1,823        | 18,443        | 25,615        |
| Recoveries of loans written-off in previous years | –             | –            | 1,712         | 1,712         |
| Unwind of discount                                | –             | –            | (231)         | (231)         |
| Exchange differences                              | (6)           | (2)          | (7)           | (15)          |
| <b>As at 31 December 2020</b>                     | <b>16,008</b> | <b>3,836</b> | <b>15,005</b> | <b>34,849</b> |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020  
(All amounts expressed in millions of RMB unless otherwise stated)

### 22 LOANS AND ADVANCES TO CUSTOMERS (Continued)

#### 22.2 Movements of gross carrying amount and ECL allowance (Continued)

Movements of ECL allowance – Personal loan at amortised cost: (Continued)

|   | Stage 1         | Stage 2         | Stage 3         | Total    |
|---|-----------------|-----------------|-----------------|----------|
|   | 12-month<br>ECL | Lifetime<br>ECL | Lifetime<br>ECL |          |
| <b>As at 1 January 2019</b>                       | 7,710           | 2,302           | 11,446          | 21,458   |
| Addition/(Reversal), net                          | 909             | (225)           | (1,219)         | (535)    |
| Written-offs and disposals                        | –               | –               | (14,436)        | (14,436) |
| Transfers:  | 380             | (686)           | 306             | –        |
| Transfer between Stage 1 and Stage 2, net         | 295             | (295)           | –               | –        |
| Transfer between Stage 1 and Stage 3, net         | 85              | –               | (85)            | –        |
| Transfer between Stage 2 and Stage 3, net         | –               | (391)           | 391             | –        |
| Remeasurement                                     | (605)           | 1,800           | 18,816          | 20,011   |
| Recoveries of loans written-off in previous years | –               | –               | 1,224           | 1,224    |
| Unwind of discount                                | –               | –               | (175)           | (175)    |
| Exchange differences                              | –               | 2               | –               | 2        |
| <b>As at 31 December 2019</b>                     | 8,394           | 3,193           | 15,962          | 27,549   |

Movements of gross carrying amount – Loans and advances to customers at fair value through other comprehensive income

|   | Stage 1  | Stage 2 | Stage 3 | Total    |
|---|----------|---------|---------|----------|
| <b>As at 1 January 2020</b>               | 228,957  | 6,404   | 53      | 235,414  |
| Addition, net                             | (18,373) | (6,209) | (134)   | (24,716) |
| Written-offs and disposals                | –        | –       | (34)    | (34)     |
| Transfers:                                | (6,833)  | 6,603   | 230     | –        |
| Transfer between Stage 1 and Stage 2, net | (6,763)  | 6,763   | –       | –        |
| Transfer between Stage 1 and Stage 3, net | (70)     | –       | 70      | –        |
| Transfer between Stage 2 and Stage 3, net | –        | (160)   | 160     | –        |
| Changes in the fair value                 | (45)     | (107)   | (20)    | (172)    |
| <b>As at 31 December 2020</b>             | 203,706  | 6,691   | 95      | 210,492  |

|   | Stage 1 | Stage 2 | Stage 3 | Total   |
|---|---------|---------|---------|---------|
| <b>As at 1 January 2019</b>               | 178,874 | 6,731   | 258     | 185,863 |
| Addition, net                             | 56,345  | (6,597) | (310)   | 49,438  |
| Transfers:                                | (6,506) | 6,404   | 102     | –       |
| Transfer between Stage 1 and Stage 2, net | (6,404) | 6,404   | –       | –       |
| Transfer between Stage 1 and Stage 3, net | (102)   | –       | 102     | –       |
| Changes in the fair value                 | 244     | (134)   | 3       | 113     |
| <b>As at 31 December 2019</b>             | 228,957 | 6,404   | 53      | 235,414 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

## 22 LOANS AND ADVANCES TO CUSTOMERS (Continued)

## 22.2 Movements of gross carrying amount and ECL allowance (Continued)

Movements of ECL allowance – Loans and advances to customers at fair value through other comprehensive income:

|  | Stage 1         | Stage 2         | Stage 3         |              |
|--|-----------------|-----------------|-----------------|--------------|
|  | 12-month<br>ECL | Lifetime<br>ECL | Lifetime<br>ECL | Total        |
| <b>As at 1 January 2020</b>                      | <b>839</b>      | <b>205</b>      | <b>289</b>      | <b>1,333</b> |
| Addition/(Reversal), net                         | (10)            | (121)           | (32)            | (163)        |
| Written-offs and disposals                       | –               | –               | (34)            | (34)         |
| Transfers:                                       | (114)           | (42)            | 156             | –            |
| <i>Transfer between Stage 1 and Stage 2, net</i> | <i>(75)</i>     | <i>75</i>       | <i>–</i>        | <i>–</i>     |
| <i>Transfer between Stage 1 and Stage 3, net</i> | <i>(39)</i>     | <i>–</i>        | <i>39</i>       | <i>–</i>     |
| <i>Transfer between Stage 2 and Stage 3, net</i> | <i>–</i>        | <i>(117)</i>    | <i>117</i>      | <i>–</i>     |
| Remeasurement                                    | 163             | 5               | (17)            | 151          |
| <b>As at 31 December 2020</b>                    | <b>878</b>      | <b>47</b>       | <b>362</b>      | <b>1,287</b> |

|  | Stage 1         | Stage 2         | Stage 3         |              |
|--|-----------------|-----------------|-----------------|--------------|
|  | 12-month<br>ECL | Lifetime<br>ECL | Lifetime<br>ECL | Total        |
| <b>As at 1 January 2019</b>                      | <b>1,163</b>    | <b>283</b>      | <b>233</b>      | <b>1,679</b> |
| Addition/(Reversal), net                         | (171)           | (283)           | 49              | (405)        |
| Transfers:                                       | (208)           | 205             | 3               | –            |
| <i>Transfer between Stage 1 and Stage 2, net</i> | <i>(205)</i>    | <i>205</i>      | <i>–</i>        | <i>–</i>     |
| <i>Transfer between Stage 1 and Stage 3, net</i> | <i>(3)</i>      | <i>–</i>        | <i>3</i>        | <i>–</i>     |
| Remeasurement                                    | 55              | –               | 4               | 59           |
| <b>As at 31 December 2019</b>                    | <b>839</b>      | <b>205</b>      | <b>289</b>      | <b>1,333</b> |

## 22.3 Loans and advances to customers analysed by security type

|   | As at<br>31 December 2020 | As at<br>31 December 2019 |
|---|---------------------------|---------------------------|
| Unsecured loans                               | 1,812,785                 | 1,844,304                 |
| Guaranteed loans                              | 990,248                   | 943,076                   |
| Collateralised and other secured loans        | 3,045,391                 | 2,516,895                 |
| <i>Including: Loans secured by collateral</i> | <i>2,191,847</i>          | <i>1,926,508</i>          |
| <i>Pledged loans</i>                          | <i>853,544</i>            | <i>590,387</i>            |
| <b>Total</b>                                  | <b>5,848,424</b>          | <b>5,304,275</b>          |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020  
(All amounts expressed in millions of RMB unless otherwise stated)

### 22 LOANS AND ADVANCES TO CUSTOMERS (Continued)

#### 22.4 Overdue loans analysed by security type

|   | As at 31 December 2020            |  |   |                                |               |
|---|-----------------------------------|--|---|--------------------------------|---------------|
|   | Overdue<br>within three<br>months | Overdue<br>between<br>three months<br>and one year | Overdue<br>between<br>one year and<br>three years | Overdue<br>over three<br>years | Total         |
| Unsecured loans                               | 8,850                             | 13,686   | 694   | 217                            | 23,447        |
| Guaranteed loans                              | 5,867                             | 8,904  | 12,222  | 1,415                          | 28,408        |
| Collateralised and other secured loans        | 10,763                            | 11,555   | 13,000  | 3,030                          | 38,348        |
| <i>Including: Loans secured by collateral</i> | <i>8,640</i>                      | <i>9,825</i>                                       | <i>10,661</i>                                     | <i>2,856</i>                   | <i>31,982</i> |
| <i>Pledged loans</i>                          | <i>2,123</i>                      | <i>1,730</i>                                       | <i>2,339</i>                                      | <i>174</i>                     | <i>6,366</i>  |
| Total   | 25,480                            | 34,145   | 25,916  | 4,662                          | 90,203        |

|   | As at 31 December 2019            |  |   |                                |               |
|---|-----------------------------------|--|---|--------------------------------|---------------|
|   | Overdue<br>within three<br>months | Overdue<br>between<br>three months<br>and one year | Overdue<br>between<br>one year and<br>three years | Overdue<br>over three<br>years | Total         |
| Unsecured loans                               | 10,622                            | 12,014   | 1,009   | 299                            | 23,944        |
| Guaranteed loans                              | 4,983                             | 7,781  | 11,294  | 3,893                          | 27,951        |
| Collateralised and other secured loans        | 13,318                            | 8,823  | 11,358  | 5,126                          | 38,625        |
| <i>Including: Loans secured by collateral</i> | <i>11,805</i>                     | <i>7,934</i>                                       | <i>9,505</i>                                      | <i>4,695</i>                   | <i>33,939</i> |
| <i>Pledged loans</i>                          | <i>1,513</i>                      | <i>889</i>   | <i>1,853</i>                                      | <i>431</i>                     | <i>4,686</i>  |
| Total   | 28,923                            | 28,618   | 23,661  | 9,318                          | 90,520        |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

## 23 FINANCIAL INVESTMENTS

|   | As at<br>31 December 2020 | As at<br>31 December 2019 |
|---|---------------------------|---------------------------|
| Financial investments at amortised cost |                           |                           |
| – Listed in Hong Kong                   | 7,743                     | 7,427                     |
| – Listed outside Hong Kong              | 1,864,919                 | 1,747,791                 |
| – Unlisted                              | 121,740                   | 149,170                   |
| Accrued interest                        | 28,177                    | 28,564                    |
| Less: Allowance for impairment losses   | (3,050)                   | (3,263)                   |
| Total                                   | 2,019,529                 | 1,929,689                 |
| Debt investments at FVOCI               |                           |                           |
| – Listed in Hong Kong                   | 161,286                   | 155,781                   |
| – Listed outside Hong Kong              | 435,675                   | 382,695                   |
| – Unlisted                              | 120,306                   | 115,776                   |
| Accrued interest                        | 6,606                     | 6,459                     |
| Subtotal                                | 723,873                   | 660,711                   |
| Equity investments at FVOCI             |                           |                           |
| – Listed in Hong Kong                   | 158                       | 677                       |
| – Listed outside Hong Kong              | 3,473                     | 1,639                     |
| – Unlisted                              | 7,716                     | 6,629                     |
| Subtotal                                | 11,347                    | 8,945                     |
| Total                                   | 735,220                   | 669,656                   |

The Group designates part of non-trading equity investments as financial investments measured at FVOCI.

For the year ended 31 December 2020, the Group's cash dividends received from equity investments at FVOCI was RMB49 million (for the year ended 31 December 2019: RMB67 million).

Debt securities analysed by issuer are as follows:

|  | As at<br>31 December 2020 | As at<br>31 December 2019 |
|--|---------------------------|---------------------------|
| Debt investments at FVOCI                |                           |                           |
| – Governments and central banks          | 340,723                   | 258,959                   |
| – Public sector entities                 | 3,376                     | 2,108                     |
| – Banks and other financial institutions | 304,690                   | 329,703                   |
| – Corporate entities                     | 75,084                    | 69,941                    |
| Total                                    | 723,873                   | 660,711                   |
| Bond investments at amortised cost       |                           |                           |
| – Governments and central banks          | 1,710,428                 | 1,521,473                 |
| – Public sector entities                 | 21,979                    | 25,689                    |
| – Banks and other financial institutions | 148,404                   | 215,817                   |
| – Corporate entities                     | 29,983                    | 27,038                    |
| Total                                    | 1,910,794                 | 1,790,017                 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020  
(All amounts expressed in millions of RMB unless otherwise stated)

### 23 FINANCIAL INVESTMENTS (Continued)

The movements in the gross carrying amount of financial investments at amortised cost are summarised as follows:

|   | Stage 1          | Stage 2      | Stage 3      | Total            |
|---|------------------|--------------|--------------|------------------|
| <b>As at 1 January 2020</b>                   | <b>1,930,072</b> | <b>1,497</b> | <b>1,383</b> | <b>1,932,952</b> |
| New financial assets originated or purchased  | 408,635          | –            | –            | 408,635          |
| Financial assets derecognised during the year | (317,005)        | (5)          | (615)        | (317,625)        |
| Transfers:                                    | (6,956)          | 6,956        | –            | –                |
| Transfer between Stage 1 and Stage 2, net     | (6,956)          | 6,956        | –            | –                |
| Transfer between Stage 1 and Stage 3, net     | –                | –            | –            | –                |
| Transfer between Stage 2 and Stage 3, net     | –                | –            | –            | –                |
| Changes in accrual interest                   | (414)            | 1            | 26           | (387)            |
| Exchange differences                          | (996)            | –            | –            | (996)            |
| <b>As at 31 December 2020</b>                 | <b>2,013,336</b> | <b>8,449</b> | <b>794</b>   | <b>2,022,579</b> |

|   | Stage 1          | Stage 2      | Stage 3      | Total            |
|---|------------------|--------------|--------------|------------------|
| <b>As at 1 January 2019</b>                   | <b>2,002,789</b> | <b>–</b>     | <b>1,085</b> | <b>2,003,874</b> |
| New financial assets originated or purchased  | 289,477          | –            | –            | 289,477          |
| Financial assets derecognised during the year | (360,855)        | –            | (21)         | (360,876)        |
| Transfers:                                    | (1,816)          | 1,497        | 319          | –                |
| Transfer between Stage 1 and Stage 2, net     | (1,497)          | 1,497        | –            | –                |
| Transfer between Stage 1 and Stage 3, net     | (319)            | –            | 319          | –                |
| Transfer between Stage 2 and Stage 3, net     | –                | –            | –            | –                |
| Changes in accrual interest                   | (536)            | –            | –            | (536)            |
| Exchange differences                          | 1,013            | –            | –            | 1,013            |
| <b>As at 31 December 2019</b>                 | <b>1,930,072</b> | <b>1,497</b> | <b>1,383</b> | <b>1,932,952</b> |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

23 FINANCIAL INVESTMENTS *(Continued)*

The movements in the gross carrying amount of debt investments at FVOCI are summarised as follows:

|  | Stage 1        | Stage 2    | Stage 3   | Total          |
|--|----------------|------------|-----------|----------------|
| <b>As at 1 January 2020</b>                      | <b>660,711</b> | <b>–</b>   | <b>–</b>  | <b>660,711</b> |
| New financial assets originated or purchased     | 429,354        | –          | –         | 429,354        |
| Financial assets derecognised during the year    | (356,820)      | –          | –         | (356,820)      |
| Transfers:                                       | (350)          | 278        | 72        | –              |
| <i>Transfer between Stage 1 and Stage 2, net</i> | <i>(278)</i>   | <i>278</i> | <i>–</i>  | <i>–</i>       |
| <i>Transfer between Stage 1 and Stage 3, net</i> | <i>(72)</i>    | <i>–</i>   | <i>72</i> | <i>–</i>       |
| <i>Transfer between Stage 2 and Stage 3, net</i> | <i>–</i>       | <i>–</i>   | <i>–</i>  | <i>–</i>       |
| Changes in accrual interest                      | 147            | –          | –         | 147            |
| Exchange differences                             | (10,513)       | –          | –         | (10,513)       |
| Changes in fair value                            | 994            | –          | –         | 994            |
| <b>As at 31 December 2020</b>                    | <b>723,523</b> | <b>278</b> | <b>72</b> | <b>723,873</b> |

|  | Stage 1        | Stage 2  | Stage 3  | Total          |
|--|----------------|----------|----------|----------------|
| <b>As at 1 January 2019</b>                      | <b>437,630</b> | <b>–</b> | <b>–</b> | <b>437,630</b> |
| New financial assets originated or purchased     | 415,485        | –        | –        | 415,485        |
| Financial assets derecognised during the year    | (205,700)      | –        | –        | (205,700)      |
| Transfers:                                       | –              | –        | –        | –              |
| <i>Transfer between Stage 1 and Stage 2, net</i> | <i>–</i>       | <i>–</i> | <i>–</i> | <i>–</i>       |
| <i>Transfer between Stage 1 and Stage 3, net</i> | <i>–</i>       | <i>–</i> | <i>–</i> | <i>–</i>       |
| <i>Transfer between Stage 2 and Stage 3, net</i> | <i>–</i>       | <i>–</i> | <i>–</i> | <i>–</i>       |
| Changes in accrual interest                      | 2,582          | –        | –        | 2,582          |
| Exchange differences                             | 5,822          | –        | –        | 5,822          |
| Changes in fair value                            | 4,892          | –        | –        | 4,892          |
| <b>As at 31 December 2019</b>                    | <b>660,711</b> | <b>–</b> | <b>–</b> | <b>660,711</b> |



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020  
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### 23 FINANCIAL INVESTMENTS (Continued)

The movements in allowance for impairment losses of financial investments at amortised cost are summarised as follows:

|  | Stage 1         | Stage 2         | Stage 3         |              |
|--|-----------------|-----------------|-----------------|--------------|
|  | 12-month<br>ECL | Lifetime<br>ECL | Lifetime<br>ECL | Total        |
| <b>As at 1 January 2020</b>                      | <b>2,455</b>    | <b>178</b>      | <b>630</b>      | <b>3,263</b> |
| Addition/(Reversal), net                         | (602)           | –               | (26)            | (628)        |
| Transfer out                                     | –               | –               | (83)            | (83)         |
| Written-offs                                     | –               | –               | –               | –            |
| Recovery after written-offs                      | –               | –               | –               | –            |
| Transfers:                                       | (191)           | 191             | –               | –            |
| <i>Transfer between Stage 1 and Stage 2, net</i> | <i>(191)</i>    | <i>191</i>      | <i>–</i>        | <i>–</i>     |
| <i>Transfer between Stage 1 and Stage 3, net</i> | <i>–</i>        | <i>–</i>        | <i>–</i>        | <i>–</i>     |
| <i>Transfer between Stage 2 and Stage 3, net</i> | <i>–</i>        | <i>–</i>        | <i>–</i>        | <i>–</i>     |
| Remeasurement                                    | 183             | 313             | 3               | 499          |
| Exchange differences                             | (1)             | –               | –               | (1)          |
| <b>As at 31 December 2020</b>                    | <b>1,844</b>    | <b>682</b>      | <b>524</b>      | <b>3,050</b> |

|  | Stage 1         | Stage 2         | Stage 3         |              |
|--|-----------------|-----------------|-----------------|--------------|
|  | 12-month<br>ECL | Lifetime<br>ECL | Lifetime<br>ECL | Total        |
| <b>As at 1 January 2019</b>                      | <b>2,884</b>    | <b>–</b>        | <b>485</b>      | <b>3,369</b> |
| Addition/(Reversal), net                         | (148)           | –               | (13)            | (161)        |
| Written-offs                                     | –               | –               | –               | –            |
| Recovery after written-offs                      | –               | –               | 13              | 13           |
| Transfers:                                       | (56)            | 52              | 4               | –            |
| <i>Transfer between Stage 1 and Stage 2, net</i> | <i>(52)</i>     | <i>52</i>       | <i>–</i>        | <i>–</i>     |
| <i>Transfer between Stage 1 and Stage 3, net</i> | <i>(4)</i>      | <i>–</i>        | <i>4</i>        | <i>–</i>     |
| <i>Transfer between Stage 2 and Stage 3, net</i> | <i>–</i>        | <i>–</i>        | <i>–</i>        | <i>–</i>     |
| Remeasurement                                    | (226)           | 126             | 141             | 41           |
| Exchange differences                             | 1               | –               | –               | 1            |
| <b>As at 31 December 2019</b>                    | <b>2,455</b>    | <b>178</b>      | <b>630</b>      | <b>3,263</b> |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

## 23 FINANCIAL INVESTMENTS (Continued)

The movements in allowance for impairment losses of debt investments at FVOCI are summarised as follows:

|  | Stage 1         | Stage 2         | Stage 3         |              |
|--|-----------------|-----------------|-----------------|--------------|
|  | 12-month<br>ECL | Lifetime<br>ECL | Lifetime<br>ECL | Total        |
| <b>As at 1 January 2020</b>                      | <b>660</b>      | <b>–</b>        | <b>393</b>      | <b>1,053</b> |
| Addition/(Reversal), net                         | 84              | –               | –               | 84           |
| Transfer out                                     | –               | –               | (27)            | (27)         |
| Written-offs                                     | –               | –               | –               | –            |
| Recovery after written-offs                      | –               | –               | –               | –            |
| Transfers:                                       | (28)            | 3               | 25              | –            |
| <i>Transfer between Stage 1 and Stage 2, net</i> | <i>(3)</i>      | <i>3</i>        | <i>–</i>        | <i>–</i>     |
| <i>Transfer between Stage 1 and Stage 3, net</i> | <i>(25)</i>     | <i>–</i>        | <i>25</i>       | <i>–</i>     |
| <i>Transfer between Stage 2 and Stage 3, net</i> | <i>–</i>        | <i>–</i>        | <i>–</i>        | <i>–</i>     |
| Remeasurement                                    | 31              | 8               | 193             | 232          |
| Exchange differences                             | (77)            | –               | (21)            | (98)         |
| <b>As at 31 December 2020</b>                    | <b>670</b>      | <b>11</b>       | <b>563</b>      | <b>1,244</b> |

|  | Stage 1         | Stage 2         | Stage 3         |              |
|--|-----------------|-----------------|-----------------|--------------|
|  | 12-month<br>ECL | Lifetime<br>ECL | Lifetime<br>ECL | Total        |
| <b>As at 1 January 2019</b>                      | <b>718</b>      | <b>–</b>        | <b>467</b>      | <b>1,185</b> |
| Addition/(Reversal), net                         | 114             | –               | (81)            | 33           |
| Written-offs                                     | –               | –               | –               | –            |
| Recovery after written-offs                      | –               | –               | –               | –            |
| Transfers:                                       | –               | –               | –               | –            |
| <i>Transfer between Stage 1 and Stage 2, net</i> | <i>–</i>        | <i>–</i>        | <i>–</i>        | <i>–</i>     |
| <i>Transfer between Stage 1 and Stage 3, net</i> | <i>–</i>        | <i>–</i>        | <i>–</i>        | <i>–</i>     |
| <i>Transfer between Stage 2 and Stage 3, net</i> | <i>–</i>        | <i>–</i>        | <i>–</i>        | <i>–</i>     |
| Remeasurement                                    | (193)           | –               | –               | (193)        |
| Exchange differences                             | 21              | –               | 7               | 28           |
| <b>As at 31 December 2019</b>                    | <b>660</b>      | <b>–</b>        | <b>393</b>      | <b>1,053</b> |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020  
(All amounts expressed in millions of RMB unless otherwise stated)

### 24 PRINCIPAL SUBSIDIARIES

#### 24.1 Details of the principal subsidiaries

| Name of subsidiaries   | Place of incorporation and operation | Date of incorporation | Issued and fully paid up share capital | Proportion of ownership interest and voting power held by the Group (%) | Principal activities                                |
|--|--------------------------------------|-----------------------|--|---|---|
| Bank of Communications Financial Leasing Co., Ltd.   | Mainland China                       | 20 Dec. 2007          | RMB14,000,000,000                      | 100.00  | Financial leasing                                   |
| Bank of Communications International Trust Co., Ltd.   | Mainland China                       | 18 Oct. 2007          | RMB5,764,705,882                       | 85.00   | Trust investment                                    |
| Bank of Communications Schroder Fund Management Co., Ltd.  | Mainland China                       | 4 Aug. 2005           | RMB200,000,000                         | 65.00   | Fund management                                     |
| BoCommlife Insurance Company Limited   | Mainland China                       | 27 Jan. 2010          | RMB5,100,000,000                       | 62.50   | Life Insurance                                      |
| BoCom International Holdings Company Limited (formerly known as BoCom Securities Company Limited)  | Hong Kong China                      | 2 May. 2007           | HKD2,734,392,000                       | 73.14   | Securities dealing and brokerage                    |
| China BoCom Insurance Co., Ltd. (formerly known as China Communications Insurance Company Limited) | Hong Kong China                      | 1 Nov. 2000           | HKD400,000,000                         | 100.00  | General insurance and reinsurance                   |
| Dayi BoCom Xingmin Rural Bank Ltd.   | Mainland China                       | 15 Aug. 2008          | RMB230,000,000                         | 97.29   | Commercial banking                                  |
| Zhejiang Anji BoCom Rural Bank Ltd.  | Mainland China                       | 18 Mar. 2010          | RMB180,000,000                         | 51.00   | Commercial banking                                  |
| Xinjiang Shihezi BoCom Rural Bank Company Ltd.   | Mainland China                       | 13 Apr. 2011          | RMB150,000,000                         | 51.00   | Commercial banking                                  |
| Qingdao Laoshan BoCom Rural Bank Company Ltd.  | Mainland China                       | 16 Aug. 2012          | RMB150,000,000                         | 51.00   | Commercial banking                                  |
| Bank of Communications (Luxembourg) Limited  | Luxembourg                           | 7 May. 2015           | EUR350,000,000                         | 100.00  | Commercial banking                                  |
| Bank of Communications Financial Assets Investment Co., Ltd.                                       | Mainland China                       | 29 Dec. 2017          | RMB10,000,000,000                      | 100.00  | Debt-to-equity swaps                                |
| Bank of Communications (Hong Kong) Limited   | Hong Kong China                      | 29 Jan. 2018          | HKD37,900,000,000                      | 100.00  | Commercial banking                                  |
| BOCOM Wealth Management Co., Ltd.  | Mainland China                       | 6 June. 2019          | RMB8,000,000,000                       | 100.00  | Financial products issuing and financial consulting |
| BoCom Brazil Holding Company Ltda  | Brazil                               | 11 Mar. 2016          | BRL533,377,877                         | 100.00  | Investment  |
| BANCO Bocom BBM S.A.   | Brazil                               | 30 Nov. 2016          | BRL313,686,111                         | 80.00   | Commercial banking                                  |

As at 31 December 2020, the amount of non-controlling interests of these subsidiaries is insignificant to the Group.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

### 24 PRINCIPAL SUBSIDIARIES *(Continued)*

#### 24.2 Changes of principal subsidiaries

- (1) In March 2020, the Bank increased the capital of Bank of Communications Financial Leasing Co., Ltd. by RMB5.50 billion. As at 31 December 2020, the Bank held 100% of Bank of Communications Financial Leasing Co., Ltd.
- (2) In December 2020, the Bank increased the capital of Dayi BoCom Xingmin Rural Bank Ltd. by RMB170.00 million. As at 31 December 2020, the Bank held 97.29% of Dayi BoCom Xingmin Rural Bank Ltd.
- (3) In 2020, the Bank increased the capital of Bank of Communications (Luxemburg) Limited by EUR250.00 million. As at 31 December 2020, the Bank held 100% of Bank of Communications (Luxemburg) Limited.
- (4) In 2020, the Bank increased the capital of Bank of Communications (Hong Kong) Limited by HKD12.00 billion and RMB6.98 billion. As at 31 December 2020, the Bank held 100% of Bank of Communications (Hong Kong) Limited.

#### 24.3 Auditors of subsidiaries

For the year ended 31 December 2020, PricewaterhouseCoopers Limited was the auditor of all principal subsidiaries incorporated in Hong Kong (for the year ended 31 December 2019: PricewaterhouseCoopers).

For the year ended 31 December 2020, PricewaterhouseCoopers ZhongTian LLP was the auditor of all principal subsidiaries incorporated in PRC (for the year ended 31 December 2019: PricewaterhouseCoopers ZhongTian Certified Public Accountants LLP).

For the year ended 31 December 2020, Bank of Communications (Luxemburg) Limited was audited by PricewaterhouseCoopers, Société coopérative (for the year ended 31 December 2019: PricewaterhouseCoopers, Société coopérative).

For the year ended 31 December 2020, BoCom Brazil Holding Company Ltda and BANCO Bocom BBM S.A. were audited by PricewaterhouseCoopers LLP (for the year ended 31 December 2019: PricewaterhouseCoopers LLP).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020  
(All amounts expressed in millions of RMB unless otherwise stated)

### 25 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

|  | As at<br>31 December 2020 | As at<br>31 December 2019 |
|--|---------------------------|---------------------------|
| Investments in associates                                |                           |                           |
| Investment cost  | 3,312                     | 3,506                     |
| Share of net profit of associates for the year           | 1,328                     | 1,080                     |
| Share of other equity changes of associates for the year | 77                        | 71                        |
| Dividend income  | (147)                     | (93)                      |
| Subtotal   | 4,570                     | 4,564                     |
| Investments in joint ventures                            | 111                       | 36                        |
| Total  | 4,681                     | 4,600                     |

The Group's investments in associates mainly include the investments in Jiangsu Changshu Rural Commercial Bank Co., Ltd. and Bank of Tibet Co., Ltd.

Jiangsu Changshu Rural Commercial Bank Co., Ltd. was incorporated in Changshu City, Jiangsu Province on 3 December 2001. The registered capital of the entity is RMB2,741 million, and the principal activities of the entity are banking activities. The Group held 9.01% of equity interest in this associate as at 31 December 2020 (31 December 2019: 9.01%).

There are 14 directors at the Board of Directors of Jiangsu Changshu Rural Commercial Bank Co., Ltd., of which 3 directors were nominated by the Group. Accordingly, the Group is able to exert significant influence on such company, so such company is accounted for as an associate.

Bank of Tibet Co., Ltd. was incorporated in Tibet Autonomous Region, PRC on 30 December 2011. The registered capital of the entity is RMB3,320 million, and the principal activities of the entity are banking activities. The Group held 10.60% of equity interest in this associate as at 31 December 2020 (31 December 2019: 10.60%).

There are 12 directors at the Board of Directors of Bank of Tibet Co., Ltd., of which 3 directors were nominated by the Group. Accordingly, the Group is able to exert significant influence on such company, so such company is accounted for as an associate.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

## 26 PROPERTY AND EQUIPMENT

|  | Buildings       | Construction<br>in progress | Equipment<br>And<br>Transportation<br>equipment | Aircraft<br>and vessels | Property<br>improvement | Total           |
|--|-----------------|-----------------------------|---|-------------------------|-------------------------|-----------------|
| <b>Cost</b>                                |                 |                             |   |                         |                         |                 |
| As at 1 January 2020                       | 61,764          | 2,625                       | 26,034  | 133,756                 | 9,378                   | 233,557         |
| Additions                                  | 70              | 1,870                       | 2,822   | 18,424                  | 98                      | 23,284          |
| Disposals                                  | (293)           | –                           | (2,201)   | (15,475)                | (156)                   | (18,125)        |
| Construction in progress transfer in/(out) | 616             | (950)                       | –   | –                       | 334                     | –               |
| Transfer in from investment properties     | 589             | –                           | –   | –                       | –                       | 589             |
| Transfer into investment properties        | (3)             | –                           | –   | –                       | –                       | (3)             |
| Other transfers out                        | –               | (176)                       | –   | –                       | –                       | (176)           |
| <b>As at 31 December 2020</b>              | <b>62,743</b>   | <b>3,369</b>                | <b>26,655</b>                                   | <b>136,705</b>          | <b>9,654</b>            | <b>239,126</b>  |
| <b>Accumulated depreciation</b>            |                 |                             |   |                         |                         |                 |
| As at 1 January 2020                       | (18,678)        | –                           | (20,644)  | (16,876)                | (5,824)                 | (62,022)        |
| Charge for the year                        | (1,982)         | –                           | (2,027)   | (6,882)                 | (783)                   | (11,674)        |
| Disposals                                  | 200             | –                           | 1,992   | 2,517                   | 122                     | 4,831           |
| Transfer into investment properties        | 1               | –                           | –   | –                       | –                       | 1               |
| <b>As at 31 December 2020</b>              | <b>(20,459)</b> | <b>–</b>                    | <b>(20,679)</b>                                 | <b>(21,241)</b>         | <b>(6,485)</b>          | <b>(68,864)</b> |
| <b>Allowance for impairment losses</b>     |                 |                             |   |                         |                         |                 |
| As at 1 January 2020                       | –               | (16)                        | –   | (340)                   | –                       | (356)           |
| Provision for impairment                   | –               | –                           | –   | (485)                   | –                       | (485)           |
| Decrease                                   | –               | –                           | –   | –                       | –                       | –               |
| Exchange differences and other movements   | –               | –                           | –   | 50                      | –                       | 50              |
| <b>As at 31 December 2020</b>              | <b>–</b>        | <b>(16)</b>                 | <b>–</b>  | <b>(775)</b>            | <b>–</b>                | <b>(791)</b>    |
| <b>Net book value</b>                      |                 |                             |   |                         |                         |                 |
| <b>As at 31 December 2020</b>              | <b>42,284</b>   | <b>3,353</b>                | <b>5,976</b>                                    | <b>114,689</b>          | <b>3,169</b>            | <b>169,471</b>  |

As at 31 December 2020, the net book value of the aircrafts and vessels used as collateral for borrowings was RMB58,496 million (31 December 2019: RMB59,957 million).

As at 31 December 2020, the property and equipment with re-registration procedure not completed amounted to RMB198 million (31 December 2019: RMB198 million). However, this registration process does not affect the rights of the Bank to these assets.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020  
(All amounts expressed in millions of RMB unless otherwise stated)

### 26 PROPERTY AND EQUIPMENT (Continued)

|  | Buildings       | Construction<br>in progress | Equipment<br>And<br>Transportation<br>equipment | Aircraft<br>and vessels | Property<br>improvement | Total           |
|--|-----------------|-----------------------------|---|-------------------------|-------------------------|-----------------|
| <b>Cost</b>                                |                 |                             |   |                         |                         |                 |
| As at 1 January 2019                       | 61,594          | 2,407                       | 26,235  | 107,841                 | 9,133                   | 207,210         |
| Additions                                  | 173             | 965                         | 2,121   | 28,157                  | 103                     | 31,519          |
| Disposals                                  | (468)           | –                           | (2,322)   | (2,242)                 | (124)                   | (5,156)         |
| Construction in progress transfer in/(out) | 326             | (731)                       | –   | –                       | 405                     | –               |
| Other transfers in/(out)                   | 139             | (16)                        | –   | –                       | (139)                   | (16)            |
| <b>As at 31 December 2019</b>              | <b>61,764</b>   | <b>2,625</b>                | <b>26,034</b>                                   | <b>133,756</b>          | <b>9,378</b>            | <b>233,557</b>  |
| <b>Accumulated depreciation</b>            |                 |                             |   |                         |                         |                 |
| As at 1 January 2019                       | (16,860)        | –                           | (20,726)  | (11,102)                | (5,103)                 | (53,791)        |
| Charge for the year                        | (1,975)         | –                           | (2,095)   | (5,878)                 | (822)                   | (10,770)        |
| Disposals                                  | 157             | –                           | 2,177   | 104                     | 101                     | 2,539           |
| <b>As at 31 December 2019</b>              | <b>(18,678)</b> | <b>–</b>                    | <b>(20,644)</b>                                 | <b>(16,876)</b>         | <b>(5,824)</b>          | <b>(62,022)</b> |
| <b>Allowance for impairment losses</b>     |                 |                             |   |                         |                         |                 |
| As at 1 January 2019                       | –               | (16)                        | –   | (117)                   | –                       | (133)           |
| Provision for impairment                   | –               | –                           | –   | (233)                   | –                       | (233)           |
| Decrease                                   | –               | –                           | –   | 10                      | –                       | 10              |
| <b>As at 31 December 2019</b>              | <b>–</b>        | <b>(16)</b>                 | <b>–</b>  | <b>(340)</b>            | <b>–</b>                | <b>(356)</b>    |
| <b>Net book value</b>                      |                 |                             |   |                         |                         |                 |
| <b>As at 31 December 2019</b>              | <b>43,086</b>   | <b>2,609</b>                | <b>5,390</b>                                    | <b>116,540</b>          | <b>3,554</b>            | <b>171,179</b>  |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

## 27 DEFERRED INCOME TAX

Deferred income taxes for transactions in PRC are calculated on all temporary differences using an effective tax rate of 25% for the year ended 31 December 2020 (for the year ended 31 December 2019: 25%). Deferred income taxes for transactions in Hong Kong are calculated on all temporary differences using an effective tax rate of 16.5% (for the year ended 31 December 2019: 16.5%).

The movements in the deferred income tax account are as follows:

|  | Allowance<br>for<br>impairment<br>losses | Provisions | Changes in<br>fair value<br>of financial<br>assets at<br>FVOCI | Changes in<br>fair value of<br>derivative<br>instruments | Changes in<br>fair value of<br>investment<br>properties | Changes in<br>fair value<br>of financial<br>investments<br>and financial<br>liabilities at<br>FVPL | Others | Total  |
|--|--|------------|--|--|---|--|--------|--------|
| As at 1 January 2020                     | 21,078                                   | 1,840      | (530)  | 1,371  | (680)   | (1,574)  | 1,642  | 23,147 |
| Recognised in profit or loss             | 3,725                                    | 328        | (766)  | (1,408)  | (26)  | 643  | 103    | 2,599  |
| Recognised in other comprehensive income | 32                                       | –          | 801  | 129  | (3)   | –  | –      | 959    |
| As at 31 December 2020                   | 24,835                                   | 2,168      | (495)  | 92   | (709)   | (931)  | 1,745  | 26,705 |

|  | Allowance<br>for<br>impairment<br>losses | Provisions | Changes in<br>fair value<br>of financial<br>assets at<br>FVOCI | Changes in<br>fair value of<br>derivative<br>instruments | Changes in<br>fair value of<br>investment<br>properties | Changes in<br>fair value<br>of financial<br>investments<br>and financial<br>liabilities at<br>FVPL | Others | Total   |
|--|--|------------|--|--|---|--|--------|---------|
| As at 1 January 2019                     | 18,947                                   | 1,516      | 484  | (412)  | (584)   | (538)  | 1,964  | 21,377  |
| Recognised in profit or loss             | 2,742                                    | 324        | –  | 1,778  | (96)  | (1,036)  | (322)  | 3,390   |
| Recognised in other comprehensive income | (611)                                    | –          | (1,014)  | 5  | –   | –  | –      | (1,620) |
| As at 31 December 2019                   | 21,078                                   | 1,840      | (530)  | 1,371  | (680)   | (1,574)  | 1,642  | 23,147  |



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020  
(All amounts expressed in millions of RMB unless otherwise stated)

### 27 DEFERRED INCOME TAX (Continued)

Deferred income tax assets and liabilities are attributable to the following items:

|  | As at 31 December 2020                               |  | As at 31 December 2019                               |  |
|--|--|--|--|--|
|  | Deductible/<br>(Taxable)<br>temporary<br>differences | Deferred<br>income<br>tax assets/<br>(liabilities) | Deductible/<br>(Taxable)<br>temporary<br>differences | Deferred<br>income<br>tax assets/<br>(liabilities) |
| <b>Deferred income tax liabilities</b>                               |  |  |  |  |
| Changes in fair value of financial assets at FVOCI                   | (6,272)  | (1,568)  | (4,632)  | (1,158)  |
| Changes in fair value of financial assets<br>and liabilities at FVPL | (3,724)  | (931)  | (8,272)  | (2,068)  |
| Changes in fair value of derivative instruments                      | (54,212)   | (13,648)   | (20,937)   | (5,235)  |
| Changes in fair value of investment properties                       | (2,836)  | (709)  | (2,720)  | (680)  |
| Others   | (876)  | (219)  | (2,408)  | (602)  |
|  | (67,920)   | (17,075)   | (38,969)   | (9,743)  |
| <b>Deferred income tax assets</b>                                    |  |  |  |  |
| Allowance for impairment of assets                                   | 99,340   | 24,835   | 84,312   | 21,078   |
| Provisions   | 8,672  | 2,168  | 7,361  | 1,840  |
| Changes in fair value of financial assets and liabilities at<br>FVPL | —  | —  | 1,976  | 494  |
| Changes in fair value of financial assets at FVOCI                   | 4,292  | 1,073  | 2,512  | 628  |
| Changes in fair value of derivative instruments                      | 55,942   | 13,740   | 26,424   | 6,606  |
| Others   | 7,855  | 1,964  | 8,979  | 2,244  |
|  | 176,101  | 43,780   | 131,564  | 32,890   |
| Net deferred income tax assets                                       | 108,181  | 26,705   | 92,595   | 23,147   |

The above net deferred income tax assets are disclosed separately on the statements of financial position based on different taxation authorities and entities:

|                                 | As at<br>31 December 2020 | As at<br>31 December 2019 |
|---------------------------------|---------------------------|---------------------------|
| Deferred income tax assets      | 27,991                    | 24,065                    |
| Deferred income tax liabilities | (1,286)                   | (918)                     |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

## 28 OTHER ASSETS

|  | As at<br>31 December 2020 | As at<br>31 December 2019 |
|--|---------------------------|---------------------------|
| Accounts receivable and temporary payments | 44,950                    | 46,798                    |
| Less: Allowance for impairment losses (a)  | (2,764)                   | (2,717)                   |
| Advance payments                           | 11,865                    | 10,517                    |
| Investment properties (b)                  | 7,353                     | 7,894                     |
| Right-of-use assets(c)                     | 6,669                     | 6,521                     |
| Interest receivable <sup>(1)</sup>         | 3,784                     | 3,827                     |
| Land use rights and others                 | 2,057                     | 1,936                     |
| Intangible assets (d)                      | 1,550                     | 1,368                     |
| Long-term deferred expenses                | 599                       | 714                       |
| Foreclosed assets                          | 967                       | 759                       |
| Goodwill (e)                               | 401                       | 430                       |
| Refundable deposits                        | 466                       | 493                       |
| Unsettled assets                           | 33                        | 33                        |
| Others                                     | 16,735                    | 8,077                     |
|  | <b>94,665</b>             | <b>86,650</b>             |

Note 1: The interest receivable account only reflects the interest for relevant financial instruments which is due but not received on balance sheet date.

## (a) Allowance for impairment losses

|                                   | As at<br>1 January<br>2020 | Amounts<br>accrued | Reversal | Written-offs | Transfers<br>(in)/out | Recoveries<br>after<br>written-offs | Exchange<br>differences | As at 31<br>December<br>2020 |
|-----------------------------------|----------------------------|--------------------|----------|--------------|-----------------------|-------------------------------------|-------------------------|------------------------------|
| Other receivables and prepayments | (2,717)                    | (1,972)            | 1,117    | 929          | -                     | (107)                               | (14)                    | (2,764)                      |
| Total                             | (2,717)                    | (1,972)            | 1,117    | 929          | -                     | (107)                               | (14)                    | (2,764)                      |

|                                   | As at<br>1 January<br>2019 | Amounts<br>accrued | Reversal | Written-offs | Transfers<br>(in)/out | Recoveries<br>after<br>written-offs | Exchange<br>differences | As at<br>31 December<br>2019 |
|-----------------------------------|----------------------------|--------------------|----------|--------------|-----------------------|-------------------------------------|-------------------------|------------------------------|
| Other receivables and prepayments | (2,152)                    | (2,134)            | 524      | 1,140        | (13)                  | (80)                                | (2)                     | (2,717)                      |
| Total                             | (2,152)                    | (2,134)            | 524      | 1,140        | (13)                  | (80)                                | (2)                     | (2,717)                      |

## (b) Investment properties

|                       | As at<br>1 January<br>2020 | Increases/<br>(Decreases)<br>of the year | Gains on<br>property<br>revaluation | Exchange<br>differences | As at 31<br>December<br>2020 |
|-----------------------|----------------------------|--|-------------------------------------|-------------------------|------------------------------|
| Investment properties | 7,894                      | (577)                                    | 180                                 | (144)                   | 7,353                        |

|                       | As at<br>1 January<br>2019 | Increases/<br>(Decreases)<br>of the year | Gains on<br>property<br>revaluation | Exchange<br>differences | As at 31<br>December<br>2019 |
|-----------------------|----------------------------|--|-------------------------------------|-------------------------|------------------------------|
| Investment properties | 7,899                      | -  | 31                                  | (36)                    | 7,894                        |

The Group's investment properties are located in active real estate markets. The external appraisers make reasonable estimation of fair value using market prices of the similar properties.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020  
(All amounts expressed in millions of RMB unless otherwise stated)

### 28 OTHER ASSETS (Continued)

#### (b) Investment properties (Continued)

As at 31 December 2020, fair value hierarchies of the investment properties of the Group are as follows:

|   | Level 1 | Level 2 | Level 3 | As at<br>31 December<br>2019 |
|---|---------|---------|---------|------------------------------|
| Commercial property units located in Hong Kong      | –       | –       | 988     | 988                          |
| Commercial property units located outside Hong Kong | –       | –       | 6,365   | 6,365                        |

The valuation of investment properties was performed by independent qualified professional valuers not connected to the Group. Valuation methodologies include “Rental Income Approach” and “Direct Comparison Approach”. The inputs to these models mainly include growth rate of rental, capitalisation rate and unit price.

#### (c) Right-of-use assets

|                                | As at<br>31 December 2020 | As at<br>31 December 2019 |
|--------------------------------|---------------------------|---------------------------|
| Cost                           |                           |                           |
| Opening balance                | 13,513                    | 14,493                    |
| Additions                      | 3,030                     | 2,124                     |
| Decreases                      | (2,850)                   | (3,104)                   |
| Balance at the end of the year | 13,693                    | 13,513                    |
| Accumulated depreciation:      |                           |                           |
| Opening balance                | (6,992)                   | (7,372)                   |
| Additions                      | (2,445)                   | (2,550)                   |
| Decreases                      | 2,413                     | 2,930                     |
| Balance at the end of the year | (7,024)                   | (6,992)                   |
| Net book value                 | 6,669                     | 6,521                     |
| Lease liabilities              | 6,532                     | 6,344                     |

As at 31 December 2020, committed by leases but not yet commenced amount to RMB136 million (as at 31 December 2019: RMB195 million).

The Group's right-of-use assets include the above assets and land use rights.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

## 28 OTHER ASSETS (Continued)

## (d) Intangible assets

|                                 | Software       |
|---------------------------------|----------------|
| <b>Cost</b>                     |                |
| As at 1 January 2020            | 3,386          |
| Additions                       | 522            |
| Transfers in                    | –              |
| Disposals                       | (20)           |
| <b>As at 31 December 2020</b>   | <b>3,888</b>   |
| <b>Accumulated amortisation</b> |                |
| As at 1 January 2020            | (2,018)        |
| Amortisation expense            | (326)          |
| Transfers in                    | –              |
| Disposals                       | 6              |
| <b>As at 31 December 2020</b>   | <b>(2,338)</b> |
| <b>Net book value</b>           | <b>1,550</b>   |

|                                 | Software       |
|---------------------------------|----------------|
| <b>Cost</b>                     |                |
| As at 1 January 2019            | 3,028          |
| Additions                       | 365            |
| Transfers in                    | –              |
| Disposals                       | (7)            |
| <b>As at 31 December 2019</b>   | <b>3,386</b>   |
| <b>Accumulated amortisation</b> |                |
| As at 1 January 2019            | (1,719)        |
| Amortisation expense            | (305)          |
| Transfers in                    | –              |
| Disposals                       | 6              |
| <b>As at 31 December 2019</b>   | <b>(2,018)</b> |
| <b>Net book value</b>           | <b>1,368</b>   |

## (e) Goodwill

|   | As at<br>1 January<br>2020 | Addition<br>during<br>the year | Decrease<br>during<br>the year | Exchange<br>differences | As at 31<br>December<br>2020 |
|---|----------------------------|--------------------------------|--------------------------------|-------------------------|------------------------------|
| Bank of Communications International<br>Trust Co., Ltd. | 200                        | –                              | –                              | –                       | 200                          |
| BoCommLife Insurance Company Limited                    | 122                        | –                              | –                              | –                       | 122                          |
| BANCO Bocom BBM S.A.                                    | 108                        | –                              | –                              | (29)                    | 79                           |
| <b>Total</b>  | <b>430</b>                 | <b>–</b>                       | <b>–</b>                       | <b>(29)</b>             | <b>401</b>                   |

|   | As at<br>1 January<br>2019 | Addition<br>during<br>the year | Decrease<br>during<br>the year | Exchange<br>differences | As at<br>31 December<br>2019 |
|---|----------------------------|--------------------------------|--------------------------------|-------------------------|------------------------------|
| Bank of Communications International<br>Trust Co., Ltd. | 200                        | –                              | –                              | –                       | 200                          |
| BoCommLife Insurance Company Limited                    | 122                        | –                              | –                              | –                       | 122                          |
| BANCO Bocom BBM S.A.                                    | 115                        | –                              | –                              | (7)                     | 108                          |
| <b>Total</b>  | <b>437</b>                 | <b>–</b>                       | <b>–</b>                       | <b>(7)</b>              | <b>430</b>                   |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020  
(All amounts expressed in millions of RMB unless otherwise stated)

### 28 OTHER ASSETS (Continued)

#### (e) Goodwill (Continued)

At each end of year, the Group performed impairment tests on goodwill. In the test, the Group compares the book value of cash-generating unit (CGU) or CGUs (including goodwill) with the recoverable amount. If the recoverable amount is less than the book value, the related difference is recognised in profit or loss.

The Group calculates the recoverable amount of CGU and CGUs using cash flow models based on the management's approved financial forecasts and fixed growth rates afterwards.

As indicated by the impairment tests, goodwill arising from business combinations is not impaired and therefore, no impairment loss is recognised.

### 29 DUE TO AND PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

|   | As at<br>31 December 2020 | As at<br>31 December 2019 |
|---|---------------------------|---------------------------|
| Borrowing from central banks                                    | 472,460                   | 456,314                   |
| Accrued interest  | 6,285                     | 6,619                     |
| Due to banks  |                           |                           |
| – Banks operating in Mainland China                             | 200,025                   | 284,254                   |
| – Banks operating outside Mainland China                        | 28,084                    | 14,213                    |
| Due to other financial institutions                             |                           |                           |
| – Other financial institutions operating in Mainland China      | 664,299                   | 602,870                   |
| – Other financial institutions operating outside Mainland China | 9,548                     | 14,645                    |
| Accrued interest  | 3,002                     | 5,672                     |
| Placements from banks   |                           |                           |
| – Banks operating in Mainland China                             | 164,583                   | 154,740                   |
| – Banks operating outside Mainland China                        | 153,341                   | 245,877                   |
| Placements from other financial institutions                    |                           |                           |
| – Other financial institutions operating in Mainland China      | 2,500                     | 701                       |
| – Other financial institutions operating outside Mainland China | 9,124                     | 10,303                    |
| Accrued interest  | 1,019                     | 1,016                     |
| Financial assets sold under repurchase agreements               |                           |                           |
| Securities  |                           |                           |
| – Governments   | 9,706                     | 4,505                     |
| – Policy banks  | 3,283                     | 4,325                     |
| – Financial institutions  | 25,515                    | 21,704                    |
| – Corporates  | 9,312                     | 3,642                     |
| Bills   | 25,363                    | 72,553                    |
| Accrued interest  | 42                        | 129                       |
| <b>Total</b>  | <b>1,787,491</b>          | <b>1,904,082</b>          |

### 30 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

|   | As at<br>31 December 2020 | As at<br>31 December 2019 |
|---|---------------------------|---------------------------|
| Certificates of deposit issued                            | 7,868                     | 13,392                    |
| Financial liabilities related to precious metal contracts | 16,104                    | 12,950                    |
| Notes issued  | 417                       | 638                       |
| Others  | 4,890                     | –                         |
| <b>Total</b>  | <b>29,279</b>             | <b>26,980</b>             |

Except for certificates of deposit issued by branch in Hong Kong, notes issued by BoCom International Holdings Company Limited and shares of consolidated structured entities held by other parties rather than the Group which are designated at fair value through profit or loss, financial liabilities at fair value through profit or loss are financial liabilities held for trading.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

30 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS *(Continued)*

Financial liabilities designated at fair value through profit or loss

|  | As at<br>31 December 2020 | As at<br>31 December 2019 |
|--|---------------------------|---------------------------|
| Difference between carrying amount and maturity amount |                           |                           |
| Fair values  | 13,175                    | 14,030                    |
| Amount payable at maturity                             | 12,962                    | 13,976                    |
|  | 213                       | 54                        |

For the year ended 31 December 2020 and the year ended 31 December 2019, there were no significant changes in the fair value of the Group's financial liabilities designated at fair value through profit or loss that were attributable to the changes in credit risk.

## 31 DUE TO CUSTOMERS

|                                | As at<br>31 December 2020 | As at<br>31 December 2019 |
|--------------------------------|---------------------------|---------------------------|
| Corporate demand deposits      | 2,005,934                 | 1,835,688                 |
| Corporate time deposits        | 2,335,590                 | 2,196,096                 |
| Personal demand deposits       | 812,534                   | 762,669                   |
| Personal time deposits         | 1,379,697                 | 1,207,253                 |
| Other deposits                 | 5,499                     | 3,364                     |
| Due to customers               | 6,539,254                 | 6,005,070                 |
| Accrued interest               | 68,076                    | 67,838                    |
| Total                          | 6,607,330                 | 6,072,908                 |
| Including:                     |                           |                           |
| Deposits pledged as collateral | 229,546                   | 246,727                   |

## 32 CERTIFICATES OF DEPOSITS ISSUED

Certificates of deposits at year end were issued by the Bank's domestic branches, branches in Macau, Hong Kong, Taipei, New York, Tokyo, Singapore, Seoul, Sydney, London and Luxembourg, and BANCO Bocom BBM S.A., which were measured at amortised cost.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020  
(All amounts expressed in millions of RMB unless otherwise stated)

### 33 DEBT SECURITIES ISSUED

|                            |      | As at<br>31 December 2020 | As at<br>31 December 2019 |
|----------------------------|------|---------------------------|---------------------------|
| Carried at amortised cost: |      |                           |                           |
| Subordinated bonds         | 33.1 | 25,950                    | 25,950                    |
| Tier-2 capital bonds       | 33.2 |                           |                           |
| The Bank                   |      | 113,945                   | 73,843                    |
| Subsidiaries               |      | 1,995                     | 1,994                     |
| Bonds                      |      |                           |                           |
| The Bank                   | 33.3 | 251,580                   | 194,422                   |
| Subsidiaries               | 33.3 | 85,767                    | 83,688                    |
| Accrued interest           |      | 5,145                     | 3,584                     |
| Subtotal                   |      | 484,382                   | 383,481                   |
| Carried at fair value:     |      |                           |                           |
| Bonds                      | 33.3 |                           |                           |
| The Bank                   |      | 13,373                    | 20,437                    |
| Total                      |      | 497,755                   | 403,918                   |

Note1: Debt securities issued are designated as fair value through profit or loss upon initiation as the Hong Kong branch of the Bank considers such designation could eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise result from measuring the corresponding derivative assets or recognising the gains or losses on them on different basis. Accordingly, the debts are designated as fair value through profit or loss with changes in fair values charged to profit and loss account. For the year ended 31 December 2020 and the year ended 31 December 2019, there were no significant changes that were attributable to the Group's changes in credit risks.

#### 33.1 Subordinated bonds

Detailed information of subordinated bonds is disclosed as follows:

|              | Currency | Issue place    | Coupon<br>rate<br>% | Par value<br>(CCY) | Issue date | Maturity | Note | Ending<br>balance | Opening<br>balance |
|--------------|----------|----------------|---------------------|--------------------|------------|----------|------|-------------------|--------------------|
| 11 BoComm 01 | RMB      | Mainland China | 5.75                | 26,000             | 2011/10/21 | 15 years | (a)  | 25,950            | 25,950             |
| Total        |          |                |                     |                    |            |          |      | 25,950            | 25,950             |

(a) The Group has an option to redeem 11 BoComm 01 on 24 October 2021. The bonds bear a fixed coupon rate of 5.75%.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

33 DEBT SECURITIES ISSUED *(Continued)*

## 33.2 Tier-2 capital bonds

Detailed information of tier-2 capital bonds is disclosed as follows:

|                   | Currency | Issue place     | Coupon rate<br>% | Par value<br>(CCY) | Issue date | Maturity | Note | Ending balance | Opening balance |
|-------------------|----------|-----------------|------------------|--------------------|------------|----------|------|----------------|-----------------|
| The Bank          |          |                 |                  |                    |            |          |      |                |                 |
| 14 BoComm 01-Euro | EUR      | Hong Kong China | 3.625            | 500                | 2014/10/03 | 12 years | (a)  | 3,984          | 3,883           |
| 17 BoComm         | RMB      | Mainland China  | 4.50             | 30,000             | 2017/04/11 | 10 years | (b)  | 29,973         | 29,960          |
| 19 BoComm 01      | RMB      | Mainland China  | 4.10             | 30,000             | 2019/08/14 | 10 years | (c)  | 29,993         | 30,000          |
| 19 BoComm 02      | RMB      | Mainland China  | 4.49             | 10,000             | 2019/08/14 | 15 years | (d)  | 9,999          | 10,000          |
| 20 BoComm         | RMB      | Mainland China  | 3.24             | 40,000             | 2020/05/19 | 10 years | (e)  | 39,996         | –               |
| Subtotal          |          |                 |                  |                    |            |          |      | 113,945        | 73,843          |
| Subsidiaries      |          |                 |                  |                    |            |          |      |                |                 |
| 18 Leasing 02     | RMB      | Mainland China  | 5.15             | 2,000              | 2018/09/18 | 10 years | (f)  | 1,995          | 1,994           |
| Subtotal          |          |                 |                  |                    |            |          |      | 1,995          | 1,994           |
| Total             |          |                 |                  |                    |            |          |      | 115,940        | 75,837          |

- (a) The Group has an option to redeem 14 BoComm 01-Euro as a whole on 3 October 2021. If the issuer does not exercise the redemption right by 3 October 2021, the interest rate will be readjusted based on the median of 5-year Euro swap rate plus 300 basis points initial rate differential.
- (b) The Group has an option to redeem 17 BoComm at the par value partially or as a whole on 13 April 2022, the first day upon the end of the fifth interest-bearing year, provided that the CBIRC's permission is acquired in advance and the Group's capital structure fulfills the CBIRC requirements on capital if the redemption is exercised.
- (c) The Group has an option to redeem 19 BoComm 01 at the par value partially or as a whole on 16 August 2024, the last day of the interest-bearing year with early redemption option embedded, provided that the CBIRC's permission is acquired in advance and the Group's capital structure fulfills the CBIRC requirements on capital if the redemption is exercised.
- (d) The Group has an option to redeem 19 BoComm 02 at the par value partially or as a whole on 16 August 2029, the last day of the interest-bearing year with early redemption option embedded, provided that the CBIRC's permission is acquired in advance and the Group's capital structure fulfills the CBIRC requirements on capital if the redemption is exercised.
- (e) The Group has an option to redeem 20 BoComm at the par value partially or as a whole on 21 May 2025, the last day of the interest-bearing year with early redemption option embedded, provided that the CBIRC's permission is acquired in advance and the Group's capital structure fulfills the CBIRC requirements on capital if the redemption is exercised.
- (f) The Group has an option to redeem 18 Leasing 02 at the par value partially or as a whole on 20 September 2023, the first day upon the end of the fifth interest-bearing year, provided that the CBIRC's permission is acquired in advance and the Group's capital structure fulfills the CBIRC requirements on capital if the redemption is exercised.

These tier-2 capital bonds have the write-down feature, which allows the Group to write down the entire principals of the bonds when regulatory triggering events as stipulated in the offering documents occur and any accumulated unpaid interest would become not payable. These bonds are regarded as tier-2 capital without any guarantees provided and the proceeds of the debts cannot be used for compensating daily operating loss of the Group.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020  
(All amounts expressed in millions of RMB unless otherwise stated)

## 33 DEBT SECURITIES ISSUED (Continued)

### 33.3 Bonds

Detailed information of bonds held at amortised cost is as follows:

|                                       | Currency | Issue place     | Coupon rate<br>% | Par value<br>(CCY) | Issue date | Maturity | Ending<br>balance | Opening<br>balance |
|---------------------------------------|----------|-----------------|------------------|--------------------|------------|----------|-------------------|--------------------|
| <b>The Bank</b>                       |          |                 |                  |                    |            |          |                   |                    |
| 15 BoComm                             | RMB      | Mainland China  | 3.45             | 30,000             | 2015/12/17 | 5 years  | –                 | 30,000             |
| 16 BoComm Green Financial bond 02     | RMB      | Mainland China  | 3.25             | 20,000             | 2016/11/18 | 5 years  | 20,000            | 20,000             |
| 17 BoComm Green Financial bond        | RMB      | Mainland China  | 4.29             | 20,000             | 2017/10/26 | 3 years  | –                 | 20,000             |
| 18 Bocom Micro Small Enterprises Bond | RMB      | Mainland China  | 3.79             | 10,000             | 2018/11/28 | 3 years  | 10,000            | 10,000             |
| 19 Bocomm 01                          | RMB      | Mainland China  | 3.35             | 50,000             | 2019/11/25 | 3 years  | 50,000            | 50,000             |
| 19 Bocomm 02                          | RMB      | Mainland China  | 3.35             | 40,000             | 2019/12/11 | 3 years  | 40,000            | 40,000             |
| 20 Bocomm 01                          | RMB      | Mainland China  | 3.18             | 50,000             | 2020/08/05 | 3 years  | 50,000            | –                  |
| 20 Bocomm 02                          | RMB      | Mainland China  | 3.50             | 40,000             | 2020/11/11 | 3 years  | 40,000            | –                  |
| 14 Formosa Bond C                     | RMB      | Taiwan China    | 4.15             | 500                | 2014/06/23 | 7 years  | 500               | 498                |
| 17 medium-term notes 01               | USD      | Hong Kong China | 3MLibor+0.78     | 700                | 2017/05/15 | 3 years  | –                 | 4,886              |
| 17 medium-term notes 02               | USD      | Hong Kong China | 3MLibor+0.88     | 300                | 2017/05/15 | 5 years  | 1,957             | 2,094              |
| 17 medium-term notes 03               | USD      | Hong Kong China | 3MLibor+0.80     | 400                | 2017/12/04 | 3 years  | –                 | 2,792              |
| 17 medium-term notes 04               | USD      | Hong Kong China | 3MLibor+0.90     | 600                | 2017/12/04 | 5 years  | 3,915             | 4,188              |
| 18 medium-term notes 01               | USD      | Hong Kong China | 3MLibor+0.75     | 600                | 2018/05/17 | 3 years  | 3,915             | 4,188              |
| 18 medium-term notes 02               | USD      | Hong Kong China | 3MLibor+0.85     | 700                | 2018/05/17 | 5 years  | 4,567             | 4,886              |
| 20 Hong Kong medium-term notes 01     | HKD      | Hong Kong China | 2.25             | 2,800              | 2020/01/22 | 2 years  | 2,357             | –                  |
| 20 Hong Kong medium-term notes 02     | USD      | Hong Kong China | 3MLibor+0.58     | 1,300              | 2020/01/22 | 3 years  | 8,482             | –                  |
| 20 Hong Kong medium-term notes 04     | USD      | Hong Kong China | 3MLibor+0.75     | 100                | 2020/06/05 | 3 years  | 651               | –                  |
| 20 Hong Kong medium-term notes 05     | USD      | Hong Kong China | 3MLibor+0.80     | 650                | 2020/07/20 | 3 years  | 4,241             | –                  |
| 20 Hong Kong medium-term notes 06     | USD      | Hong Kong China | 3MLibor+0.90     | 400                | 2020/07/20 | 5 years  | 2,610             | –                  |
| 20 Hong Kong medium-term notes 07     | USD      | Hong Kong China | 1.20             | 800                | 2020/09/10 | 5 years  | 5,199             | –                  |
| 20 Hong Kong medium-term notes 08     | USD      | Hong Kong China | 3MLibor+0.80     | 350                | 2020/09/10 | 3 years  | 2,284             | –                  |
| P14JHTP1C                             | RMB      | Taiwan China    | 3.90             | 700                | 2014/12/04 | 7 years  | 702               | 692                |
| P14JHTP1D                             | RMB      | Taiwan China    | 4.00             | 200                | 2014/12/04 | 10 years | 200               | 198                |
| Sub-total                             |          |                 |                  |                    |            |          | 251,580           | 194,422            |
| <b>Subsidiaries</b>                   |          |                 |                  |                    |            |          |                   |                    |
| 13 Azure Orbit                        | USD      | Hong Kong China | 3.75             | 500                | 2013/03/06 | 10 years | 3,260             | 3,484              |
| 5 Year medium-term notes              | USD      | Hong Kong China | 3.125            | 385                | 2015/08/18 | 5 years  | –                 | 2,497              |
| 5 Year USD bond                       | USD      | Hong Kong China | 2.625            | 600                | 2016/03/15 | 5 years  | 3,914             | 4,179              |
| 3 Year USD bond                       | USD      | Hong Kong China | 3.50             | 300                | 2018/01/25 | 3 years  | 1,957             | 2,090              |
| 5 Year USD bond                       | USD      | Hong Kong China | 3.75             | 950                | 2018/01/25 | 5 years  | 6,179             | 6,592              |
| 10 Year USD bond                      | USD      | Hong Kong China | 4.00             | 250                | 2018/01/25 | 10 years | 1,614             | 1,727              |
| 19 Brazil bonds                       | BRL      | Brazil          | 110%SELIC        | 200                | 2019/01/30 | 5 years  | 48                | 66                 |
| 16 Leasing 03                         | RMB      | Mainland China  | 3.25             | 500                | 2016/09/07 | 5 years  | 449               | 449                |
| 17 Leasing 01                         | RMB      | Mainland China  | 4.53             | 2,000              | 2017/07/18 | 3 years  | –                 | 1,949              |
| 17 Leasing 02                         | RMB      | Mainland China  | 4.60             | 3,000              | 2017/08/22 | 3 years  | –                 | 2,398              |
| 17 Leasing 03                         | RMB      | Mainland China  | 4.70             | 3,000              | 2017/10/18 | 3 years  | –                 | 2,398              |
| 18 Leasing 01                         | RMB      | Mainland China  | 4.53             | 4,000              | 2018/07/05 | 3 years  | 3,998             | 3,994              |
| 18 Leasing 02                         | RMB      | Mainland China  | 4.14             | 4,000              | 2018/10/22 | 3 years  | 3,997             | 3,993              |
| 19 Leasing 01                         | RMB      | Mainland China  | 3.68             | 5,000              | 2019/05/20 | 3 years  | 4,994             | 4,550              |
| 19 Leasing 02                         | RMB      | Mainland China  | 3.65             | 5,000              | 2019/07/08 | 3 years  | 4,994             | 4,990              |
| 19 Leasing 03                         | RMB      | Mainland China  | 3.49             | 3,500              | 2019/10/22 | 3 years  | 3,495             | 3,492              |
| 20 Leasing 01                         | RMB      | Mainland China  | 3.65             | 3,000              | 2020/11/05 | 3 years  | 2,915             | –                  |
| Azure Nova                            | USD      | Hong Kong China | 2.625            | 1,000              | 2016/10/25 | 5 years  | 6,514             | 6,956              |
| Azure Nova                            | USD      | Hong Kong China | 3.00             | 700                | 2017/03/21 | 3 years  | –                 | 4,882              |
| Azure Nova                            | USD      | Hong Kong China | 3.50             | 1,050              | 2017/03/21 | 5 years  | 6,843             | 7,308              |
| Azure Nova                            | USD      | Hong Kong China | 4.25             | 250                | 2017/03/21 | 10 years | 1,626             | 1,737              |
| 19 USD medium-term notes 01           | USD      | Hong Kong China | 4.00             | 800                | 2019/01/22 | 3 years  | 3,726             | 4,134              |
| 19 USD medium-term notes 02           | USD      | Hong Kong China | 4.375            | 700                | 2019/01/22 | 5 years  | 2,713             | 3,139              |
| 19 USD medium-term notes 03           | USD      | Hong Kong China | 3MLibor+1.20     | 120                | 2019/04/12 | 3 years  | 783               | 837                |
| 19 USD medium-term notes 04           | USD      | Hong Kong China | 3MLibor+1.175    | 400                | 2019/09/05 | 5 years  | 1,319             | 1,408              |
| 19 USD medium-term notes 05           | USD      | Hong Kong China | 2.625            | 200                | 2019/09/05 | 5 years  | 767               | 914                |
| 19 USD medium-term notes 06           | USD      | Hong Kong China | 3MLibor+1.05     | 180                | 2019/10/25 | 3 years  | 1,174             | 1,256              |
| 19 USD medium-term notes 07           | USD      | Hong Kong China | 3MLibor+1.075    | 600                | 2019/12/10 | 5 years  | 1,773             | 2,269              |
| 20 USD medium-term notes 01           | USD      | Hong Kong China | 3MLibor+0.95     | 500                | 2020/03/02 | 5 years  | 2,021             | –                  |
| 20 USD medium-term notes 02           | USD      | Hong Kong China | 3MLibor+0.83     | 300                | 2020/03/02 | 3 years  | 1,602             | –                  |
| 20 USD medium-term notes 03           | USD      | Hong Kong China | 1.750            | 350                | 2020/07/08 | 3 years  | 1,650             | –                  |
| 20 USD medium-term notes 04           | USD      | Hong Kong China | 3MLibor+1.70     | 450                | 2020/07/08 | 5 years  | 1,457             | –                  |
| 20 Financial Investing 01             | RMB      | Mainland China  | 2.70             | 3,000              | 2020/03/11 | 3 years  | 2,997             | –                  |
| 20 Financial Investing 02             | RMB      | Mainland China  | 2.80             | 7,000              | 2020/03/11 | 5 years  | 6,988             | –                  |
| Sub-total                             |          |                 |                  |                    |            |          | 85,767            | 83,688             |
| Total                                 |          |                 |                  |                    |            |          | 337,347           | 278,110            |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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## 33 DEBT SECURITIES ISSUED (Continued)

## 33.3 Bonds (Continued)

Detailed information of bonds held at fair value is as follows:

|                                       | Currency | Issue place     | Coupon rate<br>% | Par value<br>(CCY) | Issue date | Maturity | Fair value at<br>the end of<br>the year | Fair value<br>at the<br>beginning of<br>the year |
|---------------------------------------|----------|-----------------|------------------|--------------------|------------|----------|---|--|
| 14 Hong Kong bond                     | HKD      | Hong Kong China | 4.00             | 500                | 2014/02/14 | 7 years  | 428                                     | 462  |
| 17 Hong Kong USD<br>medium-term notes | USD      | Hong Kong China | 3MLibor+0.78     | 850                | 2017/02/21 | 3 years  | –                                       | 5,931  |
| 18 Hong Kong medium-<br>term notes    | HKD      | Hong Kong China | 2.95             | 3,000              | 2018/05/18 | 2 years  | –                                       | 2,743  |
| 19 Hong Kong RMB<br>medium-term notes | RMB      | Hong Kong China | 3.40             | 2,500              | 2019/03/21 | 2 years  | 2,526                                   | 2,526  |
| 19 Hong Kong medium-<br>term notes    | HKD      | Hong Kong China | 2.85             | 3,500              | 2019/03/21 | 5 years  | 3,157                                   | 3,186  |
| 19 Hong Kong USD<br>medium-term notes | USD      | Hong Kong China | 3MLibor+0.78     | 800                | 2019/03/21 | 3 years  | 5,226                                   | 5,589  |
| 20 Hong Kong medium-<br>term notes 03 | RMB      | Hong Kong China | 3.15             | 2,000              | 2020/01/22 | 2 years  | 2,036                                   | –  |
| Total                                 |          |                 |                  |                    |            |          | 13,373                                  | 20,437   |

## 34 OTHER LIABILITIES

|  | As at<br>31 December 2020 | As at<br>31 December 2019 |
|--|---------------------------|---------------------------|
| Insurance liabilities  | 58,842                    | 43,347                    |
| Clearing and settlement  | 31,482                    | 28,065                    |
| Temporary receipts   | 23,212                    | 19,275                    |
| Staff compensation payable   | 11,591                    | 11,118                    |
| Deposits received for finance lease  | 6,893                     | 7,661                     |
| Lease liabilities  | 6,532                     | 6,344                     |
| Provision for outstanding litigations (a)  | 1,032                     | 1,029                     |
| Expected credit impairment allowance of credit related commitments<br>and financial guarantees (b) | 10,500                    | 6,332                     |
| VAT and other taxes payable  | 4,208                     | 4,536                     |
| Special purpose funding  | 2,571                     | 2,845                     |
| Dividends payable  | 124                       | 87                        |
| Others   | 44,835                    | 32,742                    |
| Total  | 201,822                   | 163,381                   |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020  
(All amounts expressed in millions of RMB unless otherwise stated)

### 34 OTHER LIABILITIES (Continued)

#### (a) Movements in the provision for outstanding litigations

|                                       | As at<br>1 January<br>2020 | Amounts<br>accrued<br>during<br>the year | Amounts<br>settled<br>during<br>the year | Amounts<br>reversed<br>during<br>the year | Exchange<br>differences | As at 31<br>December<br>2020 |
|---------------------------------------|----------------------------|--|--|---|-------------------------|------------------------------|
| Provision for outstanding litigations | 1,029                      | 120                                      | (29)                                     | (88)                                      | –                       | 1,032                        |

|                                       | As at<br>1 January<br>2019 | Amounts<br>accrued<br>during<br>the year | Amounts<br>settled<br>during<br>the year | Amounts<br>reversed<br>during<br>the year | Exchange<br>differences | As at 31<br>December<br>2019 |
|---------------------------------------|----------------------------|--|--|---|-------------------------|------------------------------|
| Provision for outstanding litigations | 982                        | 421                                      | (3)                                      | (371)                                     | –                       | 1,029                        |

#### (b) Movements in the expected credit impairment allowance of credit related commitments and financial guarantees

|   | Stage 1         | Stage 2         | Stage 3         |        |
|---|-----------------|-----------------|-----------------|--------|
|   | 12-month<br>ECL | Lifetime<br>ECL | Lifetime<br>ECL | Total  |
| As at 1 January 2020                      | 5,358           | 974             | –               | 6,332  |
| Addition                                  | 1,443           | 2,261           | –               | 3,704  |
| Transfer out                              | (35)            | (651)           | –               | (686)  |
| Transfers:                                | (928)           | 928             | –               | –      |
| Transfer between Stage 1 and Stage 2, net | (928)           | 928             | –               | –      |
| Remeasurement                             | 1,037           | 133             | –               | 1,170  |
| Exchange differences                      | (17)            | (3)             | –               | (20)   |
| As at 31 December 2020                    | 6,858           | 3,642           | –               | 10,500 |

|   | Stage 1         | Stage 2         | Stage 3         |       |
|---|-----------------|-----------------|-----------------|-------|
|   | 12-month<br>ECL | Lifetime<br>ECL | Lifetime<br>ECL | Total |
| As at 1 January 2019                      | 4,741           | 340             | –               | 5,081 |
| Addition                                  | 1,068           | 917             | –               | 1,985 |
| Transfer out                              | (7)             | (182)           | –               | (189) |
| Transfers:                                | (8)             | 8               | –               | –     |
| Transfer between Stage 1 and Stage 2, net | (8)             | 8               | –               | –     |
| Remeasurement                             | (442)           | (109)           | –               | (551) |
| Exchange differences                      | 6               | –               | –               | 6     |
| As at 31 December 2019                    | 5,358           | 974             | –               | 6,332 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

## 35 SHARE CAPITAL AND CAPITAL SURPLUS

|                        | Number of shares<br>(in millions) | Ordinary shares<br>of RMB1 each | Capital surplus |
|------------------------|-----------------------------------|---------------------------------|-----------------|
| As at 1 January 2020   | 74,263                            | 74,263                          | 113,663         |
| As at 31 December 2020 | 74,263                            | 74,263                          | 111,428         |

|                        | Number of shares<br>(in millions) | Ordinary shares<br>of RMB1 each | Capital surplus |
|------------------------|-----------------------------------|---------------------------------|-----------------|
| As at 1 January 2019   | 74,263                            | 74,263                          | 113,663         |
| As at 31 December 2019 | 74,263                            | 74,263                          | 113,663         |

As at 31 December 2020 and 31 December 2019, the number of A shares of the Group was 39,251 million, and the number of H shares of the Group was 35,012 million, both with par value of RMB1 per share.

As at 31 December 2020 and 31 December 2019, the Group's capital surplus is listed as follows:

|                       | As at<br>1 January<br>2020 | Additions | Reductions | As at<br>31 December<br>2020 |
|-----------------------|----------------------------|-----------|------------|------------------------------|
| Share premium         | 113,005                    | –         | (2,235)    | 110,770                      |
| Other capital reserve | 658                        | –         | –          | 658                          |
| Total                 | 113,663                    | –         | (2,235)    | 111,428                      |

|                       | As at<br>1 January<br>2019 | Additions | Reductions | As at<br>31 December<br>2019 |
|-----------------------|----------------------------|-----------|------------|------------------------------|
| Share premium         | 113,005                    | –         | –          | 113,005                      |
| Other capital reserve | 658                        | –         | –          | 658                          |
| Total                 | 113,663                    | –         | –          | 113,663                      |

The Bank redeemed the USD2.45 billion Offshore Preference Shares in whole on 29 July 2020. The difference between the redemption price of the Offshore Preference Shares and the book value of the corresponding other equity instruments was recognised in "capital surplus – share premium".

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020  
(All amounts expressed in millions of RMB unless otherwise stated)

### 36 OTHER EQUITY INSTRUMENTS

#### 36.1 Preference shares

##### 36.1.1 Preference shares outstanding at the end of the year

|                            |                  |                              | Dividend<br>rate |              |                     | In original<br>currency | In RMB        |                  | Conversion |                                  |
|----------------------------|------------------|------------------------------|------------------|--------------|---------------------|-------------------------|---------------|------------------|------------|----------------------------------|
|                            | Issue date       | Accounting<br>classification | %                | Issue price  | Amount in shares    | (in millions)           | (in millions) | Maturity         | condition  | Conversion                       |
| Domestic preference shares |                  |                              |                  |              |                     |                         |               |                  |            |                                  |
| Preference shares in RMB   | 2 September 2016 | Equity                       | 3.90             | RMB100/share | 450,000,000         | 45,000                  | 45,000        | No maturity date | Mandatory  | No conversion<br>during the year |
|                            |                  |                              |                  |              | Total               | 45,000                  |               |                  |            |                                  |
|                            |                  |                              |                  |              | Less: Issuance fees | (48)                    |               |                  |            |                                  |
|                            |                  |                              |                  |              | Carrying amount     | 44,952                  |               |                  |            |                                  |

##### 36.1.2 Movements of preference shares issued

|                            | As at          | Movements |               | As at            |
|----------------------------|----------------|-----------|---------------|------------------|
|                            | 1 January 2020 | Additions | Decreases     | 31 December 2020 |
| Offshore preference shares |                |           |               |                  |
| Amount (shares)            | 122,500,000    | –         | (122,500,000) | –                |
| In RMB (millions)          | 14,924         | –         | (14,924)      | –                |
| Domestic preference shares |                |           |               |                  |
| Amount (shares)            | 450,000,000    | –         | –             | 450,000,000      |
| In RMB (millions)          | 44,952         | –         | –             | 44,952           |

Pursuant to the terms and conditions of the Offshore Preference Shares and the reply letter from the China Banking and Insurance Regulation Commission where no objections were raised for the Bank's redeeming the Offshore Preference Shares, the Bank redeemed the USD2.45 billion Offshore Preference Shares in whole on 29 July 2020.

##### 36.1.3 Main clauses

###### Offshore preference shares

###### (a) Dividend

The offshore preference shares will accrue dividends on their issue price at the relevant dividend rate below:

- (1) From and including the issue date to but excluding the first reset date, at the rate of 5.00% per annum; and
- (2) The dividend rate will be re-priced every five years thereafter with reference to the five-year US treasury bonds yield plus a fixed premium of 3.344%. As authorised by the shareholders' annual general meeting, the Board of Directors has the sole discretion to declare and distribute dividends on offshore preference shares.

The dividend for offshore preference shares is non-cumulative. Where the Bank determines to cancel the dividend for offshore preference shares in whole or in part, the omitted dividend will not be carried forward and claimed in the future period. After receiving dividends at the agreed dividend rate, offshore preference shareholders of the Bank will not participate in the distribution of residual profits with ordinary shareholders. Domestic preference shares issued by the Bank have the same dividend distribution order as the offshore preference shares.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

### 36 OTHER EQUITY INSTRUMENTS *(Continued)*

#### 36.1 Preference shares *(Continued)*

##### **36.1.3 Main clauses** *(Continued)*

##### *Offshore preference shares (Continued)*

##### (b) Conditions to distribution of dividends

The Bank could pay dividends while the Bank still has distributable after-tax profit after making up previous years' losses, contributing to the statutory reserve and making general provisions, and the Bank's capital adequacy ratio meets regulatory requirements. Offshore preference shareholders of the Bank are senior to the ordinary shareholders on the right to dividends.

Subject to a resolution to be passed at a shareholders' general meeting of the Bank on each such occasion, the Bank may elect to cancel (in whole or in part) any dividend. The Bank shall not distribute any dividends to its ordinary shareholders before it declares such dividends to preference shareholders for the relevant periods.

##### (c) Mandatory conversion triggering events

Upon occurrence of the triggering events as stipulated by the offering documents and subject to regulatory approval, offshore preference share shall be mandatorily converted into ordinary H Shares of the Bank (as converted into Hong Kong dollars at the fixed exchange rate of USD1.00 to HKD7.7555), partially or entirely. The initial mandatory convertible price is HKD6.51 per share. To balance the interest between preference shareholders and ordinary shareholders, the mandatory conversion price of the preference shares will be cumulatively adjusted in sequence where certain events occur including issuances of bonus shares, capitalisation of reserves, new issuances of ordinary shares at a price lower than the market price (excluding equity increases due to exercise of convertible financing instruments that can be converted into ordinary shares) and rights issues, subject to terms and formulas provided for in the offering documents. Appropriation of dividends to ordinary shareholders is not triggering event for price adjustment.

##### (d) Order of distribution and liquidation method

On winding-up of the Bank, distribution to offshore preference shareholders is made after all debts of the Bank (including subordinated debts) and obligations that are issued or guaranteed by the Bank and specifically stated to be distributed prior to the offshore preference shares; all offshore preference shareholders are ranked the same in the distribution sequence without priority among them and have the same repayment sequence rights as holders of obligations with equivalent rights. In addition, distribution is made to offshore preference shareholders prior to ordinary shareholders.

On winding-up of the Bank, any remaining assets of the Bank shall, after the distributions in accordance with the terms and conditions of the offshore preference shares have been made, be applied to the claims of the offshore preference shareholders equally in all respects with the claims of holders of any parity obligations (which term, for the avoidance of doubt, includes the domestic preference shares and any other preference shares of the Bank issued from time to time to investors outside the PRC) and in priority to the claims of the holders of ordinary shares.

The distribution amount obtained by the offshore preference shareholders shall be the total par value of the issued and outstanding preference shares plus dividends declared but not paid in the current period; if the distribution amount is insufficient, domestic and offshore preference shareholders will share the distribution amount on a proportional basis.

##### (e) Redemption

The offshore preference shares are perpetual and have no maturity date. The Bank may, subject to obtaining the CBIRC approval and in compliance with the redemption preconditions, redeem all or some of the offshore preference shares on 29 July 2020 and on any dividend payment date thereafter. The redemption period ends at the date when shares are fully converted or redeemed.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020  
(All amounts expressed in millions of RMB unless otherwise stated)

### 36 OTHER EQUITY INSTRUMENTS *(Continued)*

#### 36.1 Preference shares *(Continued)*

##### **36.1.3 Main clauses** *(Continued)*

###### *Domestic preference shares*

###### (a) Dividend

The domestic preference shares will accrue dividends on their issue price at the relevant dividend rate below:

- (1) From and including the issue date to but excluding the first reset date, at the rate of 3.90% per annum; and
- (2) The dividend rate will be re-priced every five years thereafter with reference to the arithmetic average value (rounding off to 0.01%) of five-year Chinese treasury bonds yield at the date which is 20 transaction days before the reset date (excluding the date) plus a fixed premium of 1.37%. As authorised by the shareholders' annual general meeting, the Board of Directors has the sole discretion to declare and distribute dividends on domestic preference shares.

The dividend for domestic preference shares is non-cumulative. Where the Bank determines to cancel the dividend for domestic preference shares in whole or in part, the omitted dividend will not be carried forward and claimed in the future period. After receiving dividends at the agreed dividend rate, domestic preference shareholders of the Bank will not participate in the distribution of residual profits with ordinary shareholders. Domestic preference shares issued by the Bank have the same dividend distribution order as the offshore preference shares.

###### (b) Conditions to distribution of dividends

The Bank could pay dividends while the Bank still has distributable after-tax profit after making up previous years' losses, contributing to the statutory reserve and making general provisions, and the Bank's capital adequacy ratio meets regulatory requirements. Domestic preference shareholders of the Bank are senior to the ordinary shareholders on the right to dividends.

Subject to a resolution to be passed at a shareholders' general meeting of the Bank on each such occasion, the Bank may elect to cancel (in whole or in part) any preference share dividend. The Bank shall not distribute any dividends to its ordinary shareholders before it declares such dividends to preference shareholders for the relevant periods.

###### (c) Mandatory conversion trigger events

Upon occurrence of the triggering events as stipulated by the offering documents and subject to regulatory approval, domestic preference shares shall be mandatorily converted into ordinary A Shares of the Bank, partially or entirely. The initial mandatory conversion price is RMB6.25 per share. To balance the interest between preference shareholders and ordinary shareholders, the mandatory conversion price of the preference shares will be cumulatively adjusted in sequence where certain events occur including issuances of bonus shares, capitalisation of reserves, new issuances of ordinary shares at a price lower than the market price (excluding equity increased due to exercise of convertible financing instruments that can be converted into ordinary shares) and rights issues, subject to terms and formulas provided for in the offering documents. Appropriation of dividends to ordinary shareholders is not trigger event for price adjustment.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

## 36 OTHER EQUITY INSTRUMENTS (Continued)

## 36.1 Preference shares (Continued)

## 36.1.3 Main clauses (Continued)

## Domestic preference shares (Continued)

## (d) Order of distribution and liquidation method

On winding-up of the Bank, distribution to domestic preference shareholders is made after all debts of the Bank (including subordinated debts) and obligations that are issued or guaranteed by the Bank and specifically stated to be distributed prior to the domestic preference shares; all domestic preference shareholders are ranked at the same in the distribution sequence without priority among them and have the same repayment sequence rights as holders of obligations with equivalent rights. In addition, distribution is made to domestic preference shareholders prior to ordinary shareholders.

On winding-up of the Bank, any remaining assets of the Bank shall, after the distributions in accordance with the terms and conditions of the domestic preference shares have been made, be applied to the claims of the domestic preference shareholders equally in all respects with the claims of holders of any parity obligations (which term, for the avoidance of doubt, includes the domestic preference shares and any other preference shares of the Bank issued from time to time to investors outside the PRC) and in priority to the claims of the holders of ordinary shares.

The distribution amount obtained by the domestic preference shareholders shall be the total par value of the issued and outstanding preference shares plus dividends declared but not paid in the current period; if the distribution amount is insufficient, domestic and offshore preference shareholders will share the distribution amount on a proportional basis.

## (e) Redemption

The domestic preference shares are perpetual and have no maturity date. The Bank may, subject to obtaining the CBIRC approval and in compliance with the redemption preconditions, redeem all or some of the domestic preference shares on 2 September 2021 and on any preference share dividend payment date thereafter. The redemption period ends at the date when shares are fully converted or redeemed.

## 36.2 Perpetual bonds

## 36.2.1 Perpetual bonds outstanding at the end of the year

|                           | Issue date        | Accounting classification | Original interest rate % | Issue price     | Amount in shares | In original currency (in millions) | In RMB (in millions) | Maturity               |
|---------------------------|-------------------|---------------------------|--------------------------|-----------------|------------------|------------------------------------|----------------------|------------------------|
| Perpetual bonds in RMB(1) | 20 September 2019 | Equity                    | 4.20                     | RMB100/bond     | 400,000,000      | 40,000                             | 40,000               | No fixed maturity date |
| Perpetual bonds in RMB(2) | 25 September 2020 | Equity                    | 4.59                     | RMB100/bond     | 300,000,000      | 30,000                             | 30,000               | No fixed maturity date |
| Perpetual bonds in USD(3) | 18 November 2020  | Equity                    | 3.80                     | USD200,000/bond | 14,000           | 2,800                              | 18,366               | No fixed maturity date |
| Total                     |                   |                           |                          |                 |                  |                                    | 88,366               |                        |
| Less: Issuance fees       |                   |                           |                          |                 |                  |                                    | (26)                 |                        |
| Carrying amount           |                   |                           |                          |                 |                  |                                    | 88,340               |                        |



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020  
(All amounts expressed in millions of RMB unless otherwise stated)

### 36 OTHER EQUITY INSTRUMENTS *(Continued)*

#### 36.2 Perpetual bonds *(Continued)*

##### **36.2.2 Main clauses**

- (1) With the approvals by relevant regulatory authorities, the Bank issued RMB40.0 billion undated capital bonds in China's National Inter-Bank Bond Market on 18 September 2019, and the issuance was completed on 20 September 2019. The denomination of the bonds is RMB100 each and coupon rate of 4.20%. The bonds adopt a coupon rate adjusted on a stage-by-stage basis and a coupon rate adjustment period for every five years during which interests will be paid at the agreed coupon rate.

The perpetual bonds will continue to be outstanding so long as the Bank's business continues to operate. The bonds have set forth terms regarding the Bank's redemption with pre-conditions, by which the Bank is entitled to redeem the bonds after five years since the issue date in whole or in part on the annual interest payment date (including the interest payment date of the fifth year after the issue date). If, after the issuance, the perpetual bonds no longer qualify as additional tier-1 capital as a result of an unforeseeable change or amendment to relevant provisions of supervisory regulations, the Bank may redeem the whole but not part of the perpetual bonds.

The claims in respect of the perpetual bonds are subordinated to the claims of depositors, general creditors, and subordinated indebtedness that rank senior to the perpetual bonds; and will rank in priority to all classes of equity shares held by the Bank's shareholders and rank *pari passu* with the claims in respect of any other additional tier-1 capital instruments of the Bank that rank *pari passu* with the perpetual bonds.

Upon the occurrence of Additional tier-1 capital trigger event, namely, the Bank's core tier-1 capital adequacy ratio having fallen to 5.125% (or below), the Bank has the right, subject to the approval of the CBIRC but without the need for the consent of the bondholders, to write down whole or part of the aggregate amount of the perpetual bonds then issued and outstanding, in order to restore the core tier-1 capital adequacy ratio to above 5.125%. Upon the occurrence of a Non-Viability Triggering Event, the Bank has the right to write down all the above perpetual bond issued and existing at that time in accordance with the total par value without the consent of the bondholders.

The distributions on the perpetual bonds are non-cumulative, and 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. The Bank may, at its sole discretion, use the proceeds from the cancelled distributions to meet other obligations as they fall due. Cancellation of any distributions on the bonds, no matter in whole or in part, will not impose any other restriction on the Bank, except in relation to dividend distributions to ordinary shares.

Investors have no right to redeem their subscription from the Bank. The net proceeds from the Bank's issuance of the above bonds, after deducting offering related expenses, will be used to replenish the Additional tier-1 capital of the Bank.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

36 OTHER EQUITY INSTRUMENTS *(Continued)*36.2 Perpetual bonds *(Continued)***36.2.2 Main clauses** *(Continued)*

- (2) With the approvals by relevant regulatory authorities, the Bank issued RMB30.0 billion undated capital bonds in China's National Inter-Bank Bond Market on 23 September 2020, and the issuance was completed on 25 September 2020. The denomination of the Bonds is RMB100 each and coupon rate of 4.59%. The Bonds adopt a coupon rate adjusted on a stage-by-stage basis and a coupon rate adjustment period for every five years during which interests will be paid at the agreed coupon rate.

The perpetual bonds will continue to be outstanding so long as the Bank's business continues to operate. The bonds have set forth terms regarding the Bank's redemption with pre-conditions, by which the Bank is entitled to redeem the bonds after five years since the issue date in whole or in part on the annual interest payment date (including the interest payment date of the fifth year after the issue date). If, after the issuance, the perpetual bonds no longer qualify as additional tier-1 capital as a result of an unforeseeable change or amendment to relevant provisions of supervisory regulations, the Bank may redeem the whole but not part of the perpetual bonds.

The claims in respect of the perpetual bonds are subordinated to the claims of depositors, general creditors, and subordinated indebtedness that rank senior to the perpetual bonds; and will rank in priority to all classes of equity shares held by the Bank's shareholders and rank pari passu with the claims in respect of any other additional tier-1 capital instruments of the Bank that rank pari passu with the perpetual bonds.

Upon the occurrence of a Non-Viability Triggering Event, the Bank has the right to write down/write off in whole or in part, without the need for the consent of the holders of the bonds, the principal amount of the bonds.

The distributions on the perpetual bonds are non-cumulative, and 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. The Bank may, at its sole discretion, use the proceeds from the cancelled distributions to meet other obligations as they fall due. Cancellation of any distributions on the bonds, no matter in whole or in part, will not impose any other restriction on the Bank, except in relation to dividend distributions to ordinary shares.

Investors have no right to redeem their subscription from the Bank. The net proceeds from the Bank's issuance of the above bonds, after deducting offering related expenses, will be used to replenish the additional tier-1 capital of the Bank.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020  
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## 36 OTHER EQUITY INSTRUMENTS (Continued)

### 36.2 Perpetual bonds (Continued)

#### 36.2.2 Main clauses (Continued)

- (3) With the approvals by relevant regulatory authorities, the Bank has completed the issuance of the USD2.8 billion undated capital bonds in the offshore market on 18 November 2020. The coupon rate of the bonds is 3.80%. The bonds adopt a coupon rate adjusted on a stage-by-stage basis and a coupon rate adjustment period for every five years during which interests will be paid at the agreed coupon rate.

The perpetual bonds will continue to be outstanding so long as the Bank's business continues to operate. The bonds have set forth terms regarding the Bank's redemption with pre-conditions. Subject to the satisfaction of the redemption conditions and having obtained the prior approval of the CBIRC, the bank is entitled to redeem the Bonds after five years since the issue date in whole or in part on the annual interest payment date (including the interest payment date of the fifth year after the issue date). If, after the issuance, the perpetual bonds no longer qualify as additional tier-1 capital as a result of an unforeseeable change or amendment to relevant provisions of supervisory regulations, the Bank may redeem the whole but not part of the perpetual bonds.

The claims in respect of the perpetual bonds are subordinated to the claims of depositors, general creditors, and subordinated indebtedness that rank senior to the perpetual bonds; and will rank in priority to all classes of equity shares held by the Bank's shareholders and rank pari passu with the claims in respect of any other additional tier-1 capital instruments of the Bank that rank pari passu with the perpetual bonds.

Upon the occurrence of a Non-Viability Triggering Event, the Bank has the right to write down/write off in whole or in part, without the need for the consent of the holders of the bonds, the principal amount of the Bonds. Once the principal amount of the Bonds (in whole or in part) has been written-off, such relevant written-off 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 distribution in respect of such relevant written-off portion of the bonds shall cease to be payable. In addition, there will be no compensation in any form to remedy the loss of the bondholders.

The distributions on the perpetual bonds are non-cumulative, and 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. The Bank may, at its sole discretion, use the proceeds from the cancelled distributions to meet other obligations as they fall due. Cancellation of any distributions on the bonds, no matter in whole or in part, will not impose any other restriction on the Bank, except in relation to dividend distributions to ordinary shares.

Investors have no right to redeem their subscription from the Bank. The net proceeds from the Bank's issuance of the above bonds, after deducting offering related expenses, will be used to replenish the additional tier-1 capital of the Bank.

### 36.3 Interests attributable to holders of other equity instruments

|   | As at<br>31 December 2020 | As at<br>31 December 2019 |
|---|---------------------------|---------------------------|
| Total equity attributable to equity holders of the parent company   | 866,607                   | 793,247                   |
| Equity attributable to ordinary shareholders of the parent company  | 733,315                   | 693,377                   |
| Equity attributable to preference shareholders of the parent company  | 44,952                    | 59,876                    |
| Equity attributable to perpetual bond holders of the parent company   | 88,340                    | 39,994                    |
| Total equity attributable to non-controlling interests  | 12,021                    | 7,665                     |
| Equity attributable to non-controlling interests of ordinary shares   | 8,763                     | 7,665                     |
| Equity attributable to non-controlling interests of Non-cumulative Subordinated<br>Additional Tier 1 Capital Securities (Note 39) | 3,258                     | —                         |

Dividends paid to preference shareholders and interest paid to perpetual bond holders for the year ended 31 December 2020 are disclosed in Note 38.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

## 37 RESERVES AND RETAINED EARNINGS

Pursuant to the relevant PRC regulations, the appropriation of profits to the statutory general reserve, the discretionary reserve and the distribution of dividends in each year are based on the recommendations of the directors and are subject to the resolutions to be passed at the General Meeting of Shareholders.

Pursuant to relevant PRC regulations, the Bank appropriated 10% of its net profit for the year under CAS to the statutory surplus reserve until the reserve balance reaches 50% of the Bank's registered capital. The statutory surplus reserve can be used to compensate losses or to increase share capital upon approval. The Bank appropriate RMB7,075 million to the statutory surplus upon approval from the 2019 Annual General Meeting of Shareholders held on 30 June 2020.

|                       | 1 January 2020 | Appropriate | Decrease | 31 December 2020 |
|-----------------------|----------------|-------------|----------|------------------|
| Statutory reserve     | 64,897         | 7,534       | –        | 72,431           |
| Discretionary reserve | 139,853        | 77          | –        | 139,930          |
| Total                 | 204,750        | 7,611       | –        | 212,361          |

Pursuant to relevant PRC banking regulations, since 1 July 2012, the Bank made statutory general reserve from net profit through profit appropriation according to Administrative Measures for the Provisioning of Financial Enterprises (Cai Jin [2012] No. 20). The proportion is determined based on several factors including the Bank's overall exposure to risk, normally no lower than 1.5% of the ending balance of risk assets. The statutory general reserve is an integral part of shareholders' equity but not subject to dividend distribution. The Bank's subsidiaries and overseas branches, if required by local regulation requirements, also need to make such general reserve. The 2019 Annual General Meeting of Shareholders, held on 30 June 2020, considered and adopted the 2019 profit distribution scheme, which stipulates as follows:

|                           | 1 January 2020 | Appropriate | Decrease | 31 December 2020 |
|---------------------------|----------------|-------------|----------|------------------|
| Statutory general reserve | 117,567        | 5,596       | –        | 123,163          |

The Bank appropriated RMB4,454 million to the statutory general reserve upon approval from the 2019 Annual General Meeting of Shareholders held on 30 June 2020. Overseas branches of the Bank appropriated RMB11 million to statutory general reserve according to the requirement of local regulatory authorities.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020  
(All amounts expressed in millions of RMB unless otherwise stated)

### 37 RESERVES AND RETAINED EARNINGS (Continued)

#### Revaluation reserve

The movements of revaluation reserve are set out below:

|   |         |
|---|---------|
| As at 31 December 2019  | 3,421   |
| Changes in fair value recorded in equity                          | (2,452) |
| Changes in fair value recognised in profit or loss                | (1,344) |
| Tax effects arising from components of other comprehensive income | 858     |
| Transferred from other comprehensive income                       | (27)    |
| As at 31 December 2020  | 456     |
| As at 31 December 2018  | 1,397   |
| Changes in fair value recorded in equity                          | 4,681   |
| Changes in fair value recognised in profit or loss                | (1,031) |
| Tax effects arising from components of other comprehensive income | (1,637) |
| Transferred from other comprehensive income                       | 11      |
| As at 31 December 2019  | 3,421   |

#### Retained earnings

The movements of retained earnings are set out below:

|  |          |
|--|----------|
| As at 1 January 2020                           | 177,141  |
| Profit for the year                            | 78,274   |
| Appropriation to statutory reserve             | (7,534)  |
| Appropriation to general reserve               | (5,596)  |
| Appropriation to discretionary reserve         | (77)     |
| Dividends payable to ordinary shareholders     | (23,393) |
| Dividends payable to preference shareholders   | (2,714)  |
| Interest to perpetual bond holders of the Bank | (1,680)  |
| Others   | 27       |
| As at 31 December 2020                         | 214,448  |
| As at 31 December 2018                         | 129,161  |
| Impact from adoption of IFRS 16                | (616)    |
| Opening balance under IFRS 16 (restated)       | 128,545  |
| Profit for the year                            | 77,281   |
| Appropriation to statutory reserve             | (381)    |
| Appropriation to general reserve               | (3,286)  |
| Appropriation to discretionary reserve         | (57)     |
| Dividends payable to ordinary shareholders     | (22,279) |
| Dividends payable to preference shareholders   | (2,671)  |
| Others   | (11)     |
| As at 31 December 2019                         | 177,141  |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

## 38 DIVIDENDS

|  | Year ended 31 December |        |
|--|------------------------|--------|
|  | 2020                   | 2019   |
| Dividends to ordinary shareholders of the Bank   | 23,393                 | 22,279 |
| Dividends to preference shareholders of the Bank | 2,714                  | 2,671  |

Under PRC Company Law and the Bank's Articles of Association, the net profit after tax as reported in the PRC statutory financial statements can only be distributed as dividends after allowances for the following:

- (1) Making up cumulative losses from prior years, if any;
- (2) Allocations to the non-distributable statutory reserve of 10% of the net profit of the Bank as determined under the relevant PRC accounting standards;
- (3) Allocations to statutory general reserve;
- (4) Allocations to the discretionary reserve upon approval by the Annual General Meeting of Shareholders. These funds form part of the shareholders' equity.

The cash dividends are recognised in the consolidated statement of financial position upon approval by the shareholders at Annual General Meeting.

Pursuant to the approval by the Board meeting on 27 March 2020, the Bank appropriated overseas preference dividends on 29 July 2020 with a dividend yield of 5% (the actual dividend yield obtained by the preference shareholders) with total amount of USD136 million. The Bank also appropriated domestic preference dividends on 7 September 2020 with a dividend yield of 3.9% (the actual dividend yield obtained by the preference shareholders), with total amount of RMB1,755 million.

Pursuant to the approval by the Annual General Meeting of Shareholders on 30 June 2020, It was resolved that a cash dividend of RMB0.315 (before tax) for each ordinary share, with total amount of RMB23,393 million, calculated based on 74,263 million shares outstanding (RMB1 per share) as at 31 December 2019, will be distributed to ordinary shareholders.

The Bank distributed the interest on the 2019 Undated Additional Tier 1 Capital Bonds amounting to RMB1,680 million on 20 September 2020.

On 26 March 2021, the Board of Directors of the Bank proposed to appropriate RMB6,897 million to the statutory reserve and RMB6,432 million to the statutory general reserve. A cash dividend of RMB0.317 (tax inclusive) for each share, totalling RMB23,541 million, calculated based on the total number of shares outstanding of 74,263 million shares (RMB1 per share) as at 31 December 2020 was also proposed. The proposal will be subject to the approval by the General Meeting of Shareholders.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020  
(All amounts expressed in millions of RMB unless otherwise stated)

### 39 NON-CONTROLLING INTERESTS

Non-controlling interests of the Group include equity attributable to non-controlling interests of ordinary shares and equity attributable to non-controlling interests of other equity instruments. As at 31 December 2020, equity attributable to other equity instruments holders was RMB3,258 million. Other equity instruments were non-cumulative subordinated additional tier-1 capital securities issued by Bank of Communications (Hong Kong) Limited on 3 March 2020.

|                                    |  |
|------------------------------------|--|
| Issue Date                         | 3 March 2020   |
| Face Value                         | USD500 million   |
| First Call Date                    | 3 March 2025   |
| Distribution Rate                  | (i) from the issue date to the first call date, 3.725% per annum<br>(ii) for every five calendar years after the first call date, the then-prevailing US Treasury Rate plus 2.525% per annum |
| Frequency of distribution payments | Semi-annually  |

Bank of Communications (Hong Kong) Limited may determine the policies of distribution payments and whether to redeem the bonds. Therefore, the Group recognised the bonds as equity instruments.

Pursuant to the terms and conditions of the Non-Cumulative Subordinated Additional Tier 1 Capital Securities, Bank of Communications (Hong Kong) Limited has paid a total distribution of RMB65 million during the year ended 31 December 2020.

### 40 CREDIT RELATED COMMITMENTS AND FINANCIAL GUARANTEES, OTHER COMMITMENTS AND CONTINGENT LIABILITIES

#### Credit related commitments and financial guarantees

The following tables provide the contractual amounts of the Group's credit related commitments and financial guarantees which the Group has committed to its customers:

|                               | As at<br>31 December 2020 | As at<br>31 December 2019 |
|-------------------------------|---------------------------|---------------------------|
| Letters of guarantee          | 333,610                   | 268,812                   |
| Letters of credit commitments | 163,151                   | 139,948                   |
| Acceptance bills              | 319,076                   | 271,507                   |
| Credit card commitments       | 800,441                   | 736,039                   |
| Loan commitments              |                           |                           |
| – Under 1 year                | 5,111                     | 20,459                    |
| – 1 year and above            | 55,323                    | 35,405                    |
|                               | 1,676,712                 | 1,472,170                 |

#### Capital expenditure commitments

|                                 | As at<br>31 December 2020 | As at<br>31 December 2019 |
|---------------------------------|---------------------------|---------------------------|
| Contracted but not provided for | 62,224                    | 60,310                    |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

40 CREDIT RELATED COMMITMENTS AND FINANCIAL GUARANTEES, OTHER COMMITMENTS AND CONTINGENT LIABILITIES *(Continued)*

## Operating lease commitments

The Group acts as lessor in operating leases principally through aircraft and vessels leasing undertaken by its subsidiaries. The future minimum lease receivables on certain aircraft and vessel under irrevocable operating leases are as follows:

|   | As at<br>31 December 2020 | As at<br>31 December 2019 |
|---|---------------------------|---------------------------|
| Within 1 year (inclusive)                           | 13,074                    | 13,496                    |
| Beyond 1 year but no more than 2 years (inclusive)  | 12,622                    | 12,818                    |
| Beyond 2 years but no more than 3 years (inclusive) | 12,220                    | 12,176                    |
| Beyond 3 years but no more than 5 years (inclusive) | 22,062                    | 22,920                    |
| More than 5 years                                   | 36,562                    | 42,024                    |
|   | <b>96,540</b>             | <b>103,434</b>            |

## Commitments on security underwriting and bond acceptance

The Group is entrusted by the Ministry of Finance ('MOF') to underwrite certain Certificated Bonds and Savings Bonds. The investors of Certificated Bonds and Savings Bonds have early redemption right while the Group has the obligation to buy back those Certificated Bonds and Savings Bonds. The redemption price is the principal value of the Certificated Bonds or Savings Bonds plus unpaid interest till redemption date. As at 31 December 2020, the principal value of the certain Certificated Bonds and Savings Bonds that the Group had the obligation to buy back amounted to RMB81,548 million (31 December 2019: RMB83,777 million). The MOF will not provide funding for the early redemption of these Certificated Bonds and Savings Bonds on a back-to-back basis but will pay interest and principal at maturity. The Group expects the amount of redemption before the maturity dates of these bonds through the Group will not be material.

The original maturities of these bonds vary from 1 to 5 years.

As at 31 December 2020, the Group had no announced but unfulfilled irrevocable commitment on security underwriting (31 December 2019: Nil).

## Legal proceedings

The Group has been involved as defendants in certain lawsuits arising from its normal business operations. Management of the Group believes, based on legal advice, the final result of these lawsuits will not have a material impact on the financial position or operations of the Group. Provision for litigation losses as advised by in-house or external legal professionals is disclosed in Note 34. The total outstanding claims against the Group (as defendant) by a number of third parties at the end of the year are summarised as follows:

|  | As at<br>31 December 2020 | As at<br>31 December 2019 |
|--|---------------------------|---------------------------|
| Outstanding litigations                        | 3,876                     | 5,011                     |
| Provision for outstanding litigation (Note 34) | 1,032                     | 1,029                     |



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020  
(All amounts expressed in millions of RMB unless otherwise stated)

### 41 COLLATERALS

#### (1) Assets pledged

The Group uses part of its assets as collaterals for interbank repurchase arrangements and other liabilities-related business. All of these arrangements mature within 12 months from the date they take effect. The carrying amount of these collaterals and the balance of operations related are listed below:

|                       | Pledged assets            |                           | Associated liabilities    |                           |
|-----------------------|---------------------------|---------------------------|---------------------------|---------------------------|
|                       | As at<br>31 December 2020 | As at<br>31 December 2019 | As at<br>31 December 2020 | As at<br>31 December 2019 |
| Investment securities | 520,254                   | 468,085                   | 456,210                   | 387,547                   |
| Bills                 | 28,854                    | 78,041                    | 28,854                    | 78,041                    |
| Total                 | 549,108                   | 546,126                   | 485,064                   | 465,588                   |

Financial assets sold under repurchase agreements included certain transactions under which the title of the pledged securities has been transferred to counterparties. These transactions have been disclosed in Note 46 transfers of financial assets.

#### (2) Collateral accepted

The Group conducts resale agreements under usual and customary terms of placements, and holds collateral for these transactions. As at 31 December 2020 and 31 December 2019, the Group did not hold any collateral for resale agreements which was permitted to sell or repledge in the absence of default for the transactions. All pledges are conducted under standard and normal business terms. As at 31 December 2020 and 31 December 2019, the Group did not sell or repledge any collaterals received.

### 42 OTHER COMPREHENSIVE INCOME

|  | Year ended 31 December 2020 |            |                   |
|--|-----------------------------|------------|-------------------|
|  | Before tax amount           | Tax effect | Net of tax amount |
| Other comprehensive income   |                             |            |                   |
| Loans and advances to customers – carried at FVOCI   | (218)                       | 54         | (164)             |
| <i>Amount recognised in equity</i>   | 26                          | (7)        | 19                |
| <i>Amount reclassified to profit or loss</i>   | (244)                       | 61         | (183)             |
| Debt investments at FVOCI  | (2,122)                     | 377        | (1,745)           |
| <i>Amount recognised in equity</i>   | (1,022)                     | 102        | (920)             |
| <i>Amount reclassified to profit or loss</i>   | (1,100)                     | 275        | (825)             |
| Effective portion of gains or losses on hedging instruments in cash flow hedges                              | (676)                       | 129        | (547)             |
| <i>Amount recognised in equity</i>   | (1,761)                     | 399        | (1,362)           |
| <i>Amount reclassified to profit or loss</i>   | 1,085                       | (270)      | 815               |
| Translation difference on foreign operations   | (4,776)                     | –          | (4,776)           |
| Changes in fair value of equity investments designated at FVOCI  | (1,606)                     | 402        | (1,204)           |
| Changes in fair value attributable to changes in the credit risk of financial liabilities designated at FVPL | 7                           | –          | 7                 |
| Actuarial gains on pension benefits  | (132)                       | –          | (132)             |
| Others   | 15                          | (3)        | 12                |
| Other comprehensive income for the year  | (9,508)                     | 959        | (8,549)           |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

## 42 OTHER COMPREHENSIVE INCOME (Continued)

|  | Year ended 31 December 2019 |            |                   |
|--|-----------------------------|------------|-------------------|
|  | Before tax amount           | Tax effect | Net of tax amount |
| Other comprehensive income   |                             |            |                   |
| Loans and advances to customers – carried at FVOCI   | (391)                       | (322)      | (713)             |
| <i>Amount recognised in equity</i>   | 113                         | (448)      | (335)             |
| <i>Amount reclassified to profit or loss</i>   | (504)                       | 126        | (378)             |
| Debt investments at FVOCI  | 4,807                       | (1,487)    | 3,320             |
| <i>Amount recognised in equity</i>   | 5,334                       | (1,619)    | 3,715             |
| <i>Amount reclassified to profit or loss</i>   | (527)                       | 132        | (395)             |
| Effective portion of gains or losses on hedging instruments in cash flow hedges                              | (14)                        | 5          | (9)               |
| <i>Amount recognised in equity</i>   | (210)                       | 54         | (156)             |
| <i>Amount reclassified to profit or loss</i>   | 196                         | (49)       | 147               |
| Translation difference on foreign operations   | 1,141                       | –          | 1,141             |
| Changes in fair value of equity investments designated at FVOCI  | (748)                       | 188        | (560)             |
| Changes in fair value attributable to changes in the credit risk of financial liabilities designated at FVPL | 25                          | –          | 25                |
| Actuarial gains on pension benefits  | (20)                        | –          | (20)              |
| Others   | 18                          | –          | 18                |
| Other comprehensive income for the year  | 4,818                       | (1,616)    | 3,202             |

## 43 NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

## Analysis of the balance of cash and cash equivalents

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise the following balances with maturities of less than or equal to 90 days from date of purchase and used for the purpose of meeting short-term cash commitments:

|   | As at<br>31 December 2020 | As at<br>31 December 2019 |
|---|---------------------------|---------------------------|
| Cash and balances with central banks                                | 171,950                   | 85,246                    |
| Due from and placements with banks and other financial institutions | 135,170                   | 82,489                    |
|   | 307,120                   | 167,735                   |

## 44 CONSOLIDATED STRUCTURED ENTITIES

Structured entities consolidated by the Group include certain trust investment plans, funds, and securitisation products issued, managed and invested by the Group. The Group controls these entities because the Group has power over, is exposed to, or has right to, variable returns from its involvement with these entities and has the ability to use its power over these entities to affect the amount of the Group's returns. As at 31 December 2020, the consolidated structured entities amounted to RMB36,716 million (As at 31 December 2019, the consolidated structured entities amounted to RMB21,129 million).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020  
(All amounts expressed in millions of RMB unless otherwise stated)

### 45 UNCONSOLIDATED STRUCTURED ENTITIES

The Group has been involved in other structured entities through investments in structured entities or acting as sponsors of structured entities that provide specialised investment opportunities to investors. These structured entities generally finance the purchase of assets by issuing units of the products. The Group does not control these structured entities and therefore, these structured entities are not consolidated.

As at 31 December 2020, those structured entities sponsored by the Group consist primarily of funds, trusts, asset management products, Limited partnerships, wealth management products with principals not guaranteed by the Group and securitisation products. The Group earns commission income by providing management services to the investors of these structured entities. In addition, the Group is also involved in certain structured entities sponsored by the Group or third parties through direct investments. These investments are recognised as financial investments at fair value through profit or loss, financial investments at fair value through other comprehensive income, and financial investments at amortised cost.

As at 31 December 2020, the balance of the non-principal guaranteed wealth management products set up by the Group amounted to RMB1,211,959 million (As at 31 December 2019: RMB1,003,226 million), the balance of trusts established by the Group amounted to RMB569,841 million, the balance of funds issued by the Group amounted to RMB339,871 million and the balance of asset management plans and others sponsored by the Group amounted to RMB273,699 million (As at 31 December 2019: the balance of trusts established by the Group amounted to RMB741,361 million, the balance of funds issued by the Group amounted to RMB225,643 million and the balance of asset management plans and others sponsored by the Group amounted to RMB284,598 million).

For the year ended 31 December 2020, the Group's commission income from providing services to the investors of the structured entities managed by the Group was RMB6,363 million (For the year ended 31 December 2019: RMB3,948 million), and interest income from placements and repurchase transactions with those unconsolidated wealth management products was RMB1 million (For the year ended 31 December 2019: RMB1,204 million).

As at 31 December 2020 and 31 December 2019, the carrying amount of interests in unconsolidated structured entities held by the Group through investment was set out as follows:

|                                      | As at 31 December 2020        |                                |   |                          |   |
|--------------------------------------|-------------------------------|--------------------------------|---|--------------------------|---|
|                                      | Carrying amount               |                                |   |                          | Type of income  |
|                                      | Financial investments at FVPL | Financial investments at FVOCI | Financial investments at amortised cost | Maximum exposure to loss |   |
| Funds                                | 243,980                       | –                              | –                                       | 243,980                  | Net gains arising from trading activities   |
| Trusts and asset management products | 3,956                         | –                              | 101,599                                 | 105,555                  | Net interest income, net gains arising from trading activities                          |
| Limited partnerships                 | 2,729                         | 619                            | –                                       | 3,348                    | Net gains arising from trading activities, net gains arising from financial investments |
| Securitisation products              | –                             | –                              | 134                                     | 134                      | Net interest income   |
| Total                                | 250,665                       | 619                            | 101,733                                 | 353,017                  |   |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

## 45 UNCONSOLIDATED STRUCTURED ENTITIES (Continued)

The information of total size of the unconsolidated structured entities listed above is not readily available from the public domain.

|                                      | As at 31 December 2019        |                                |   |                          |   |
|--------------------------------------|-------------------------------|--------------------------------|---|--------------------------|---|
|                                      | Carrying amount               |                                |   |                          |   |
|                                      | Financial investments at FVPL | Financial investments at FVOCI | Financial investments at amortised cost | Maximum exposure to loss | Type of income  |
| Funds                                | 160,522                       | –                              | –                                       | 160,522                  | Net gains arising from trading activities   |
| Trusts and asset management products | 8,207                         | –                              | 139,302                                 | 147,509                  | Net interest income, net gains arising from trading activities                          |
| Wealth management products           | 320                           | –                              | –                                       | 320                      | Net gains arising from trading activities   |
| Limited partnerships                 | 798                           | 584                            | –                                       | 1,382                    | Net gains arising from trading activities, net gains arising from financial investments |
| Securitisation products              | –                             | –                              | 15                                      | 15                       | Net interest income   |
| Total                                | 169,847                       | 584                            | 139,317                                 | 309,748                  |   |

The information of total size of the unconsolidated structured entities listed above is not readily available from the public domain.

## 46 TRANSFERS OF FINANCIAL ASSETS

## 46.1 Financial assets sold under repurchase agreements

Sales and repurchase agreements are transactions in which the Group sells a security and simultaneously agrees to repurchase it (or an asset that is substantially the same) at a fixed price on a future date. Since the repurchase prices are fixed, the Group is still exposed to substantially all the credit risks and market risks and rewards of those securities sold. These securities, which the Group does not have the ability to use during the term of the arrangements, are not derecognised from the financial statements but regarded as “collateral” for the secured lending. In addition, the Group recognises a financial liability for cash received.

As at 31 December 2020 and 31 December 2019, the Group entered into repurchase agreements with certain counterparties. The proceeds from selling such securities are presented as “financial assets sold under repurchase agreements” (Note 29).

The following table provides a summary of carrying amounts related to the transferred financial assets that are not derecognised and the associated liabilities:

|                       | Collaterals            |                        | Associated liabilities |                        |
|-----------------------|------------------------|------------------------|------------------------|------------------------|
|                       | As at 31 December 2020 | As at 31 December 2019 | As at 31 December 2020 | As at 31 December 2019 |
| Investment securities | 2,020                  | 10,582                 | 1,806                  | 9,828                  |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020  
(All amounts expressed in millions of RMB unless otherwise stated)

### 46 TRANSFERS OF FINANCIAL ASSETS *(Continued)*

#### 46.2 Securities lending transactions

Transferred financial assets that do not qualify for de-recognition mainly include debt securities lent to counterparties under securities lending agreements. The counterparties are allowed to sell or repledge those securities lent under agreements to repurchase in the absence of default by the Group, but has an obligation to return the securities at the maturity of the contract. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. As at 31 December 2020, the carrying value of debt securities lent to counterparties was RMB12,640 million (31 December 2019: RMB6,620 million).

#### 46.3 Asset securitisation

The Group enters into securitisation transactions in the normal course of business by which it transfers credit assets to special purpose trusts which issue asset-backed securities to investors.

The Group may retain interests in the form of subordinated tranches which may give rise to the Group's continuing involvement in the transferred assets. Those financial assets are recognised on the consolidated statement of financial position to the extent of the Group's continuing involvement, while the rest are derecognised. The extent of the Group's continuing involvement is the extent of risk the Group faces due to changes in the value of the transferred assets.

As at 31 December 2020, loans with an original value of RMB53,492 million and carrying amount of RMB41,600 million (31 December 2019: RMB55,702 million and RMB55,144 million) have been securitised by the Group and the Bank. For the year ended 31 December 2020, the Group transferred financial assets amounted to RMB15,272 million through assets backed securitization transactions, and all have met the requirement of derecognition (For the year ended 31 December 2019, the Group transferred financial assets amounted to RMB1,128 million through assets backed securitization transactions, all have met the requirement of derecognition).

As at 31 December 2020, the Group and the Bank retained their continued involvement in securitised credit assets by holding subordinated securities. The value of the assets that the Group and the Bank continued to recognise was RMB4,275 million (31 December 2019: RMB4,864 million).

#### 46.4 Package disposal of non-performing loans and advances to customers

The Group disposes non-performing loans and advances to customers through transferring to third parties in the normal course of business. For the year ended 31 December 2020, the Group had transferred non-performing loans and advances to customers with a gross carrying amount of RMB18,533 million (31 December 2019: RMB13,132 million) and collected cash totalling RMB8,517 million (31 December 2019: RMB4,733 million) from the transfer. The difference between the gross carrying amount and the cash collected had been written off. The Group derecognised the non-performing loans and advances to customers from the Group's financial statements at the time of disposal.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

## 47 RELATED PARTY TRANSACTIONS

## (a) Transactions with the MOF

As at 31 December 2020, the MOF held 17,732 million (31 December 2019: 17,732 million) ordinary shares of Bank of Communications Co., Ltd. which represented 23.88% (31 December 2019: 23.88%) of the total share capital.

The MOF is a Chinese government ministry, primarily responsible for managing state fiscal revenue and expenditures, and establishing and enforcing taxation policies. The Group enters into banking transactions with the MOF under normal commercial terms and at market rates. These transactions mainly include the purchase and redemption of financial investments issued by the MOF.

Details of transaction volumes and outstanding balances are summarised below:

|   | As at<br>31 December 2020 | As at<br>31 December 2019 |
|---|---------------------------|---------------------------|
| Bonds issued by the MOF                   | 801,187                   | 656,917                   |
|   | Year ended 31 December    |                           |
|   | 2020                      | 2019                      |
| Interest income                           | 22,081                    | 18,828                    |
| Net gains arising from trading activities | 129                       | 104                       |

The interest rates of the transactions between the Group and MOF are summarised below:

|                         | Year ended 31 December<br>2020<br>% | 2019<br>% |
|-------------------------|-------------------------------------|-----------|
| Bonds issued by the MOF | 0.13~5.32                           | 0.13~5.41 |

## (b) Transactions with the National Council for Social Security Fund

As at 31 December 2020, the National Council for Social Security Fund held 12,160 million (31 December 2019: 12,909 million) ordinary shares of Bank of Communications Co., Ltd. which represented 16.37% (31 December 2019: 17.38%) of the total share capital. The Group enters into transactions with the National Council for Social Security Fund in the normal course of business and they mainly include deposits which are carried out under normal commercial terms and paid at market rates.

Details of transaction volumes and outstanding balances are summarised below:

|                  | As at<br>31 December 2020 | As at<br>31 December 2019 |
|------------------|---------------------------|---------------------------|
| Due to customers | 87,356                    | 71,314                    |
|                  | Year ended 31 December    |                           |
|                  | 2020                      | 2019                      |
| Interest expense | (3,523)                   | (1,031)                   |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020  
(All amounts expressed in millions of RMB unless otherwise stated)

### 47 RELATED PARTY TRANSACTIONS (Continued)

#### (b) Transactions with the National Council for Social Security Fund (Continued)

The interest rates of the transactions between the Group and the National Council for Social Security Fund are summarised below:

|                  | Year ended 31 December |           |
|------------------|------------------------|-----------|
|                  | 2020<br>%              | 2019<br>% |
| Due to customers | 3.85~5.30              | 3.85~6.10 |

#### (c) Transactions with the Hongkong and Shanghai Banking Corporation Limited ("HSBC") Group and its joint ventures

As at 31 December 2020, HSBC held 13,886 million (31 December 2019: 13,886 million) ordinary shares of the Bank of Communications Co., Ltd. which represented 18.70% (31 December 2019: 18.70%) of the total share capital. Transactions between the Group and HSBC are carried out under normal commercial terms and paid at market rates.

Details of transaction volumes and outstanding balances are summarised below:

|   | As at<br>31 December 2020 | As at<br>31 December 2019 |
|---|---------------------------|---------------------------|
| On-balance sheet items  |                           |                           |
| Due from and placements with banks and other financial institutions | 11,328                    | 1,302                     |
| Derivative financial assets   | 2,370                     | 798                       |
| Financial investments at FVPL                                       | 2,709                     | 1,323                     |
| Financial investments at amortised cost                             | 432                       | 230                       |
| Financial investments at FVOCI                                      | 3,354                     | 4,634                     |
| Due to and placements from banks and other financial institutions   | 8,261                     | 10,373                    |
| Financial liabilities at FVPL                                       | 212                       | 2,424                     |
| Derivative financial liabilities                                    | 2,963                     | 979                       |
| Off-balance sheet items   |                           |                           |
| Notional principal of derivative financial instruments              | 192,032                   | 161,086                   |

|                                    | Year ended 31 December |       |
|------------------------------------|------------------------|-------|
|                                    | 2020                   | 2019  |
| Interest income                    | 203                    | 231   |
| Interest expense                   | (202)                  | (403) |
| Fee and commission income          | 52                     | 56    |
| Fee and commission expense         | (8)                    | (8)   |
| Net losses from trading activities | (264)                  | (305) |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

## 47 RELATED PARTY TRANSACTIONS (Continued)

## (c) Transactions with the Hongkong and Shanghai Banking Corporation Limited (“HSBC”) Group and its joint ventures (Continued)

The interest rates of the transactions between the Group and HSBC are summarised below:

|   | Year ended 31 December |             |
|---|------------------------|-------------|
|   | 2020                   | 2019        |
|   | %                      | %           |
| Due from and placements with banks and other financial institutions | 0.01~3.42              | 0.01~3.10   |
| Financial investments at FVPL                                       | 1.49~6.00              | 3.30~4.13   |
| Financial investments at amortised cost                             | 3.26~4.74              | 3.26~4.74   |
| Financial investments at FVOCI                                      | 0.002~4.95             | 1.50~4.75   |
| Due to and placements from banks and other financial institutions   | (0.24)~4.12            | (0.24)~3.80 |
| Financial liabilities at FVPL                                       | 0.50~0.70              | 0.36~0.75   |

## (d) Transactions with state-owned entities in PRC

The Group operates in an economic environment predominated by enterprises directly or indirectly owned and/or controlled by the government through its authorities, affiliates or other organisations (collectively the “state-owned entities”). During the period, the Group entered into extensive banking transactions with these state-owned entities including, but not limited to, the provision of credit and guarantees, deposits, foreign exchange, derivatives transactions, agency business, underwriting and distribution of bonds issued by the government as well as trading and redemption of securities issued by the government.

Management considers that transactions with state-owned entities are activities conducted in the ordinary course of business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and these state-owned entities are ultimately controlled or owned by the government. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are state-owned entities.

## (e) Transactions with subsidiaries

Transactions between the Bank and its subsidiaries are carried out under normal commercial terms and paid at market rates. These transactions are eliminated on consolidation.

Details of transaction volumes and outstanding balances are summarised below:

| The Bank  | As at            | As at            |
|---|------------------|------------------|
|   | 31 December 2020 | 31 December 2019 |
| Due from and placements with banks and other financial institutions | 141,231          | 91,645           |
| Loans and advances to customers                                     | 521              | 1,296            |
| Financial investments at FVPL                                       | 891              | 1,915            |
| Financial investments at amortised cost                             | 1,240            | 2,266            |
| Financial investments at FVOCI                                      | 8,986            | 13,055           |
| Derivative financial assets   | 1,736            | 429              |
| Other assets  | 808              | 137              |
| Due to and placements from banks and other financial institutions   | 16,236           | 19,896           |
| Derivative financial liabilities                                    | 429              | 543              |
| Due to customers  | 14,873           | 3,544            |
| Debt securities issued  | 51               | 51               |
| Other liabilities   | 97               | 36               |



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020  
(All amounts expressed in millions of RMB unless otherwise stated)

### 47 RELATED PARTY TRANSACTIONS (Continued)

#### (e) Transactions with subsidiaries (Continued)

| The Bank   | Year ended 31 December |        |
|--|------------------------|--------|
|  | 2020                   | 2019   |
| Sale of financial investments at FVPL to subsidiaries  | 27                     | 10,327 |
| Sale of financial investments at FVOCI to subsidiaries | –                      | 28,312 |

| The Bank                                  | Year ended 31 December |       |
|---|------------------------|-------|
|   | 2020                   | 2019  |
| Interest income                           | 2,024                  | 2,531 |
| Interest expense                          | (377)                  | (458) |
| Fee and commission income                 | 1,251                  | 943   |
| Fee and commission expense                | (191)                  | (97)  |
| Other operating income                    | 570                    | 562   |
| Other operating expense                   | (184)                  | (214) |
| Net gains arising from trading activities | 138                    | 755   |

The interest rates of the transactions between the Bank and its subsidiaries are summarised below:

| The Bank  | Year ended 31 December |              |
|---|------------------------|--------------|
|   | 2020<br>%              | 2019<br>%    |
| Due from and placements with banks and other financial institutions | 0.01~5.69              | (0.10)~5.40  |
| Financial investments at FVPL                                       | 1.97~4.38              | 2.63~4.38    |
| Financial investments at amortised cost                             | 1.18~4.70              | 0.76~4.70    |
| Financial investments at FVOCI                                      | 0.95~4.38              | 1.00~4.38    |
| Loans and advances to customers                                     | 1.61~3.97              | 2.18~3.97    |
| Due to and placements from banks and other financial institutions   | 0.01~4.50              | (0.10)~ 9.15 |
| Due to customers  | 0.70~4.18              | 1.50~3.03    |
| Debt securities issued  | 5.75                   | 5.75         |

#### (f) Transactions with directors, supervisors and senior management

Transactions with directors, supervisors, senior management, their close relatives and entities that are controlled, jointly controlled or significantly influenced by either such directors, supervisors and senior management or their close relatives mainly include loans and deposits and are carried out under normal commercial terms and paid at market rates.

Details of transaction volumes and outstanding balances are summarised below:

|                                 | As at<br>31 December 2020 | As at<br>31 December 2019 |
|---------------------------------|---------------------------|---------------------------|
| Due to customers                | 6                         | 18                        |
| Loans and advances to customers | 1                         | 3                         |

Compensations of directors and senior management are disclosed in Note 15.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

## 47 RELATED PARTY TRANSACTIONS (Continued)

## (g) Transactions with associates and joint ventures

Transactions between the Group and its associates and joint ventures are carried out under normal commercial terms and paid at market rates.

Details of transaction volumes and outstanding balances are summarised below:

|  | As at<br>31 December 2020 | As at<br>31 December 2019 |
|--|---------------------------|---------------------------|
| On-balance sheet items   |                           |                           |
| Due from and placements with banks and other financial institutions        | 100                       | –                         |
| Derivative financial assets  | 7                         | 4                         |
| Loans and advances to customers  | 4,767                     | 3,371                     |
| Due to and placements from banks and other financial institutions          | 44                        | 52                        |
| Derivative financial liabilities   | 16                        | 3                         |
| Due to customers   | –                         | 3                         |
| Off-balance sheet items  |                           |                           |
| Notional principal of derivative financial instruments                     | 2,094                     | 5,193                     |
| Credit related commitments (Guarantees, acceptances and letters of credit) | 10,337                    | 9,288                     |
|  | Year ended 31 December    |                           |
|  | 2020                      | 2019                      |
| Interest income  | 195                       | 165                       |
| Interest expense   | (2)                       | (2)                       |
| Net (losses)/gains from trading activities                                 | (14)                      | 1                         |

The interest rates of the transactions between the Group and its associates and joint ventures are summarised below:

|   |                        |           |
|---|------------------------|-----------|
|   | Year ended 31 December |           |
|   | 2020                   | 2019      |
|   | %                      | %         |
| Due from and placements with banks and other financial institutions | 0.30~3.05              | 0.35~3.88 |
| Loans and advances to customers                                     | 2.95~5.39              | 3.92~4.90 |
| Due to and placements from banks and other financial institutions   | 0.01~1.55              | 0.01~5.50 |
| Due to customers  | 0.30~1.89              | 0.30~1.35 |

## (h) Transactions with other related parties

Details of transaction volumes and outstanding balances are summarised below:

|   | As at<br>31 December 2020 | As at<br>31 December 2019 |
|---|---------------------------|---------------------------|
| Loans and advances to customers                                   | 744                       | 2,355                     |
| Financial investments at amortised cost                           | 204                       | 204                       |
| Due to and placements from banks and other financial institutions | 92                        | 1,871                     |
| Due to customers  | 42,313                    | 48,118                    |
|   | Year ended 31 December    |                           |
|   | 2020                      | 2019                      |
| Interest income   | 45                        | 74                        |
| Interest expense  | (1,593)                   | (1,507)                   |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020  
(All amounts expressed in millions of RMB unless otherwise stated)

### 47 RELATED PARTY TRANSACTIONS (Continued)

#### (h) Transactions with other related parties (Continued)

The interest rates of the transactions between the Group and other related parties are summarised below:

|   | Year ended 31 December |           |
|---|------------------------|-----------|
|   | 2020<br>%              | 2019<br>% |
| Loans and advances to customers                                   | 0.30~5.06              | 0.30~6.31 |
| Financial investments at amortised cost                           | 3.19~3.78              | 3.19~3.78 |
| Due to and placements from banks and other financial institutions | 0.30~3.15              | 2.70~5.80 |
| Due to customers  | 0.30~4.18              | 1.10~4.18 |

### 48 SEGMENTAL ANALYSIS

The Group's Board of Directors and senior management reviews the Group's operation by the particular economic areas in which the Group's branches and subsidiaries provide products or services. The Group's geographical operating segments are decided based upon location of the assets, as the Group's branches and subsidiaries mainly serve local customers.

The reportable geographical operating segments derive their revenue primarily from commercial banking services and investing activities, including deposits, loans, bills, trade financing, money market placements and takings, and securities investments, etc.

The Group's geographical operating segments include provincial and directly managed branches and subsidiaries (if any) in relevant regions, as follows:

- (1) Yangtze River Delta: including Shanghai (excluding Head Office), Jiangsu Province, Zhejiang Province, and Anhui Province;
- (2) Pearl River Delta: including Fujian Province and Guangdong Province;
- (3) Bohai Rim Economic Zone: including Beijing, Tianjin, Hebei Province, and Shandong Province;
- (4) Central China: including Shanxi Province, Jiangxi Province, Henan Province, Hubei Province, Hunan Province, Hainan Province and Guangxi Zhuang Autonomous Region;
- (5) Western China: including Chongqing, Sichuan Province, Guizhou Province, Yunnan Province, Shanxi Province, Gansu Province, Qinghai Province, Inner Mongolia Autonomous Region, Ningxia Autonomous Region, and Xinjiang Uyghur Autonomous Region;
- (6) Northeastern China: including Liaoning Province, Jilin Province and Heilongjiang Province;
- (7) Overseas: including Hong Kong, New York, Tokyo, Singapore, Seoul, Frankfurt, Macau, Ho Chi Minh City, San Francisco, Sydney, Taipei, London, Luxembourg, Brisbane, Paris, Rome, Brazil, Melbourne, Toronto, Prague, Johannesburg.
- (8) Head Office, including the Pacific Credit Card Centre

The revenue from external parties is reported to the Board of Directors and the senior management in a manner consistent with that in the consolidated statement of profit or loss and other comprehensive income.

As the Group's major revenue is derived from interest, and the Board of Directors and the senior management relies primarily on net interest income to assess the performance of segments, the interest income and expenses for all reportable segments are presented on a net basis.

The Group's Board of Directors and senior management reviews the segment performance on the basis of profit before tax. Funds are ordinarily allocated between segments. Costs of these funds are charged at the Group's cost of capital and disclosed in inter-segment net interest income. There are no other material items of income or expenses between the segments.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

## 48 SEGMENTAL ANALYSIS (Continued)

## Geographical operating segment information

|   | Year ended 31 December 2020 |                         |                               |                  |                  |                           |               |                |                |
|---|-----------------------------|-------------------------|-------------------------------|------------------|------------------|---------------------------|---------------|----------------|----------------|
|   | Yangtze<br>River<br>Delta   | Pearl<br>River<br>Delta | Bohai Rim<br>Economic<br>Zone | Central<br>China | Western<br>China | North<br>Eastern<br>China | Overseas      | Head<br>Office | Total          |
| External interest income                          | 71,200                      | 29,851                  | 34,229                        | 43,754           | 29,300           | 9,248                     | 23,605        | 127,914        | 369,101        |
| External interest expense                         | (48,338)                    | (19,692)                | (34,843)                      | (23,729)         | (15,170)         | (9,089)                   | (14,820)      | (50,084)       | (215,765)      |
| Inter-segment net interest income/(expense)       | 22,627                      | 6,175                   | 21,372                        | 7,612            | 2,313            | 5,166                     | 19            | (65,284)       | -              |
| <b>Net interest income</b>                        | <b>45,489</b>               | <b>16,334</b>           | <b>20,758</b>                 | <b>27,637</b>    | <b>16,443</b>    | <b>5,325</b>              | <b>8,804</b>  | <b>12,546</b>  | <b>153,336</b> |
| Fee and commission income                         | 11,988                      | 3,127                   | 4,963                         | 5,355            | 2,799            | 1,067                     | 2,802         | 17,197         | 49,298         |
| Fee and commission expense                        | (2,157)                     | (47)                    | (71)                          | (69)             | (25)             | (19)                      | (226)         | (1,598)        | (4,212)        |
| <b>Net fee and commission income</b>              | <b>9,831</b>                | <b>3,080</b>            | <b>4,892</b>                  | <b>5,286</b>     | <b>2,774</b>     | <b>1,048</b>              | <b>2,576</b>  | <b>15,599</b>  | <b>45,086</b>  |
| Net gains arising from trading activities         | 3,067                       | 171                     | 253                           | 485              | 57               | 16                        | (346)         | 10,141         | 13,844         |
| Net gains arising from financial investments      | 507                         | -                       | -                             | -                | -                | -                         | 2,420         | (1,750)        | 1,177          |
| Insurance business income                         | 15,103                      | -                       | -                             | -                | -                | -                         | 67            | -              | 15,170         |
| Share of profits of associates and joint ventures | -                           | -                       | -                             | -                | -                | -                         | 50            | 172            | 222            |
| Other operating income                            | 14,345                      | 484                     | 1,209                         | 627              | 497              | 174                       | 285           | 268            | 17,889         |
| <b>Total operating income -net</b>                | <b>88,342</b>               | <b>20,069</b>           | <b>27,112</b>                 | <b>34,035</b>    | <b>19,771</b>    | <b>6,563</b>              | <b>13,856</b> | <b>36,976</b>  | <b>246,724</b> |
| Credit impairment losses                          | (8,368)                     | (4,245)                 | (7,200)                       | (9,483)          | (1,673)          | (3,028)                   | (1,156)       | (26,906)       | (62,059)       |
| Other assets impairment losses                    | (486)                       | -                       | 1                             | -                | -                | (4)                       | 5             | -              | (484)          |
| Insurance business expense                        | (15,699)                    | -                       | -                             | -                | -                | -                         | (30)          | -              | (15,729)       |
| Other operating expense                           | (25,853)                    | (6,376)                 | (8,188)                       | (8,471)          | (5,882)          | (3,248)                   | (4,222)       | (19,787)       | (82,027)       |
| <b>Profit before tax</b>                          | <b>37,936</b>               | <b>9,448</b>            | <b>11,725</b>                 | <b>16,081</b>    | <b>12,216</b>    | <b>283</b>                | <b>8,453</b>  | <b>(9,717)</b> | <b>86,425</b>  |
| Income tax  |                             |                         |                               |                  |                  |                           |               |                | (6,855)        |
| <b>Net profit for the year</b>                    |                             |                         |                               |                  |                  |                           |               |                | <b>79,570</b>  |
| Depreciation and amortisation                     | (1,779)                     | (902)                   | (1,114)                       | (1,096)          | (945)            | (486)                     | (488)         | (1,078)        | (7,888)        |
| Capital expenditure                               | (19,236)                    | (545)                   | (760)                         | (1,460)          | (561)            | (273)                     | (193)         | (1,130)        | (24,158)       |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020  
(All amounts expressed in millions of RMB unless otherwise stated)

## 48 SEGMENTAL ANALYSIS (Continued)

### Geographical operating segment information (Continued)

|   | Year ended 31 December 2019 |                   |                         |               |               |                     |          |             | Total     |
|---|-----------------------------|-------------------|-------------------------|---------------|---------------|---------------------|----------|-------------|-----------|
|   | Yangtze River Delta         | Pearl River Delta | Bohai Rim Economic Zone | Central China | Western China | North Eastern China | Overseas | Head Office |           |
| External interest income                          | 67,117                      | 25,271            | 31,944                  | 38,731        | 26,227        | 8,829               | 33,580   | 135,754     | 367,453   |
| External interest expense                         | (47,749)                    | (18,260)          | (33,178)                | (21,794)      | (15,761)      | (8,710)             | (24,203) | (53,715)    | (223,370) |
| Inter-segment net interest income/ (expense)      | 21,262                      | 7,711             | 19,642                  | 8,294         | 5,474         | 4,799               | (370)    | (66,812)    | –         |
| <b>Net interest income</b>                        | 40,630                      | 14,722            | 18,408                  | 25,231        | 15,940        | 4,918               | 9,007    | 15,227      | 144,083   |
| Fee and commission income                         | 10,136                      | 2,952             | 4,208                   | 5,043         | 2,703         | 1,056               | 3,166    | 18,405      | 47,669    |
| Fee and commission expense                        | (1,320)                     | (66)              | (65)                    | (44)          | (32)          | (16)                | (328)    | (2,173)     | (4,044)   |
| <b>Net fee and commission income</b>              | 8,816                       | 2,886             | 4,143                   | 4,999         | 2,671         | 1,040               | 2,838    | 16,232      | 43,625    |
| Net gains arising from trading activities         | 2,416                       | 28                | 341                     | 388           | 87            | 50                  | 342      | 12,284      | 15,936    |
| Net gains arising from financial investments      | 114                         | –                 | –                       | –             | –             | –                   | 487      | (288)       | 313       |
| Insurance business income                         | 11,647                      | –                 | –                       | –             | –             | –                   | 40       | –           | 11,687    |
| Share of profits of associates and joint ventures | –                           | –                 | –                       | –             | –             | –                   | 134      | 280         | 414       |
| Other operating income                            | 12,306                      | 280               | 1,205                   | 463           | 604           | 169                 | 1,710    | 62          | 16,799    |
| <b>Total operating income -net</b>                | 75,929                      | 17,916            | 24,097                  | 31,081        | 19,302        | 6,177               | 14,558   | 43,797      | 232,857   |
| <b>Credit impairment losses</b>                   | (6,224)                     | (1,911)           | (7,576)                 | (7,630)       | (4,807)       | (4,882)             | (86)     | (18,838)    | (51,954)  |
| Other assets impairment losses                    | (230)                       | 1                 | –                       | (11)          | (15)          | 1                   | (16)     | –           | (270)     |
| Insurance business expense                        | (11,424)                    | –                 | –                       | –             | –             | –                   | (8)      | –           | (11,432)  |
| Other operating expense                           | (23,682)                    | (5,801)           | (8,370)                 | (8,308)       | (6,373)       | (3,298)             | (5,516)  | (19,653)    | (81,001)  |
| <b>Profit before tax</b>                          | 34,369                      | 10,205            | 8,151                   | 15,132        | 8,107         | (2,002)             | 8,932    | 5,306       | 88,200    |
| Income tax  |                             |                   |                         |               |               |                     |          |             | (10,138)  |
| Net profit for the year                           |                             |                   |                         |               |               |                     |          |             | 78,062    |
| Depreciation and amortisation                     | (1,675)                     | (917)             | (1,188)                 | (1,123)       | (965)         | (495)               | (608)    | (1,134)     | (8,105)   |
| Capital expenditure                               | (29,082)                    | (450)             | (419)                   | (664)         | (407)         | (263)               | (281)    | (810)       | (32,376)  |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

## 48 SEGMENTAL ANALYSIS (Continued)

## Geographical operating segment information (Continued)

|  | As at 31 December 2020 |                   |                         |               |               |                     |             |             |              |             |
|--|------------------------|-------------------|-------------------------|---------------|---------------|---------------------|-------------|-------------|--------------|-------------|
|  | Yangtze River Delta    | Pearl River Delta | Bohai Rim Economic Zone | Central China | Western China | North Eastern China | Overseas    | Head Office | Eliminations | Total       |
| Segment assets                               | 2,641,386              | 920,887           | 1,543,501               | 1,194,919     | 822,759       | 384,627             | 1,114,676   | 4,187,998   | (2,141,128)  | 10,669,625  |
| Including:                                   |                        |                   |                         |               |               |                     |             |             |              |             |
| Investments in associates and joint ventures | 4                      | -                 | -                       | 6             | -             | -                   | 203         | 4,468       | -            | 4,681       |
| Unallocated assets                           |                        |                   |                         |               |               |                     |             |             |              | 27,991      |
| Total assets                                 |                        |                   |                         |               |               |                     |             |             |              | 10,697,616  |
| Segment liabilities                          | (2,437,106)            | (908,645)         | (1,524,423)             | (1,162,723)   | (808,702)     | (385,778)           | (1,057,224) | (3,674,229) | 2,141,128    | (9,817,702) |
| Unallocated liabilities                      |                        |                   |                         |               |               |                     |             |             |              | (1,286)     |
| Total liabilities                            |                        |                   |                         |               |               |                     |             |             |              | (9,818,988) |

|  | As at 31 December 2019 |                   |                         |               |               |                     |             |             |              |             |
|--|------------------------|-------------------|-------------------------|---------------|---------------|---------------------|-------------|-------------|--------------|-------------|
|  | Yangtze River Delta    | Pearl River Delta | Bohai Rim Economic Zone | Central China | Western China | North Eastern China | Overseas    | Head Office | Eliminations | Total       |
| Segment assets                               | 2,293,215              | 778,331           | 1,350,485               | 1,080,193     | 759,509       | 344,260             | 1,100,225   | 4,029,095   | (1,853,778)  | 9,881,535   |
| Including:                                   |                        |                   |                         |               |               |                     |             |             |              |             |
| Investments in associates and joint ventures | 4                      | -                 | -                       | 6             | -             | -                   | 431         | 4,159       | -            | 4,600       |
| Unallocated assets                           |                        |                   |                         |               |               |                     |             |             |              | 24,065      |
| Total assets                                 |                        |                   |                         |               |               |                     |             |             |              | 9,905,600   |
| Segment liabilities                          | (2,127,221)            | (766,612)         | (1,336,459)             | (1,052,611)   | (748,795)     | (346,410)           | (1,067,199) | (3,512,241) | 1,853,778    | (9,103,770) |
| Unallocated liabilities                      |                        |                   |                         |               |               |                     |             |             |              | (918)       |
| Total liabilities                            |                        |                   |                         |               |               |                     |             |             |              | (9,104,688) |

Given the adjustment to the standards of dividing segments and evaluation guidelines of income allocation within segment, the comparative figures were stated under existing standards

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020  
(All amounts expressed in millions of RMB unless otherwise stated)

### 48 SEGMENTAL ANALYSIS (Continued)

#### Business Information

The Group is engaged predominantly in banking and related financial activities. It comprises corporate banking, personal banking, treasury and other business. Corporate banking mainly comprises corporate loans, bills, trade financing, corporate deposits and remittance. Personal banking mainly comprises personal loans, personal deposits, credit cards and remittance. Treasury mainly comprises money market placements and takings, financial investment, and securities sold under repurchase agreements. The “Others Business” segment mainly comprises items which cannot be categorised in the above business segments.

The business information of the Group is summarised as follows:

|  | Year ended 31 December 2020      |                                 |                      |                   |                |
|--|----------------------------------|---------------------------------|----------------------|-------------------|----------------|
|  | Corporate<br>Banking<br>Business | Personal<br>Banking<br>Business | Treasury<br>Business | Other<br>Business | Total          |
| External net interest income                         | 61,605                           | 49,328                          | 42,341               | 62                | 153,336        |
| Inter-segment net interest<br>income/(expense)       | 20,409                           | 16,782                          | (37,191)             | –                 | –              |
| Net interest income                                  | 82,014                           | 66,110                          | 5,150                | 62                | 153,336        |
| Net fee and commission income                        | 15,571                           | 28,044                          | 1,314                | 157               | 45,086         |
| Net gains arising from trading activities            | 3,585                            | 1,964                           | 8,218                | 77                | 13,844         |
| Net gains arising from financial<br>investments      | –                                | –                               | 1,177                | –                 | 1,177          |
| Share of profits of associates<br>and joint ventures | –                                | –                               | –                    | 222               | 222            |
| Insurance business income                            | 32                               | 15,138                          | –                    | –                 | 15,170         |
| Other operating income                               | 14,128                           | 2,474                           | 33                   | 1,254             | 17,889         |
| <b>Total operating income – net</b>                  | <b>115,330</b>                   | <b>113,730</b>                  | <b>15,892</b>        | <b>1,772</b>      | <b>246,724</b> |
| Credit impairment losses                             | (33,129)                         | (28,215)                        | (714)                | (1)               | (62,059)       |
| Other assets impairment losses                       | (485)                            | –                               | –                    | 1                 | (484)          |
| Insurance business expense                           | (30)                             | (15,699)                        | –                    | –                 | (15,729)       |
| Other operating expense                              |                                  |                                 |                      |                   |                |
| – Depreciation and amortisation                      | (2,949)                          | (4,433)                         | (407)                | (99)              | (7,888)        |
| – Others   | (33,427)                         | (36,438)                        | (2,979)              | (1,295)           | (74,139)       |
| <b>Profit before tax</b>                             | <b>45,310</b>                    | <b>28,945</b>                   | <b>11,792</b>        | <b>378</b>        | <b>86,425</b>  |
| Income tax   |                                  |                                 |                      |                   | (6,855)        |
| <b>Net profit for the year</b>                       |                                  |                                 |                      |                   | <b>79,570</b>  |
| Depreciation and amortisation                        | (2,949)                          | (4,433)                         | (407)                | (99)              | (7,888)        |
| Capital expenditure                                  | (9,033)                          | (13,574)                        | (1,247)              | (304)             | (24,158)       |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

## 48 SEGMENTAL ANALYSIS (Continued)

## Business Information (Continued)

|  | Year ended 31 December 2019      |                                 |                      |                   | Total          |
|--|----------------------------------|---------------------------------|----------------------|-------------------|----------------|
|  | Corporate<br>Banking<br>Business | Personal<br>Banking<br>Business | Treasury<br>Business | Other<br>Business |                |
| External net interest income                         | 54,603                           | 47,152                          | 42,315               | 13                | 144,083        |
| Inter-segment net interest<br>income/(expense)       | 19,915                           | 15,277                          | (35,192)             | –                 | –              |
| Net interest income                                  | 74,518                           | 62,429                          | 7,123                | 13                | 144,083        |
| Net fee and commission income                        | 16,710                           | 26,114                          | 620                  | 181               | 43,625         |
| Net gains arising from<br>trading activities         | 2,795                            | 1,135                           | 11,852               | 154               | 15,936         |
| Net gains arising from financial<br>investments      | –                                | –                               | 313                  | –                 | 313            |
| Share of profits of associates<br>and joint ventures | –                                | –                               | –                    | 414               | 414            |
| Insurance business income                            | 2                                | 11,685                          | –                    | –                 | 11,687         |
| Other operating income                               | 13,591                           | 2,268                           | –                    | 940               | 16,799         |
| <b>Total operating income – net</b>                  | <b>107,616</b>                   | <b>103,631</b>                  | <b>19,908</b>        | <b>1,702</b>      | <b>232,857</b> |
| Credit impairment losses                             | (31,794)                         | (21,134)                        | 975                  | (1)               | (51,954)       |
| Other assets impairment losses                       | (233)                            | –                               | (10)                 | (27)              | (270)          |
| Insurance business expense                           | (8)                              | (11,424)                        | –                    | –                 | (11,432)       |
| Other operating expense                              |                                  |                                 |                      |                   |                |
| – Depreciation and amortisation                      | (2,917)                          | (4,347)                         | (406)                | (435)             | (8,105)        |
| – Others   | (32,487)                         | (36,293)                        | (2,930)              | (1,186)           | (72,896)       |
| <b>Profit before tax</b>                             | <b>40,177</b>                    | <b>30,433</b>                   | <b>17,537</b>        | <b>53</b>         | <b>88,200</b>  |
| Income tax   |                                  |                                 |                      |                   | (10,138)       |
| <b>Net profit for the year</b>                       |                                  |                                 |                      |                   | <b>78,062</b>  |
| Depreciation and amortisation                        | (2,917)                          | (4,347)                         | (406)                | (435)             | (8,105)        |
| Capital expenditure                                  | (11,650)                         | (17,366)                        | (1,623)              | (1,737)           | (32,376)       |

The comparative information was restated in accordance with the current categorisation since the business segment categorisation of some subsidiaries has been changed.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020  
(All amounts expressed in millions of RMB unless otherwise stated)

### 48 SEGMENTAL ANALYSIS (Continued)

#### Business Information (Continued)

|   | As at 31 December 2020           |                                 |                      |                   |                    |
|---|----------------------------------|---------------------------------|----------------------|-------------------|--------------------|
|   | Corporate<br>Banking<br>Business | Personal<br>Banking<br>Business | Treasury<br>Business | Other<br>Business | Total              |
| Segment assets                                      | 4,192,292                        | 2,067,778                       | 4,346,218            | 63,337            | 10,669,625         |
| Including:  |                                  |                                 |                      |                   |                    |
| <i>Investments in associates and joint ventures</i> | –                                | –                               | –                    | 4,681             | 4,681              |
| Unallocated assets                                  |                                  |                                 |                      |                   | 27,991             |
| <b>Total assets</b>                                 |                                  |                                 |                      |                   | <b>10,697,616</b>  |
| Segment liabilities                                 | (4,834,361)                      | (2,313,457)                     | (2,599,201)          | (70,683)          | (9,817,702)        |
| Unallocated liabilities                             |                                  |                                 |                      |                   | (1,286)            |
| <b>Total liabilities</b>                            |                                  |                                 |                      |                   | <b>(9,818,988)</b> |

|   | As at 31 December 2019           |                                 |                      |                   |                    |
|---|----------------------------------|---------------------------------|----------------------|-------------------|--------------------|
|   | Corporate<br>Banking<br>Business | Personal<br>Banking<br>Business | Treasury<br>Business | Other<br>Business | Total              |
| Segment assets                                      | 3,524,914                        | 1,829,595                       | 4,429,717            | 97,309            | 9,881,535          |
| Including:  |                                  |                                 |                      |                   |                    |
| <i>Investments in associates and joint ventures</i> | –                                | –                               | –                    | 4,600             | 4,600              |
| Unallocated assets                                  |                                  |                                 |                      |                   | 24,065             |
| <b>Total assets</b>                                 |                                  |                                 |                      |                   | <b>9,905,600</b>   |
| Segment liabilities                                 | (4,340,472)                      | (2,004,467)                     | (2,719,447)          | (39,384)          | (9,103,770)        |
| Unallocated liabilities                             |                                  |                                 |                      |                   | (918)              |
| <b>Total liabilities</b>                            |                                  |                                 |                      |                   | <b>(9,104,688)</b> |

There were no significant transactions with a single external customer that the Group mainly relied on.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

(All amounts expressed in millions of RMB unless otherwise stated)

## 49 FINANCIAL STATEMENTS OF THE BANK

## (a) Statement of financial position of the Bank

|  | As at<br>31 December 2020 | As at<br>31 December 2019 |
|--|---------------------------|---------------------------|
| <b>ASSETS</b>  |                           |                           |
| Cash and balances with central banks                                   | 807,383                   | 756,179                   |
| Due from and placements with banks and other financial institutions    | 670,148                   | 719,284                   |
| Derivative financial assets  | 54,494                    | 19,960                    |
| Loans and advances to customers  | 5,441,506                 | 4,971,617                 |
| Financial investments at fair value through profit or loss             | 391,648                   | 337,752                   |
| Financial investments at amortised cost                                | 1,980,248                 | 1,905,492                 |
| Financial investments at fair value through other comprehensive income | 555,787                   | 548,454                   |
| Investments in associates and joint ventures                           | 4,178                     | 4,055                     |
| Investments in subsidiaries  | 79,272                    | 54,167                    |
| Property and equipment   | 50,500                    | 50,795                    |
| Deferred income tax assets   | 26,262                    | 22,571                    |
| Other assets   | 69,219                    | 61,539                    |
| <b>Total assets</b>  | <b>10,130,645</b>         | <b>9,451,865</b>          |
| <b>Liabilities</b>   |                           |                           |
| Due to banks and other financial institutions                          | 1,672,012                 | 1,809,364                 |
| Financial liabilities at FVPL  | 23,972                    | 26,342                    |
| Derivative financial liabilities                                       | 54,311                    | 26,076                    |
| Due to customers   | 6,404,997                 | 5,914,089                 |
| Certificates of deposits issued  | 627,011                   | 493,873                   |
| Current income tax liabilities   | 2,643                     | 5,524                     |
| Deferred income tax liabilities  | 58                        | 102                       |
| Debt securities issued   | 408,906                   | 317,205                   |
| Other liabilities  | 107,985                   | 97,535                    |
| <b>Total liabilities</b>   | <b>9,301,895</b>          | <b>8,690,110</b>          |
| <b>Equity</b>  |                           |                           |
| Share capital  | 74,263                    | 74,263                    |
| Other equity investments   | 133,292                   | 99,870                    |
| <i>Including: Preference shares</i>                                    | <i>44,952</i>             | <i>59,876</i>             |
| <i>Perpetual bonds</i>   | <i>88,340</i>             | <i>39,994</i>             |
| Capital surplus  | 111,226                   | 113,427                   |
| Other reserves   | 324,383                   | 318,251                   |
| Retained earnings  | 185,586                   | 155,944                   |
| <b>Total equity</b>  | <b>828,750</b>            | <b>761,755</b>            |
| <b>Total equity and liabilities</b>                                    | <b>10,130,645</b>         | <b>9,451,865</b>          |

The financial statements of the Bank were approved and authorised for issuance by the Board of Directors on 26 March 2021 and signed on its behalf by:

Chairman and Executive Director: Ren Deqi

Vice Chairman, Executive Director and President: Liu Jun

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020  
(All amounts expressed in millions of RMB unless otherwise stated)

## 49 FINANCIAL STATEMENTS OF THE BANK (Continued)

### (b) Statement of changes in equity of the Bank

|   | Other reserves |                   |                 |                 |                   |                       |                           |  |                             |                         |   |                           |        |                   |          | Total |
|---|----------------|-------------------|-----------------|-----------------|-------------------|-----------------------|---------------------------|--|-----------------------------|-------------------------|---|---------------------------|--------|-------------------|----------|-------|
|   | Share capital  | Preference shares | Perpetual bonds | Capital surplus | Statutory reserve | Discretionary reserve | Statutory general reserve | Revaluation reserve for the changes in credit risk of the financial assets |                             | Cash flow hedge reserve | Translation reserve on foreign operations | Actuarial changes reserve | Others | Retained earnings |          |       |
|   |                |                   |                 |                 |                   |                       |                           | measured at designated FVOCI   | measured at designated FVPL |                         |   |                           |        |                   |          |       |
|   |                |                   |                 |                 |                   |                       |                           |  |                             |                         |   |                           |        |                   |          |       |
| As at 1 January 2020  | 74,263         | 59,876            | 39,994          | 113,427         | 63,072            | 139,764               | 111,455                   | 2,327  | 5                           | (18)                    | 293                                       | (10)                      | 1,363  | 155,944           | 761,755  |       |
| Net profit for the year                                       | -              | -                 | -               | -               | -                 | -                     | -                         | -  | -                           | -                       | -   | -                         | -      | 68,969            | 68,969   |       |
| Other comprehensive income                                    | -              | -                 | -               | -               | -                 | -                     | -                         | (3,096)  | 7                           | 58                      | (2,257)                                   | (132)                     | 12     | -                 | (5,408)  |       |
| Total comprehensive income                                    | -              | -                 | -               | -               | -                 | -                     | -                         | (3,096)  | 7                           | 58                      | (2,257)                                   | (132)                     | 12     | 68,969            | 63,561   |       |
| Capital contribution by holders of other equity instruments   | -              | (14,924)          | 48,346          | (2,201)         | -                 | -                     | -                         | -  | -                           | -                       | -   | -                         | -      | -                 | 31,221   |       |
| Dividends paid to ordinary shareholders                       | -              | -                 | -               | -               | -                 | -                     | -                         | -  | -                           | -                       | -   | -                         | -      | (23,393)          | (23,393) |       |
| Dividends paid to preference shareholders                     | -              | -                 | -               | -               | -                 | -                     | -                         | -  | -                           | -                       | -   | -                         | -      | (2,714)           | (2,714)  |       |
| Interest paid to perpetual bond holders                       | -              | -                 | -               | -               | -                 | -                     | -                         | -  | -                           | -                       | -   | -                         | -      | (1,680)           | (1,680)  |       |
| Transfer to reserves  | -              | -                 | -               | -               | 7,075             | -                     | 4,465                     | -  | -                           | -                       | -   | -                         | -      | (11,540)          | -        |       |
| As at 31 December 2020  | 74,263         | 44,952            | 88,340          | 111,226         | 70,147            | 139,764               | 115,920                   | (769)  | 12                          | 40                      | (1,964)                                   | (142)                     | 1,375  | 185,586           | 828,750  |       |
| As at 31 December 2018  | 74,263         | 59,876            | -               | 113,427         | 63,072            | 139,764               | 108,717                   | 1,247  | (20)                        | 29                      | (404)                                     | 10                        | 1,345  | 113,491           | 674,817  |       |
| Impact from adoption of IFRS 16                               | -              | -                 | -               | -               | -                 | -                     | -                         | -  | -                           | -                       | -   | -                         | -      | (609)             | (609)    |       |
| As at 1 January 2019  | 74,263         | 59,876            | -               | 113,427         | 63,072            | 139,764               | 108,717                   | 1,247  | (20)                        | 29                      | (404)                                     | 10                        | 1,345  | 112,882           | 674,208  |       |
| Net profit for the year                                       | -              | -                 | -               | -               | -                 | -                     | -                         | -  | -                           | -                       | -   | -                         | -      | 70,752            | 70,752   |       |
| Other comprehensive income                                    | -              | -                 | -               | -               | -                 | -                     | -                         | 1,078  | 25                          | (47)                    | 697                                       | (20)                      | 18     | -                 | 1,751    |       |
| Total comprehensive income                                    | -              | -                 | -               | -               | -                 | -                     | -                         | 1,078  | 25                          | (47)                    | 697                                       | (20)                      | 18     | 70,752            | 72,503   |       |
| Capital contribution by holders of other equity instruments   | -              | -                 | 39,994          | -               | -                 | -                     | -                         | -  | -                           | -                       | -   | -                         | -      | -                 | 39,994   |       |
| Dividends paid to ordinary shareholders                       | -              | -                 | -               | -               | -                 | -                     | -                         | -  | -                           | -                       | -   | -                         | -      | (22,279)          | (22,279) |       |
| Dividends paid to preference shareholders                     | -              | -                 | -               | -               | -                 | -                     | -                         | -  | -                           | -                       | -   | -                         | -      | (2,671)           | (2,671)  |       |
| Transfer to reserves  | -              | -                 | -               | -               | -                 | -                     | 2,738                     | -  | -                           | -                       | -   | -                         | -      | (2,738)           | -        |       |
| Transfer from other comprehensive income to retained earnings | -              | -                 | -               | -               | -                 | -                     | -                         | 2  | -                           | -                       | -   | -                         | -      | (2)               | -        |       |
| As at 31 December 2019  | 74,263         | 59,876            | 39,994          | 113,427         | 63,072            | 139,764               | 111,455                   | 2,327  | 5                           | (18)                    | 293                                       | (10)                      | 1,363  | 155,944           | 761,755  |       |

## 50 COMPARATIVE FIGURES

Certain comparative figures have been adjusted to conform with changes in disclosures in current year.

# UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(All amounts expressed in millions of RMB unless otherwise stated)

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## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(All amounts expressed in millions of RMB unless otherwise stated)

### 1 CURRENCY CONCENTRATIONS

|                               | USD         | HKD       | Others    | Total       |
|-------------------------------|-------------|-----------|-----------|-------------|
| <b>As at 31 December 2020</b> |             |           |           |             |
| Spot assets                   | 971,473     | 232,530   | 200,619   | 1,404,622   |
| Spot liabilities              | (866,247)   | (339,250) | (131,716) | (1,337,213) |
| Forward purchases             | 1,130,911   | 298,686   | 81,772    | 1,511,369   |
| Forward sales                 | (1,293,531) | (155,669) | (141,908) | (1,591,108) |
| Net option position           | (1,878)     | 41        | 2,663     | 826         |
| Net long/(short) position     | (59,272)    | 36,338    | 11,430    | (11,504)    |
| Net structural position       | 117,569     | 30,147    | 11,065    | 158,781     |
|                               | USD         | HKD       | Others    | Total       |
| <b>As at 31 December 2019</b> |             |           |           |             |
| Spot assets                   | 962,162     | 240,381   | 182,878   | 1,385,421   |
| Spot liabilities              | (935,924)   | (281,692) | (120,743) | (1,338,359) |
| Forward purchases             | 1,009,056   | 184,437   | 88,332    | 1,281,825   |
| Forward sales                 | (1,082,162) | (116,658) | (131,152) | (1,329,972) |
| Net option position           | (9,379)     | (1)       | (506)     | (9,886)     |
| Net long/(short) position     | (56,247)    | 26,467    | 18,809    | (10,971)    |
| Net structural position       | 123,773     | 18,922    | 5,175     | 147,870     |

The net options position is calculated using the approach set out by the CBIRC in the regulatory report. The net structural position of the Group includes the structural positions of the Group's overseas branches, banking subsidiaries and other subsidiaries substantially involved in foreign exchange. Structural assets and liabilities include:

- Investments in fixed assets and properties, net of depreciation charges;
- Capital and statutory reserve of overseas branches;
- Investments in overseas subsidiaries and related companies; and
- Loan capital

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(All amounts expressed in millions of RMB unless otherwise stated)

## 2 INTERNATIONAL CLAIMS

International claims are the sum of cross-border claims in all currencies and local claims in foreign currencies. The Group is principally engaged in business operations within Mainland China.

In respect of this unaudited supplementary financial information, Mainland China excludes Hong Kong Special Administrative Region of the PRC ("Hong Kong"), Macau Special Administrative Region of the PRC ("Macau") and Taiwan.

International claims include loans and advances to customers, due from and placements with banks and other financial institutions, holdings of trade bills and certificates of deposits and investment securities.

International claims have been disclosed by country or region. A country or region is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfers are only made if risk exposure is transferred to other counterparty by risk resolving methods. Exposure to credit risk is also mitigated through methods of guarantees, collaterals and credit derivatives.

| As at 31 December 2020                  | Bank    | Official sector | Non-bank private sector | Others | Total     |
|---|---------|-----------------|-------------------------|--------|-----------|
| Asia Pacific                            | 509,860 | 53,881          | 568,620                 | –      | 1,132,361 |
| <i>Of which attributed to Hong Kong</i> | 129,213 | 23,119          | 299,229                 | –      | 451,561   |
| North and South America                 | 41,818  | 28,597          | 70,286                  | –      | 140,701   |
| Africa                                  | 575     | 613             | –                       | –      | 1,188     |
| Europe                                  | 42,235  | 2,727           | 31,132                  | –      | 76,094    |
|   | 594,488 | 85,818          | 670,038                 | –      | 1,350,344 |

| As at 31 December 2019                  | Bank    | Official sector | Non-bank private sector | Others | Total     |
|---|---------|-----------------|-------------------------|--------|-----------|
| Asia Pacific                            | 438,418 | 34,641          | 623,377                 | –      | 1,096,436 |
| <i>Of which attributed to Hong Kong</i> | 119,731 | 16,732          | 256,174                 | –      | 392,637   |
| North and South America                 | 50,069  | 32,202          | 74,282                  | –      | 156,553   |
| Africa                                  | 737     | 594             | –                       | –      | 1,331     |
| Europe                                  | 27,956  | 211             | 32,787                  | –      | 60,954    |
|   | 517,180 | 67,648          | 730,446                 | –      | 1,315,274 |

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(All amounts expressed in millions of RMB unless otherwise stated)

### 3 OVERDUE AND RESTRUCTURED ASSETS

#### 3.1 Balance of overdue loans

|  | As at<br>31 December 2020 | As at<br>31 December 2019 |
|--|---------------------------|---------------------------|
| Loans and advances to customers which have been overdue for: |                           |                           |
| – Less than 3 months   | 25,480                    | 28,923                    |
| – 3 to 6 months  | 10,884                    | 9,694                     |
| – 6 to 12 months   | 23,261                    | 18,924                    |
| – Over 12 months   | 30,578                    | 32,979                    |
|  | 90,203                    | 90,520                    |
| Percentage (%):  |                           |                           |
| – Less than 3 months   | 0.44                      | 0.55                      |
| – 3 to 6 months  | 0.19                      | 0.17                      |
| – 6 to 12 months   | 0.40                      | 0.36                      |
| – Over 12 months   | 0.51                      | 0.63                      |
|  | 1.54                      | 1.71                      |

#### 3.2 Overdue and restructured loans

|   | As at<br>31 December 2020 | As at<br>31 December 2019 |
|---|---------------------------|---------------------------|
| Total restructured loans and advances to customers  | 8,299                     | 7,634                     |
| <i>Including: Restructured loans and advances to customers<br/>overdue above 3 months</i>           | 2,394                     | 1,949                     |
| Percentage of restructured loans and advances to customers<br>overdue above 3 months in total loans | 0.04                      | 0.04                      |

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(All amounts expressed in millions of RMB unless otherwise stated)

## 4 SEGMENTAL INFORMATION OF LOANS

## 4.1 Impaired loans and advances to customers by geographical area

|                           | As at 31 December 2020                   |                                 | As at 31 December 2019                   |                                 |
|---------------------------|--|---------------------------------|--|---------------------------------|
|                           | Impaired loans and advances to customers | Allowance for impairment losses | Impaired loans and advances to customers | Allowance for impairment losses |
| PRC domestic regions      |  |                                 |  |                                 |
| – Yangtze River Delta     | 20,932                                   | (11,747)                        | 12,836                                   | (8,356)                         |
| – Pearl River Delta       | 7,332                                    | (4,050)                         | 6,056                                    | (3,557)                         |
| – Bohai Rim Economic Zone | 17,058                                   | (12,068)                        | 9,646                                    | (7,585)                         |
| – Central China           | 18,005                                   | (9,808)                         | 11,369                                   | (7,914)                         |
| – Western China           | 9,220                                    | (6,105)                         | 11,951                                   | (8,844)                         |
| – North Eastern China     | 10,998                                   | (7,891)                         | 13,826                                   | (9,625)                         |
| – Head Office             | 10,567                                   | (10,466)                        | 11,146                                   | (11,514)                        |
| Subtotal                  | 94,112                                   | (62,135)                        | 76,830                                   | (57,395)                        |
| Overseas                  | 3,586                                    | (843)                           | 1,213                                    | (652)                           |
| Total                     | 97,698                                   | (62,978)                        | 78,043                                   | (58,047)                        |

## 4.2 Overdue loans and advances to customers by geographical area

|                           | As at 31 December 2020 |                                 | As at 31 December 2019 |                                 |
|---------------------------|------------------------|---------------------------------|------------------------|---------------------------------|
|                           | Overdue loans          | Allowance for impairment losses | Overdue loans          | Allowance for impairment losses |
| PRC domestic regions      |                        |                                 |                        |                                 |
| – Yangtze River Delta     | 16,505                 | (10,996)                        | 14,289                 | (7,156)                         |
| – Pearl River Delta       | 6,167                  | (3,208)                         | 5,267                  | (3,013)                         |
| – Bohai Rim Economic Zone | 14,517                 | (10,140)                        | 10,603                 | (7,998)                         |
| – Central China           | 13,622                 | (8,252)                         | 13,405                 | (7,334)                         |
| – Western China           | 7,312                  | (4,748)                         | 10,017                 | (7,369)                         |
| – North Eastern China     | 10,283                 | (7,194)                         | 15,384                 | (9,270)                         |
| – Head Office             | 18,251                 | (13,048)                        | 20,582                 | (13,877)                        |
| Subtotal                  | 86,657                 | (57,586)                        | 89,547                 | (56,017)                        |
| Overseas                  | 3,546                  | (976)                           | 973                    | (710)                           |
| Total                     | 90,203                 | (58,562)                        | 90,520                 | (56,727)                        |
| Fair value of collaterals | 44,069                 | Not applicable                  | 44,293                 | Not applicable                  |



## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(All amounts expressed in millions of RMB unless otherwise stated)

### 5 LOANS AND ADVANCES TO CUSTOMERS

#### 5.1 The risk concentration analysis for loans and advances to customers by industry sectors (gross)

| Hong Kong   | As at 31 December 2020 |        |                               | As at 31 December 2019 |        |                               |
|---|------------------------|--------|-------------------------------|------------------------|--------|-------------------------------|
|   |                        | %      | Amount covered by collaterals |                        | %      | Amount covered by collaterals |
| Corporate loans   |                        |        |                               |                        |        |                               |
| Manufacturing   |                        |        |                               |                        |        |                               |
| – Petroleum and chemical  | 1,325                  | 0.68   | –                             | 957                    | 0.44   | –                             |
| – Electronics   | 4,441                  | 2.28   | 21                            | 863                    | 0.39   | 316                           |
| – Textile and clothing  | 312                    | 0.16   | 6                             | 3,079                  | 1.40   | 636                           |
| – Other manufacturing   | 15,599                 | 8.02   | 5,401                         | 30,300                 | 13.81  | 4,736                         |
| Production and supply of power, heat, gas and water                         | 861                    | 0.44   | 365                           | 1,529                  | 0.70   | 400                           |
| Construction  | 4,469                  | 2.30   | 1,009                         | 11,125                 | 5.07   | 1,012                         |
| Transportation, storage and postal service                                  | 14,550                 | 7.48   | 2,540                         | 16,682                 | 7.61   | 4,040                         |
| Information transmission, software and IT services                          | 3,257                  | 1.67   | 8                             | 1,059                  | 0.48   | 31                            |
| Wholesale and retail  | 15,912                 | 8.18   | 3,657                         | 37,106                 | 16.92  | 3,438                         |
| Finance   | 5,339                  | 2.74   | 594                           | 10,405                 | 4.74   | 2,354                         |
| Real estate   | 55,315                 | 28.43  | 16,532                        | 24,510                 | 11.17  | 10,677                        |
| Leasing and commercial services   | 6,636                  | 3.41   | 2,903                         | 8,840                  | 4.03   | 3,152                         |
| Others  | 29,347                 | 15.09  | 5,640                         | 41,297                 | 18.84  | 5,932                         |
| Total corporate loans   | 157,363                | 80.88  | 38,676                        | 187,752                | 85.60  | 36,724                        |
| Personal loans  |                        |        |                               |                        |        |                               |
| Mortgage  | 23,621                 | 12.14  | 23,616                        | 17,496                 | 7.98   | 17,479                        |
| Credit cards  | 97                     | 0.05   | –                             | 146                    | 0.07   | –                             |
| Others  | 13,492                 | 6.93   | 12,745                        | 13,936                 | 6.35   | 12,876                        |
| Total Personal loans  | 37,210                 | 19.12  | 36,361                        | 31,578                 | 14.40  | 30,355                        |
| Gross amount of loans and advances to customers before impairment allowance | 194,573                | 100.00 | 75,037                        | 219,330                | 100.00 | 67,079                        |
| Outside Hong Kong   | 5,653,851              |        |                               | 5,084,945              |        |                               |

Note: The classification of industries is consistent with the latest national standards for industry classification (Industrial Classification for National Economic Activities (GB/T 4754-2017) issued by SAC and AQSIQ in 2017).

The risk concentration analysis for loans and advances to customers by industry sectors is based on the Group's internal classification system.

The ratio of collateral loans to the total loans of the Group was 52% as at 31 December 2020 (31 December 2019: 47%).

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(All amounts expressed in millions of RMB unless otherwise stated)

5 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

## 5.2 Allowance on loans and advances to customers by type of loan

|                           | As at 31 December 2020 |                                 | As at 31 December 2019 |                                 |
|---------------------------|------------------------|---------------------------------|------------------------|---------------------------------|
|                           | Impaired loans         | Allowance for impairment losses | Impaired loans         | Allowance for impairment losses |
| Corporates                | 78,925                 | (47,973)                        | 59,469                 | (42,085)                        |
| Individuals               | 18,773                 | (15,005)                        | 18,574                 | (15,962)                        |
|                           | 97,698                 | (62,978)                        | 78,043                 | (58,047)                        |
| Fair value of collaterals | 46,359                 | Not applicable                  | 29,398                 | Not applicable                  |

Collaterals held against such loans mainly include cash deposits and mortgages over properties.

The amount of new provisions charged to statement of profit or loss, and the amount of loans and advances written off during the years are disclosed below:

|             | Year ended 31 December 2020 |   |  | Year ended 31 December 2019 |   |  |
|-------------|-----------------------------|---|--|-----------------------------|---|--|
|             | New provisions              | Loans and advances written off as uncollectible | Recoveries of loans and advances written off in previous years | New provisions              | Loans and advances written off as uncollectible | Recoveries of loans and advances written off in previous years |
| Corporates  | 29,855                      | (33,248)  | 3,340  | 29,605                      | (27,547)  | 1,464  |
| Individuals | 26,414                      | (20,580)  | 1,712  | 19,476                      | (14,436)  | 1,224  |
|             | 56,269                      | (53,828)  | 5,052  | 49,081                      | (41,983)  | 2,688  |

# SUPPLEMENTARY INFORMATION ON LEVERAGE RATIO, LIQUIDITY COVERAGE RATIO AND NET STABLE FUNDING RATIO

## APPENDIX 1: INFORMATION RELATED TO LEVERAGE RATIO

### Reconciliation of Regulatory Consolidation and Accounting Consolidation

(in millions of RMB)

| Serial Number | Item   | 31 December 2020  |
|---------------|--|-------------------|
| 1             | Total consolidated assets                                  | 10,697,615        |
| 2             | Adjustments of consolidation                               | (70,282)          |
| 3             | Adjustments item of customer's assets                      | 0                 |
| 4             | Adjustments of derivatives                                 | 33,616            |
| 5             | Adjustments of securities financing transactions           | 2,022             |
| 6             | Adjustments of off-balance-sheet item                      | 844,885           |
| 7             | Other Adjustments  | (5,252)           |
| 8             | <b>Balance of adjusted on-and-off-balance-sheet assets</b> | <b>11,502,604</b> |

### Leverage Ratio Information

(in millions of RMB unless otherwise stated)

| SN | Item  | 31 December 2020 |
|----|---|------------------|
| 1  | On-balance-sheet assets (excluding derivatives and securities financing transactions)   | 10,495,090       |
| 2  | Less: Deduction of Tier 1 Capital   | (5,252)          |
| 3  | Balance of adjusted on-balance-sheet assets (excluding derivatives and securities financing transactions)                                   | 10,489,838       |
| 4  | Replacement costs of derivatives (less eligible margin)   | 54,236           |
| 5  | Potential risk exposure of derivatives  | 33,616           |
| 6  | Sum of collaterals deducted from the balance sheet  | 0                |
| 7  | Less: Assets receivable from providing eligible margin  | 0                |
| 8  | Less: Derivative assets resulting from the transactions with central counterparties in providing clearing settlement services for customers | 0                |
| 9  | Notional principal of sold credit derivatives   | 0                |
| 10 | Less: Deductible balance of sold credit derivatives   | 0                |
| 11 | Derivative asset balance  | 87,852           |
| 12 | Accounting asset balance of securities financing transactions   | 78,007           |
| 13 | Less: Balance of deductible securities financing transaction assets   | 0                |
| 14 | Counterparty credit risk exposure of securities financing transactions  | 2,022            |
| 15 | Balance of securities financing transaction assets from acting for securities financing transactions  | 0                |
| 16 | Securities financing assets balance   | 80,029           |
| 17 | Balance of off-balance-sheet items  | 2,007,150        |
| 18 | Less: Balance of off-balance-sheet items arising from the reduction of credit transfer  | (1,162,265)      |
| 19 | <b>Adjusted off-balance-sheet items balance</b>   | <b>844,885</b>   |
| 20 | Net Tier 1 Capital  | 862,221          |
| 21 | Adjusted balance of on-and-off-balance-sheet assets   | 11,502,604       |
| 22 | <b>Leverage ratio (%)</b>   | <b>7.50</b>      |

Note: Information disclosed in Appendix 1 is disclosed based on the requirements of the Administrative Measures for the Leverage Ratio of Commercial Banks (Revised) issued by CBIRC.

## SUPPLEMENTARY INFORMATION ON LEVERAGE RATIO, LIQUIDITY COVERAGE RATIO AND NET STABLE FUNDING RATIO (CONTINUED)

### APPENDIX 2: THE DAILY AVERAGE LIQUIDITY COVERAGE RATIO AND ITS DETAILS OF THE GROUP IN THE FORTH QUARTER OF 2020

(in millions of RMB unless otherwise stated)

| Serial Number                                   |   | Amount before conversion | Amount after conversion        |
|---|---|--------------------------|--------------------------------|
| <b>The qualified high-quality liquid assets</b> |   |                          |                                |
| 1   | The qualified high-quality liquid assets                                    |                          | <b>2,072,221</b>               |
| <b>Cash Outflow</b>                             |   |                          |                                |
| 2   | Retail deposits, small business deposits, including:                        | <b>1,946,900</b>         | <b>184,124</b>                 |
| 3   | Stable deposit  | <b>209,062</b>           | <b>10,340</b>                  |
| 4   | Less stable deposit   | <b>1,737,838</b>         | <b>173,784</b>                 |
| 5   | Unsecured wholesale funding, including:                                     | <b>4,406,513</b>         | <b>1,806,414</b>               |
| 6   | Business relationship deposit (excluding agency business)                   | <b>2,602,551</b>         | <b>649,188</b>                 |
| 7   | Non-business relationship deposit (including all counterparties)            | <b>1,785,359</b>         | <b>1,138,623</b>               |
| 8   | Unsecured debts   | <b>18,603</b>            | <b>18,603</b>                  |
| 9   | Secured funding   |                          | <b>9,378</b>                   |
| 10  | Other items, including:   | <b>1,710,544</b>         | <b>862,424</b>                 |
| 11  | Cash outflow relates to derivatives and other collateral/<br>pledged assets | <b>839,840</b>           | <b>813,889</b>                 |
| 12  | Cash outflow relates to loss of funding on asset-blocked<br>securities      | <b>155</b>               | <b>155</b>                     |
| 13  | Committed credit and liquidity facilities                                   | <b>870,549</b>           | <b>48,380</b>                  |
| 14  | Other contractual obligation to extend funds                                | <b>103,965</b>           | <b>103,942</b>                 |
| 15  | Contingent funding obligations  | <b>1,442,250</b>         | <b>51,078</b>                  |
| 16  | Total expected cash outflow   |                          | <b>3,017,360</b>               |
| <b>Cash Inflow</b>                              |   |                          |                                |
| 17  | Secured lending (including reverse repos and securities<br>borrowing)       | <b>72,687</b>            | <b>72,434</b>                  |
| 18  | Inflows from fully performing exposure                                      | <b>896,117</b>           | <b>552,217</b>                 |
| 19  | Other cash inflow   | <b>850,806</b>           | <b>830,207</b>                 |
| 20  | Total expected cash inflow  | <b>1,819,610</b>         | <b>1,454,858</b>               |
|   |   |                          | <b>Amount after adjustment</b> |
| 21  | The qualified high-quality liquid assets                                    |                          | <b>2,072,221</b>               |
| 22  | Net cash outflow  |                          | <b>1,562,502</b>               |
| 23  | Liquidity Coverage Ratio (%)  |                          | <b>132.33</b>                  |

# SUPPLEMENTARY INFORMATION ON LEVERAGE RATIO, LIQUIDITY COVERAGE RATIO AND NET STABLE FUNDING RATIO (CONTINUED)

## APPENDIX 3: NET STABLE FUNDING RATIO AND ITEMS FOR THE THIRD QUARTER OF 2020

(in millions of RMB unless otherwise stated)

| Serial Number                 |   | Unweighted value |                    |             |             | Weighted value |
|-------------------------------|---|------------------|--------------------|-------------|-------------|----------------|
|                               |   | No maturity      | Less than 6 months | 6-12 months | Over 1 year |                |
| Available Stable Funding Item |   |                  |                    |             |             |                |
| 1                             | Capital   | 828,643          | –                  | –           | 127,331     | 955,974        |
| 2                             | Regulatory Capital  | 828,643          | –                  | –           | 113,931     | 942,574        |
| 3                             | Other capital instruments   | –                | –                  | –           | 13,400      | 13,400         |
| 4                             | Retail deposits and deposits from small enterprises   | 896,613          | 1,283,476          | 25,572      | 1,219       | 1,997,994      |
| 5                             | Stable deposits   | 230,798          | 1,787              | 1,034       | 869         | 222,807        |
| 6                             | Less stable deposits  | 665,814          | 1,281,689          | 24,538      | 350         | 1,775,188      |
| 7                             | Wholesale funding   | 2,479,375        | 3,269,053          | 684,329     | 495,337     | 2,931,991      |
| 8                             | Operational deposits  | 2,445,959        | 112,782            | 48,424      | 5,446       | 1,309,029      |
| 9                             | Other wholesale funding   | 33,416           | 3,156,271          | 635,906     | 489,890     | 1,622,963      |
| 10                            | Liabilities with matching interdependent assets   | –                | –                  | –           | –           | –              |
| 11                            | Other liabilities   | 49,486           | 271,594            | 9,627       | 306,372     | 304,806        |
| 12                            | Net stable funding ratio derivative liabilities   |                  |                    |             | 45,615      |                |
| 13                            | All other liabilities and equities not included in the above categories   | 49,486           | 271,594            | 9,627       | 260,757     | 304,806        |
| 14                            | Total available stable funding  |                  |                    |             |             | 6,190,765      |
| Required Stable Funding Item  |   |                  |                    |             |             |                |
| 15                            | Total net stable funding ratio high-quality liquid assets   |                  |                    |             |             | 348,325        |
| 16                            | Business relationship deposits held at other financial institutions for business relationship                                   | 164,809          | –                  | –           | 1,120       | 83,524         |
| 17                            | Loans and securities  | 50,092           | 1,789,846          | 957,730     | 4,120,032   | 4,758,179      |
| 18                            | Loans to financial institutions secured by Level 1 assets   | –                | 45,672             | 304         | 161         | 7,147          |
| 19                            | Loans to financial institutions secured by non-Level 1 assets or unsecured  | –                | 395,853            | 169,020     | 1115,292    | 259,179        |
| 20                            | Loans to retail and small business customers, non-financial institutions, sovereigns, central banks and public sector entities. | 1                | 1,323,207          | 746,618     | 2,354,942   | 3,030,823      |
| 21                            | Including: with a risk weight less than or equal to 35%   | –                | 20,744             | 3,128       | 30,111      | 31,508         |
| 22                            | Residential mortgages   | –                | 588                | 696         | 1,203,897   | 1,023,954      |
| 23                            | Including: with a risk weight less than or equal to 35%   | –                | –                  | –           | –           | –              |
| 24                            | Securities that are not in default and do not qualify as high-quality liquid assets, including exchange-traded equities         | 50,091           | 24,526             | 41,093      | 445,741     | 437,075        |
| 25                            | Assets with matching interdependent liabilities   | –                | –                  | –           | –           | –              |
| 26                            | Other assets  | 166,691          | 84,112             | 11,252      | 150,582     | 372,309        |
| 27                            | Physical traded commodities (including gold)  | 32,151           |                    |             |             | 27,328         |
| 28                            | Assets posted as initial margin for derivative contracts and contributions to default funds of central counterparties           |                  |                    |             | 7,747       | 6,585          |
| 29                            | Net stable funding ratio derivative assets  |                  |                    |             | 39,780      | –              |
| 30                            | Net stable funding ratio derivative liabilities with additional requirements  |                  |                    |             | 45,615      | 9,123          |
| 31                            | All other assets not included in the above  | 134,540          | 84,112             | 11,252      | 103,056     | 329,273        |
| 32                            | Off-balance-sheet items   |                  |                    |             | 2,749,952   | 116,593        |
| 33                            | Total required stable funding   |                  |                    |             |             | 5,678,931      |
| 34                            | Net stable funding ratio (%)  |                  |                    |             |             | 109.01         |

Notes:

- Items to be reported in the “no maturity” bucket include, but are not limited to, capital with perpetual maturity, non-maturity (demand) deposits, short positions, open maturity positions, non-high-quality liquid assets equities, and physical traded commodities.
- The unweighted value of item 30 “Net stable funding ratio derivative liabilities with additional requirements” is the net stable funding ratio derivative liabilities before the deduction of the variation margin, without differentiation of maturity, and not included in the unweighted value of item 26 “Other assets”.

## SUPPLEMENTARY INFORMATION ON LEVERAGE RATIO, LIQUIDITY COVERAGE RATIO AND NET STABLE FUNDING RATIO (CONTINUED)

### APPENDIX 4: NET STABLE FUNDING RATIO AND ITEMS FOR THE FOURTH QUARTER OF 2020

(in millions of RMB unless otherwise stated)

| Serial Number                 |   | Unweighted value |                    |             |             | Weighted value |
|-------------------------------|---|------------------|--------------------|-------------|-------------|----------------|
|                               |   | No maturity      | Less than 6 months | 6-12 months | Over 1 year |                |
| Available Stable Funding Item |   |                  |                    |             |             |                |
| 1                             | Capital   | 868,669          | –                  | –           | 127,345     | 997,013        |
| 2                             | Regulatory Capital  | 868,669          | –                  | –           | 113,945     | 983,613        |
| 3                             | Other capital instruments   | –                | –                  | –           | 13,400      | 13,400         |
| 4                             | Retail deposits and deposits from small enterprises   | 863,768          | 1,381,344          | 23,554      | 948         | 2,053,067      |
| 5                             | Stable deposits   | 204,306          | 1,100              | 1,001       | 723         | 196,809        |
| 6                             | Less stable deposits  | 659,462          | 1,380,244          | 22,552      | 225         | 1,856,258      |
| 7                             | Wholesale funding   | 2,612,633        | 2,974,829          | 614,024     | 535,167     | 2,928,040      |
| 8                             | Operational deposits  | 2,587,592        | 105,537            | 35,375      | 12,443      | 1,376,694      |
| 9                             | Other wholesale funding   | 25,041           | 2,869,292          | 578,650     | 552,725     | 1,551,346      |
| 10                            | Liabilities with matching interdependent assets   | –                | –                  | –           | –           | –              |
| 11                            | Other liabilities   | 45,705           | 210,000            | 51,420      | 317,123     | 319,556        |
| 12                            | Net stable funding ratio derivative liabilities   |                  |                    |             | 55,934      |                |
| 13                            | All other liabilities and equities not included in the above categories   | 45,705           | 210,000            | 51,420      | 261,188     | 319,556        |
| 14                            | Total available stable funding  |                  |                    |             |             | 6,297,677      |
| Required Stable Funding Item  |   |                  |                    |             |             |                |
| 15                            | Total net stable funding ratio high-quality liquid assets   |                  |                    |             |             | 377,107        |
| 16                            | Business relationship deposits held at other financial institutions   | 138,425          | –                  | –           | 2,000       | 71,213         |
| 17                            | Loans and securities  | 43,112           | 1,706,434          | 869,925     | 4,178,899   | 4,755,081      |
| 18                            | Loans to financial institutions secured by Level 1 assets   | –                | 9,768              | –           | –           | 1,465          |
| 19                            | Loans to financial institutions secured by non-Level 1 assets or unsecured  | –                | 327,729            | 141,093     | 110,047     | 229,753        |
| 20                            | Loans to retail and small business customers, non-financial institutions, sovereigns, central banks and public sector entities. | –                | 1,332,562          | 697,844     | 2,393,281   | 3,044,017      |
| 21                            | Including: with a risk weight less than or equal to 35%   | –                | 22,544             | 1,920       | 28,396      | 30,690         |
| 22                            | Residential mortgages   | –                | 573                | 690         | 1,255,332   | 1,067,664      |
| 23                            | Including: with a risk weight less than or equal to 35%   | –                | –                  | –           | –           | –              |
| 24                            | Securities that are not in default and do not qualify as high-quality liquid assets, including exchange-traded equities         | 43,112           | 35,803             | 30,297      | 420,239     | 412,182        |
| 25                            | Assets with matching interdependent liabilities   | –                | –                  | –           | –           | –              |
| 26                            | Other assets  | 165,293          | 72,072             | 5,379       | 184,012     | 376,069        |
| 27                            | Physical traded commodities (including gold)  |                  |                    |             |             | 25,715         |
| 28                            | Assets posted as initial margin for derivative contracts and contributions to default funds of central counterparties           | 30,253           |                    |             | 8,291       | 7,047          |
| 29                            | Net stable funding ratio derivative assets  |                  |                    |             | 54,236      | –              |
| 30                            | Net stable funding ratio derivative liabilities with additional requirements  |                  |                    |             | 55,934      | 11,187         |
| 31                            | All other assets not included in the above  | 135,040          | 72,072             | 5,379       | 121,486     | 332,120        |
| 32                            | Off-balance-sheet items   |                  |                    |             | 2,705,133   | 114,747        |
| 33                            | Total required stable funding   |                  |                    |             |             | 5,694,217      |
| 34                            | Net stable funding ratio (%)  |                  |                    |             |             | 110.60         |

#### Notes

- Items to be reported in the “no maturity” bucket include, but are not limited to, capital with perpetual maturity, non-maturity (demand) deposits, short positions, open maturity positions, non-high-quality liquid assets equities, and physical traded commodities.
- The unweighted value of item 30 “Net stable funding ratio derivative liabilities with additional requirements” is the net stable funding ratio derivative liabilities before the deduction of the variation margin, without differentiation of maturity, and not included in the unweighted value of item 26 “Other assets”.

# REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

## To the Board of Directors of Bank of Communications Co., Ltd

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

## INTRODUCTION

We have reviewed the interim financial information set out on pages 75 to 176, which comprises the interim condensed consolidated statement of financial position of Bank of Communications Co., Ltd (the "Bank") and its subsidiaries (together, the "Group") as at 30 June 2021 and the interim condensed consolidated statement of profit or loss and other comprehensive income, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of cash flows for the six month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting". The directors of the Bank are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information of the Group is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

## PricewaterhouseCoopers

*Certified Public Accountants*

Hong Kong, 27 August 2021

# UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(All amounts expressed in millions of RMB unless otherwise stated)

|   | Notes | Six months ended 30 June |           |
|---|-------|--------------------------|-----------|
|   |       | 2021                     | 2020      |
| Interest income   |       | 183,952                  | 186,229   |
| Interest expense  |       | (105,466)                | (112,380) |
| <b>Net interest income</b>  | 4     | <b>78,486</b>            | 73,849    |
| Fee and commission income   | 5     | 27,299                   | 26,215    |
| Fee and commission expense  | 6     | (2,333)                  | (1,938)   |
| <b>Net fee and commission income</b>  |       | <b>24,966</b>            | 24,277    |
| Net gains arising from trading activities   | 7     | 10,169                   | 7,353     |
| Net gains arising from financial investments  |       | 772                      | 1,505     |
| <i>Including: Net gains on derecognition of financial assets measured at amortised cost</i> |       | <b>40</b>                | 68        |
| Share of profits of associates and joint ventures   |       | 114                      | 85        |
| Insurance business income   | 8     | 11,022                   | 10,936    |
| Other operating income  | 9     | 8,522                    | 8,954     |
| <b>Net operating income</b>   |       | <b>134,051</b>           | 126,959   |
| Credit impairment losses  | 10    | (33,082)                 | (33,333)  |
| Other assets impairment losses  | 11    | (418)                    | (159)     |
| Insurance business expense  | 12    | (10,925)                 | (11,022)  |
| Other operating expenses  | 13    | (43,038)                 | (42,487)  |
| <b>Profit before tax</b>  |       | <b>46,588</b>            | 39,958    |
| Income tax  | 16    | (3,715)                  | (2,961)   |
| <b>Net profit for the period</b>  |       | <b>42,873</b>            | 36,997    |



## UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (Continued)

(All amounts expressed in millions of RMB unless otherwise stated)

|   |       | Six months ended 30 June |         |
|---|-------|--------------------------|---------|
|   | Notes | 2021                     | 2020    |
| Other comprehensive income, net of tax  |       |                          |         |
| Items that may be reclassified subsequently to profit or loss:  |       |                          |         |
| Loans and advances to customers at fair value through other comprehensive income  |       |                          |         |
| Amount recognised in equity   |       | 319                      | 249     |
| Amount reclassified to profit or loss   |       | (144)                    | (198)   |
| Debt investments at fair value through other comprehensive income   |       |                          |         |
| Amount recognised in equity   |       | 211                      | (127)   |
| Amount reclassified to profit or loss   |       | (192)                    | (1,062) |
| Effective portion of gains or losses on hedging instruments in cash flow hedges   |       |                          |         |
| Amount recognised in equity   |       | 972                      | (659)   |
| Amount reclassified to profit or loss   |       | (740)                    | 4       |
| Translation difference on foreign operations  |       | (1,344)                  | 1,093   |
| Others  |       | 5                        | 28      |
| Subtotal  |       | (913)                    | (672)   |
| Items that will not be reclassified subsequently to profit or loss:   |       |                          |         |
| Changes in fair value of equity investments designated at fair value through other comprehensive income                                 |       | (455)                    | (371)   |
| Actuarial losses on pension benefits  |       | 58                       | (34)    |
| Changes in fair value attributable to changes in the credit risk of financial liability designated at fair value through profit or loss |       | (36)                     | 44      |
| Others  |       | 7                        | 26      |
| Subtotal  |       | (426)                    | (335)   |
| Other comprehensive income, net of tax  | 41    | (1,339)                  | (1,007) |
| Total comprehensive income for the period   |       | 41,534                   | 35,990  |
| Net profit attributable to:   |       |                          |         |
| Shareholders of the Bank  |       | 42,019                   | 36,505  |
| Non-controlling interests   |       | 854                      | 492     |
|   |       | 42,873                   | 36,997  |
| Total comprehensive income attributable to:   |       |                          |         |
| Shareholders of the Bank  |       | 40,799                   | 35,403  |
| Non-controlling interests   |       | 735                      | 587     |
|   |       | 41,534                   | 35,990  |
| Basic and diluted earnings per share for profit attributable to the shareholders of the Bank (in RMB yuan)                              | 17    | 0.54                     | 0.46    |

The accompanying notes form a part of these condensed consolidated financial statements.

# UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(All amounts expressed in millions of RMB unless otherwise stated)

|  | Notes | As at 30<br>June 2021 | As at 31<br>December 2020 |
|--|-------|-----------------------|---------------------------|
| <b>ASSETS</b>  |       |                       |                           |
| Cash and balances with central banks   | 18    | 810,320               | 817,561                   |
| Due from and placements with banks and other financial institutions          | 19    | 712,370               | 571,130                   |
| Derivative financial assets  | 21    | 35,584                | 54,212                    |
| Loans and advances to customers  | 22    | 6,208,293             | 5,720,568                 |
| Financial investments at fair value through profit or loss                   | 20    | 575,837               | 482,588                   |
| Financial investments at amortised cost                                      | 23    | 2,050,282             | 2,019,529                 |
| Financial investments at fair value through other comprehensive income       | 23    | 726,547               | 735,220                   |
| Investments in associates and joint ventures                                 | 24    | 5,505                 | 4,681                     |
| Property and equipment   | 25    | 167,054               | 169,471                   |
| Deferred income tax assets   | 26    | 29,119                | 27,991                    |
| Other assets   | 27    | 93,049                | 94,665                    |
| <b>Total assets</b>  |       | <b>11,413,960</b>     | <b>10,697,616</b>         |
| <b>LIABILITIES</b>   |       |                       |                           |
| Due to and placements from banks and other financial institutions            | 28    | 1,838,106             | 1,787,491                 |
| Financial liabilities at fair value through profit or loss                   | 29    | 20,532                | 29,279                    |
| Derivative financial liabilities   | 21    | 33,702                | 55,942                    |
| Due to customers   | 30    | 7,016,652             | 6,607,330                 |
| Certificates of deposits issued  | 31    | 792,542               | 634,297                   |
| Current income tax liabilities   |       | 3,326                 | 3,786                     |
| Deferred income tax liabilities  | 26    | 1,491                 | 1,286                     |
| Debt securities issued   | 32    | 541,597               | 497,755                   |
| Other liabilities  | 33    | 230,097               | 201,822                   |
| <b>Total liabilities</b>   |       | <b>10,478,045</b>     | <b>9,818,988</b>          |
| <b>EQUITY</b>  |       |                       |                           |
| Share capital  | 34    | 74,263                | 74,263                    |
| Other equity instruments   | 35    | 174,790               | 133,292                   |
| <i>Including: Preference shares</i>  |       | <i>44,952</i>         | <i>44,952</i>             |
| <i>Perpetual bonds</i>   |       | <i>129,838</i>        | <i>88,340</i>             |
| Capital surplus  | 34    | 111,428               | 111,428                   |
| Other reserves   | 36    | 345,770               | 333,176                   |
| Retained earnings  | 36    | 217,357               | 214,448                   |
| <b>Equity attributable to shareholders of the Bank</b>                       |       | <b>923,608</b>        | <b>866,607</b>            |
| Equity attributable to non-controlling interests of ordinary shares          |       | 9,086                 | 8,763                     |
| Equity attributable to non-controlling interests of other equity instruments | 38    | 3,221                 | 3,258                     |
| <b>Non-controlling interests</b>   |       | <b>12,307</b>         | <b>12,021</b>             |
| <b>Total equity</b>  |       | <b>935,915</b>        | <b>878,628</b>            |
| <b>Total equity and liabilities</b>  |       | <b>11,413,960</b>     | <b>10,697,616</b>         |

The condensed consolidated financial statements were approved and authorised for issuance by the Board of Directors on 27 August 2021 and signed on its behalf by:

**Chairman and Executive Director: Ren Deqi**

**Vice Chairman, Executive Director and President: Liu Jun**

The accompanying notes form a part of these condensed consolidated financial statements.

## UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(All amounts expressed in millions of RMB unless otherwise stated)

|   | Other equity instruments |                              |                            |                            | Other reserves               |                                  |                                      |  |  |   |   |                           |        |                                  | Non-controlling interests                    |  |  | Total    |
|---|--------------------------|------------------------------|----------------------------|----------------------------|------------------------------|----------------------------------|--------------------------------------|--|--|---|---|---------------------------|--------|----------------------------------|--|--|--|----------|
|   | Share capital<br>Note 34 | Preference shares<br>Note 35 | Perpetual bonds<br>Note 35 | Capital surplus<br>Note 34 | Statutory reserve<br>Note 36 | Discretionary reserve<br>Note 36 | Statutory general reserve<br>Note 36 | Revaluation reserve for the changes in credit risk of the financial liabilities at fair value through other comprehensive income | Revaluation reserve for the changes in credit risk of the financial liabilities at fair value through profit or loss | Effective portion of gains or losses on hedging instruments in cash flow hedges | Translation reserve on foreign operations | Actuarial changes reserve | Others | Retained earnings<br>Note 36, 37 | Attributable to the shareholders of the Bank | Attributable to non-controlling interests of ordinary shares | Attributable to non-controlling interests of other equity instruments<br>Note 35 |          |
| As at 1 January 2021  | 74,263                   | 44,952                       | 88,340                     | 111,428                    | 72,431                       | 139,930                          | 123,163                              | 456  | 12   | (532)   | (3,517)                                   | (142)                     | 1,375  | 214,448                          | 866,607                                      | 8,763  | 3,258  | 878,628  |
| Net profit for the period   | -                        | -                            | -                          | -                          | -                            | -                                | -                                    | -  | -  | -   | -   | -                         | -      | 42,019                           | 42,019                                       | 793  | 61   | 42,873   |
| Other comprehensive income  | -                        | -                            | -                          | -                          | -                            | -                                | -                                    | (144)  | (36)   | 231   | (1,341)                                   | 58                        | 12     | -                                | (1,220)                                      | (82)   | (37)   | (1,339)  |
| Total comprehensive income  | -                        | -                            | -                          | -                          | -                            | -                                | -                                    | (144)  | (36)   | 231   | (1,341)                                   | 58                        | 12     | 42,019                           | 40,799                                       | 711  | 24   | 41,534   |
| Capital contribution to holders of other equity instruments                               | -                        | -                            | 41,498                     | -                          | -                            | -                                | -                                    | -  | -  | -   | -   | -                         | -      | -                                | 41,498                                       | -  | -  | 41,498   |
| Dividends paid to ordinary shares   | -                        | -                            | -                          | -                          | -                            | -                                | -                                    | -  | -  | -   | -   | -                         | -      | (23,541)                         | (23,541)                                     | (388)  | -  | (23,929) |
| Dividends paid to preference shares   | -                        | -                            | -                          | -                          | -                            | -                                | -                                    | -  | -  | -   | -   | -                         | -      | (1,755)                          | (1,755)                                      | -  | -  | (1,755)  |
| Interest paid to non-cumulative subordinated additional tier-1 capital securities holders | -                        | -                            | -                          | -                          | -                            | -                                | -                                    | -  | -  | -   | -   | -                         | -      | -                                | -  | -  | (61)   | (61)     |
| Transfer to reserves  | -                        | -                            | -                          | -                          | 7,100                        | -                                | 6,715                                | -  | -  | -   | -   | -                         | -      | (13,815)                         | -  | -  | -  | -        |
| Transferred from other comprehensive income   | -                        | -                            | -                          | -                          | -                            | -                                | -                                    | (1)  | -  | -   | -   | -                         | -      | 1                                | -  | -  | -  | -        |
| As at 30 June 2021  | 74,263                   | 44,952                       | 129,838                    | 111,428                    | 79,531                       | 139,930                          | 129,878                              | 311  | (24)   | (301)   | (4,858)                                   | (84)                      | 1,387  | 217,367                          | 923,608                                      | 9,086  | 3,221  | 935,915  |
| As at 1 January 2020  | 74,263                   | 59,876                       | 39,994                     | 113,663                    | 64,897                       | 139,853                          | 117,567                              | 3,421  | 5  | 15  | 1,199                                     | (10)                      | 1,363  | 177,141                          | 793,247                                      | 7,665  | -  | 800,912  |
| Net profit for the period   | -                        | -                            | -                          | -                          | -                            | -                                | -                                    | -  | -  | -   | -   | -                         | -      | 36,505                           | 36,505                                       | 492  | -  | 36,997   |
| Other comprehensive income  | -                        | -                            | -                          | -                          | -                            | -                                | -                                    | (1,363)  | 44   | (655)   | 852                                       | (34)                      | 54     | -                                | (1,102)                                      | 17   | 78   | (1,007)  |
| Total comprehensive income  | -                        | -                            | -                          | -                          | -                            | -                                | -                                    | (1,363)  | 44   | (655)   | 852                                       | (34)                      | 54     | 36,505                           | 35,403                                       | 509  | 78   | 35,990   |
| Capital contribution to holders of other equity instruments                               | -                        | -                            | -                          | -                          | -                            | -                                | -                                    | -  | -  | -   | -   | -                         | -      | -                                | -  | -  | 3,458  | 3,458    |
| Dividends paid to ordinary shares   | -                        | -                            | -                          | -                          | -                            | -                                | -                                    | -  | -  | -   | -   | -                         | -      | (23,393)                         | (23,393)                                     | (121)  | -  | (23,514) |
| Dividends paid to preference shares   | -                        | -                            | -                          | -                          | -                            | -                                | -                                    | -  | -  | -   | -   | -                         | -      | (2,714)                          | (2,714)                                      | -  | -  | (2,714)  |
| Transfer to reserves  | -                        | -                            | -                          | -                          | 7,209                        | -                                | 4,690                                | -  | -  | -   | -   | -                         | -      | (11,899)                         | -  | -  | -  | -        |
| Transferred from other comprehensive income   | -                        | -                            | -                          | -                          | -                            | -                                | -                                    | 2  | -  | -   | -   | -                         | -      | (2)                              | -  | -  | -  | -        |
| As at 30 June 2020  | 74,263                   | 59,876                       | 39,994                     | 113,663                    | 72,106                       | 139,853                          | 122,257                              | 2,060  | 49   | (640)   | 2,051                                     | (44)                      | 1,417  | 175,638                          | 802,543                                      | 8,053  | 3,536  | 814,132  |

The accompanying notes form a part of these condensed consolidated financial statements.

# UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(All amounts expressed in millions of RMB unless otherwise stated)

|   | Notes | Six months ended 30 June |                |
|---|-------|--------------------------|----------------|
|   |       | 2021                     | 2020           |
| <b>Cash flows from operating activities:</b>  |       |                          |                |
| Profit before tax:  |       | 46,588                   | 39,958         |
| Adjustments for:  |       |                          |                |
| Provision for impairment losses   |       | 33,082                   | 33,333         |
| Provision for other assets impairment losses  |       | 418                      | 159            |
| Provision for insurance contracts reserve   |       | 10,053                   | 9,051          |
| Depreciation and amortisation   |       | 7,320                    | 7,236          |
| Reversal for outstanding litigations  |       | (54)                     | (63)           |
| Net gains on the disposal of property, equipment and other assets                     |       | (302)                    | (211)          |
| Interest income from financial investments  |       | (43,155)                 | (46,272)       |
| Accreted interests on impaired financial assets                                       |       | (663)                    | (767)          |
| Net losses arising from fair value  |       | 826                      | 3,040          |
| Share of profit of associates and joint ventures                                      |       | (114)                    | (85)           |
| Net gains arising from financial investments  |       | (772)                    | (1,505)        |
| Interest expense on debt securities issued  |       | 7,989                    | 6,901          |
| Operating cash flows before movements in operating assets and liabilities             |       | 61,216                   | 50,775         |
| Net (increase)/decrease in balances with central banks                                |       | (33,185)                 | 36,202         |
| Net increase in due from and placements with banks and other financial institutions   |       | (129,165)                | (41,526)       |
| Net increase in financial assets at fair value through profit or loss                 |       | (99,628)                 | (108,518)      |
| Net increase in loans and advances to customers                                       |       | (527,372)                | (450,276)      |
| Net increase in other assets  |       | (1,833)                  | (9,738)        |
| Net increase in due to and placements from banks and other financial institutions     |       | 49,880                   | 12,173         |
| Net (decrease)/increase in financial liabilities at fair value through profit or loss |       | (2,890)                  | 2,578          |
| Net increase in due to customers and certificates of deposits issued                  |       | 557,355                  | 606,571        |
| Net increase in other liabilities   |       | 16,914                   | 27,321         |
| Net increase in value-added tax and surcharge payable                                 |       | 1,091                    | 688            |
| Income tax paid   |       | (5,126)                  | (6,892)        |
| <b>Net cash flows (used in)/generated from operating activities</b>                   |       | <b>(112,743)</b>         | <b>119,358</b> |

## UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

(All amounts expressed in millions of RMB unless otherwise stated)

|   |       | Six months ended 30 June |                 |
|---|-------|--------------------------|-----------------|
|   | Notes | 2021                     | 2020            |
| <b>Cash flows from investing activities:</b>                        |       |                          |                 |
| Purchase of financial investments                                   |       | (540,713)                | (551,012)       |
| Disposal or redemption of financial investments                     |       | 510,961                  | 423,024         |
| Dividends received  |       | 1,838                    | 1,150           |
| Interest received from financial investments                        |       | 42,023                   | 46,961          |
| Acquisition of intangible assets and other assets                   |       | (622)                    | (720)           |
| Disposal of intangible assets and other assets                      |       | 336                      | 366             |
| Purchase and construction of property and equipment                 |       | (7,549)                  | (13,741)        |
| Disposal of property and equipment                                  |       | 2,690                    | 4,539           |
| <b>Net cash flows generated from/(used in) investing activities</b> |       | <b>8,964</b>             | <b>(89,433)</b> |
| <b>Cash flows from financing activities:</b>                        |       |                          |                 |
| Cash received from issuing other equity instruments                 |       | 41,498                   | 3,458           |
| Cash received on debt securities issued                             |       | 54,988                   | 68,528          |
| Repayment of principals and interests of lease liabilities          |       | (1,182)                  | (1,131)         |
| Repayment of principals of debt securities issued                   |       | (13,240)                 | (18,442)        |
| Cash payments for interest on debt securities                       |       | (3,829)                  | (2,910)         |
| Dividends paid to non-controlling interests                         |       | (112)                    | (20)            |
| <b>Net cash flows generated from financing activities</b>           |       | <b>78,123</b>            | <b>49,483</b>   |
| <b>Effect of exchange rate changes on cash and cash equivalents</b> |       | <b>(2,835)</b>           | <b>1,170</b>    |
| <b>Net (decrease)/increase in cash and cash equivalents</b>         |       | <b>(28,491)</b>          | <b>80,578</b>   |
| <b>Cash and cash equivalents at the beginning of the period</b>     |       | <b>307,120</b>           | <b>167,735</b>  |
| <b>Cash and cash equivalents at the end of the period</b>           | 42    | <b>278,629</b>           | <b>248,313</b>  |
| Net cash flows from operating activities include:                   |       |                          |                 |
| Interest received   |       | 143,138                  | 140,667         |
| Interest paid   |       | (86,764)                 | (102,391)       |

The accompanying notes form a part of these condensed consolidated financial statements.

# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 1 GENERAL

Bank of Communications Co., Ltd. (the “Bank”) is a joint-stock national state-owned commercial bank, reorganised on 1 April 1987 at the approval of notice Guo Fa (1986) No. 81 issued by the State Council of the PRC and notice Yin Fa (1987) No. 40 issued by the People’s Bank of China (the “PBOC”). Headquartered in Shanghai, the Bank operates 246 branches in Mainland China and 23 branches (sub-branches), subsidiary banks and representative offices overseas. The Bank’s A shares are listed on Shanghai Stock Exchange and H shares on Hong Kong Stock Exchange.

The Bank obtained its finance permit No. B0005H131000001 from the CBIRC of the PRC. The Bank obtained its business license with unified social credit code 9131000010000595XD from the State Administration for Industry and Commerce of the PRC. The registered capital is RMB74,263 million. The legal representative is Ren Deqi.

The Bank’s stock codes of A Shares and H Shares listed on the Shanghai Stock Exchange and the Stock Exchange of Hong Kong Limited are 601328 and 03328, respectively. The Bank’s domestic preference shares are listed on the Shanghai Stock Exchange and the stock codes are 360021.

The principal activities of the Bank and its subsidiaries (collectively referred to as the “Group”) include corporate and personal banking services, interbank and financial market business, fund management, trustees, financial leasing, insurance, overseas securities, debt-to-equity swap, asset management and other financial services.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of preparation

These unaudited interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting” issued by the International Accounting Standard Board, as well as with all applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

The Group adopted the going concern basis in preparing its unaudited interim condensed consolidated financial statements.

These unaudited interim condensed consolidated financial statements of the Group should be read in conjunction with the 2020 annual consolidated financial statements.

Taxes on income in interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

The unaudited interim condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments and investment property which are measured at fair value. Except as described below, the Group’s accounting policies applied in preparing these unaudited interim condensed consolidated financial statements are consistent with those policies applied in preparing the 2020 annual consolidated financial statements.

#### 2.1.1 New and amended standards adopted by the Group

The Group has adopted the following new and amendments to the International Financial Reporting Standards (“IFRSs”):

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16  
Amendments to IFRS 16

Interest Rate Benchmark Reform—Phase 2  
COVID-19-related Rent Concessions

#### *Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16*

The IASB has issued amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (“Interest Rate Benchmark Reform—Phase 2”). The amendments are effective for annual periods beginning on or after 1 January 2021, with early application permitted.

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.1 Basis of preparation *(Continued)*

#### **2.1.1 New and amended standards adopted by the Group** *(Continued)*

##### *Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (Continued)*

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 instruments (that is, financial instruments classified as amortised cost and debt instruments at FVOCI), lease receivables and lease 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.

##### *Amendments to IFRS 16*

The International Accounting Standards Board (IASB) has published 'Covid-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16)' that extends, by one year, the May 2020 amendment that provides lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification, and the changes in Covid-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16) amend IFRS 16 to:

- permit a lessee to apply the practical expedient regarding COVID-19-related rent concessions to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022 (rather than only payments originally due on or before 30 June 2021);
- require a lessee applying the amendment to do so for annual reporting periods beginning on or after 1 April 2021;
- require a lessee applying the amendment to do so retrospectively, recognising the cumulative effect of initially applying the amendment as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of the annual reporting period in which the lessee first applies the amendment; and
- specify that, in the reporting period in which a lessee first applies the amendment, a lessee is not required to disclose the information required by paragraph 28(f) of IAS 8.

The adoption of these standards and amendments does not have a material effect on the Group's consolidated financial information.

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 2.1 Basis of preparation (Continued)

##### 2.1.2 Standards and amendments issued but not yet effective

|   |   | Effective for annual period<br>commencing on or after  |
|---|---|--|
| Amendments to IFRS 10 and IAS 28                    | Sale or Contribution of Assets<br>between an Investor and its<br>Associate or Joint Venture | The amendments were originally<br>intended to be effective for annual<br>periods beginning on or after 1<br>January 2016. The effective date<br>has now been deferred/removed. |
| Amendments to IAS 16                                | Property, Plant and Equipment:<br>Proceeds before Intended Use                              | 1 January 2022   |
| Amendments to IFRS 3                                | Reference to the Conceptual<br>Framework  | 1 January 2022   |
| Amendments to IAS 37                                | Onerous Contracts – Cost of Fulfilling<br>a Contract  | 1 January 2022   |
| Amendments to IFRS 1, IFRS 9,<br>IFRS 16 and IAS 41 | Annual Improvements to IFRS<br>Standards 2018 – 2020  | 1 January 2022   |
| IFRS 17 and its amendments                          | Insurance Contracts   | 1 January 2023   |
| Amendments to IAS 8                                 | Accounting Estimates  | 1 January 2023   |
| Amendments to IAS 1 and IFRS Practice Statement 2   | Disclosure of Accounting Policies   | 1 January 2023   |
| Amendments to IAS 12                                | Deferred Tax related to Assets and<br>Liabilities arising from a Single<br>Transaction      | 1 January 2023   |

##### *Amendments to IFRS 10 and IAS 28*

The amendments address an inconsistency between IFRS 10 and IAS 28 in the sale or contribution of assets between an investor and its associate or joint venture.

A full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary.

##### *Amendments to IAS 16*

The amendment to IAS 16 Property, Plant and Equipment (PP&E) prohibits an entity from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment.

Entities must disclose separately the amounts of proceeds and costs relating to items produced that are not an output of the entity's ordinary activities.



## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.1 Basis of preparation *(Continued)*

#### **2.1.2 Standards and amendments issued but not yet effective** *(Continued)*

##### *Amendments to IFRS 3*

The amendments to IFRS 3, 'Business combinations', referred to the 2018 Conceptual Framework for Financial Reporting, are in order to determine what constitutes an asset or a liability in a business combination. In addition, the amendments add a new exception in IFRS 3 for liabilities and contingent liabilities. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37, 'Provisions, Contingent Liabilities and Contingent Assets', or IFRIC 21, 'Levies', rather than the 2018 Conceptual Framework. The amendments also clarify that the acquirer should not recognise contingent assets, as defined in IAS 37, at the acquisition date.

##### *Amendments to IAS 37*

The amendment clarifies the meaning of 'costs to fulfil a contract' and explains that the direct cost of fulfilling a contract comprises:

- The incremental costs of fulfilling that contract (for example, direct labour and materials); and
- An allocation of other costs that relate directly to fulfilling contracts (for example, an allocation of the depreciation charge for an item of PP&E used to fulfil the contract).

The amendment also clarifies that, before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract.

##### *Annual Improvements to IFRS Standards 2018 – 2020 Cycle*

The Annual Improvements to IFRSs 2018 – 2020 Cycle include a number of amendments to various IFRSs:

- IFRS 9 Financial Instruments – clarifies which fees should be included in the 10% test for derecognition of financial liabilities.
- IFRS 16 Leases – amendment of its illustrative example to remove the illustration of payments from the lessor relating to leasehold improvements, to remove any confusion about the treatment of lease incentives.
- IFRS 1 First – time Adoption of International Financial Reporting Standards – allows entities that have measured their assets and liabilities at carrying amounts recorded in their parent's books to also measure any cumulative translation differences using the amounts reported by the parent. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption.
- IAS 41 Agriculture – removal of the requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.1 Basis of preparation (Continued)

#### 2.1.2 Standards and amendments issued but not yet effective (Continued)

##### *IFRS 17 and its amendments*

IFRS 17 Insurance Contracts was issued in May 2017 as replacement for IFRS 4. It requires a current measurement model where estimates are re-measured in each reporting period. Contracts are measured using the building blocks of discounted probability weighted cash flows, an explicit risk adjustment, and a contractual service margin (“CSM”) representing the unearned profit of the contract which is recognised as revenue over the coverage period.

The standard allows a choice between recognising changes in discount rates either in the statement of profit or loss or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9.

An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.

There is a modification of the general measurement model called the “variable fee approach” for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach, the entity’s share of the fair value changes of the underlying items is included in the CSM. The results of insurers using this model are therefore likely to be less volatile than under the general model.

The IASB issued the amendments to IFRS 17 Insurance contracts, on 25 June 2020, together with an amendment to IFRS 4, so that eligible insurers can still apply IFRS 9 alongside IFRS 17. This concluded the IASB’s targeted amendments to IFRS 17 which aimed to ease implementation of the standard by reducing implementation costs and making it easier for entities to explain, to investors and others, the results from applying IFRS 17. The amendments to IFRS 17 include:

- Effective date

The effective date of IFRS 17 (incorporating the amendments) has been deferred by two years to annual reporting periods beginning on or after 1 January 2023; and the fixed expiry date of the temporary exemption from applying IFRS 9 in IFRS 4 has also been deferred to annual reporting periods beginning on or after 1 January 2023.

- Expected recovery of insurance acquisition cash flows

An entity is required to allocate part of the acquisition costs to related expected contract renewals, and to recognise those costs as an asset until the entity recognises the contract renewals. Entities are required to assess the recoverability of the asset at each reporting date, and to provide specific information about the asset in the notes to the financial statements.

- Contractual service margin attributable to investment services

Coverage units should be identified, considering the quantity of benefits and expected period of both insurance coverage and investment services, for contracts under the variable fee approach and for other contracts with an ‘investment-return service’ under the general model. Costs related to investment activities should be included as cash flows within the boundary of an insurance contract, to the extent that the entity performs such activities to enhance benefits from insurance coverage for the policyholder.

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.1 Basis of preparation *(Continued)*

#### 2.1.2 Standards and amendments issued but not yet effective *(Continued)*

*IFRS 17 and its amendments (continued)*

- Reinsurance contracts held – recovery of losses

When an entity recognises a loss on initial recognition of an onerous group of underlying insurance contracts, or on addition of onerous underlying contracts to a group, an entity should adjust the contractual service margin of a related group of reinsurance contracts held and recognise a gain on the reinsurance contracts held. The amount of the loss recovered from a reinsurance contract held is determined by multiplying the loss recognised on underlying insurance contracts and the percentage of claims on underlying insurance contracts that the entity expects to recover from the reinsurance contract held. This requirement would apply only when the reinsurance contract held is recognised before or at the same time as the loss is recognised on the underlying insurance contracts.

- Other amendments to IFRS 17 include:
  - Scope exclusions for some credit card (or similar) contracts, and some loan contracts;
  - Presentation of insurance contract assets and liabilities in the statement of financial position in portfolios instead of groups;
  - Applicability of the risk mitigation option when mitigating financial risks using reinsurance contracts held and non-derivative financial instruments at fair value through profit or loss;
  - An accounting policy choice to change the estimates made in previous interim financial statements when applying IFRS 17;
  - Inclusion of income tax payments and receipts that are specifically chargeable to the policyholder under the terms of an insurance contract in the fulfilment cash flows;
  - Selected transition reliefs and other minor amendments.

The Group is assessing the impact on the Group's operating results and financial position of adopting IFRS 17.

#### *Amendments to IAS 8*

The changes to IAS 8 focus entirely on accounting estimates and clarify the following:

- The definition of a change in accounting estimates is replaced with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty".
- Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty.
- The Board clarifies that a change in accounting estimate that results from new information or new developments is not the correction of an error. In addition, the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors.
- A change in an accounting estimate may affect only the current period's profit or loss, or the profit or loss of both the current period and future periods. The effect of the change relating to the current period is recognised as income or expense in the current period. The effect, if any, on future periods is recognised as income or expense in those future periods.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.1 Basis of preparation (Continued)

#### 2.1.2 Standards and amendments issued but not yet effective (Continued)

##### *Amendments to IAS 1 and IFRS Practice Statement 2*

Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) amends IAS 1 in the following ways:

- An entity is now required to disclose its material accounting policy information instead of its significant accounting policies;
- Several paragraphs are added to explain how an entity can identify material accounting policy information and to give examples of when accounting policy information is likely to be material;
- The amendments clarify that accounting policy information may be material because of its nature, even if the related amounts are immaterial;
- The amendments clarify that accounting policy information is material if users of an entity's financial statements would need it to understand other material information in the financial statements; and
- The amendments clarify that if an entity discloses immaterial accounting policy information, such information shall not obscure material accounting policy information.

##### *Amendments to IAS 12*

The main change in Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12) is an exemption from the initial recognition exemption provided in IAS 12.15(b) and IAS 12.24. Accordingly, the initial recognition exemption does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition. This is also explained in the newly inserted paragraph IAS 12.22A.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023. Early adoption is permitted.

An entity applies the amendments to transactions that occur on or after the beginning of the earliest comparative period presented. It also, at the beginning of the earliest comparative period presented, recognises deferred tax for all temporary differences related to leases and decommissioning obligations and recognises the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at that date.

Except for the above-mentioned impact of IFRS 17 and its amendments, the adoption of the above new standards and amendments issued but not yet effective is not expected to have a material effect on the Group's consolidated financial information.

### 2.2 Critical accounting estimates and judgments in applying accounting policies

The preparation of interim condensed consolidated financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense.

In preparing this interim condensed consolidated financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2020.

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021

(All amounts expressed in millions of RMB unless otherwise stated)

### 3 FINANCIAL RISK MANAGEMENT

#### Overview

The Group's activities expose it to a variety of financial risks and those activities involve analysis, evaluation, acceptance and management of a certain degree of risks or a portfolio of risks. The Group's aim is to achieve an appropriate balance between risks and returns and minimise potential adverse effects on the Group's financial performance. The main types of financial risks are credit risk, liquidity risk, market risk, operational risk, etc.

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, monitor the risks and to control the risk limits through reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets and products and the latest best practice.

#### Risk management framework

The Board of Directors sets out risk management strategies, overall risk preference and risk tolerance level. The senior management establishes risk management policies and procedures according to the strategies set by the Board of Directors. The Risk Management Department/Internal Control and Crime Prevention Office at Head Office serves as the chief department for the Group's risk management and leads the overall risk management duties, of which the crucial ones would be further designated to specific leading departments. The risk management division in each operation department at Head Office, in each domestic and overseas branch and in each subsidiary undertakes specific risk management function. Internal Audit Department is responsible for independent review of risk management and control environment.

#### 3.1 Credit risk

Credit risk is the risk of loss that a borrower or counterparty fails to or is unwilling to meet its obligations. Credit risk arises principally from loans and advances to customers, financial investments, derivative instruments and due from and placements with banks and other financial institutions. There is also credit risk in off-balance sheet items such as credit related commitments and financial guarantees, acceptances and letters of credit. Credit risk is a major risk to which the Bank is exposed. Therefore, the Group manages and controls the overall credit risk, integrated into the comprehensive risk management, in a prudent manner, and reports regularly to the Senior Management and the Board of Directors of the Group.

##### 3.1.1 Credit risk management

The Group's credit risk management is assumed by major functions such as Corporate Business Department, Inclusive Finance Department, Personal Finance Business Department, Pacific Credit Card Centre, Credit Authorisation Department, Credit Approval Department, Risk Management Department/Internal Control and Crime Prevention Office and Asset Preservation Department. They are responsible for the standardised management of corporate and retail credit businesses in terms of guidance on credit investment, credit investigation and report, credit approval, loan granting, post-loan management and non-performing loan management.

##### (a) *Loans and advances to customers and off-balance sheet commitments*

As for corporate loans, the Group's relationship managers are responsible for receiving application files submitted by the applicants, conducting pre-loan investigation, assessing the credit risk, and raising the proposed rating. The Group adopts the hierarchical approval system at the branch and Head Office level based on the credit approval authority. Credit line is determined by taking into account the credit record, financial position, collaterals and guarantees of the applicant, overall credit risk of the credit portfolio, macroeconomic regulation and control policies and relevant laws and regulations. The Group keeps a close eye on the economic and financial trend and credit risk profile in the industry, provides more guidance on credit investment, formulate guidance for different industries, strengthens daily risk pre-warning, monitoring and specific risk investigation, identify customers under major risks and material potential risk points, enhances the refinement of post-loan management and centers on customer credit risk management to carry out post-loan management. The independent loan granting centre shall review the compliance, completeness and effectiveness of relevant credit files before loan granting according to the applications for drawdown of credit line. The Group's relationship managers are primarily responsible for post-loan management. The Group adopts a series of tools and approaches, such as risk filtering, list management, risk warning and risk investigation, in daily risk monitoring of corporate loans. The Group manages non-performing loans mainly through (1) collection; (2) restructuring; (3) disposal of collaterals or recourse to the guarantors; (4) litigation or arbitration; (5) disposal.

### 3 FINANCIAL RISK MANAGEMENT *(Continued)*

#### 3.1 Credit risk *(Continued)*

##### 3.1.1 Credit risk management *(Continued)*

###### (a) Loans and advances to customers and off-balance sheet commitments *(Continued)*

For retail credit assets, the Group manages the overall risk profile of retail credit business through on-site review and adoption of reporting system on material matters, strengthens daily risk monitoring and pre-warning through optimising management system, standardises operation process of retail credit business through formulating manuals for personal loans and small-enterprise loans, identifies and reveals material potential risks on a timely manner through strengthening risk monitoring and early-warning, and understands and forecasts the quality trends so as to adopt targeted risk control measures in advance by using stress testing and quality migration analysis. In addition, the Group continues to carry out fast response mechanism to address emergencies properly and maintains a list to manage those key risk projects through risk monitoring, guidance, collection and mitigation.

The Group adopts categorised management for retail credit assets on the basis of overdue ageing and guarantee type. With regard to retail credit customers with overdue loans, different approaches are adopted to collect such loans based on their overdue days.

Credit Card Centre of the Group is in charge of the operation and management of credit card business. Credit Card Centre of the Group adopts various supervisory and preventive measures. It reinforces data cross-validation to enhance risk prevention in the approval process, reduces risk exposure to high risk customers through subsequent credit investigation and enters into the intervention process earlier than scheduled, effectively improves collection result through reasonable allocation of available resources, and optimises data analytic system to further enhance the management of credit card business.

###### (b) Treasury business

For treasury business (including debt investments), the Group chooses banks and other financial institutions prudently and balances the credit risk and return rate of investments. By making reference to internal and external credit rating information, the Group approves credits of different levels and uses an appropriate credit limit management system to review and adjust credit lines, aiming to manage the credit risk exposed to the treasury business.

For debt securities, internal and external ratings (such as Standard and Poor's) are used by the Group when available for managing the credit risk exposed to debt securities and bills. The investment in those debts and bills is to have better credit quality assets while maintaining readily available liquidity resource. The bond issuers involved with the Group are subject to the credit granting review and approval of the Head Office and credit limits are placed on such issuers.

Debt investments other than debt securities include investments in fund trust schemes, asset management plans and wealth management products set up by banking financial institutions. Fund trust schemes and asset management plans, the funds of which ultimately go to trust loans, are mainly managed and operated by third-party trustees and asset managers. The Group implements a rating system for accepting trust companies, securities companies and fund companies, sets credit limits for repurchase parties of trust beneficiary right, ultimate borrowers of targeted asset management plans, and issuers of inter-bank wealth management products, and carries out follow-up risk management on a regular basis.

As for derivative instruments, the Group maintains strict limits on net open derivative investment positions (i.e., the difference between long and short contracts), by both amount and maturity. At any time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e., assets where their fair value is positive), which, in relation to derivative instruments, is only a fraction of the contract's notional amount used to express the amount outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market fluctuations. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except when the Group requires margin deposits from counterparties. The management has set limits of these contracts according to counterparty, and regularly monitor and control the actual credit risk when the Group concludes foreign exchange and interest rate contracts with other financial institutions and clients.

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021

(All amounts expressed in millions of RMB unless otherwise stated)

### 3 FINANCIAL RISK MANAGEMENT *(Continued)*

#### 3.1 Credit risk *(Continued)*

##### 3.1.1 Credit risk management *(Continued)*

###### (b) Treasury business *(Continued)*

The Group manages the credit quality of due from and placements with banks and other financial institutions, and balances arising from transactions for precious metals, by considering the size, financial position, the internal and external credit rating of the banks and other financial institutions. The Head Office monitors and reviews the credit risk of due from and placements with banks and other financial institutions by counterparties regularly. Limits are placed on different counterparties.

###### (c) Credit-related commitments

Credit risk exposures to financial guarantees are the same as that of loans. However, commercial letters of credit are usually pledged by the relevant shipped goods, and therefore are subject to lower risk compared with direct loans. Credit-related commitments are included in the management of overall credit line granted to the applicant. For customers with transactions beyond the credit limit or infrequent transactions, the applicant shall be requested to provide relevant margin deposits in order to reduce credit risk exposures.

###### (d) Credit risk quality

In accordance with the Guideline for Loan Credit Risk Classification issued by the CBIRC, the Group measures and manages the quality of corporate and personal loans and advances by classifying loans into the following five categories: normal, special-mention, substandard, doubtful and loss, of which substandard, doubtful and loss loans are regarded as non-performing loans.

The five categories of loan classification into which the Group classifies its loans and advances to customers are set out below:

|                  |  |
|------------------|--|
| Normal:          | Borrowers can honour the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.  |
| Special-mention: | Borrowers are able to service their loans currently, although repayment may be adversely affected by specific factors.   |
| Substandard:     | Borrowers' ability to service their loans is in question and they cannot rely entirely on normal operating revenues to repay principal and interest. Losses may ensue even when collaterals or guarantees are invoked. |
| Doubtful:        | Borrowers cannot repay principal and interest in full and significant losses will need to be recognised even when collaterals or guarantees are invoked.   |
| Loss:            | Only a small portion or none of the principal and interest can be recovered after taking all possible measures and exhausting all legal remedies.  |

##### 3.1.2 Expected credit loss ("ECL")

The Group measures the ECL of financial instruments at amortised cost or debt investments at fair value through other comprehensive income ("FVOCI"). The Group divides them into 3 stages by assessing whether there has been a significant increase in credit risk since initial recognition to recognise ECL.

The Group measures the ECL of a financial instrument in a way that reflects:

- (1) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- (2) the time value of money;
- (3) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.



## 3 FINANCIAL RISK MANAGEMENT *(Continued)*

### 3.1 Credit risk *(Continued)*

#### 3.1.2 Expected credit loss (“ECL”) *(Continued)*

##### Stage classification

The Group divides them into 3 stages. Stage 1 is “financial assets without significant increase in credit risk since initial recognition”, at which the Group only needs to measure ECL in the next 12 months. Stage 2 is “financial assets with significant increase in credit risk” and stage 3 is “credit-impaired financial assets”, at both of which the Group needs to measure lifetime ECL.

##### Definition of credit-impaired and default

The criteria adopted by the Group to determine whether a credit impairment occurs under IFRS 9 is consistent with the internal credit risk management objectives for relevant financial instrument, in addition to consideration of quantitative and qualitative indicators.

The Group considers a financial instrument to be credit-impaired when one or more of the following criteria have been met:

- (1) Principal (including advances, applies to below) or interest of the asset is more than 90 days past due;
- (2) The issuer or obligor is in significant financial difficulty, or has already become insolvent
- (3) It is becoming probable that the obligor will enter bankruptcy;
- (4) An active market for that financial asset has disappeared because of financial difficulties of issuers;
- (5) Other objective evidence indicating impairment of the financial asset.

In general, the Group considers a financial instrument is in default, when it is credit-impaired.

##### A significant increase in credit risk

The Group assesses quarterly whether the credit risk on a financial instrument has increased significantly since initial recognition. In determining the stage classification of a financial asset, the Group considers all reasonable and supportable information which reflects whether there have been significant changes in credit risk, including that which is forward-looking. Based on an individual financial instrument or a portfolio of financial instruments with similar credit risk characteristics, the Group compares risk of default occurring at reporting date as with initial recognition, in order to determine possible changes in risk of default occurring during the expected life of the financial instrument. The Group considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following criteria have been met:

- (1) Principal or interest of the instrument is more than 30 days past due;
- (2) Credit rating of obligor changes significantly. Credit rating is based on both internal and external rating results, and the criteria are as follow: (a) a significant increase in credit risk is determined when internal and external rating during the reporting period is below the Group’s credit acceptance standards; (b) the non-retail assets’ internal ratings are downgraded by 3 ranks or above upon initial recognition;
- (3) Significant adverse issues have negative impacts on obligator’s repayment ability;
- (4) Other circumstances of significant increase in credit risk. For example, appearance of other risk alarm indicators which imply growing potential risk, and could cause losses of financial assets to the Group.

The financial assets are moveable between stages. For instance, financial instruments originally classified at stage 1 should be downgraded to stage 2 if events occur such as a significant increase in credit risk. Financial instruments at stage 2 could be upgraded to stage 1 if credit risk decreases and the criteria for the determination of “a significant increase in credit risk” are no longer met.



## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021

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### 3 FINANCIAL RISK MANAGEMENT *(Continued)*

#### 3.1 Credit risk *(Continued)*

##### 3.1.2 Expected credit loss (“ECL”) *(Continued)*

*Stage classification (Continued)*

*A significant increase in credit risk (Continued)*

After the outbreak of the pandemic of COVID-19, the Group strictly followed the regulatory policies and requirements and prudently evaluates the repayment ability of the clients who apply for payment holiday. On the premise that the subsequent risks will not be enlarged and subsequent settlement will not be affected, the Group provided relief measures to those clients meeting specific criteria by extending the maturity and so on. The Group has assessed whether the relief measures would cause a significant increase in credit risks and has adjusted the stage classification as appropriate.

*Description of parameters, assumptions and estimation techniques*

The Group recognises a loss allowance to different financial instruments at an amount equal to 12-month or lifetime expected credit loss based on whether there has been a significant increase in credit risk and whether the financial instrument is credit-impaired. ECL is the result of discounted product of the weighted average of “probability of default (PD)”, “loss given default (LGD)”, “exposure at default (EAD)” under the three scenarios, which are defined as follows:

Probability of default (PD) is the probability of default occurring of a client and its assets in a given period of time in the future.

Exposure at default (EAD) represents the total amount of on-balance sheet and off-balance sheet exposure at the time of default by debtor, reflecting the total amount of possible losses likely to be incurred. In general, this includes the utilised credit limit, interest receivable, the anticipated usage of unused credit facilities as well as the related expenses to be incurred.

Loss given default (LGD) represents the percentage of amount of loss to be incurred in the event of default to the total risk exposure. It typically varies by nature of debtor, type and seniority of claim and the availability of collaterals or other credit risk mitigation.

Definition of default has been consistently applied to model establishment of probability of default (PD), exposure at default (EAD), loss given default (LGD) in ECL calculation throughout the Group.

Estimation of ECL: the impairment models

The impairment models adopt a top down approach. Through grouping, the models cover the risk exposures of financial institutions, corporates and retailers. The Group has established a macro-economic forecast model driven by the year-on-year Gross Domestic Product (GDP) growth rate to forecast values of macro-economic indicators in multiple categories, including national accounts, price index, foreign trades, fixed asset investments, currency and interest rates, under three scenarios, namely “Basic Scenario”, “Optimistic Scenario” and “Pessimistic Scenario”. The forecasts, after evaluation and confirmation by economic experts and senior management of the Bank, are used in asset impairment model. The macro scenario settings and the rationality of the weightings are reviewed and adjusted quarterly, based on changes in the internal and external economic environment. As at June 30 2021, the macro scenario settings and the weightings of the Group are similar to those at the end of 2020.

Where impairment models could not be established due to lack of data support, the Group endeavoured to select appropriate methods in order to make prospective estimation. The Group made prospective adjustments to impairment calculation of overseas branches and subsidiaries regularly based on macro-forecast data from authoritative institutions (such as IMF and the World Bank). For asset portfolios not covered by impairment models, expected loss rate was set by referring to that of similar asset portfolios with impairment models available. When the management believed that the forecast model could not fully reflect recent credit or economic events, management overlay adjustments could be used to supplement ECL allowances.

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021  
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### 3 FINANCIAL RISK MANAGEMENT (Continued)

#### 3.1 Credit risk (Continued)

##### 3.1.2 Expected credit loss ("ECL") (Continued)

Description of parameters, assumptions and estimation techniques (Continued)

##### Grouping of instruments with similar credit risk characteristics

To calculate the relevance between ECL allowance and macro-economic indicators, a grouping of exposure is performed for assets with similar credit risk characteristics. In performing this grouping, the Group has obtained sufficient information to ensure the data reliability for statistical purposes. Where sufficient information is not available internally, the Group has leveraged supplementary data from both internal and external environments to help establish impairment model. Non-retail assets of the Group are mainly grouped according to industries, while retail assets are mainly grouped based on product types, repayment methods and so on.

##### Sensitivity analysis

As at the balance sheet date, the basic scenario weighting is higher than the non-basic scenario weighting. The probability-weighted impairment allowance under three scenarios is higher than the basic scenario impairment allowance by the following amounts:

|   | As at<br>30 June 2021 | As at<br>31 December 2020 |
|---|-----------------------|---------------------------|
| Corporate loans   | 454                   | 337                       |
| Personal loans  | 98                    | 96                        |
| Debt investments at amortise cost and fair value through other comprehensive income | 4                     | 10                        |

If the optimistic scenario weighting increases by 10%, and the basic scenario weighting decreases by 10%, the impairment allowance of loans and advances will decrease by RMB611 million (31 December 2020: RMB484 million), and the impairment allowance of debt investments at amortise cost and fair value through other comprehensive income will decrease by RMB3 million (31 December 2020: RMB6 million). If the Pessimistic scenario weighting increases by 10%, and the Basic scenario weighting decreases by 10%, the impairment allowance of loans and advances will increase by RMB1,774 million (31 December 2020: RMB1,402 million), and the impairment allowance of debt investments at amortise cost and fair value through other comprehensive income will increase by RMB10 million (31 December 2020: RMB23 million).

##### 3.1.3 Maximum exposure to credit risk

###### 3.1.3.1 Maximum exposure to credit risk – financial instruments included in impairment assessment

The Group categorises asset risk characteristics based on the quality of the assets, differentiating financial instruments that are likely to incur expected credit losses as "Low risk", "Medium risk", "High risk" and "Impaired". "Low risk" refers to counterparty with strong repayment ability, low probability of impairment in the future, and minor effect of adverse external factors. "Medium risk" refers to counterparty with certain repayment ability, but business, finance, and economic conditions that are continuously unstable and worsening will potentially cause its repayment ability to descend. "High risk" refers to counterparty with adverse factors that are likely to impact its repayment ability significantly or with high probability of impairment in the future. And "Impaired" refers to the assets met the Group's definition of credit-impaired.

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

## 3.1 Credit risk (Continued)

## 3.1.3 Maximum exposure to credit risk (Continued)

## 3.1.3.1 Maximum exposure to credit risk – financial instruments included in impairment assessment (Continued)

The table below analyses exposure to credit risk of financial instruments included in expected credit losses assessment. The balance of financial instruments below is the maximum exposure to credit risk of these instruments in the Group.

| As at 30 June 2021   | Low risk         | Medium risk      | High risk      | Impaired      | Domestic branches | Overseas and subsidiaries | Group total       | Allowance for impairment losses | Group carrying amount |
|--|------------------|------------------|----------------|---------------|-------------------|---------------------------|-------------------|---------------------------------|-----------------------|
| <b>On-balance sheet item</b>   |                  |                  |                |               |                   |                           |                   |                                 |                       |
| <b>Cash and balances with central banks (Stage 1)</b>                                | 749,234          | -                | -              | -             | 749,234           | 47,484                    | 796,718           | -                               | 796,718               |
| <b>Loans and advances to customers (Corporate)</b>                                   |                  |                  |                |               |                   |                           |                   |                                 |                       |
| - at amortised cost  | 2,049,770        | 1,295,677        | 62,737         | 75,057        | 3,483,241         | 533,230                   | 4,016,471         | (116,827)                       | 3,899,644             |
| Stage 1  | 2,043,570        | 1,210,725        | 6,389          | -             | 3,260,684         | 518,717                   | 3,779,401         | (37,466)                        | 3,741,935             |
| Stage 2  | 6,200            | 84,952           | 56,348         | -             | 147,500           | 6,307                     | 153,807           | (29,255)                        | 124,552               |
| Stage 3  | -                | -                | -              | 75,057        | 75,057            | 8,206                     | 83,263            | (50,106)                        | 33,157                |
| - at FVOCI   | 157,206          | 49,476           | 6,508          | 20            | 213,210           | 65                        | 213,275           | -                               | 213,275               |
| Stage 1  | 157,199          | 49,158           | 2,972          | -             | 209,329           | 65                        | 209,394           | -                               | 209,394               |
| Stage 2  | 7                | 318              | 3,536          | -             | 3,861             | -                         | 3,861             | -                               | 3,861                 |
| Stage 3  | -                | -                | -              | 20            | 20                | -                         | 20                | -                               | 20                    |
| <b>Loans and advances to customers (Personal)</b>                                    |                  |                  |                |               |                   |                           |                   |                                 |                       |
| - at amortised cost  | 1,469,526        | 545,764          | 31,082         | 17,990        | 2,064,362         | 52,595                    | 2,116,957         | (33,446)                        | 2,083,511             |
| Stage 1  | 1,469,316        | 544,880          | 23,907         | -             | 2,038,103         | 52,195                    | 2,090,298         | (15,793)                        | 2,074,505             |
| Stage 2  | 210              | 884              | 7,175          | -             | 8,269             | 241                       | 8,510             | (3,519)                         | 4,991                 |
| Stage 3  | -                | -                | -              | 17,990        | 17,990            | 159                       | 18,149            | (14,134)                        | 4,015                 |
| <b>Due from and placements with banks and other financial institutions (Stage 1)</b> | 501,406          | 312              | -              | -             | 501,718           | 212,211                   | 713,929           | (1,559)                         | 712,370               |
| <b>Financial investments at amortised cost</b>                                       | 1,961,907        | 21,302           | -              | 450           | 1,983,659         | 69,144                    | 2,052,803         | (2,521)                         | 2,050,282             |
| Stage 1  | 1,961,907        | 20,645           | -              | -             | 1,982,552         | 66,238                    | 2,048,790         | (1,640)                         | 2,047,150             |
| Stage 2  | -                | 657              | -              | -             | 657               | 551                       | 1,208             | (41)                            | 1,167                 |
| Stage 3  | -                | -                | -              | 450           | 450               | 2,355                     | 2,805             | (840)                           | 1,965                 |
| <b>Debt investments at FVOCI</b>   | 296,221          | 2,159            | -              | -             | 298,380           | 408,497                   | 706,877           | -                               | 706,877               |
| Stage 1  | 296,221          | 2,159            | -              | -             | 298,380           | 408,045                   | 706,425           | -                               | 706,425               |
| Stage 2  | -                | -                | -              | -             | -                 | 401                       | 401               | -                               | 401                   |
| Stage 3  | -                | -                | -              | -             | -                 | 51                        | 51                | -                               | 51                    |
| <b>Other financial assets at amortised cost</b>                                      | 15,007           | 14,724           | 129            | 3,000         | 32,860            | 13,519                    | 46,379            | (3,470)                         | 42,909                |
| Stage 1  | 14,819           | 14,521           | -              | -             | 29,340            | 13,458                    | 42,798            | (282)                           | 42,516                |
| Stage 2  | 86               | 102              | 25             | -             | 213               | -                         | 213               | (95)                            | 118                   |
| Stage 3  | 102              | 101              | 104            | 3,000         | 3,307             | 61                        | 3,368             | (3,093)                         | 275                   |
| <b>On-balance sheet total</b>  | <b>7,200,277</b> | <b>1,929,414</b> | <b>100,456</b> | <b>96,517</b> | <b>9,326,664</b>  | <b>1,336,745</b>          | <b>10,663,409</b> | <b>(157,823)</b>                | <b>10,505,586</b>     |
| <b>Credit related commitments and financial guarantees</b>                           |                  |                  |                |               |                   |                           |                   |                                 |                       |
| Stage 1  | 1,481,337        | 309,529          | 2,413          | -             | 1,793,279         | 51,781                    | 1,845,060         | (8,895)                         | 1,836,165             |
| Stage 2  | -                | 2,423            | 3,165          | -             | 5,588             | 132                       | 5,720             | (1,432)                         | 4,288                 |
| <b>Off-balance sheet total</b>   | <b>1,481,337</b> | <b>311,952</b>   | <b>5,578</b>   | <b>-</b>      | <b>1,798,867</b>  | <b>51,913</b>             | <b>1,850,780</b>  | <b>(10,327)</b>                 | <b>1,840,453</b>      |
| <b>Total</b>   | <b>8,681,614</b> | <b>2,241,366</b> | <b>106,034</b> | <b>96,517</b> | <b>11,125,531</b> | <b>1,388,658</b>          | <b>12,514,189</b> | <b>(168,150)</b>                | <b>12,346,039</b>     |

# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021  
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## 3 FINANCIAL RISK MANAGEMENT (Continued)

### 3.1 Credit risk (Continued)

#### 3.1.3 Maximum exposure to credit risk (Continued)

##### 3.1.3.1 Maximum exposure to credit risk – financial instruments included in impairment assessment (Continued)

| As at 31 December 2020  | Low risk         | Medium risk      | High risk      | Impaired      | Domestic branches | Overseas and subsidiaries | Group total       | Allowance for impairment losses | Group carrying amount |
|---|------------------|------------------|----------------|---------------|-------------------|---------------------------|-------------------|---------------------------------|-----------------------|
| <b>On-balance sheet item</b>  |                  |                  |                |               |                   |                           |                   |                                 |                       |
| Cash and balances with central banks (Stage 1)                                | 731,772          | -                | -              | -             | 731,772           | 70,436                    | 802,208           | -                               | 802,208               |
| Loans and advances to customers (Corporate)                                   |                  |                  |                |               |                   |                           |                   |                                 |                       |
| - at amortised cost   | 1,862,280        | 1,155,378        | 70,714         | 72,874        | 3,161,246         | 495,804                   | 3,657,050         | (104,425)                       | 3,552,625             |
| Stage 1   | 1,860,944        | 1,077,691        | 5,140          | -             | 2,943,775         | 475,755                   | 3,419,530         | (27,418)                        | 3,392,112             |
| Stage 2   | 1,336            | 77,687           | 65,574         | -             | 144,597           | 14,093                    | 158,690           | (29,034)                        | 129,656               |
| Stage 3   | -                | -                | -              | 72,874        | 72,874            | 5,956                     | 78,830            | (47,973)                        | 30,857                |
| - at FVOCI  | 94,543           | 106,440          | 9,335          | 95            | 210,413           | 79                        | 210,492           | -                               | 210,492               |
| Stage 1   | 94,542           | 105,458          | 3,627          | -             | 203,627           | 79                        | 203,706           | -                               | 203,706               |
| Stage 2   | 1                | 982              | 5,708          | -             | 6,691             | -                         | 6,691             | -                               | 6,691                 |
| Stage 3   | -                | -                | -              | 95            | 95                | -                         | 95                | -                               | 95                    |
| Loans and advances to customers (Personal)                                    |                  |                  |                |               |                   |                           |                   |                                 |                       |
| - at amortised cost   | 1,341,584        | 542,393          | 31,885         | 18,610        | 1,934,472         | 46,410                    | 1,980,882         | (34,849)                        | 1,946,033             |
| Stage 1   | 1,341,429        | 541,708          | 24,607         | -             | 1,907,744         | 46,020                    | 1,953,764         | (16,008)                        | 1,937,756             |
| Stage 2   | 155              | 685              | 7,278          | -             | 8,118             | 227                       | 8,345             | (3,836)                         | 4,509                 |
| Stage 3   | -                | -                | -              | 18,610        | 18,610            | 163                       | 18,773            | (15,005)                        | 3,768                 |
| Due from and placements with banks and other financial institutions (Stage 1) | 370,162          | 259              | -              | -             | 370,421           | 201,957                   | 572,378           | (1,248)                         | 571,130               |
| Financial investments at amortised cost                                       | 1,936,199        | 26,277           | 793            | 465           | 1,963,734         | 58,845                    | 2,022,579         | (3,050)                         | 2,019,529             |
| Stage 1   | 1,936,199        | 20,930           | -              | -             | 1,957,129         | 56,207                    | 2,013,336         | (1,844)                         | 2,011,492             |
| Stage 2   | -                | 5,347            | 793            | -             | 6,140             | 2,309                     | 8,449             | (682)                           | 7,767                 |
| Stage 3   | -                | -                | -              | 465           | 465               | 329                       | 794               | (524)                           | 270                   |
| Debt investments at FVOCI   | 291,786          | 2,515            | -              | -             | 294,301           | 429,572                   | 723,873           | -                               | 723,873               |
| Stage 1   | 291,786          | 2,515            | -              | -             | 294,301           | 429,222                   | 723,523           | -                               | 723,523               |
| Stage 2   | -                | -                | -              | -             | -                 | 278                       | 278               | -                               | 278                   |
| Stage 3   | -                | -                | -              | -             | -                 | 72                        | 72                | -                               | 72                    |
| Other financial assets at amortised cost                                      | 14,624           | 8,560            | 127            | 3,842         | 27,153            | 13,908                    | 41,061            | (4,088)                         | 36,973                |
| Stage 1   | 14,455           | 8,353            | -              | -             | 22,808            | 13,838                    | 36,646            | (166)                           | 36,480                |
| Stage 2   | 45               | 83               | 28             | 10            | 166               | -                         | 166               | (115)                           | 51                    |
| Stage 3   | 124              | 124              | 99             | 3,832         | 4,179             | 70                        | 4,249             | (3,807)                         | 442                   |
| <b>On-balance sheet total</b>   | <b>6,642,950</b> | <b>1,841,822</b> | <b>112,854</b> | <b>95,886</b> | <b>8,693,512</b>  | <b>1,317,011</b>          | <b>10,010,523</b> | <b>(147,660)</b>                | <b>9,862,863</b>      |
| <b>Credit related commitments and financial guarantees</b>                    |                  |                  |                |               |                   |                           |                   |                                 |                       |
| Stage 1   | 1,283,391        | 319,352          | 2,499          | -             | 1,605,242         | 61,620                    | 1,666,862         | (6,858)                         | 1,660,004             |
| Stage 2   | -                | 4,422            | 5,031          | -             | 9,453             | 397                       | 9,850             | (3,642)                         | 6,208                 |
| <b>Off-balance sheet total</b>  | <b>1,283,391</b> | <b>323,774</b>   | <b>7,530</b>   | <b>-</b>      | <b>1,614,695</b>  | <b>62,017</b>             | <b>1,676,712</b>  | <b>(10,500)</b>                 | <b>1,666,212</b>      |
| <b>Total</b>  | <b>7,926,341</b> | <b>2,165,596</b> | <b>120,384</b> | <b>95,886</b> | <b>10,308,207</b> | <b>1,379,028</b>          | <b>11,687,235</b> | <b>(158,160)</b>                | <b>11,529,075</b>     |

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021

(All amounts expressed in millions of RMB unless otherwise stated)

### 3 FINANCIAL RISK MANAGEMENT (Continued)

#### 3.1 Credit risk (Continued)

##### 3.1.3 Maximum exposure to credit risk (Continued)

##### 3.1.3.2 Maximum exposure to credit risk – financial instruments not included in impairment assessment

The analysis of credit risk exposure of those financial assets which are not included in the impairment assessment are as follows:

|   | Maximum exposure to credit risk |                  |
|---|---------------------------------|------------------|
|   | 30 June 2021                    | 31 December 2020 |
| Financial assets at fair value through profit or loss |                                 |                  |
| Derivative financial instruments                      | 35,584                          | 54,212           |
| Debt securities                                       | 156,028                         | 153,034          |
| Fund investments and other asset management products  | 344,655                         | 252,098          |
| Precious metal contracts                              | 20,071                          | 19,975           |
| Total   | 556,338                         | 479,319          |

##### 3.1.3.3 Collaterals and other credit enhancements

The Group manages, limits and controls concentrations of credit risk wherever they are identified, in particular, to individual counterparty, groups, industry segments and geographical regions.

The Group optimises its credit risk structure by placing limits in relation to one borrower, or group of borrowers. Such risks are monitored by the Group on a regular basis and subject to annual or more frequent review, whenever necessary.

The exposure to any single borrower including banks and brokers is further restricted by sub-limits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. The Group monitors the actual credit risk exposure and credit limits on a daily basis.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet principal and interest repayment obligations. The Group will change their lending limits when appropriate based on the analysis.

Some other specific control and risk mitigation measures are outlined below.

#### (a) Collaterals

The Group employs a range of policies and practices to mitigate credit risk. The most common practice is to accept collaterals or pledges. The Group implements guidelines on the acceptability of specific classes of collaterals and pledges. The principal types of collaterals and pledges for loans and advances to customers are:

- Residential properties;
- Business assets such as premises, inventory and receivables;
- Financial instruments such as debt securities and stocks.

The value of collaterals at the time of loan origination is subject to loan-to-value ratio limits based on collateral types. The principal types of collaterals for corporate loans and personal loans are as follows:

| Collaterals                                   | Maximum loan-to-value ratio |
|---|-----------------------------|
| Cash deposits with the Group                  | 90%                         |
| PRC treasury bonds                            | 90%                         |
| Financial institution bonds                   | 90%                         |
| Publicly traded stocks                        | 60%                         |
| Rights to collect fees or right of management | 65%                         |
| Properties                                    | 70%                         |
| Land use rights                               | 70%                         |
| Vehicles                                      | 50%                         |

# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### 3.1 Credit risk (Continued)

#### 3.1.3 Maximum exposure to credit risk (Continued)

##### 3.1.3.3 Collaterals and other credit enhancements (Continued)

##### (a) Collaterals (Continued)

Long-term loans and advances to corporate and personal customers are generally secured, while revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss the Group will seek additional collaterals and pledges from the counterparties as soon as impairment indicators are noted for the personal loans and advances.

For loans guaranteed by a third-party guarantor, the Group will assess the financial condition, credit history and ability to meet obligations of the guarantor.

Collaterals and pledges held as security for financial assets other than loans and advances to customers are determined by the nature of the instrument. Debt securities, PRC treasury bonds and the PBOC bills are generally unsecured, with the exception of asset-backed securities, which are secured by portfolios of financial instruments.

The Group closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Group will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

|  | Gross exposure | Impairment allowance | Carrying amount | Fair value of collateral held |
|--|----------------|----------------------|-----------------|-------------------------------|
| As at 30 June 2021   |                |                      |                 |                               |
| Credit-impaired assets   |                |                      |                 |                               |
| Loans and advances to customers  |                |                      |                 |                               |
| Loans and advances to customers at amortised cost                                | 101,413        | (64,227)             | 37,186          | 48,067                        |
| Loans and advances to customers at fair value through other comprehensive income | 19             | –                    | 19              | 19                            |
| Financial investments  |                |                      |                 |                               |
| Financial investments at amortised cost  | 2,805          | (840)                | 1,965           | 3,589                         |
| Debt investments at fair value through other comprehensive income                | 51             | –                    | 51              | –                             |
|  |                |                      |                 |                               |
|  | Gross exposure | Impairment allowance | Carrying amount | Fair value of collateral held |
| As at 31 December 2020   |                |                      |                 |                               |
| Credit-impaired assets   |                |                      |                 |                               |
| Loans and advances to customers  |                |                      |                 |                               |
| Loans and advances to customers at amortised cost                                | 97,603         | (62,978)             | 34,625          | 46,264                        |
| Loans and advances to customers at fair value through other comprehensive income | 95             | –                    | 95              | 95                            |
| Financial investments  |                |                      |                 |                               |
| Financial investments at amortised cost  | 794            | (524)                | 270             | 2                             |
| Debt investments at fair value through other comprehensive income                | 72             | –                    | 72              | –                             |

##### (b) Master netting arrangements

The Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of assets and liabilities in the statement of financial position, as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Group's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as each transaction subject to the arrangement affects credit risk.

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021

(All amounts expressed in millions of RMB unless otherwise stated)

### 3 FINANCIAL RISK MANAGEMENT *(Continued)*

#### 3.1 Credit risk *(Continued)*

##### 3.1.4 Derivative instruments

The Group undertakes its transactions in foreign exchange, commodity, interest rate and other derivative contracts with other financial institutions and customers. The management has established limits for these contracts based on counterparties, industry sectors and countries. Actual credit risk exposures are regularly monitored and controlled by the management.

##### *Credit risk-weighted amounts*

|  | As at<br>30 June 2021 | As at<br>31 December 2020 |
|--|-----------------------|---------------------------|
| Counterparty credit risk-weighted amount | 49,942                | 50,052                    |

The credit risk-weighted amounts are the amounts calculated with reference to the guidelines issued by the CBIRC and are dependent on, amongst other factors, the creditworthiness of the counterparty and the maturity of each type of contract.

The credit risk-weighted amounts stated above have not taken the effects of netting arrangements into account.

##### 3.1.5 Foreclosed assets

|                             | As at<br>30 June 2021 | As at<br>31 December 2020 |
|-----------------------------|-----------------------|---------------------------|
| Buildings                   | 1,246                 | 1,085                     |
| Land use rights             | 10                    | 10                        |
| Others                      | 14                    | 14                        |
| Gross                       | 1,270                 | 1,109                     |
| Less: Impairment allowances | (310)                 | (142)                     |
| Net                         | 960                   | 967                       |

Foreclosed assets are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness. The Group does not generally occupy foreclosed assets for its own business use. Foreclosed assets are classified as other assets in the statement of financial position.

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

### 3 FINANCIAL RISK MANAGEMENT (Continued)

#### 3.1 Credit risk (Continued)

##### 3.1.6 Concentration risk analysis for financial assets with credit risk exposure

The Group mainly manages concentration risk for loans and advances to customers by industry sectors and also manages concentration risk for financial assets by geographical sectors.

##### Concentration risk for geographical sectors

|   | Mainland China | Hong Kong | Others  | Total      |
|---|----------------|-----------|---------|------------|
| As at 30 June 2021  |                |           |         |            |
| Financial assets  |                |           |         |            |
| Balances with central banks   | 750,894        | 27,413    | 18,110  | 796,417    |
| Due from and placements with banks and other financial institutions | 528,827        | 71,450    | 112,093 | 712,370    |
| Derivative financial assets   | 24,943         | 7,905     | 2,736   | 35,584     |
| Financial investments at FVPL                                       | 462,807        | 7,212     | 50,735  | 520,754    |
| Loans and advances to customers                                     | 5,832,003      | 210,556   | 165,734 | 6,208,293  |
| Debt investments at FVOCI   | 395,356        | 104,672   | 206,849 | 706,877    |
| Financial investments at amortised cost                             | 1,998,717      | 6,432     | 45,133  | 2,050,282  |
| Other financial assets  | 33,239         | 13,722    | 1,932   | 48,893     |
|   | 10,026,786     | 449,362   | 603,322 | 11,079,470 |
| Off-balance sheet exposures   |                |           |         |            |
| Guarantees, acceptances and letters of credit                       | 870,072        | 7,926     | 9,572   | 887,570    |
| Loan commitments and other credit related commitments               | 933,014        | 26,196    | 4,000   | 963,210    |
|   | 1,803,086      | 34,122    | 13,572  | 1,850,780  |
|   |                |           |         |            |
|   | Mainland China | Hong Kong | Others  | Total      |
| As at 31 December 2020  |                |           |         |            |
| Financial assets  |                |           |         |            |
| Balances with central banks   | 733,895        | 33,431    | 34,562  | 801,888    |
| Due from and placements with banks and other financial institutions | 365,731        | 113,071   | 92,328  | 571,130    |
| Derivative financial assets   | 42,150         | 9,617     | 2,445   | 54,212     |
| Financial investments at FVPL                                       | 375,566        | 7,813     | 41,729  | 425,108    |
| Loans and advances to customers                                     | 5,362,745      | 194,300   | 163,523 | 5,720,568  |
| Debt investments at FVOCI   | 373,966        | 120,315   | 229,592 | 723,873    |
| Financial investments at amortised cost                             | 1,967,344      | 6,195     | 45,990  | 2,019,529  |
| Other financial assets  | 28,229         | 15,436    | 2,772   | 46,437     |
|   | 9,249,626      | 500,178   | 612,941 | 10,362,745 |
| Off-balance sheet exposures   |                |           |         |            |
| Guarantees, acceptances and letters of credit                       | 796,707        | 9,979     | 9,151   | 815,837    |
| Loan commitments and other credit related commitments               | 825,973        | 25,552    | 9,350   | 860,875    |
|   | 1,622,680      | 35,531    | 18,501  | 1,676,712  |



## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

## 3.1 Credit risk (Continued)

## 3.1.6 Concentration risk analysis for financial assets with credit risk exposure (Continued)

## (a) Geographical risk concentration for loans and advances to customers

|   | As at 30 June 2021 |        | As at 31 December 2020 |        |
|---|--------------------|--------|------------------------|--------|
|   |                    | %      |                        | %      |
| Yangtze River Delta                             | 1,740,449          | 27.42  | 1,576,465              | 26.96  |
| Pearl River Delta                               | 795,832            | 12.54  | 701,865                | 12.00  |
| Bohai Rim Economic Zone                         | 919,712            | 14.49  | 831,454                | 14.22  |
| Central China                                   | 1,031,618          | 16.25  | 958,527                | 16.39  |
| Western China                                   | 732,604            | 11.54  | 680,088                | 11.63  |
| North Eastern China                             | 241,802            | 3.81   | 232,864                | 3.98   |
| Overseas  | 378,425            | 5.96   | 359,368                | 6.14   |
| Head Office                                     | 506,261            | 7.99   | 507,793                | 8.68   |
| Gross amount of loans and advances to customers | 6,346,703          | 100.00 | 5,848,424              | 100.00 |

Note: The definitions of geographical operating segments are set out in Note 47

## (b) Industry analysis for loans and advances to customers

|   | As at 30 June 2021 |        | As at 31 December 2020 |        |
|---|--------------------|--------|------------------------|--------|
|   |                    | %      |                        | %      |
| Corporate loans   |                    |        |                        |        |
| Mining  | 131,771            | 2.08   | 125,367                | 2.14   |
| Manufacturing   |                    |        |                        |        |
| – Petroleum and chemical  | 123,733            | 1.95   | 118,387                | 2.02   |
| – Electronics   | 156,509            | 2.47   | 130,836                | 2.24   |
| – Steel   | 40,136             | 0.63   | 41,680                 | 0.71   |
| – Machinery   | 96,420             | 1.52   | 100,571                | 1.72   |
| – Textile and clothing  | 26,522             | 0.42   | 27,057                 | 0.46   |
| – Other manufacturing   | 264,897            | 4.17   | 239,672                | 4.10   |
| Production and supply of power, heat, gas and water             | 241,298            | 3.80   | 221,313                | 3.78   |
| Construction  | 169,975            | 2.68   | 135,732                | 2.32   |
| Transportation, storage and postal service                      | 757,552            | 11.94  | 708,649                | 12.12  |
| Information transmission, software and IT services              | 47,260             | 0.74   | 41,148                 | 0.70   |
| Wholesale and retail  | 214,175            | 3.37   | 204,856                | 3.50   |
| Accommodation and catering                                      | 33,744             | 0.53   | 34,886                 | 0.60   |
| Finance   | 148,399            | 2.34   | 118,702                | 2.03   |
| Real estate   | 382,381            | 6.02   | 348,185                | 5.95   |
| Leasing and commercial services                                 | 649,188            | 10.23  | 577,500                | 9.87   |
| Water conservancy, environmental and other public services      | 374,929            | 5.91   | 334,399                | 5.72   |
| Education, science, culture and public health                   | 120,884            | 1.90   | 112,961                | 1.93   |
| Others  | 80,103             | 1.26   | 85,570                 | 1.48   |
| Discounted bills  | 169,870            | 2.68   | 160,071                | 2.74   |
| Total corporate loans   | 4,229,746          | 66.64  | 3,867,542              | 66.13  |
| Personal loans  |                    |        |                        |        |
| Mortgages   | 1,387,339          | 21.86  | 1,293,773              | 22.12  |
| Credit cards  | 463,340            | 7.30   | 464,110                | 7.94   |
| Others  | 266,278            | 4.20   | 222,999                | 3.81   |
| Total personal loans  | 2,116,957          | 33.36  | 1,980,882              | 33.87  |
| Gross amount of loans and advances before impairment allowances | 6,346,703          | 100.00 | 5,848,424              | 100.00 |

Note: The classification of industries is consistent with the latest national standards for industry classification (Industrial classification for national economic activities (GB/T 4754-2017) issued by SAC and AQSIQ in 2017).

The industry risk concentration analysis for loans and advances to customers is based on the type of industry of the borrowers.

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021  
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### 3 FINANCIAL RISK MANAGEMENT (Continued)

#### 3.2 Market risk

##### 3.2.1 Overview

Market risk is risk of loss on the Group's on balance sheet and off balance sheet businesses, which is originated from the unfavourable changes and fluctuations in interest rates, foreign exchange rates, commodity price and equity product price. Market risk consists of interest rate risk, foreign exchange rate risk, equity product price risk and commodity price risk. The market risk of the Group mainly comprises interest rate risk and foreign exchange rate risk.

The Group established an integrated market risk management system, formed a market risk management structure with the separation of front and middle-end platforms and specified the responsibilities, the division of labor and the reporting route of the Board of Directors, Board of Supervisors, Senior Management, Special Committees and other relevant departments to ensure the compliance and effectiveness of market risk management.

In accordance with the requirements of the CBIRC, the Group's financial instrument positions are divided into trading book and banking book. The trading book consists of financial instruments held either for trading intent or economic hedging against risks of the trading book. The banking book consists of all financial instruments other than those included in trading book. The Group recognises, measures, monitors and controls the market risks in trading book and banking book according to their nature and characteristics.

With regard to the exchange rate risk and the interest rate risk of trading book, the Group established an effective limit management system by implementing Net Position, Risk Sensitivity, Value at Risk ("VaR") and other indicators. Meanwhile, with regard to the interest risk of banking book, net interest income simulation and gap analysis are the major tools used by the Group to monitor the interest risk of its overall businesses. In addition, through adequate repricing management and structure adjustment of assets and liabilities, the Group strives to maximise its rate of return while keeping its risks under control.

The Group has continuously improved the management system of market risk. The Group conducted stress tests on historical scenarios and hypothetical scenarios in the consideration of the Group's major market risk factors. The Group has realised daily automatic collection of trading data and market data in the system. The Group conducted the management of risk capital and VaR quota, and formulated the quota allocation plans.

The Group also applies sensitivity analysis to assess and measure the market risk of trading book and banking book. Sensitivity analysis indicates the impact on the relevant market risk assuming that only a single variable changes. As any risk variable rarely changes isolatedly, and the correlation between variables will have a significant effect on the final impact amount of the change of a risk variable, the results of sensitivity analysis can only provide limited market risk information.

The major measurement techniques used to measure and control market risk are outlined below:

##### 3.2.2 VaR

VaR refers to the maximum loss that an investment portfolio may incur at a given confidence level and holding period caused by the changes in market price factors such as interest rates and exchange rates etc. The Group adopted the historical simulation method to calculate daily VaR (99% confidence interval, the holding period of one day).

A summary of VaR by risk type including foreign exchange rate risk and interest rate risk of the trading book of the Group's portfolios is as follows:

| Items                         | Six months ended 30 June 2021 |         |         |         |
|-------------------------------|-------------------------------|---------|---------|---------|
|                               | 30 June 2021                  | Average | Maximum | Minimum |
| VaR                           | 336                           | 454     | 746     | 336     |
| Including: Interest rate risk | 290                           | 362     | 453     | 263     |
| Foreign exchange risk         | 255                           | 226     | 743     | 100     |

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021

(All amounts expressed in millions of RMB unless otherwise stated)

**3 FINANCIAL RISK MANAGEMENT** (Continued)**3.2 Market risk** (Continued)**3.2.2 VaR** (Continued)

| Items                         | Six months ended 30 June 2020 |         |         |         |
|-------------------------------|-------------------------------|---------|---------|---------|
|                               | 30 June 2020                  | Average | Maximum | Minimum |
| VaR                           | 455                           | 487     | 552     | 441     |
| Including: Interest rate risk | 357                           | 289     | 472     | 127     |
| Foreign exchange risk         | 441                           | 474     | 526     | 419     |

**3.2.3 Sensitivity analysis***Interest rate sensitivity analysis*

The table below illustrates the impact on net profit of the Group for the following year based on the structure of financial assets and liabilities as at the date of statement of financial position, resulting from a parallel upward or downward shift of 100 basis points in related yield curves.

|  | Changes in net profit |                           |
|--|-----------------------|---------------------------|
|  | As at<br>30 June 2021 | As at<br>31 December 2020 |
| +100 basis points parallel shift in yield curves | 9,743                 | 13,551                    |
| -100 basis points parallel shift in yield curves | (9,743)               | (13,551)                  |

The table below illustrates the impact on other comprehensive income of the Group for the following year based on the structure of financial assets and liabilities as at the date of statement of financial position, resulting from a parallel upward or downward shift of 100 basis points in related yield curves.

|  | Changes in other comprehensive income |                           |
|--|---------------------------------------|---------------------------|
|  | As at<br>30 June 2021                 | As at<br>31 December 2020 |
| +100 basis points parallel shift in yield curves | (12,980)                              | (11,882)                  |
| -100 basis points parallel shift in yield curves | 13,141                                | 12,363                    |

The above-mentioned impact on other comprehensive income arises from the changes in the fair value of fixed-interest-rate bonds at fair value through other comprehensive income, and loans and advances to customers at fair value through other comprehensive income.

The results of the interest rate sensitivity analysis set out in the table above are illustrative only and are based on simplified scenarios. The figures represent the projected impact to the net profit and other comprehensive income caused by the projected movement of current interest risk structure yield curves. This effect, however, does not take into account actions that would be taken by the Group to mitigate the impact of interest rate changes. The projections above also assume that interest rates of all maturities excluding demand deposits move by the same amount and, therefore, do not reflect the potential impact on net profit due to changes in certain rates while others remain unchanged. The projections are based on other simplified assumptions as well, including that all positions are to be held to maturity. There will be changes to the projection if positions are not held to maturity but it is not expected that the changes would be material.

The Group believes the assumption does not represent the Group's policy on use of funds and interest rate risk management. As a result, the above impact may differ from the actual situation.

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

### 3 FINANCIAL RISK MANAGEMENT (Continued)

#### 3.2 Market risk (Continued)

##### 3.2.3 Sensitivity analysis (Continued)

###### Foreign exchange sensitivity analysis

The table below illustrates the impact of a concurrent appreciation or depreciation of RMB spot and forward rates against HKD and USD by 5% on the Group's net profit:

|                        | Changes in net profit |                           |
|------------------------|-----------------------|---------------------------|
|                        | As at<br>30 June 2021 | As at<br>31 December 2020 |
| 5% appreciation of RMB | (1,858)               | (1,662)                   |
| 5% depreciation of RMB | 1,858                 | 1,662                     |

The table below illustrates the impact of a concurrent appreciation or depreciation of RMB spot and forward rates against HKD and USD by 5% on the Group's other comprehensive income:

|                        | Changes in other comprehensive income |                           |
|------------------------|---------------------------------------|---------------------------|
|                        | As at<br>30 June 2021                 | As at<br>31 December 2020 |
| 5% appreciation of RMB | (1,382)                               | (1,397)                   |
| 5% depreciation of RMB | 1,382                                 | 1,397                     |

The impact on net profit arises from the influences of RMB exchange rate fluctuation on the net position of monetary assets (excluding other book value other than amortised cost of monetary assets at fair value through other comprehensive income) and liabilities denominated in foreign currencies, the net position of non-monetary financial assets (excluding non-monetary items denominated in foreign currencies measured at fair value through other comprehensive income) and liabilities denominated in foreign currencies measured at fair value, and the fair value of currency derivatives denominated in RMB.

The impact on other comprehensive income arises from the influences of RMB exchange rate fluctuation on the differences on translation of foreign currency financial statements of foreign operators, the overseas investment portion of monetary assets denominated in foreign currencies, other book value other than amortised cost of the non-monetary items denominated in foreign currencies measured at fair value through other comprehensive income (such as stock) and monetary items at fair value through other comprehensive income.

The above impact on net profit is based on the assumption that the sensitive position of the Group's year-end exchange rate and currency derivatives denominated in RMB remain unchanged around the year. While in practice, the Group will, based on its judgement on the trend of exchange rate, actively adjust the foreign currency position and use appropriate derivative instruments to mitigate the impact of the foreign currency risk. Therefore, the above impact might differ from the actual situation.

##### 3.2.4 Interest rate risk

The Group's interest rate risk mainly arises from interest rate repricing and maturity mismatching of assets and liabilities, and the fluctuation of market interest rates, as well as from the adjustments in the interest rate policies made by the People's Bank of China (the "PBOC"). On 20 July 2013, the PBOC cancelled the lower limit of benchmark interest rates of loans dominated in RMB, allowing financial institutions to determine the loan interest rates independently based on commercial principles. The PBOC cancelled the upper limit of the benchmark interest rates for deposits on 24 October 2015 and established RMB Loan Prime Rate (LPR) as a new pricing benchmark of new loans in 2019. The Group conducts most of its domestic deposit businesses at benchmark interest rates for deposits and conducts most of its domestic loan businesses at LPR published by the PBOC.

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

## 3.2 Market risk (Continued)

## 3.2.4 Interest rate risk (Continued)

The Group pays high attention to the transition of interest rate benchmark and has established a task force to speed up the launch and implementation of this LIBOR reform project. At the current stage, the progress of this reform is basically on schedule. According to the overall timetable of the LIBOR reform, libors in sterling, euro, Swiss franc and Japanese yen, as well as one week and 2-month libors in US dollars, will be the first ones to cease or lose representativeness on 31 December 2021. The business scale of the Group's contracts in reference to LIBOR with the above currencies and maturities is relatively small, and the impact of the methods of benchmark transition on interest rate risk is generally under control, which has a relatively limited substantial impact on the operations.

The Group has initially established a relatively complete interest rate risk monitoring system. By using the gap analysis system, the Group regularly monitors the repricing maturity gap of interest rate-sensitive assets and liabilities throughout the Group, takes the initiative to adjust the proportion of interest-bearing assets at floating interest rates and fixed interest rates, and adjusts the repricing term structure of interest rate and manages interest rate risk by applying appropriate derivatives such as interest rate swaps based on allocation strategy of assets and liabilities. Consequently, the Group is less vulnerable to interest rate risk.

During the reporting period, the Group closely monitored the interest rate trend for RMB and foreign currencies, conducted specific management of risk limits, and strengthened comprehensive operations and limit monitoring. In addition, the Group, by rationally adjusting the loan repricing strategies, reinforced the specific management of price negotiation to maximise its rate of return while keeping its risks under control.

At the date of statement of financial position, the Group's assets and liabilities categorised by the repricing date or maturity date (whichever is earlier) are as follows:

|   | Up to 1<br>month   | 1 – 3<br>months    | 3 – 12<br>months   | 1 – 5<br>years     | Over 5<br>years  | Non-<br>interest<br>bearing | Total               |
|---|--------------------|--------------------|--------------------|--------------------|------------------|-----------------------------|---------------------|
| <b>As at 30 June 2021</b>   |                    |                    |                    |                    |                  |                             |                     |
| <b>Assets</b>   |                    |                    |                    |                    |                  |                             |                     |
| Cash and balances with central banks                                | 790,404            | –                  | –                  | –                  | –                | 19,916                      | 810,320             |
| Due from and placements with banks and other financial institutions | 398,644            | 84,635             | 184,281            | 33,766             | 7,480            | 3,564                       | 712,370             |
| Derivative financial assets   | –                  | –                  | –                  | –                  | –                | 35,584                      | 35,584              |
| Financial investments at FVPL                                       | 17,861             | 26,287             | 35,045             | 36,749             | 48,444           | 411,451                     | 575,837             |
| Loans and advances to customers                                     | 905,207            | 775,859            | 3,663,261          | 367,342            | 201,127          | 295,497                     | 6,208,293           |
| Financial investments at FVOCI                                      | 55,570             | 75,978             | 113,537            | 282,494            | 172,443          | 26,525                      | 726,547             |
| Financial investments at amortised cost                             | 54,001             | 44,527             | 158,868            | 1,021,632          | 741,583          | 29,671                      | 2,050,282           |
| Other assets  | 463                | –                  | –                  | –                  | –                | 294,264                     | 294,727             |
| <b>Total assets</b>   | <b>2,222,150</b>   | <b>1,007,286</b>   | <b>4,154,992</b>   | <b>1,741,983</b>   | <b>1,171,077</b> | <b>1,116,472</b>            | <b>11,413,960</b>   |
| <b>Liabilities</b>  |                    |                    |                    |                    |                  |                             |                     |
| Due to and placements from banks and other financial institutions   | (972,472)          | (277,161)          | (514,041)          | (53,856)           | (9,493)          | (11,083)                    | (1,838,106)         |
| Financial liabilities at FVPL                                       | (1,661)            | (3,393)            | (6,065)            | (132)              | –                | (9,281)                     | (20,532)            |
| Derivative financial liabilities                                    | –                  | –                  | –                  | –                  | –                | (33,702)                    | (33,702)            |
| Due to customers  | (3,746,767)        | (576,987)          | (990,812)          | (1,610,391)        | (26)             | (91,669)                    | (7,016,652)         |
| Other liabilities   | (75,631)           | (162,282)          | (605,470)          | (357,755)          | (201,174)        | (166,741)                   | (1,569,053)         |
| <b>Total liabilities</b>  | <b>(4,796,531)</b> | <b>(1,019,823)</b> | <b>(2,116,388)</b> | <b>(2,022,134)</b> | <b>(210,693)</b> | <b>(312,476)</b>            | <b>(10,478,045)</b> |
| <b>Total interest sensitivity gap</b>                               | <b>(2,574,381)</b> | <b>(12,537)</b>    | <b>2,038,604</b>   | <b>(280,151)</b>   | <b>960,384</b>   | <b>803,996</b>              | <b>935,915</b>      |

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For the six months ended 30 June 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### 3.2 Market risk (Continued)

#### 3.2.4 Interest rate risk (Continued)

|   | Up to 1<br>month   | 1 – 3<br>months    | 3 – 12<br>months   | 1 – 5<br>years     | Over<br>5 years  | Non-<br>interest<br>bearing | Total              |
|---|--------------------|--------------------|--------------------|--------------------|------------------|-----------------------------|--------------------|
| <b>As at 31 December 2020</b>                                       |                    |                    |                    |                    |                  |                             |                    |
| <b>Assets</b>   |                    |                    |                    |                    |                  |                             |                    |
| Cash and balances with central banks                                | 795,102            | –                  | –                  | –                  | –                | 22,459                      | 817,561            |
| Due from and placements with banks and other financial institutions | 291,121            | 97,782             | 162,611            | 13,718             | 2,792            | 3,106                       | 571,130            |
| Derivative financial assets   | –                  | –                  | –                  | –                  | –                | 54,212                      | 54,212             |
| Financial investments at FVPL                                       | 22,761             | 21,369             | 34,378             | 31,955             | 51,251           | 320,874                     | 482,588            |
| Loans and advances to customers                                     | 1,661,920          | 749,592            | 2,420,672          | 334,404            | 260,828          | 293,152                     | 5,720,568          |
| Financial investments at FVOCI                                      | 82,187             | 134,536            | 83,786             | 237,760            | 179,006          | 17,945                      | 735,220            |
| Financial investments at amortised cost                             | 41,734             | 49,906             | 258,697            | 962,447            | 678,347          | 28,398                      | 2,019,529          |
| Other assets  | 466                | –                  | –                  | –                  | –                | 296,342                     | 296,808            |
| <b>Total assets</b>   | <b>2,895,291</b>   | <b>1,053,185</b>   | <b>2,960,144</b>   | <b>1,580,284</b>   | <b>1,172,224</b> | <b>1,036,488</b>            | <b>10,697,616</b>  |
| <b>Liabilities</b>  |                    |                    |                    |                    |                  |                             |                    |
| Due to and placements from banks and other financial institutions   | (913,880)          | (265,073)          | (537,732)          | (47,277)           | (13,181)         | (10,348)                    | (1,787,491)        |
| Financial liabilities at FVPL                                       | (6,291)            | (6,340)            | (6,985)            | (134)              | –                | (9,529)                     | (29,279)           |
| Derivative financial liabilities                                    | –                  | –                  | –                  | –                  | –                | (55,942)                    | (55,942)           |
| Due to customers  | (3,515,457)        | (552,070)          | (924,291)          | (1,529,725)        | (2)              | (85,785)                    | (6,607,330)        |
| Other liabilities   | (90,687)           | (214,973)          | (366,449)          | (329,911)          | (192,715)        | (144,211)                   | (1,338,946)        |
| <b>Total liabilities</b>  | <b>(4,526,315)</b> | <b>(1,038,456)</b> | <b>(1,835,457)</b> | <b>(1,907,047)</b> | <b>(205,898)</b> | <b>(305,815)</b>            | <b>(9,818,988)</b> |
| <b>Total interest sensitivity gap</b>                               | <b>(1,631,024)</b> | <b>14,729</b>      | <b>1,124,687</b>   | <b>(326,763)</b>   | <b>966,326</b>   | <b>730,673</b>              | <b>878,628</b>     |

#### 3.2.5 Foreign exchange risk

The Group conducts the majority of its businesses in RMB, and the recording currency is RMB. Certain foreign transactions are conducted in USD, HKD and other currencies. The exchange rate of RMB to USD, HKD or other currencies is subject to the trading rules of China Foreign Exchange Trade System. Exchange rate risk mainly results from currency mismatch between foreign currency assets and liabilities and between off balance sheet currency exposure. The Group has formulated management measures for exchange rate risks, defining the functional division and scope of work of the exchange rate risk management department, risk identification, measurement, monitoring and control methods, and specific measures. Moreover, the Group controls exchange rate risk by setting relevant limits, taking the initiative to adjust the structure of foreign currency assets for a proper matching of currency structure of assets and liabilities, and applying appropriate exchange rate financial derivatives for transfers and hedging based on its own risk tolerance and operating level.

As at 30 June 2021, the exchange rates for US dollar and HK dollar are 1 US dollar to RMB6.4601 (31 December 2020: RMB6.5249) and 1 HK dollar to RMB0.8321 (31 December 2020: RMB0.8416), respectively.

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For the six months ended 30 June 2021

(All amounts expressed in millions of RMB unless otherwise stated)

**3 FINANCIAL RISK MANAGEMENT** (Continued)**3.2 Market risk** (Continued)**3.2.5 Foreign exchange risk** (Continued)

Carrying amounts of the Group's total assets and liabilities categorised by the original currency as at the date of statement of financial position are as follows:

|   | RMB                | USD (RMB<br>Equivalent) | HKD (RMB<br>Equivalent) | Others (RMB<br>Equivalent) | Total               |
|---|--------------------|-------------------------|-------------------------|----------------------------|---------------------|
| <b>As at 30 June 2021</b>   |                    |                         |                         |                            |                     |
| <b>Assets</b>   |                    |                         |                         |                            |                     |
| Cash and balances with central banks                                | 739,159            | 29,115                  | 28,866                  | 13,180                     | 810,320             |
| Due from and placements with banks and other financial institutions | 373,982            | 301,988                 | 16,013                  | 20,387                     | 712,370             |
| Derivative financial assets   | 29,361             | 4,996                   | 485                     | 742                        | 35,584              |
| Financial investments at FVPL                                       | 502,662            | 55,001                  | 1,685                   | 16,489                     | 575,837             |
| Loans and advances to customers                                     | 5,671,979          | 297,554                 | 159,732                 | 79,028                     | 6,208,293           |
| Financial investments at FVOCI                                      | 353,205            | 283,948                 | 34,679                  | 54,715                     | 726,547             |
| Financial investments at amortised cost                             | 2,022,982          | 15,409                  | 124                     | 11,767                     | 2,050,282           |
| Other assets  | 152,216            | 130,960                 | 7,323                   | 4,228                      | 294,727             |
| <b>Total assets</b>   | <b>9,845,546</b>   | <b>1,118,971</b>        | <b>248,907</b>          | <b>200,536</b>             | <b>11,413,960</b>   |
| <b>Liabilities</b>  |                    |                         |                         |                            |                     |
| Due to and placements from banks and other financial institutions   | (1,408,466)        | (380,904)               | (11,247)                | (37,489)                   | (1,838,106)         |
| Financial liabilities at FVPL                                       | (9,160)            | (1,238)                 | (1,271)                 | (8,863)                    | (20,532)            |
| Derivative financial liabilities                                    | (25,487)           | (7,679)                 | (218)                   | (318)                      | (33,702)            |
| Due to customers  | (6,309,631)        | (370,878)               | (292,898)               | (43,245)                   | (7,016,652)         |
| Other liabilities   | (1,338,514)        | (182,278)               | (19,619)                | (28,642)                   | (1,569,053)         |
| <b>Total liabilities</b>  | <b>(9,091,258)</b> | <b>(942,977)</b>        | <b>(325,253)</b>        | <b>(118,557)</b>           | <b>(10,478,045)</b> |
| <b>Net position</b>   | <b>754,288</b>     | <b>175,994</b>          | <b>(76,346)</b>         | <b>81,979</b>              | <b>935,915</b>      |
| <b>Credit related commitments and financial guarantees</b>          | <b>1,661,561</b>   | <b>142,826</b>          | <b>21,079</b>           | <b>25,314</b>              | <b>1,850,780</b>    |

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

### 3 FINANCIAL RISK MANAGEMENT (Continued)

#### 3.2 Market risk (Continued)

##### 3.2.5 Foreign exchange risk (Continued)

|   | RMB                | USD (RMB<br>Equivalent) | HKD (RMB<br>Equivalent) | Others (RMB<br>Equivalent) | Total              |
|---|--------------------|-------------------------|-------------------------|----------------------------|--------------------|
| <b>As at 31 December 2020</b>                                       |                    |                         |                         |                            |                    |
| <b>Assets</b>   |                    |                         |                         |                            |                    |
| Cash and balances with central banks                                | 729,631            | 31,298                  | 35,151                  | 21,481                     | 817,561            |
| Due from and placements with banks and other financial institutions | 218,074            | 319,227                 | 16,750                  | 17,079                     | 571,130            |
| Derivative financial assets   | 46,761             | 4,082                   | 2,669                   | 700                        | 54,212             |
| Financial investments at FVPL                                       | 407,126            | 41,616                  | 2,484                   | 31,362                     | 482,588            |
| Loans and advances to customers                                     | 5,248,201          | 240,514                 | 149,366                 | 82,487                     | 5,720,568          |
| Financial investments at FVOCI                                      | 329,481            | 305,772                 | 49,133                  | 50,834                     | 735,220            |
| Financial investments at amortised cost                             | 2,000,225          | 15,357                  | 50                      | 3,897                      | 2,019,529          |
| Other assets  | 153,647            | 130,805                 | 8,453                   | 3,903                      | 296,808            |
| <b>Total assets</b>   | <b>9,133,146</b>   | <b>1,088,671</b>        | <b>264,056</b>          | <b>211,743</b>             | <b>10,697,616</b>  |
| <b>Liabilities</b>  |                    |                         |                         |                            |                    |
| Due to and placements from banks and other financial institutions   | (1,421,873)        | (299,201)               | (7,899)                 | (58,518)                   | (1,787,491)        |
| Financial liabilities at FVPL                                       | (7,703)            | (1,251)                 | (6,419)                 | (13,906)                   | (29,279)           |
| Derivative financial liabilities                                    | (41,556)           | (10,217)                | (2,360)                 | (1,809)                    | (55,942)           |
| Due to customers  | (5,894,179)        | (378,083)               | (301,781)               | (33,287)                   | (6,607,330)        |
| Other liabilities   | (1,101,641)        | (188,070)               | (23,211)                | (26,024)                   | (1,338,946)        |
| <b>Total liabilities</b>  | <b>(8,466,952)</b> | <b>(876,822)</b>        | <b>(341,670)</b>        | <b>(133,544)</b>           | <b>(9,818,988)</b> |
| <b>Net position</b>   | <b>666,194</b>     | <b>211,849</b>          | <b>(77,614)</b>         | <b>78,199</b>              | <b>878,628</b>     |
| <b>Credit related commitments and financial guarantees</b>          |                    |                         |                         |                            |                    |
|   | 1,534,447          | 106,293                 | 20,787                  | 15,185                     | 1,676,712          |

##### 3.2.6 Other price risk

The Group is exposed to other price risk arising from financial assets such as equity investments and derivatives linked to commodity price. The equity investments arise from the proprietary trading of the Group's subsidiaries which hold the qualification of securities dealing and brokerage as well. As for the proprietary trading exposure, the Group enforces strict management of the risk exposure limit and the balance is insignificant to the Group's financial assets. The Group considers the exposure to the other price risk to be insignificant.

#### 3.3 Liquidity risk

##### 3.3.1 Overview

Liquidity risk is the risk that occurs when the Group cannot obtain sufficient funds in time and at a reasonable cost to repay debts when they are due, fulfill other payment obligations, or meet other funding needs in the normal course of business. The Group's liquidity risk mainly comes from depositors' early or centralised withdrawals, borrowers' deferred repayment of loans, the amount of assets and liabilities and maturity mismatches.



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**3 FINANCIAL RISK MANAGEMENT** (Continued)**3.3 Liquidity risk** (Continued)**3.3.2 Liquidity risk management process**

The Group implements centralised management of liquidity risk and, on the basis of forecasting liquidity requirements, formulates corresponding liquidity management plans and actively manages the liquidity of the Bank. The specific measures mainly include:

- Pay close attention to changes in the macroeconomic situation, central bank monetary policy, capital market dynamics, etc.
- Enhance weighting of core deposits as a percentage of liabilities, so as to improve the stability of liabilities;
- Monitor and manage liquidity position bank-wide by implementing a series of indicators and restrictions;
- Liquidity position management and cash utilisation functions are centralised by the Head offices;
- Maintain an appropriate level of central bank reserves, overnight inter-bank transactions, highly liquid debt investment, actively involve in capital management through open market, monetary market and bond market in order to ensure optimal financing capability at market places;
- Minimise liquidity risk by proper management of asset maturity structures and multi-level liquidity portfolios.

**3.3.3 Non-derivative financial instruments cash flows**

The table below presents the structural analysis by contracted maturities on non-derivative financial assets and liabilities of the Group at the balance sheet date. The amount of financial assets and liabilities for each period is the amount of undiscounted cash flows. The Group's expected cash flows on these financial instruments may vary significantly from the following analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance although they have been classified as repayable on demand in the following tables.

|   | Overdue | Undated   | On Demand   | Up to 1 month | 1 – 3 months | 3 – 12 months | 1 – 5 years | Over 5 years | Total        |
|---|---------|-----------|-------------|---------------|--------------|---------------|-------------|--------------|--------------|
| <b>As at 30 June 2021</b>   |         |           |             |               |              |               |             |              |              |
| <b>Liabilities</b>  |         |           |             |               |              |               |             |              |              |
| Due to and placements from banks and other financial institutions           | -       | -         | (659,598)   | (312,619)     | (279,448)    | (526,390)     | (56,000)    | (9,583)      | (1,843,638)  |
| Financial liabilities at FVPL   | -       | (6,778)   | (2,418)     | (1,675)       | (3,006)      | (6,557)       | (135)       | -            | (20,569)     |
| Due to customers  | -       | -         | (2,916,533) | (861,132)     | (589,674)    | (1,033,486)   | (1,705,717) | (26)         | (7,106,568)  |
| Certificates of deposit issued  | -       | -         | -           | (71,634)      | (162,149)    | (538,897)     | (27,387)    | -            | (800,067)    |
| Debt securities issued  | -       | -         | -           | (4,759)       | (4,272)      | (82,776)      | (352,391)   | (166,160)    | (610,358)    |
| Other financial liabilities   | -       | -         | (47,876)    | (13,004)      | (13,359)     | (1,897)       | (24,422)    | (61,557)     | (162,115)    |
| <b>Total liabilities (contractual maturity dates)</b>                       | -       | (6,778)   | (3,626,425) | (1,264,823)   | (1,051,908)  | (2,190,003)   | (2,166,052) | (237,326)    | (10,543,315) |
| <b>Assets</b>   |         |           |             |               |              |               |             |              |              |
| Cash and balances with central banks  | -       | 676,071   | 133,948     | -             | 301          | -             | -           | -            | 810,320      |
| Due from and placements with banks and other financial institutions         | -       | -         | 134,473     | 263,851       | 85,895       | 191,164       | 43,366      | 7,588        | 726,337      |
| Financial investments at FVPL   | 330     | 407,313   | 2,391       | 7,859         | 19,462       | 41,640        | 55,660      | 62,524       | 597,179      |
| Loans and advances to customers   | 21,360  | -         | -           | 557,390       | 389,683      | 1,523,384     | 1,911,295   | 4,678,824    | 9,081,936    |
| Financial investments at FVOCI  | 51      | 19,670    | -           | 35,865        | 39,074       | 145,161       | 360,071     | 191,814      | 791,706      |
| Financial investments at amortised cost                                     | 1,965   | -         | -           | 55,676        | 51,986       | 213,130       | 1,218,518   | 866,338      | 2,407,613    |
| Other financial assets  | 4,067   | -         | 44,826      | -             | -            | -             | -           | -            | 48,893       |
| <b>Assets held for managing liquidity risk (contractual maturity dates)</b> | 27,773  | 1,103,054 | 315,638     | 920,641       | 586,401      | 2,114,479     | 3,588,910   | 5,807,088    | 14,463,984   |
| <b>Net position</b>   | 27,773  | 1,096,276 | (3,310,787) | (344,182)     | (465,507)    | (75,524)      | 1,422,858   | 5,569,762    | 3,920,669    |

# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### 3.3 Liquidity risk (Continued)

#### 3.3.3 Non-derivative financial instruments cash flows (Continued)

|   | Overdue | Undated | On Demand   | Up to 1 month | 1 – 3 months | 3 – 12 months | 1 – 5 years | Over 5 years | Total       |
|---|---------|---------|-------------|---------------|--------------|---------------|-------------|--------------|-------------|
| <b>As at 31 December 2020</b>   |         |         |             |               |              |               |             |              |             |
| <b>Liabilities</b>  |         |         |             |               |              |               |             |              |             |
| Due to and placements from banks and other financial institutions           | -       | -       | (664,483)   | (249,435)     | (272,305)    | (555,383)     | (51,554)    | (13,537)     | (1,806,697) |
| Financial liabilities at FVPL   | -       | -       | (2,199)     | (6,323)       | (5,778)      | (15,352)      | (137)       | -            | (29,789)    |
| Due to customers  | -       | -       | (2,826,645) | (720,090)     | (564,855)    | (961,376)     | (1,633,891) | (2)          | (6,706,859) |
| Certificates of deposit issued  | -       | -       | -           | (88,752)      | (209,113)    | (315,930)     | (27,036)    | (42)         | (640,873)   |
| Debt securities issued  | -       | -       | -           | (2,459)       | (7,700)      | (65,629)      | (327,846)   | (165,290)    | (568,924)   |
| Other financial liabilities   | -       | -       | (50,017)    | (173)         | (783)        | (1,675)       | (20,363)    | (55,710)     | (128,721)   |
| <b>Total liabilities (contractual maturity dates)</b>                       | -       | -       | (3,543,344) | (1,067,232)   | (1,060,534)  | (1,915,345)   | (2,060,827) | (234,581)    | (9,881,863) |
| <b>Assets</b>   |         |         |             |               |              |               |             |              |             |
| Cash and balances with central banks  | -       | 641,025 | 176,216     | -             | 320          | -             | -           | -            | 817,561     |
| Due from and placements with banks and other financial institutions         | -       | -       | 111,953     | 175,013       | 92,064       | 158,106       | 39,227      | 7,165        | 583,528     |
| Financial investments at FVPL   | 314     | 316,982 | 2,100       | 9,963         | 13,373       | 39,918        | 49,113      | 65,737       | 497,500     |
| Loans and advances to customers   | 44,408  | -       | -           | 503,713       | 357,214      | 1,451,002     | 1,677,966   | 4,134,699    | 8,169,002   |
| Financial investments at FVOCI  | 72      | 11,347  | -           | 29,004        | 47,520       | 136,836       | 368,919     | 204,359      | 798,057     |
| Financial investments at amortised cost                                     | 270     | -       | -           | 41,759        | 52,029       | 315,772       | 1,148,818   | 799,669      | 2,358,317   |
| Other financial assets  | 4,432   | -       | 42,005      | -             | -            | -             | -           | -            | 46,437      |
| <b>Assets held for managing liquidity risk (contractual maturity dates)</b> | 49,496  | 969,354 | 332,274     | 759,452       | 562,520      | 2,101,634     | 3,284,043   | 5,211,629    | 13,270,402  |
| <b>Net position</b>   | 49,496  | 969,354 | (3,211,070) | (307,780)     | (498,014)    | 186,289       | 1,223,216   | 4,977,048    | 3,388,539   |

Assets available to repay all of the liabilities and fulfill loan commitments include cash, balances with central banks, due from and placements with banks and other financial institutions, financial investment at fair value through profit or loss, etc. In the normal course of business, a majority of matured deposits will not be withdrawn immediately on the maturity date but will continue to be kept by the Group. In addition, financial investments at fair value through other comprehensive income can also be disposed of when necessary to obtain funds for repayment of matured debts.

#### 3.3.4 Derivative financial instruments cash flows

The Group's derivative financial instruments are either settled on a net basis or a gross basis.

##### (a) Derivative settled on a net basis

The Group's derivative financial instruments that will be settled on a net basis include foreign exchange contracts, commodity contracts, interest rate contracts and others.

The table below analyses the undiscounted cash flows of the Group's derivative financial instruments which will be settled on a net basis and are classified based on the remaining contractual period from the balance sheet date to maturity date.

|  | Up to 1 month | 1 – 3 months | 3 – 12 months  | 1 – 5 years    | Over 5 years | Total           |
|--|---------------|--------------|----------------|----------------|--------------|-----------------|
| <b>As at 30 June 2021</b>                  |               |              |                |                |              |                 |
| <b>Assets</b>                              |               |              |                |                |              |                 |
| Derivative financial instruments           |               |              |                |                |              |                 |
| – Foreign exchange and commodity contracts | 37            | 43           | 181            | -              | -            | 261             |
| – Interest rate contracts and others       | 220           | 535          | 2,370          | 5,082          | 494          | 8,701           |
| <b>Total</b>                               | <b>257</b>    | <b>578</b>   | <b>2,551</b>   | <b>5,082</b>   | <b>494</b>   | <b>8,962</b>    |
| <b>Liabilities</b>                         |               |              |                |                |              |                 |
| Derivative financial instruments           |               |              |                |                |              |                 |
| – Foreign exchange and commodity contracts | -             | (3)          | (21)           | -              | -            | (24)            |
| – Interest rate contracts and others       | (254)         | (466)        | (3,096)        | (7,081)        | (677)        | (11,574)        |
| <b>Total</b>                               | <b>(254)</b>  | <b>(469)</b> | <b>(3,117)</b> | <b>(7,081)</b> | <b>(677)</b> | <b>(11,598)</b> |

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

## 3.3 Liquidity risk (Continued)

## 3.3.4 Derivative financial instruments cash flows (Continued)

## (a) Derivative settled on a net basis (Continued)

|  | Up to 1<br>month | 1 – 3<br>months | 3 – 12<br>months | 1 – 5<br>years  | Over 5<br>years | Total           |
|--|------------------|-----------------|------------------|-----------------|-----------------|-----------------|
| <b>As at 31 December 2020</b>              |                  |                 |                  |                 |                 |                 |
| <b>Assets</b>                              |                  |                 |                  |                 |                 |                 |
| Derivative financial instruments           |                  |                 |                  |                 |                 |                 |
| – Foreign exchange and commodity contracts | 3                | 2               | 54               | –               | –               | 59              |
| – Interest rate contracts and others       | 215              | 590             | 2,730            | 5,990           | 247             | 9,772           |
| <b>Total</b>                               | <b>218</b>       | <b>592</b>      | <b>2,784</b>     | <b>5,990</b>    | <b>247</b>      | <b>9,831</b>    |
| <b>Liabilities</b>                         |                  |                 |                  |                 |                 |                 |
| Derivative financial instruments           |                  |                 |                  |                 |                 |                 |
| – Foreign exchange and commodity contracts | (44)             | (51)            | (29)             | –               | –               | (124)           |
| – Interest rate contracts and others       | (291)            | (751)           | (3,825)          | (10,349)        | (1,173)         | (16,389)        |
| <b>Total</b>                               | <b>(335)</b>     | <b>(802)</b>    | <b>(3,854)</b>   | <b>(10,349)</b> | <b>(1,173)</b>  | <b>(16,513)</b> |

## (b) Derivative settled on a gross basis

The Group's derivative financial instruments that will be settled on a gross basis mainly include foreign exchange and commodity derivatives. The table below analyses the undiscounted cash flows of the Group's derivative financial instruments which will be settled on a gross basis and are classified based on the remaining contractual period from the balance sheet date to maturity date.

|   | Up to 1<br>month | 1 – 3<br>months | 3 – 12<br>months | 1 – 5<br>years | Over 5<br>years | Total        |
|---|------------------|-----------------|------------------|----------------|-----------------|--------------|
| <b>As at 30 June 2021</b>                                 |                  |                 |                  |                |                 |              |
| Derivative financial instruments settled on a gross basis |                  |                 |                  |                |                 |              |
| – Cash outflow  | (805,630)        | (678,058)       | (1,150,054)      | (70,952)       | (9,615)         | (2,714,309)  |
| – Cash inflow   | 805,775          | 679,745         | 1,151,429        | 74,275         | 9,276           | 2,720,500    |
| <b>Total</b>  | <b>145</b>       | <b>1,687</b>    | <b>1,375</b>     | <b>3,323</b>   | <b>(339)</b>    | <b>6,191</b> |
| <b>As at 31 December 2020</b>                             |                  |                 |                  |                |                 |              |
| Derivative financial instruments settled on a gross basis |                  |                 |                  |                |                 |              |
| – Cash outflow  | (775,033)        | (567,895)       | (979,175)        | (86,979)       | (5,464)         | (2,414,546)  |
| – Cash inflow   | 776,108          | 567,520         | 981,843          | 88,209         | 7,732           | 2,421,412    |
| <b>Total</b>  | <b>1,075</b>     | <b>(375)</b>    | <b>2,668</b>     | <b>1,230</b>   | <b>2,268</b>    | <b>6,866</b> |

# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### 3.3 Liquidity risk (Continued)

#### 3.3.5 Maturity analysis

The table below analyses the Group's assets and liabilities into relevant maturity groupings based on the remaining period at the end of reporting date to the contractual maturity date.

|   | On demand          | Up to 1 month      | 1 – 3 months       | 3 – 12 months      | 1 – 5 years        | Over 5 years     | Overdue      | Undated          | Total               |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|------------------|--------------|------------------|---------------------|
| <b>As at 30 June 2021</b>   |                    |                    |                    |                    |                    |                  |              |                  |                     |
| <b>Assets</b>   |                    |                    |                    |                    |                    |                  |              |                  |                     |
| Cash and balances with central banks                                | 133,948            | –                  | 301                | –                  | –                  | –                | –            | 676,071          | 810,320             |
| Due from and placements with banks and other financial institutions | 134,473            | 263,090            | 84,679             | 185,894            | 36,703             | 7,531            | –            | –                | 712,370             |
| Derivative financial assets   | –                  | 6,562              | 8,678              | 10,825             | 8,229              | 1,290            | –            | –                | 35,584              |
| Financial investments at FVPL                                       | 2,391              | 7,694              | 18,827             | 38,825             | 45,632             | 54,825           | 330          | 407,313          | 575,837             |
| Loans and advances to customers                                     | –                  | 536,129            | 347,848            | 1,358,168          | 1,247,869          | 2,717,929        | 350          | –                | 6,208,293           |
| Financial investments at FVOCI                                      | –                  | 35,595             | 38,266             | 134,790            | 325,598            | 172,577          | 51           | 19,670           | 726,547             |
| Financial investments at amortised cost                             | –                  | 55,224             | 48,853             | 173,486            | 1,028,889          | 741,865          | 1,965        | –                | 2,050,282           |
| Other assets  | 66,260             | –                  | 23                 | 1,957              | 31,319             | 2,572            | 4,067        | 188,529          | 294,727             |
| <b>Total assets</b>   | <b>337,072</b>     | <b>904,294</b>     | <b>547,475</b>     | <b>1,903,945</b>   | <b>2,724,239</b>   | <b>3,698,589</b> | <b>6,763</b> | <b>1,291,583</b> | <b>11,413,960</b>   |
| <b>Liabilities</b>  |                    |                    |                    |                    |                    |                  |              |                  |                     |
| Due to and placements from banks and other financial institutions   | (659,598)          | (312,343)          | (278,972)          | (523,351)          | (54,326)           | (9,516)          | –            | –                | (1,838,106)         |
| Financial liabilities at FVPL                                       | (2,418)            | (1,672)            | (2,999)            | (6,533)            | (132)              | –                | –            | (6,778)          | (20,532)            |
| Derivative financial liabilities                                    | –                  | (6,137)            | (6,741)            | (9,756)            | (8,642)            | (2,426)          | –            | –                | (33,702)            |
| Due to customers  | (2,916,505)        | (857,752)          | (585,713)          | (1,013,946)        | (1,642,710)        | (26)             | –            | –                | (7,016,652)         |
| Other liabilities   | (57,288)           | (90,635)           | (194,803)          | (615,748)          | (402,446)          | (208,133)        | –            | –                | (1,569,053)         |
| <b>Total liabilities</b>  | <b>(3,635,809)</b> | <b>(1,268,539)</b> | <b>(1,069,228)</b> | <b>(2,169,334)</b> | <b>(2,108,256)</b> | <b>(220,101)</b> | <b>–</b>     | <b>(6,778)</b>   | <b>(10,478,045)</b> |
| <b>Net amount on liquidity gap</b>                                  | <b>(3,298,737)</b> | <b>(364,245)</b>   | <b>(521,753)</b>   | <b>(265,389)</b>   | <b>615,983</b>     | <b>3,478,488</b> | <b>6,763</b> | <b>1,284,805</b> | <b>935,915</b>      |

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

## 3.3 Liquidity risk (Continued)

## 3.3.5 Maturity analysis (Continued)

|   | On demand          | Up to 1 month      | 1 – 3 months       | 3 – 12 months      | 1 – 5 years        | Over 5 years     | Overdue       | Undated          | Total              |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|------------------|---------------|------------------|--------------------|
| <b>As at 31 December 2020</b>                                       |                    |                    |                    |                    |                    |                  |               |                  |                    |
| <b>Assets</b>   |                    |                    |                    |                    |                    |                  |               |                  |                    |
| Cash and balances with central banks                                | 176,216            | –                  | 320                | –                  | –                  | –                | –             | 641,025          | 817,561            |
| Due from and placements with banks and other financial institutions | 111,953            | 174,623            | 91,078             | 153,121            | 33,242             | 7,113            | –             | –                | 571,130            |
| Derivative financial assets   | –                  | 9,718              | 11,570             | 22,283             | 9,068              | 1,573            | –             | –                | 54,212             |
| Financial investments at FVPL                                       | 2,100              | 9,722              | 12,857             | 37,651             | 44,167             | 58,795           | 314           | 316,982          | 482,588            |
| Loans and advances to customers                                     | –                  | 484,371            | 319,698            | 1,305,770          | 1,103,053          | 2,476,035        | 31,641        | –                | 5,720,568          |
| Financial investments at FVOCI                                      | –                  | 28,930             | 46,507             | 126,501            | 339,517            | 182,346          | 72            | 11,347           | 735,220            |
| Financial investments at amortised cost                             | –                  | 41,210             | 49,086             | 278,043            | 972,565            | 678,355          | 270           | –                | 2,019,529          |
| Other assets  | 61,973             | 286                | 19                 | 15,410             | 16,448             | 4,047            | 4,432         | 194,193          | 296,808            |
| <b>Total assets</b>   | <b>352,242</b>     | <b>748,860</b>     | <b>531,135</b>     | <b>1,938,779</b>   | <b>2,518,060</b>   | <b>3,408,264</b> | <b>36,729</b> | <b>1,163,547</b> | <b>10,697,616</b>  |
| <b>Liabilities</b>  |                    |                    |                    |                    |                    |                  |               |                  |                    |
| Due to and placements from banks and other financial institutions   | (664,483)          | (247,467)          | (268,704)          | (544,824)          | (48,745)           | (13,268)         | –             | –                | (1,787,491)        |
| Financial liabilities at FVPL                                       | (2,199)            | (6,291)            | (5,722)            | (14,933)           | (134)              | –                | –             | –                | (29,279)           |
| Derivative financial liabilities                                    | –                  | (8,357)            | (10,798)           | (20,858)           | (12,210)           | (3,719)          | –             | –                | (55,942)           |
| Due to customers  | (2,826,643)        | (716,981)          | (560,281)          | (942,581)          | (1,560,842)        | (2)              | –             | –                | (6,607,330)        |
| Other liabilities   | (68,467)           | (94,306)           | (235,723)          | (374,652)          | (367,189)          | (198,609)        | –             | –                | (1,338,946)        |
| <b>Total liabilities</b>  | <b>(3,561,792)</b> | <b>(1,073,402)</b> | <b>(1,081,228)</b> | <b>(1,897,848)</b> | <b>(1,989,120)</b> | <b>(215,598)</b> | <b>–</b>      | <b>–</b>         | <b>(9,818,988)</b> |
| <b>Net amount on liquidity gap</b>                                  | <b>(3,209,550)</b> | <b>(324,542)</b>   | <b>(550,093)</b>   | <b>40,931</b>      | <b>528,940</b>     | <b>3,192,666</b> | <b>36,729</b> | <b>1,163,547</b> | <b>878,628</b>     |

## 3.3.6 Off-balance sheet items

The off-balance sheet items of the Group primarily comprise loan commitments, credit card commitments, letter of credit commitments, guarantee and letters of guarantee issued, acceptance notes, etc. The table below lists the liquidity analysis of the off-balance sheet items of the Group, and financial guarantees are included at notional amounts and based on the earliest contractual maturity date.

|   | Up to 1 year     | 1 – 5 years    | Over 5 years  | Total            |
|---|------------------|----------------|---------------|------------------|
| <b>As at 30 June 2021</b>                             |                  |                |               |                  |
| Loan commitments and other credit related commitments | 920,039          | 24,965         | 18,206        | 963,210          |
| Guarantees, acceptances and letters of credit         | 747,939          | 138,640        | 991           | 887,570          |
| <b>Total</b>  | <b>1,667,978</b> | <b>163,605</b> | <b>19,197</b> | <b>1,850,780</b> |
| <b>As at 31 December 2020</b>                         |                  |                |               |                  |
| Loan commitments and other credit related commitments | 813,687          | 26,668         | 20,520        | 860,875          |
| Guarantees, acceptances and letters of credit         | 682,540          | 126,206        | 7,091         | 815,837          |
| <b>Total</b>  | <b>1,496,227</b> | <b>152,874</b> | <b>27,611</b> | <b>1,676,712</b> |

### 3 FINANCIAL RISK MANAGEMENT *(Continued)*

#### 3.4 Fair value of financial assets and liabilities

##### **(a) Determination of fair value and valuation techniques**

Certain financial assets and liabilities of the Group are measured at fair value or with fair value disclosed for financial reporting purposes. The fair value has been determined using appropriate valuation techniques and inputs for fair value measurements. The appropriateness of the valuation techniques and the inputs to the fair value measurements are reviewed by the Board of Directors periodically.

Fair value measurements are categorised into level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- (1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- (2) Level 2 inputs are inputs, other than quoted prices included within level 1, that are observable for the asset or liability, either directly or indirectly; and
- (3) Level 3 inputs are unobservable inputs for the asset or liability.

The fair value of financial instruments with unadjusted quoted prices for identical instruments in active markets is determined by the open market quotations. These instruments are classified as level 1.

The Group uses valuation techniques to determine the fair value of financial instruments when an open market quotation in active markets is not obtainable.

If the key parameters used in valuation techniques for financial instruments are substantially observable and obtainable from active open market, the instruments are classified as level 2. The second hierarchy of financial instruments held by the Group mainly includes derivatives, debt securities, certificates of deposit without quotations from active market, loans and advances to customers carried at FVOCI, precious metals, debt securities issued and restricted shares. The fair value of RMB denominated bonds is mainly valued based on the yield curves of the bonds from China Central Depository & Clearing Co., Ltd., while the fair value of the foreign currency denominated bonds is determined based on the valuation results published by Bloomberg. The fair value of foreign currency forwards, swaps, interest rate swaps, foreign currency options is estimated by the discounted cash flow method and Black-Scholes model; the fair value of precious metal contract is mainly determined in accordance with the closing prices of the Shanghai Gold Exchange or the settlement prices of the Shanghai Futures Exchange. The main parameters used in discounted cash flow model include recent market prices, the relevant yield curve, exchange rates and counterparty's credit spread. Main parameters used in Black-Scholes model include the relevant yield curve, exchange rate, level of volatilities and counterparty's credit spread, etc. All parameters used in valuation techniques are substantially observable and obtainable from active open market.

For loans and advances to customers at fair value through other comprehensive income, trust and asset management plan at fair value through profit or loss, the fair value is determined based on discounted cash flow model using unobservable discount rates that reflect credit risk. These financial instruments are classified as level 3.

For convertible bonds, unlisted equities, unlisted funds and equity derivatives held by the Group, the fair value of these financial instruments are determined with reference to certain unobservable inputs, and therefore the instruments have been classified by the Group as level 3. The management determines the fair value of these financial instruments using a variety of techniques, including using valuation models that incorporate and take into account unobservable inputs such as Discount for Lack of Marketability (DLOM). The Group has established internal control procedures to monitor the Group's exposure to such financial instruments.

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021

(All amounts expressed in millions of RMB unless otherwise stated)

**3 FINANCIAL RISK MANAGEMENT** *(Continued)***3.4 Fair value of financial assets and liabilities** *(Continued)***(b) Financial instruments not measured at fair value**

The table below summarises the carrying amount and fair value of those financial assets and liabilities that are not presented at fair value as at the date of statement of financial position. Financial assets and liabilities with carrying amount approximate to fair value, such as cash and balances with central banks, due from and placements with banks and other financial institutions, loans and advances to customers at amortised cost, due to and placements from banks and other financial institutions, and due to customers, are not included in the table below.

|   | As at 30 June 2021 |            | As at 31 December 2020 |            |
|---|--------------------|------------|------------------------|------------|
|   | Carrying amount    | Fair value | Carrying amount        | Fair value |
| <b>Financial assets</b>                 |                    |            |                        |            |
| Financial investments at amortised cost | 2,050,282          | 2,068,928  | 2,019,529              | 2,031,222  |
| <b>Financial liabilities</b>            |                    |            |                        |            |
| Debt securities issued                  | (531,275)          | (544,607)  | (484,382)              | (485,175)  |

*Fair value hierarchy of financial instruments not measured at fair value*

| As at 30 June 2021                      | Level 1        | Level 2        | Level 3        | Total        |
|---|----------------|----------------|----------------|--------------|
| <b>Financial assets</b>                 |                |                |                |              |
| Financial investments at amortised cost | 3,163          | 1,976,813      | 88,952         | 2,068,928    |
| <b>Financial liabilities</b>            |                |                |                |              |
| Debt securities issued                  | –              | (544,607)      | –              | (544,607)    |
| <b>As at 31 December 2020</b>           | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b> |
| <b>Financial assets</b>                 |                |                |                |              |
| Financial investments at amortised cost | 2,530          | 1,920,866      | 107,826        | 2,031,222    |
| <b>Financial liabilities</b>            |                |                |                |              |
| Debt securities issued                  | –              | (485,175)      | –              | (485,175)    |

The carrying amounts and fair values of other financial assets and liabilities (including loans and advances to customers at amortised cost, due from and placements with banks and other financial institutions, due to and placements from banks and other financial institutions) are approximately the same, because the interest rates of most of these assets and liabilities are adjusted following the changes in interest rates determined by the PBOC, other regulatory bodies or market.

# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### 3.4 Fair value of financial assets and liabilities (Continued)

#### (c) Financial assets and financial liabilities measured at fair value on a recurring basis

The financial assets and liabilities measured at fair value on a recurring basis by the three levels are analysed below:

| As at 30 June 2021  | Level 1 | Level 2   | Level 3 | Total     |
|---|---------|-----------|---------|-----------|
| <b>At fair value through profit or loss</b>                 |         |           |         |           |
| Debt securities   |         |           |         |           |
| – Governments and central banks                             | 2,953   | 3,562     | –       | 6,515     |
| – Public sector entities                                    | –       | 1,397     | –       | 1,397     |
| – Banks and other financial institutions                    | 8,869   | 83,628    | 97      | 92,594    |
| – Corporate entities  | 3,870   | 48,624    | 3,028   | 55,522    |
| Fund investments and other asset management products        | 38      | 330,777   | 13,840  | 344,655   |
| Equity securities and others                                | 3,996   | 2,979     | 48,108  | 55,083    |
| Precious metal contracts                                    | –       | 20,071    | –       | 20,071    |
| Derivative financial instruments                            |         |           |         |           |
| – Foreign exchange and commodity contracts                  | –       | 26,678    | –       | 26,678    |
| – Interest rate contracts and others                        | –       | 7,927     | 979     | 8,906     |
|   | 19,726  | 525,643   | 66,052  | 611,421   |
| <b>At fair value through other comprehensive income</b>     |         |           |         |           |
| Debt Investments at FVOCI                                   |         |           |         |           |
| – Governments and central banks                             | 45,523  | 273,805   | 110     | 319,438   |
| – Public sector entities                                    | 2,729   | 2,215     | –       | 4,944     |
| – Banks and other financial institutions                    | 149,142 | 149,927   | 14      | 299,083   |
| – Corporate entities  | 56,987  | 26,285    | 140     | 83,412    |
| Investments in equity instruments designated at FVOCI       | 8,633   | 2,571     | 8,466   | 19,670    |
| Loans and advances to customers at FVOCI                    | –       | 213,255   | 20      | 213,275   |
|   | 263,014 | 668,058   | 8,750   | 939,822   |
| <b>Total assets</b>   | 282,740 | 1,193,701 | 74,802  | 1,551,243 |
| <b>Financial liabilities at FVPL</b>                        |         |           |         |           |
| – Certificates of deposits issued                           | –       | (1,644)   | –       | (1,644)   |
| – Financial liabilities related to precious metal contracts | –       | (11,282)  | –       | (11,282)  |
| – Short position of securities held for trading             | –       | (131)     | –       | (131)     |
| – Notes issued  | –       | (700)     | –       | (700)     |
| – Others  | –       | (6,775)   | –       | (6,775)   |
| Derivative financial instruments                            |         |           |         |           |
| – Foreign exchange and commodity contracts                  | –       | (22,974)  | –       | (22,974)  |
| – Interest rate contracts and others                        | –       | (10,728)  | –       | (10,728)  |
| Debt securities issued                                      | –       | (10,322)  | –       | (10,322)  |
| <b>Total liabilities</b>                                    | –       | (64,556)  | –       | (64,556)  |



## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

## 3.4 Fair value of financial assets and liabilities (Continued)

## (c) Financial assets and financial liabilities measured at fair value on a recurring basis (Continued)

| As at 31 December 2020                                      | Level 1 | Level 2   | Level 3 | Total     |
|---|---------|-----------|---------|-----------|
| <b>At fair value through profit or loss</b>                 |         |           |         |           |
| Debt securities   |         |           |         |           |
| – Governments and central banks                             | 3,191   | 3,343     | –       | 6,534     |
| – Public sector entities                                    | –       | 1,585     | –       | 1,585     |
| – Banks and other financial institutions                    | 7,673   | 91,904    | 94      | 99,671    |
| – Corporate entities  | 2,312   | 39,642    | 3,290   | 45,244    |
| Fund investments and other asset management products        | 370     | 238,963   | 12,765  | 252,098   |
| Equity securities and others                                | 6,270   | 3,233     | 47,978  | 57,481    |
| Precious metal contracts                                    | –       | 19,975    | –       | 19,975    |
| Derivative financial instruments                            |         |           |         |           |
| – Foreign exchange and commodity contracts                  | –       | 44,435    | –       | 44,435    |
| – Interest rate contracts and others                        | –       | 8,880     | 897     | 9,777     |
|   | 19,816  | 451,960   | 65,024  | 536,800   |
| <b>At fair value through other comprehensive income</b>     |         |           |         |           |
| Debt Investments at FVOCI                                   |         |           |         |           |
| – Governments and central banks                             | 72,209  | 268,514   | –       | 340,723   |
| – Public sector entities                                    | 1,273   | 2,103     | –       | 3,376     |
| – Banks and other financial institutions                    | 123,223 | 181,467   | –       | 304,690   |
| – Corporate entities  | 49,033  | 25,687    | 364     | 75,084    |
| Investments in equity instruments designated at FVOCI       | 1,798   | 1,842     | 7,707   | 11,347    |
| Loans and advances to customers at FVOCI                    | –       | 210,397   | 95      | 210,492   |
|   | 247,536 | 690,010   | 8,166   | 945,712   |
| <b>Total assets</b>   | 267,352 | 1,141,970 | 73,190  | 1,482,512 |
| <b>Financial liabilities at FVPL</b>                        |         |           |         |           |
| – Certificates of deposits issued                           | –       | (7,868)   | –       | (7,868)   |
| – Financial liabilities related to precious metal contracts | –       | (16,104)  | –       | (16,104)  |
| – Notes issued  | –       | (417)     | –       | (417)     |
| – Others  | –       | (4,890)   | –       | (4,890)   |
| Derivative financial instruments                            |         |           |         |           |
| – Foreign exchange and commodity contracts                  | –       | (40,914)  | –       | (40,914)  |
| – Interest rate contracts and others                        | –       | (15,028)  | –       | (15,028)  |
| Debt securities issued                                      | –       | (13,373)  | –       | (13,373)  |
| <b>Total liabilities</b>                                    | –       | (98,594)  | –       | (98,594)  |

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

### 3 FINANCIAL RISK MANAGEMENT (Continued)

#### 3.4 Fair value of financial assets and liabilities (Continued)

##### (c) Financial assets and financial liabilities measured at fair value on a recurring basis (Continued)

###### Reconciliation of Level 3 items

|   | Financial assets at<br>FVPL | Financial assets at<br>FVOCI |
|---|-----------------------------|------------------------------|
| Balance at 1 January 2021   | 65,024                      | 8,166                        |
| Total gains or losses   |                             |                              |
| – Net gains/(losses) arising from trading activities  | 1,724                       | 39                           |
| – Other comprehensive income  | –                           | 17                           |
| Additions   | 2,624                       | 787                          |
| Disposals and settlement  | (2,949)                     | (259)                        |
| Transfer to other levels  | (371)                       | –                            |
| Balance at 30 June 2021   | 66,052                      | 8,750                        |
| Total gains/(losses) generated by financial assets and liabilities held by the Group as at 30 June 2021 |                             |                              |
| – Realised gains  | 1,826                       | 39                           |
| – Unrealised losses   | (102)                       | 17                           |

|   | Financial assets at<br>FVPL | Financial assets at<br>FVOCI |
|---|-----------------------------|------------------------------|
| Balance at 1 January 2020   | 63,696                      | 7,520                        |
| Total gains or losses   |                             |                              |
| – Net gains/(losses) arising from trading activities  | 1,291                       | (40)                         |
| – Other comprehensive income  | –                           | (1,696)                      |
| Additions   | 11,587                      | 2,932                        |
| Disposals and settlement  | (11,550)                    | (550)                        |
| Balance at 31 December 2020   | 65,024                      | 8,166                        |
| Total gains/(losses) generated by financial assets and liabilities held by the Group as at 31 December 2020 |                             |                              |
| – Realised gains  | 2,218                       | 2                            |
| – Unrealised losses   | (975)                       | (1,738)                      |

These financial instruments with fair values determined based on unobservable inputs are primarily convertible bonds, unlisted equities, unlisted funds, part of the trust and asset management plan, equity derivatives and part of loans and advances to customers. The fair value of these financial instruments is determined primarily using discounted cash flow method and market comparison method. These valuation methods involve inputs from various unobservable assumptions such as cash flow, risk-adjusted discount rate, price to book value ratio, price to earnings ratio and liquidity discounts.

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021

(All amounts expressed in millions of RMB unless otherwise stated)

### 3 FINANCIAL RISK MANAGEMENT *(Continued)*

#### 3.5 Offsetting financial assets and financial liabilities

Certain financial assets and financial liabilities of the Group are subject to enforceable master netting arrangements or similar agreements. The agreement between the Group and the counterparty generally allows for net settlement of the relevant financial assets and financial liabilities when both elect to settle on a net basis. In the absence of such a mutual consent, financial assets and financial liabilities will be settled on a gross basis. However, each party to the master netting arrangements or similar agreements will have the option to settle all such amounts on a net basis in the event of default of the other party. These financial assets and financial liabilities of the Group are not offset in accordance with IFRSs.

As at 30 June 2021, the amount of the financial assets and financial liabilities subject to enforceable master netting arrangements or similar agreements is not material to the Group.

#### 3.6 Capital management

The “capital” in capital management is a broader concept than “shareholders’ equity” on the statement of financial position. The Group’s objectives in capital management are:

- To comply with the capital requirements set by the regulators of the markets where the Group operates;
- To ensure the Group’s ability to maintain a stable operation so as to continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

The Group management adopts administrative measures issued by the CBIRC, which was developed based on guideline issued by the Basel Committee, in monitoring its capital adequacy ratio and the usage of regulatory capital on a quarterly basis. The quarterly monitored information is then submitted to the CBIRC.

The Administrative Measures for the Capital of Commercial Banks (Provisional) specified the regulatory requirements for minimum capital, capital conservation buffer, additional capital surcharge for systemically important banks, countercyclical buffer and Pillar II capital as follows:

- Minimum regulatory requirements for core tier-1 capital adequacy ratio, tier-1 capital adequacy ratio and capital adequacy ratio are 5%, 6% and 8%, respectively;
- Capital conservation buffer requires additional 2.5% on core tier-1 capital adequacy ratio;
- Additional capital surcharge for systemically important banks requires additional 1% on core tier-1 capital adequacy ratio;
- Should the regulators require countercyclical buffer under particular circumstances or regulators impose additional Pillar II capital requirements for specific banks, these requirements shall be met within the specified time limits.

The Group’s capital as monitored by its Planning and Finance Department consists of the following:

- Core tier-1 capital, including ordinary shares, eligible portion of capital surplus, statutory reserve, statutory general reserve, retained earnings, eligible portion of non-controlling interests and translation reserve on foreign operations;
- Additional tier-1 capital, including Additional tier-1 capital instruments issued and related premium and eligible portion of non-controlling interests;
- Tier-2 capital, including tier-2 capital instruments issued and related premium, excess loan loss provisions and eligible portion of non-controlling interests.

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

### 3 FINANCIAL RISK MANAGEMENT (Continued)

#### 3.6 Capital management (Continued)

The Group's deductible items from core tier-1 capital include: Goodwill, other intangible assets (except land use rights), investments in core tier-1 capital of financial institutions with controlling interests but outside the scope of regulatory consolidation.

In April 2014, the CBIRC officially approved the implementation of the advanced approach of capital management adopted by the Group. In this approach, the Group elected to use elementary internal rating based ("IRB") approach for corporate risk exposure, IRB approach for retail risk exposure, internal model approach for market risk and standardised approach for operational risk exposure which is compliant with regulatory requirements. For risk exposures not covered by the advanced approaches, the corresponding portion shall be calculated by adopting non-advanced approaches. The capital ratios calculated based on Administrative Measures for the Capital of Commercial Banks (Provisional) are as follows:

| Items                                  | As at<br>30 June 2021 | As at<br>31 December 2020 |
|--|-----------------------|---------------------------|
| Core tier-1 capital adequacy ratio (%) | 10.59                 | 10.87                     |
| Tier-1 capital adequacy ratio (%)      | 13.11                 | 12.88                     |
| Capital adequacy ratio (%)             | 15.29                 | 15.25                     |
| Core tier-1 capital                    | 748,648               | 732,863                   |
| Core tier-1 capital deductions         | (5,569)               | (5,252)                   |
| Net core tier-1 capital                | 743,079               | 727,611                   |
| Additional tier-1 capital              | 176,295               | 134,610                   |
| Net tier-1 capital                     | 919,374               | 862,221                   |
| Tier-2 capital                         | 153,530               | 159,025                   |
| Net capital                            | 1,072,904             | 1,021,246                 |
| Risk-weighted assets                   | 7,015,362             | 6,695,462                 |

### 4 NET INTEREST INCOME

|   | Six months ended 30 June |           |
|---|--------------------------|-----------|
|   | 2021                     | 2020      |
| Interest income   |                          |           |
| Loans and advances to customers                                     | 129,626                  | 124,636   |
| Financial investments   | 43,155                   | 46,272    |
| Due from and placements with banks and other financial institutions | 5,788                    | 9,822     |
| Balances with central banks   | 5,383                    | 5,499     |
|   | 183,952                  | 186,229   |
| Interest expense  |                          |           |
| Due to customers  | (69,536)                 | (71,996)  |
| Due to and placements from banks and other financial institutions   | (19,154)                 | (26,058)  |
| Certificates of deposit issued                                      | (8,787)                  | (7,425)   |
| Debt securities issued  | (7,989)                  | (6,901)   |
|   | (105,466)                | (112,380) |
| Net interest income   | 78,486                   | 73,849    |
| Including:  |                          |           |
| Interest income on impaired financial assets                        | 663                      | 767       |

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 5 FEE AND COMMISSION INCOME

|                                      | Six months ended 30 June |        |
|--------------------------------------|--------------------------|--------|
|                                      | 2021                     | 2020   |
| Bank cards                           | 9,750                    | 10,303 |
| Wealth management business           | 5,830                    | 4,828  |
| Custody and other fiduciary business | 3,972                    | 4,121  |
| Agency services                      | 3,575                    | 2,594  |
| Investment banking                   | 1,945                    | 2,030  |
| Guarantee and commitment             | 1,358                    | 1,381  |
| Settlement services                  | 713                      | 825    |
| Others                               | 156                      | 133    |
|                                      | 27,299                   | 26,215 |

|  | Six months ended 30 June |       |
|--|--------------------------|-------|
|  | 2021                     | 2020  |
| Fee income, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading or designated at FVPL | 1,218                    | 1,005 |
| Fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers   | 1,501                    | 1,597 |

## 6 FEE AND COMMISSION EXPENSE

|                                | Six months ended 30 June |       |
|--------------------------------|--------------------------|-------|
|                                | 2021                     | 2020  |
| Bank card business             | 1,240                    | 1,177 |
| Settlement and agency services | 868                      | 550   |
| Others                         | 225                      | 211   |
|                                | 2,333                    | 1,938 |

|   | Six months ended 30 June |      |
|---|--------------------------|------|
|   | 2021                     | 2020 |
| Fee expense, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading or designated at FVPL | —                        | —    |

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

### 7 NET GAINS ARISING FROM TRADING ACTIVITIES

|                                      | Six months ended 30 June |         |
|--------------------------------------|--------------------------|---------|
|                                      | 2021                     | 2020    |
| Financial instruments at FVPL        | 8,445                    | 7,283   |
| Foreign exchange                     | 1,446                    | 1,555   |
| Interest rate instruments and others | 278                      | (1,485) |
|                                      | 10,169                   | 7,353   |

Net gains or losses on foreign exchange include trading gains or losses and fair value changes of derivative instruments such as spot and forward contracts, currency swaps, cross currency interest rate swaps, currency options and the translation of foreign currency monetary assets and liabilities into RMB.

Net gains or losses on interest rate instruments and others include trading gains or losses and fair value changes of interest rate swaps, interest rate options, commodity and other derivatives.

Net gains arising from trading activities for the six months ended 30 June 2021 included a gain of 38 million (for the six months ended 30 June 2020: a loss of RMB296 million) in relation to changes in the fair value of financial liabilities designated at fair value through profit or loss.

### 8 INSURANCE BUSINESS INCOME

|                      | Six months ended 30 June |        |
|----------------------|--------------------------|--------|
|                      | 2021                     | 2020   |
| Premiums earned      | 11,489                   | 11,402 |
| Less: Premiums ceded | (467)                    | (466)  |
|                      | 11,022                   | 10,936 |

### 9 OTHER OPERATING INCOME

|   | Six months ended 30 June |       |
|---|--------------------------|-------|
|   | 2021                     | 2020  |
| Leasing income  | 6,279                    | 6,687 |
| Income from sales of precious metal merchandise         | 903                      | 825   |
| Revaluation of investment properties                    | (96)                     | (15)  |
| Net gain on the disposal of fixed and foreclosed assets | 302                      | 211   |
| Other miscellaneous income                              | 1,134                    | 1,246 |
|   | 8,522                    | 8,954 |

Other miscellaneous income mainly includes income arising from miscellaneous banking services provided to the Group's customers.

### 10 CREDIT IMPAIRMENT LOSSES

|   | Six months ended 30 June |        |
|---|--------------------------|--------|
|   | 2021                     | 2020   |
| Due from and placements with banks and other financial institutions | 322                      | 136    |
| Loans and advances to customers at amortised cost                   | 30,703                   | 30,329 |
| Loans and advances to customers at FVOCI                            | 256                      | 566    |
| Credit related commitments and financial guarantees                 | 2,779                    | 2,024  |
| Financial investments at amortised cost                             | (528)                    | (490)  |
| Debt investments at FVOCI   | (76)                     | 320    |
| Others  | (374)                    | 448    |
|   | 33,082                   | 33,333 |

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 11 OTHER ASSETS IMPAIRMENT LOSSES

|   | Six months ended 30 June |      |
|---|--------------------------|------|
|   | 2021                     | 2020 |
| Impairment losses on operating lease assets | 248                      | 163  |
| Impairment losses on foreclosed assets      | 170                      | (4)  |
|   | 418                      | 159  |

## 12 INSURANCE BUSINESS EXPENSE

|  | Six months ended 30 June |        |
|--|--------------------------|--------|
|  | 2021                     | 2020   |
| Change in insurance reserves                                 | 10,167                   | 8,999  |
| Less: Change in insurance reserves recovered from reinsurers | 963                      | (368)  |
| Surrenders   | 586                      | 2,033  |
| Others   | (791)                    | 358    |
|  | 10,925                   | 11,022 |

## 13 OTHER OPERATING EXPENSES

|   | Six months ended 30 June |        |
|---|--------------------------|--------|
|   | 2021                     | 2020   |
| Staff costs and benefits (Note 14)            | 14,160                   | 12,676 |
| General operating and administrative expenses | 17,400                   | 18,276 |
| Depreciation and amortisation                 | 3,977                    | 3,908  |
| Costs of operating lease business             | 4,569                    | 4,676  |
| Tax and surcharges                            | 1,474                    | 1,349  |
| Provision for outstanding litigations         | (54)                     | (63)   |
| Others  | 1,512                    | 1,665  |
|   | 43,038                   | 42,487 |

## 14 STAFF COSTS AND BENEFITS

|   | Six months ended 30 June |        |
|---|--------------------------|--------|
|   | 2021                     | 2020   |
| Salaries, bonuses, allowances and subsidies | 9,321                    | 9,124  |
| Post-employment benefit (a)                 | 1,867                    | 1,069  |
| Other social security and benefit costs     | 2,972                    | 2,483  |
|   | 14,160                   | 12,676 |

## (a) Post-employment benefit

**Defined contribution plans**

The Group participates in various defined contribution retirement benefit plans organised by municipal and provincial governments in Mainland China, under which it is required to make monthly contributions to these plans at rates ranging from 10% to 27% of the employees' basic salary for the year. The Group's contributions to these pension plans are charged to profit or loss and other comprehensive income in the year to which they relate.

Employees who retire at or after 1 January 2009 can voluntarily participate in an Annuity Plan. The Bank contributes to the Annuity Plan based on certain percentage of the employees' gross salary which is recognised in profit or loss as incurred.

# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

## 14 STAFF COSTS AND BENEFITS (Continued)

### (a) Post-employment benefit (Continued)

#### Defined contribution plans (Continued)

The amount recognised in profit or loss is as follows:

|   | Six months ended 30 June |       |
|---|--------------------------|-------|
|   | 2021                     | 2020  |
| Expenses incurred for retirement benefit plans and unemployment insurance | 1,140                    | 601   |
| Expenses incurred for annuity plan  | 718                      | 459   |
| Total   | 1,858                    | 1,060 |

The amount payable at the end of the period or year is as follows:

|   | As at<br>30 June 2021 | As at<br>31 December 2020 |
|---|-----------------------|---------------------------|
|   |                       |                           |
| Expenses incurred for retirement benefit plans and unemployment insurance | 64                    | 69                        |
| Expenses incurred for annuity plan  | 42                    | 73                        |
| Total   | 106                   | 142                       |

#### Defined benefit plans

The Group pays supplementary retirement benefits to employees in Mainland China, who retired at or before 31 December 2008. The Group's obligations in respect of supplementary retirement benefits are calculated by estimating the amount of future benefits that the Group is committed to pay to the employees after their retirement using actuarial techniques. Such benefits, which are estimated by using key parameters such as inflation rate and mortality ratio, are discounted to their present values. The discount rate is the yield on government bonds at the end of reporting date, the maturity dates of which approximate to the terms of the Group's obligations. Actuarial gains or losses and changes in actuarial assumptions are recognised in other comprehensive income, and amendments to pension plan are recognised in profit or loss in the period of a plan amendment. The amounts recognised in the statement of financial position represent the present value of unfunded obligations.

The Group's retirement benefit obligations in locations other than Mainland China are immaterial and are made in accordance with the relevant local policies and regulations.

|                                    | As at<br>30 June 2021 | As at<br>31 December 2020 |
|------------------------------------|-----------------------|---------------------------|
|                                    |                       |                           |
| Statement of financial position    |                       |                           |
| – Obligations for pension benefits | 393                   | 467                       |

Amounts recognised in comprehensive income in respect of the supplementary retirement benefits are as follows:

|  | Six months ended 30 June |      |
|--|--------------------------|------|
|  | 2021                     | 2020 |
| Components of defined benefit costs recognised in profit or loss             | 9                        | 9    |
| Components of defined benefit costs recognised in other comprehensive income | (58)                     | 34   |
| Total  | (49)                     | 43   |

Past service cost and interest expense are recognised in other operating expenses in the income statement. The average duration of the supplementary retirement benefits plan at 30 June 2021 is 12.76 years (31 December 2020: 13.20 years).



## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 14 STAFF COSTS AND BENEFITS (Continued)

## (a) Post-employment benefit (Continued)

**Defined benefit plans** (Continued)

The Group expects to make a contribution of RMB40 million (2020: RMB40 million) to the defined benefit plan during the next financial year.

The supplementary retirement benefits plan exposes the Group to actuarial risks such as interest risk, longevity risk and inflation risk. A decrease in the government bond yield will increase the present value of unfunded obligations. The present value of unfunded obligations is calculated by reference to the best estimate of the mortality of plan participants. An increase in the life expectancy of the plan participants will increase the plan's liability. The present value of unfunded obligations is also measured by future payment standards, which are determined by inflation rate. Hence, an increase in inflation rate will increase the present value of the unfunded obligations.

The principal actuarial assumptions regarding interest risk and inflation risk used by the Group are discount rate and inflation rate, which were 3.39% (31 December 2020: 3.51%) and 0.97% (31 December 2020: 2.87%) respectively as at 30 June 2021. In the meantime, assumptions regarding future mortality rate are set based on published statistics by CBRIC. As at 30 June 2021, an average longevity of a pensioner after retirement at age 60 for male is 23.13 years (31 December 2020: 23.13 years) while a pensioner after retirement at age 55 for female is 33.13 years (31 December 2020: 33.13 years).

## 15 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

|              | Six months ended 30 June |      |
|--------------|--------------------------|------|
|              | 2021                     | 2020 |
| Remuneration | 6                        | 7    |

No director or supervisor waived or agreed to waive any emoluments during the above periods.

For the six months ended 30 June 2021, RMB0.32 million was accrued for independent non-executive directors' emolument (six months ended 30 June 2020, RMB0.40 million).

## 16 INCOME TAX

|  | Six months ended 30 June |         |
|--|--------------------------|---------|
|  | 2021                     | 2020    |
| Current income tax   |                          |         |
| – Mainland China enterprise income tax                               | 4,067                    | 3,968   |
| – Hong Kong profits tax  | 340                      | 475     |
| – Income tax arising in Macao, Taiwan and other countries or regions | 259                      | 193     |
| Subtotal   | 4,666                    | 4,636   |
| Deferred income tax (Note 26)  | (951)                    | (1,675) |
| Total  | 3,715                    | 2,961   |

The provision for enterprise income tax in Mainland China is calculated based on the statutory rate of 25% (2020: 25%) of the assessable income of the Bank and each of the subsidiary established in Mainland China. Taxation arising in other jurisdictions (including Hong Kong) is calculated at the rates prevailing in the relevant jurisdictions, the shortfall arising from the differential in tax rates of overseas branches as compared with the Mainland China tax rate shall be reported and paid by head office.

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

### 16 INCOME TAX (Continued)

The actual taxation on the Group differs from the theoretical amount calculated using the Group's profit before tax at the tax rate of 25% (2020: 25%). The major reconciliation items are as follows:

|  | Six months ended 30 June |         |
|--|--------------------------|---------|
|  | 2021                     | 2020    |
| Profit before tax  | 46,588                   | 39,958  |
| Tax calculated at statutory rate of 25%  | 11,647                   | 9,990   |
| Effects of different tax rates prevailing in Hong Kong, Macao, Taiwan and other countries or regions | (127)                    | (94)    |
| Effects of non-deductible expenses (1)   | 1,795                    | 1,944   |
| Effects of non-taxable income (2)  | (9,489)                  | (8,449) |
| Adjustments for income tax of prior years  | (111)                    | (430)   |
| Income tax   | 3,715                    | 2,961   |

(1) Non-deductible expenses primarily represent non-deductible write-offs.

(2) Non-taxable income primarily represents interest income from PRC treasury bonds and municipal government bonds and fund investment income gained in Mainland China.

### 17 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit attributable to shareholders of the Bank by the weighted average number of ordinary shares in issue during the period.

|  | Six months ended 30 June |         |
|--|--------------------------|---------|
|  | 2021                     | 2020    |
| Net profit attributable to shareholders of the Bank  | 42,019                   | 36,505  |
| Less: Dividends paid to preference shareholders  | (1,755)                  | (2,714) |
| Net profit attributable to ordinary shareholders of the Bank   | 40,264                   | 33,791  |
| Weighted average number of ordinary shares in issue (expressed in millions) at the end of the period | 74,263                   | 74,263  |
| Basic and diluted earnings per share (expressed in RMB per share)                                    | 0.54                     | 0.46    |

For the purpose of calculating basic earnings per share, cash dividend on non-cumulative preference shares declared for the period was deducted from the amounts attributable to shareholders of the Bank. The Bank has RMB1,755 million cash dividend on preference shares during the six months ended 30 June 2021. The conversion feature of preference shares may lead to the possible existence of contingently issuable ordinary shares. The triggering events of conversion did not occur for the six months ended 30 June 2021, therefore the conversion feature of preference shares has no effect on the basic and diluted earnings per share calculation.

### 18 CASH AND BALANCES WITH CENTRAL BANKS

|                            | As at<br>30 June 2021 | As at<br>31 December 2020 |
|----------------------------|-----------------------|---------------------------|
| Cash                       | 13,602                | 15,353                    |
| Mandatory reserve deposits | 670,058               | 634,239                   |
| Excess reserve deposits    | 120,346               | 160,863                   |
| Fiscal deposits and others | 6,013                 | 6,786                     |
| Accrued interest           | 301                   | 320                       |
|                            | 810,320               | 817,561                   |

The Group places mandatory reserves with the PBOC and several other central banks of overseas countries and regions. Such mandatory reserves are not available for use by the Group in its day-to-day operations.

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 18 CASH AND BALANCES WITH CENTRAL BANKS (Continued)

The Bank's domestic mandatory deposit reserve rates as at the balance sheet date are as follows:

|  | As at<br>30 June 2021<br>% | As at<br>31 December 2020<br>% |
|--|----------------------------|--------------------------------|
| Domestic mandatory reserve rate for deposits denominated in RMB                | 11.00                      | 11.00                          |
| Domestic mandatory reserve rate for deposits denominated in foreign currencies | 7.00                       | 5.00                           |

Reserve rate for deposits denominated in RMB of the Group's subsidiaries in Mainland China is subject to relevant regulations of the PBOC.

Mandatory reserve rate for deposits with central banks of overseas countries and regions is subject to regulations of local regulatory bodies.

Excess reserve deposits with central banks are mainly used for capital settlement, financial institution transfer, etc.

## 19 DUE FROM AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

|  | As at<br>30 June 2021 | As at<br>31 December 2020 |
|--|-----------------------|---------------------------|
| Due from banks and other financial institutions                                    |                       |                           |
| – Banks and other financial institutions operating in Mainland China               | 143,980               | 90,965                    |
| – Banks and other financial institutions operating outside Mainland China          | 35,996                | 68,274                    |
| Accrued interest   | 257                   | 196                       |
| Less: Allowance for impairment losses  | (307)                 | (265)                     |
| Financial assets purchased under resale agreements                                 |                       |                           |
| Securities   |                       |                           |
| – Governments  | 45,181                | 6,332                     |
| – Policy banks   | 66,641                | 3,657                     |
| – Financial institutions   | 16,672                | 27,905                    |
| – Public sector entities   | 36                    | –                         |
| Bills  | 4,487                 | 3,670                     |
| Accrued interest   | 39                    | 26                        |
| Less: Allowance for impairment losses  | (111)                 | (34)                      |
| Placements with and loans to banks   |                       |                           |
| – Banks operating in Mainland China  | 120,747               | 113,890                   |
| – Banks operating outside Mainland China   | 91,760                | 95,886                    |
| Placements with and loans to other financial institutions                          |                       |                           |
| – Placements with and loans to other financial institutions in Mainland China      | 140,502               | 118,172                   |
| – Placements with and loans to other financial institutions outside Mainland China | 44,345                | 40,515                    |
| Accrued interest   | 3,286                 | 2,890                     |
| Less: Allowance for impairment losses  | (1,141)               | (949)                     |
|  | 712,370               | 571,130                   |

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021  
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### 20 FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

|  | As at<br>30 June 2021 | As at<br>31 December 2020 |
|--|-----------------------|---------------------------|
| Government bonds                                     |                       |                           |
| – Listed in Hong Kong                                | 1,704                 | 2,370                     |
| – Listed outside Hong Kong (a)                       | 4,135                 | 3,043                     |
| – Unlisted   | 676                   | 1,121                     |
| Other debt securities                                |                       |                           |
| – Listed in Hong Kong                                | 31,594                | 23,853                    |
| – Listed outside Hong Kong (a)                       | 112,384               | 109,422                   |
| – Unlisted – corporate entities                      | 3,183                 | 4,445                     |
| – Unlisted – banks                                   | 2,352                 | 8,780                     |
| Equity securities and others                         |                       |                           |
| – Listed in Hong Kong                                | 1,602                 | 1,419                     |
| – Listed outside Hong Kong                           | 5,373                 | 7,956                     |
| – Unlisted   | 48,108                | 48,106                    |
| Fund investments and other asset management products |                       |                           |
| – Listed outside Hong Kong                           | 39                    | 474                       |
| – Unlisted   | 344,616               | 251,624                   |
| Precious metal contracts                             | 20,071                | 19,975                    |
| Total  | 575,837               | 482,588                   |

(a) Debt securities traded in the China domestic inter-bank bond market are included in “Listed outside Hong Kong”.

Debt securities at fair value through profit or loss are analysed by issuer as follows:

|  | As at<br>30 June 2021 | As at<br>31 December 2020 |
|--|-----------------------|---------------------------|
| – Banks and other financial institutions | 92,594                | 99,671                    |
| – Corporate entities                     | 55,522                | 45,244                    |
| – Governments and central banks          | 6,515                 | 6,534                     |
| – Public sector entities                 | 1,397                 | 1,585                     |
|  | 156,028               | 153,034                   |

The financial investments at fair value through profit or loss include financial assets held for trading and financial assets that cannot pass the ‘SPPI test’.

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 21 DERIVATIVE FINANCIAL INSTRUMENTS

The following derivative financial instruments are utilised by the Group for trading or hedging purposes:

Currency and commodity forwards are contracts between two parties to buy or sell certain currencies or commodities at a specified future date at a predetermined price. The party agreeing to buy the underlying currency or commodities in the future assumes a long position, and the party agreeing to sell the currency or commodities in the future assumes a short position. The price agreed upon is called the delivery price, which is equal to the forward price at the time the contract is entered into.

Currency, commodity and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies, commodities or interest rates (i.e. fixed-for-floating swaps) or a combination of these (i.e. cross-currency interest rate swaps). The Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

Currency, commodity and interest rate options are contractual agreements under which the seller (writer) grants the buyer (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) on or before a set date or during a set period, a specific amount of a currency or commodity at a predetermined price or to receive an interest payment based on a variable interest rate and pay at a fixed interest rate or vice versa. The seller receives a premium from the buyer in consideration for assuming foreign exchange, interest rate risk or commodity price fluctuations. Options may be either exchange-traded or negotiated between the Group and a customer (over the counter market).

The notional amounts of certain types of financial instruments provide a reference of the amounts recognised in the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative financial instruments may become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates, foreign exchange rates or commodity price relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The fair values of derivative financial instruments held are set out in the following tables.

| As at 30 June 2021  | Contractual/Notional | Fair values |             |
|---|----------------------|-------------|-------------|
|   | Amount               | Assets      | Liabilities |
| Foreign exchange and commodity contracts                    | 2,714,863            | 26,678      | (22,974)    |
| Interest rate contracts and others                          | 3,381,739            | 8,906       | (10,728)    |
| Total amount of derivative financial instruments recognised | 6,096,602            | 35,584      | (33,702)    |

| As at 31 December 2020                                      | Contractual/Notional | Fair values |             |
|---|----------------------|-------------|-------------|
|   | Amount               | Assets      | Liabilities |
| Foreign exchange and commodity contracts                    | 2,435,423            | 44,435      | (40,914)    |
| Interest rate contracts and others                          | 3,101,818            | 9,777       | (15,028)    |
| Total amount of derivative financial instruments recognised | 5,537,241            | 54,212      | (55,942)    |

The tables above provide a breakdown of the contractual or notional amounts and the fair values of the Group's derivative financial instruments outstanding at year end. These instruments, comprising foreign exchange, interest rate and commodity derivatives allow the Group and its customers to transfer, mitigate or reduce their foreign exchange, interest rate and commodity price fluctuation risks.

The Group undertakes its transactions in foreign exchange, interest rates and commodity contracts with other financial institutions and customers. Management has established limits for these contracts based on counterpart types, industry sectors and countries. Related risks are regularly monitored and controlled by management.

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

### 21 DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

Notional amounts of derivative financial instruments by original currency:

|        | As at<br>30 June 2021 | As at<br>31 December 2020 |
|--------|-----------------------|---------------------------|
| RMB    | 4,115,029             | 3,772,066                 |
| USD    | 1,587,003             | 1,387,805                 |
| HKD    | 250,994               | 247,659                   |
| Others | 143,576               | 129,711                   |
| Total  | 6,096,602             | 5,537,241                 |

#### Hedge accounting

The above derivative financial instruments including those designated as hedging instruments by the Group are as follows:

| As at 30 June 2021  | Contractual/Notional<br>Amount | Fair values<br>Assets | Liabilities |
|---|--------------------------------|-----------------------|-------------|
| Derivative financial instruments designated as hedging instruments in fair value hedges | 144,744                        | 996                   | (2,737)     |
| Derivative financial instruments designated as hedging instruments in cash flow hedges  | 62,418                         | 518                   | (884)       |
| Total   | 207,162                        | 1,514                 | (3,621)     |

| As at 31 December 2020  | Contractual/Notional<br>Amount | Fair values<br>Assets | Liabilities |
|---|--------------------------------|-----------------------|-------------|
| Derivative financial instruments designated as hedging instruments in fair value hedges | 139,555                        | 184                   | (4,689)     |
| Derivative financial instruments designated as hedging instruments in cash flow hedges  | 58,382                         | 268                   | (1,901)     |
| Total   | 197,937                        | 452                   | (6,590)     |

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 21 DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

## Hedge accounting (Continued)

**(a) Fair value hedge**

The Group uses interest rate swaps to hedge against changes in fair value arising from changes in interest rates. Some purchased interest rate swap contracts are designated as hedging instruments, whose terms are identical with those of the corresponding hedged items regarding interest rate, maturity and currency. The Group uses regression analysis to evaluate the effectiveness of hedging. With the support of testing results, the Group's management considers the hedging relationship to be highly effective. The hedged items include due from and placements with banks and other financial institutions, debt investments at FVOCI, due to and placements from banks and other financial institutions, loans and advances to customers and certificates of deposits issued.

The following table shows the profit or loss effects of the fair value hedges:

|  | Six months ended 30 June |         |
|--|--------------------------|---------|
|  | 2021                     | 2020    |
| Net gains/(losses) from fair value hedges:   |                          |         |
| Hedging instruments                          | 2,320                    | (5,913) |
| Hedged items attributable to the hedged risk | (2,408)                  | 5,799   |
| Total  | (88)                     | (114)   |

**(b) Cash flow hedge**

The Group uses foreign exchange contracts to hedge against exposures to cash flow variability primarily resulting from foreign exchange risks, and uses interest rate swaps to hedge against exposures to cash flow variability primarily resulting from interest rate risks. The hedged items include debt investments at FVOCI, due from and placements with banks and other financial institutions, debt securities issued, loans and advances to customers, due to and placements from banks and other financial institutions and certificates of deposits issued. The Group mainly uses regression analysis to evaluate the effectiveness of hedging. With the supporting of testing results, the Group's management considers the hedging relationship to be highly effective.

For the six months ended 30 June 2021, the Group recognised a profit of RMB1,271million (for the six months ended 30 June 2020:a loss of RMB829 million) from effective portion of cash flow hedge in other comprehensive income. The Group reclassifies a loss of RMB986 million from other comprehensive income to profit or loss(for the six months ended 30 June 2020: a profit of 5 million). Gains or losses arising from ineffective portion of cash flow hedge were immaterial. There were no transactions for which cash flow hedge accounting had to be ceased as a result of the highly probable cash flows no longer being expected to occur.

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021  
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### 22 LOANS AND ADVANCES TO CUSTOMERS

#### 22.1 Loans and advances to customers

|   | As at<br>30 June 2021 | As at<br>31 December 2020 |
|---|-----------------------|---------------------------|
| Loans and advances to customers                           |                       |                           |
| – Carried at amortised cost                               | 6,133,428             | 5,637,932                 |
| – Carried at FVOCI  | 213,275               | 210,492                   |
| Less: Allowance for impairment losses                     | (150,273)             | (139,274)                 |
| Accrued interest  | 13,209                | 12,980                    |
| Less: Allowance for impairment losses of accrued interest | (1,346)               | (1,562)                   |
|   | 6,208,293             | 5,720,568                 |

#### 22.2 Loans and advances to customers analysed by security type

|   | As at<br>30 June 2021 | As at<br>31 December 2020 |
|---|-----------------------|---------------------------|
| Unsecured loans                               | 1,990,191             | 1,812,785                 |
| Guaranteed loans                              | 1,060,509             | 990,248                   |
| Collateralised and other secured loans        | 3,296,003             | 3,045,391                 |
| <i>Including: Loans secured by collateral</i> | <i>2,356,648</i>      | <i>2,191,847</i>          |
| <i>Pledged loans</i>                          | <i>939,355</i>        | <i>853,544</i>            |
| Total   | 6,346,703             | 5,848,424                 |

#### 22.3 Movements of ECL allowance

Movements of ECL allowance – Corporate loan at amortised cost:

|   | Stage 1<br>12-month ECL | Stage 2<br>Lifetime ECL | Stage 3<br>Lifetime ECL | Total    |
|---|-------------------------|-------------------------|-------------------------|----------|
| <b>As at 1 January 2021</b>                       | 27,418                  | 29,034                  | 47,973                  | 104,425  |
| Addition/(Reversal), net                          | 5,959                   | (40)                    | (2,690)                 | 3,229    |
| Transfer in                                       | –                       | 214                     | –                       | 214      |
| Written-offs and disposals                        | –                       | –                       | (15,487)                | (15,487) |
| Transfers:  | (710)                   | (5,008)                 | 5,718                   | –        |
| <i>Transfer between Stage 1 and Stage 2, net</i>  | <i>(665)</i>            | <i>665</i>              | <i>–</i>                | <i>–</i> |
| <i>Transfer between Stage 1 and Stage 3, net</i>  | <i>(45)</i>             | <i>–</i>                | <i>45</i>               | <i>–</i> |
| <i>Transfer between Stage 2 and Stage 3, net</i>  | <i>–</i>                | <i>(5,673)</i>          | <i>5,673</i>            | <i>–</i> |
| Remeasurement                                     | 4,831                   | 5,064                   | 12,604                  | 22,499   |
| Recoveries of loans written-off in previous years | –                       | –                       | 2,545                   | 2,545    |
| Unwind of discount                                | –                       | –                       | (558)                   | (558)    |
| Exchange differences                              | (32)                    | (9)                     | 1                       | (40)     |
| <b>As at 30 June 2021</b>                         | 37,466                  | 29,255                  | 50,106                  | 116,827  |



## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021

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## 22 LOANS AND ADVANCES TO CUSTOMERS (Continued)

## 22.3 Movements of ECL allowance (Continued)

Movements of ECL allowance – Corporate loan at amortised cost (Continued):

|   | Stage 1<br>12-month ECL | Stage 2<br>Lifetime ECL | Stage 3<br>Lifetime ECL | Total    |
|---|-------------------------|-------------------------|-------------------------|----------|
| <b>As at 1 January 2020</b>                       | 23,125                  | 39,960                  | 42,085                  | 105,170  |
| Addition/(Reversal), net                          | 2,477                   | (7,358)                 | (7,717)                 | (12,598) |
| Transfer in                                       | –                       | 686                     | –                       | 686      |
| Written-offs and disposals                        | –                       | –                       | (33,214)                | (33,214) |
| Transfers:  | (838)                   | (15,668)                | 16,506                  | –        |
| Transfer between Stage 1 and Stage 2, net         | (762)                   | 762                     | –                       | –        |
| Transfer between Stage 1 and Stage 3, net         | (76)                    | –                       | 76                      | –        |
| Transfer between Stage 2 and Stage 3, net         | –                       | (16,430)                | 16,430                  | –        |
| Remeasurement                                     | 2,805                   | 11,452                  | 28,208                  | 42,465   |
| Recoveries of loans written-off in previous years | –                       | –                       | 3,340                   | 3,340    |
| Unwind of discount                                | –                       | –                       | (1,138)                 | (1,138)  |
| Exchange differences                              | (151)                   | (38)                    | (97)                    | (286)    |
| <b>As at 31 December 2020</b>                     | 27,418                  | 29,034                  | 47,973                  | 104,425  |

Movements of ECL allowance – Personal loan at amortised cost:

|   | Stage 1<br>12-month ECL | Stage 2<br>Lifetime ECL | Stage 3<br>Lifetime ECL | Total   |
|---|-------------------------|-------------------------|-------------------------|---------|
| <b>As at 1 January 2021</b>                       | 16,008                  | 3,836                   | 15,005                  | 34,849  |
| Addition/(Reversal), net                          | 783                     | (94)                    | (1,031)                 | (342)   |
| Written-offs and disposals                        | –                       | –                       | (7,438)                 | (7,438) |
| Transfers:  | 354                     | (1,539)                 | 1,185                   | –       |
| Transfer between Stage 1 and Stage 2, net         | 516                     | (516)                   | –                       | –       |
| Transfer between Stage 1 and Stage 3, net         | (162)                   | –                       | 162                     | –       |
| Transfer between Stage 2 and Stage 3, net         | –                       | (1,023)                 | 1,023                   | –       |
| Remeasurement                                     | (1,353)                 | 1,275                   | 5,609                   | 5,531   |
| Recoveries of loans written-off in previous years | –                       | –                       | 950                     | 950     |
| Unwind of discount                                | –                       | –                       | (102)                   | (102)   |
| Exchange differences                              | 1                       | 41                      | (44)                    | (2)     |
| <b>As at 30 June 2021</b>                         | 15,793                  | 3,519                   | 14,134                  | 33,446  |

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021  
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### 22 LOANS AND ADVANCES TO CUSTOMERS (Continued)

#### 22.3 Movements of ECL allowance (Continued)

Movements of ECL allowance – Personal loan at amortised cost (Continued):

|   | Stage 1<br>12-month ECL | Stage 2<br>Lifetime ECL | Stage 3<br>Lifetime ECL | Total    |
|---|-------------------------|-------------------------|-------------------------|----------|
| <b>As at 1 January 2020</b>                       | 8,394                   | 3,193                   | 15,962                  | 27,549   |
| Addition/(Reversal), net                          | 2,001                   | (100)                   | (1,102)                 | 799      |
| Written-offs and disposals                        | –                       | –                       | (20,580)                | (20,580) |
| Transfers:  | 270                     | (1,078)                 | 808                     | –        |
| <i>Transfer between Stage 1 and Stage 2, net</i>  | 378                     | (378)                   | –                       | –        |
| <i>Transfer between Stage 1 and Stage 3, net</i>  | (108)                   | –                       | 108                     | –        |
| <i>Transfer between Stage 2 and Stage 3, net</i>  | –                       | (700)                   | 700                     | –        |
| Remeasurement                                     | 5,349                   | 1,823                   | 18,443                  | 25,615   |
| Recoveries of loans written-off in previous years | –                       | –                       | 1,712                   | 1,712    |
| Unwind of discount                                | –                       | –                       | (231)                   | (231)    |
| Exchange differences                              | (6)                     | (2)                     | (7)                     | (15)     |
| <b>As at 31 December 2020</b>                     | 16,008                  | 3,836                   | 15,005                  | 34,849   |

Movements of ECL allowance – Loans and advances to customers at fair value through other comprehensive income:

|  | Stage 1<br>12-month ECL | Stage 2<br>Lifetime ECL | Stage 3<br>Lifetime ECL | Total |
|--|-------------------------|-------------------------|-------------------------|-------|
| <b>As at 1 January 2021</b>                      | 878                     | 47                      | 362                     | 1,287 |
| Addition/(Reversal), net                         | 160                     | (21)                    | (29)                    | 110   |
| Written-offs and disposals                       | –                       | –                       | (368)                   | (368) |
| Transfers:                                       | (5)                     | 4                       | 1                       | –     |
| <i>Transfer between Stage 1 and Stage 2, net</i> | (4)                     | 4                       | –                       | –     |
| <i>Transfer between Stage 1 and Stage 3, net</i> | (1)                     | –                       | 1                       | –     |
| <i>Transfer between Stage 2 and Stage 3, net</i> | –                       | –                       | –                       | –     |
| Remeasurement                                    | 68                      | (9)                     | 87                      | 146   |
| Unwind of discount                               | –                       | –                       | (3)                     | (3)   |
| Exchange differences                             | (22)                    | 2                       | 1                       | (19)  |
| <b>As at 30 June 2021</b>                        | 1,079                   | 23                      | 51                      | 1,153 |

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 22 LOANS AND ADVANCES TO CUSTOMERS (Continued)

## 22.3 Movements of ECL allowance (Continued)

Movements of ECL allowance – Loans and advances to customers at fair value through other comprehensive income (Continued):

|  | Stage 1<br>12-month ECL | Stage 2<br>Lifetime ECL | Stage 3<br>Lifetime ECL | Total |
|--|-------------------------|-------------------------|-------------------------|-------|
| <b>As at 1 January 2020</b>                      | 839                     | 205                     | 289                     | 1,333 |
| Addition/(Reversal), net                         | (10)                    | (121)                   | (32)                    | (163) |
| Written-offs and disposals                       | –                       | –                       | (34)                    | (34)  |
| Transfers:                                       | (114)                   | (42)                    | 156                     | –     |
| <i>Transfer between Stage 1 and Stage 2, net</i> | (75)                    | 75                      | –                       | –     |
| <i>Transfer between Stage 1 and Stage 3, net</i> | (39)                    | –                       | 39                      | –     |
| <i>Transfer between Stage 2 and Stage 3, net</i> | –                       | (117)                   | 117                     | –     |
| Remeasurement                                    | 163                     | 5                       | (17)                    | 151   |
| <b>As at 31 December 2020</b>                    | 878                     | 47                      | 362                     | 1,287 |

## 22.4 Overdue loans analysed by security type

|   | As at 30 June 2021                |  |   |                                | Total  |
|---|-----------------------------------|--|---|--------------------------------|--------|
|   | Overdue<br>within three<br>months | Overdue<br>between<br>three months<br>and one year | Overdue<br>between one<br>year and<br>three years | Overdue<br>over three<br>years |        |
| Unsecured loans                               | 7,900                             | 9,154  | 5,246   | 263                            | 22,563 |
| Guaranteed loans                              | 4,813                             | 10,282   | 8,634   | 3,062                          | 26,791 |
| Collateralised and other secured loans        | 13,210                            | 13,189   | 13,681  | 4,806                          | 44,886 |
| <i>Including: Loans secured by collateral</i> | 7,964                             | 10,607   | 11,448  | 4,163                          | 34,182 |
| <i>Pledged loans</i>                          | 5,246                             | 2,582  | 2,233   | 643                            | 10,704 |
| Total   | 25,923                            | 32,625   | 27,561  | 8,131                          | 94,240 |

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

### 22 LOANS AND ADVANCES TO CUSTOMERS (Continued)

#### 22.4 Overdue loans analysed by security type (Continued)

|   | As at 31 December 2020      |   |  |                          | Total         |
|---|-----------------------------|---|--|--------------------------|---------------|
|   | Overdue within three months | Overdue between three months and one year | Overdue between one year and three years | Overdue over three years |               |
| Unsecured loans                               | 8,850                       | 13,686                                    | 694                                      | 217                      | 23,447        |
| Guaranteed loans                              | 5,867                       | 8,904                                     | 12,222                                   | 1,415                    | 28,408        |
| Collateralised and other secured loans        | 10,763                      | 11,555                                    | 13,000                                   | 3,030                    | 38,348        |
| <i>Including: Loans secured by collateral</i> | <i>8,640</i>                | <i>9,825</i>                              | <i>10,661</i>                            | <i>2,856</i>             | <i>31,982</i> |
| <i>Pledged loans</i>                          | <i>2,123</i>                | <i>1,730</i>                              | <i>2,339</i>                             | <i>174</i>               | <i>6,366</i>  |
| Total   | 25,480                      | 34,145                                    | 25,916                                   | 4,662                    | 90,203        |

### 23 FINANCIAL INVESTMENTS

|  | As at<br>30 June 2021 | As at<br>31 December 2020 |
|--|-----------------------|---------------------------|
| Financial investments at amortised cost                                |                       |                           |
| – Listed in Hong Kong  | 8,707                 | 7,743                     |
| – Listed outside Hong Kong   | 1,909,276             | 1,864,919                 |
| – Unlisted   | 107,067               | 121,740                   |
| Accrued interest   | 27,753                | 28,177                    |
| Less: Allowance for impairment losses                                  | (2,521)               | (3,050)                   |
| Total  | 2,050,282             | 2,019,529                 |
| Financial investments at fair value through other comprehensive income |                       |                           |
| Debt investments at FVOCI  |                       |                           |
| – Listed in Hong Kong  | 169,658               | 161,286                   |
| – Listed outside Hong Kong   | 447,175               | 435,675                   |
| – Unlisted   | 83,231                | 120,306                   |
| Accrued interest   | 6,813                 | 6,606                     |
| Subtotal   | 706,877               | 723,873                   |
| Equity investments at FVOCI  |                       |                           |
| – Listed in Hong Kong  | 6,924                 | 158                       |
| – Listed outside Hong Kong   | 4,281                 | 3,473                     |
| – Unlisted   | 8,465                 | 7,716                     |
| Subtotal   | 19,670                | 11,347                    |
| Total  | 726,547               | 735,220                   |

The Group designates part of non-trading equity investments as financial investments measured at FVOCI.

For the six months ended 30 June 2021, the Group's cash dividends received from equity investments at FVOCI was RMB477 million (for the six months ended 30 June 2020: RMB19 million).

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 23 FINANCIAL INVESTMENTS (Continued)

Debt securities analysed by issuer are as follows:

|  | As at<br>30 June 2021 | As at<br>31 December 2020 |
|--|-----------------------|---------------------------|
| Bond investments at amortised cost       |                       |                           |
| – Governments and central banks          | 1,805,050             | 1,710,428                 |
| – Banks and other financial institutions | 104,712               | 148,404                   |
| – Corporate entities                     | 29,207                | 29,983                    |
| – Public sector entities                 | 21,683                | 21,979                    |
| Total                                    | 1,960,652             | 1,910,794                 |
| Debt investments at FVOCI                |                       |                           |
| – Governments and central banks          | 319,438               | 340,723                   |
| – Banks and other financial institutions | 299,083               | 304,690                   |
| – Corporate entities                     | 83,412                | 75,084                    |
| – Public sector entities                 | 4,944                 | 3,376                     |
| Total                                    | 706,877               | 723,873                   |

The movements in allowance for impairment losses of financial investments at amortised cost are summarised as follows:

|   | Stage 1<br>12-month ECL | Stage 2<br>Lifetime ECL | Stage 3<br>Lifetime ECL | Total |
|---|-------------------------|-------------------------|-------------------------|-------|
| <b>As at 1 January 2021</b>               | 1,844                   | 682                     | 524                     | 3,050 |
| Addition/(Reversal), net                  | (243)                   | (206)                   | –                       | (449) |
| Transfer out                              | –                       | –                       | –                       | –     |
| Written-offs                              | –                       | –                       | –                       | –     |
| Recovery after written-offs               | –                       | –                       | –                       | –     |
| Transfers:                                | 296                     | (437)                   | 141                     | –     |
| Transfer between Stage 1 and Stage 2, net | 296                     | (296)                   | –                       | –     |
| Transfer between Stage 1 and Stage 3, net | –                       | –                       | –                       | –     |
| Transfer between Stage 2 and Stage 3, net | –                       | (141)                   | 141                     | –     |
| Remeasurement                             | (256)                   | 2                       | 175                     | (79)  |
| Exchange differences                      | (1)                     | –                       | –                       | (1)   |
| <b>As at 30 June 2021</b>                 | 1,640                   | 41                      | 840                     | 2,521 |

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

### 23 FINANCIAL INVESTMENTS (Continued)

The movements in allowance for impairment losses of financial investments at amortised cost are summarised as follows (Continued):

|  | Stage 1<br>12-month ECL | Stage 2<br>Lifetime ECL | Stage 3<br>Lifetime ECL | Total    |
|--|-------------------------|-------------------------|-------------------------|----------|
| <b>As at 1 January 2020</b>                      | 2,455                   | 178                     | 630                     | 3,263    |
| Addition/(Reversal), net                         | (602)                   | –                       | (26)                    | (628)    |
| Transfer out                                     | –                       | –                       | (83)                    | (83)     |
| Written-offs                                     | –                       | –                       | –                       | –        |
| Recovery after written-offs                      | –                       | –                       | –                       | –        |
| Transfers:                                       | (191)                   | 191                     | –                       | –        |
| <i>Transfer between Stage 1 and Stage 2, net</i> | <i>(191)</i>            | <i>191</i>              | <i>–</i>                | <i>–</i> |
| <i>Transfer between Stage 1 and Stage 3, net</i> | <i>–</i>                | <i>–</i>                | <i>–</i>                | <i>–</i> |
| <i>Transfer between Stage 2 and Stage 3, net</i> | <i>–</i>                | <i>–</i>                | <i>–</i>                | <i>–</i> |
| Remeasurement                                    | 183                     | 313                     | 3                       | 499      |
| Exchange differences                             | (1)                     | –                       | –                       | (1)      |
| <b>As at 31 December 2020</b>                    | 1,844                   | 682                     | 524                     | 3,050    |

The movements in allowance for impairment losses of debt investments at FVOCI are summarised as follows:

|  | Stage 1<br>12-month ECL | Stage 2<br>Lifetime ECL | Stage 3<br>Lifetime ECL | Total    |
|--|-------------------------|-------------------------|-------------------------|----------|
| <b>As at 1 January 2021</b>                      | 670                     | 11                      | 563                     | 1,244    |
| Addition/(Reversal), net                         | (44)                    | (11)                    | –                       | (55)     |
| Transfer out                                     | –                       | –                       | –                       | –        |
| Written-offs                                     | –                       | –                       | –                       | –        |
| Recovery after written-offs                      | –                       | –                       | –                       | –        |
| Transfers:                                       | (1)                     | 1                       | –                       | –        |
| <i>Transfer between Stage 1 and Stage 2, net</i> | <i>(1)</i>              | <i>1</i>                | <i>–</i>                | <i>–</i> |
| <i>Transfer between Stage 1 and Stage 3, net</i> | <i>–</i>                | <i>–</i>                | <i>–</i>                | <i>–</i> |
| <i>Transfer between Stage 2 and Stage 3, net</i> | <i>–</i>                | <i>–</i>                | <i>–</i>                | <i>–</i> |
| Remeasurement                                    | (48)                    | –                       | 27                      | (21)     |
| Exchange differences                             | (17)                    | –                       | (9)                     | (26)     |
| <b>As at 30 June 2021</b>                        | 560                     | 1                       | 581                     | 1,142    |

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 23 FINANCIAL INVESTMENTS (Continued)

The movements in allowance for impairment losses of debt investments at FVOCI are summarised as follows (Continued):

|   | Stage 1<br>12-month ECL | Stage 2<br>Lifetime ECL | Stage 3<br>Lifetime ECL | Total |
|---|-------------------------|-------------------------|-------------------------|-------|
| <b>As at 1 January 2020</b>               | 660                     | –                       | 393                     | 1,053 |
| Addition/(Reversal), net                  | 84                      | –                       | –                       | 84    |
| Transfer out                              | –                       | –                       | (27)                    | (27)  |
| Written-offs                              | –                       | –                       | –                       | –     |
| Recovery after written-offs               | –                       | –                       | –                       | –     |
| Transfers:                                | (28)                    | 3                       | 25                      | –     |
| Transfer between Stage 1 and Stage 2, net | (3)                     | 3                       | –                       | –     |
| Transfer between Stage 1 and Stage 3, net | (25)                    | –                       | 25                      | –     |
| Transfer between Stage 2 and Stage 3, net | –                       | –                       | –                       | –     |
| Remeasurement                             | 31                      | 8                       | 193                     | 232   |
| Exchange differences                      | (77)                    | –                       | (21)                    | (98)  |
| <b>As at 31 December 2020</b>             | 670                     | 11                      | 563                     | 1,244 |

## 24 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

|   | As at<br>30 June 2021 | As at<br>31 December 2020 |
|---|-----------------------|---------------------------|
| Investments in associates                                       |                       |                           |
| Investment cost   | 4,062                 | 3,312                     |
| Share of net profit of associates for the period/year           | 1,437                 | 1,328                     |
| Share of other equity changes of associates for the period/year | 88                    | 77                        |
| Dividend income   | (197)                 | (147)                     |
| Subtotal  | 5,390                 | 4,570                     |
| Investments in joint ventures                                   | 115                   | 111                       |
| Total   | 5,505                 | 4,681                     |

The Group's investments in associates mainly include the investments in Jiangsu Changshu Rural Commercial Bank Co., Ltd. and Bank of Tibet Co., Ltd.

Jiangsu Changshu Rural Commercial Bank Co., Ltd. was incorporated in Changshu City, Jiangsu Province on 3 December 2001. The registered capital of the entity is RMB2,741 million, and the principal activities of the entity are banking activities. The Group held 9.01% of equity interest in this associate as at 30 June 2021 (31 December 2020: 9.01%).

There are 14 directors at the Board of Directors of Jiangsu Changshu Rural Commercial Bank Co., Ltd., of which 3 directors were nominated by the Group. Accordingly, the Group is able to exert significant influence on such company, so such company is accounted for as an associate.

Bank of Tibet Co., Ltd. was incorporated in Tibet Autonomous Region, PRC on 30 December 2011. The registered capital of the entity is RMB3,320 million, and the principal activities of the entity are banking activities. The Group held 10.60% of equity interest in this associate as at 30 June 2021 (31 December 2020: 10.60%).

There are 11 directors at the Board of Directors of Bank of Tibet Co., Ltd., of which 3 directors were nominated by the Group. Accordingly, the Group is able to exert significant influence on such company, so such company is accounted for as an associate.

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

### 25 PROPERTY AND EQUIPMENT

|  | Buildings       | Construction<br>in progress | Equipment<br>And<br>Transportation<br>equipment | Aircraft and<br>vessels | Property<br>improvement | Total           |
|--|-----------------|-----------------------------|---|-------------------------|-------------------------|-----------------|
| <b>Cost</b>                                |                 |                             |   |                         |                         |                 |
| As at 1 January 2021                       | 62,743          | 3,369                       | 26,655  | 136,705                 | 9,654                   | 239,126         |
| Additions                                  | 8               | 326                         | 477   | 7,047                   | 17                      | 7,875           |
| Disposals                                  | (301)           | –                           | (912)   | (6,303)                 | (100)                   | (7,616)         |
| Construction in progress transfer in/(out) | 958             | (991)                       | –   | –                       | 33                      | –               |
| Transfer in from investment properties     | 366             | –                           | –   | –                       | –                       | 366             |
| Other transfers out                        | –               | (25)                        | –   | –                       | –                       | (25)            |
| <b>As at 30 June 2021</b>                  | <b>63,774</b>   | <b>2,679</b>                | <b>26,220</b>                                   | <b>137,449</b>          | <b>9,604</b>            | <b>239,726</b>  |
| <b>Accumulated depreciation</b>            |                 |                             |   |                         |                         |                 |
| As at 1 January 2021                       | (20,459)        | –                           | (20,679)  | (21,241)                | (6,485)                 | (68,864)        |
| Charge for the period                      | (998)           | –                           | (1,081)   | (3,340)                 | (361)                   | (5,780)         |
| Disposals                                  | 158             | –                           | 881   | 1,705                   | 65                      | 2,809           |
| <b>As at 30 June 2021</b>                  | <b>(21,299)</b> | <b>–</b>                    | <b>(20,879)</b>                                 | <b>(22,876)</b>         | <b>(6,781)</b>          | <b>(71,835)</b> |
| <b>Allowance for impairment losses</b>     |                 |                             |   |                         |                         |                 |
| As at 1 January 2021                       | –               | (16)                        | –   | (775)                   | –                       | (791)           |
| Provision for impairment                   | –               | –                           | –   | (248)                   | –                       | (248)           |
| Decrease                                   | –               | –                           | –   | 202                     | –                       | 202             |
| <b>As at 30 June 2021</b>                  | <b>–</b>        | <b>(16)</b>                 | <b>–</b>  | <b>(821)</b>            | <b>–</b>                | <b>(837)</b>    |
| <b>Net book value</b>                      |                 |                             |   |                         |                         |                 |
| <b>As at 30 June 2021</b>                  | <b>42,475</b>   | <b>2,663</b>                | <b>5,341</b>                                    | <b>113,752</b>          | <b>2,823</b>            | <b>167,054</b>  |

As at 30 June 2021, the net book value of the aircrafts and vessels used as collateral for borrowings was RMB52,954 million (31 December 2020: RMB58,496 million).

As at 30 June 2021, the property and equipment with re-registration procedure not completed amounted to RMB198 million (31 December 2020: RMB198 million). However, this registration process does not affect the rights of the Bank to these assets.



## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021

(All amounts expressed in millions of RMB unless otherwise stated)

25 PROPERTY AND EQUIPMENT *(Continued)*

|  | Buildings       | Construction in progress | Equipment And Transportation equipment | Aircraft and vessels | Property improvement | Total           |
|--|-----------------|--------------------------|--|----------------------|----------------------|-----------------|
| <b>Cost</b>                                |                 |                          |  |                      |                      |                 |
| As at 1 January 2020                       | 61,764          | 2,625                    | 26,034                                 | 133,756              | 9,378                | 233,557         |
| Additions                                  | 70              | 1,870                    | 2,822                                  | 18,424               | 98                   | 23,284          |
| Disposals                                  | (293)           | –                        | (2,201)                                | (15,475)             | (156)                | (18,125)        |
| Construction in progress transfer in/(out) | 616             | (950)                    | –                                      | –                    | 334                  | –               |
| Transfer in from investment properties     | 589             | –                        | –                                      | –                    | –                    | 589             |
| Transfer into investment properties        | (3)             | –                        | –                                      | –                    | –                    | (3)             |
| Other transfers out                        | –               | (176)                    | –                                      | –                    | –                    | (176)           |
| <b>As at 31 December 2020</b>              | <b>62,743</b>   | <b>3,369</b>             | <b>26,655</b>                          | <b>136,705</b>       | <b>9,654</b>         | <b>239,126</b>  |
| <b>Accumulated depreciation</b>            |                 |                          |  |                      |                      |                 |
| As at 1 January 2020                       | (18,678)        | –                        | (20,644)                               | (16,876)             | (5,824)              | (62,022)        |
| Charge for the year                        | (1,982)         | –                        | (2,027)                                | (6,882)              | (783)                | (11,674)        |
| Disposals                                  | 200             | –                        | 1,992                                  | 2,517                | 122                  | 4,831           |
| Transfer into investment properties        | 1               | –                        | –                                      | –                    | –                    | 1               |
| <b>As at 31 December 2020</b>              | <b>(20,459)</b> | <b>–</b>                 | <b>(20,679)</b>                        | <b>(21,241)</b>      | <b>(6,485)</b>       | <b>(68,864)</b> |
| <b>Allowance for impairment losses</b>     |                 |                          |  |                      |                      |                 |
| As at 1 January 2020                       | –               | (16)                     | –                                      | (340)                | –                    | (356)           |
| Provision for impairment                   | –               | –                        | –                                      | (485)                | –                    | (485)           |
| Decrease                                   | –               | –                        | –                                      | 50                   | –                    | 50              |
| <b>As at 31 December 2020</b>              | <b>–</b>        | <b>(16)</b>              | <b>–</b>                               | <b>(775)</b>         | <b>–</b>             | <b>(791)</b>    |
| <b>Net book value</b>                      |                 |                          |  |                      |                      |                 |
| <b>As at 31 December 2020</b>              | <b>42,284</b>   | <b>3,353</b>             | <b>5,976</b>                           | <b>114,689</b>       | <b>3,169</b>         | <b>169,471</b>  |

## 26 DEFERRED INCOME TAX

Deferred income taxes for transactions in PRC are calculated on all temporary differences using an effective tax rate of 25% for the six months ended 30 June 2021 (for the year ended 31 December 2020: 25%). Deferred income taxes for transactions in Hong Kong are calculated on all temporary differences using an effective tax rate of 16.5% (for the year ended 31 December 2020: 16.5%).

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

### 26 DEFERRED INCOME TAX (Continued)

Deferred income tax assets and liabilities are attributable to the following items:

|   | As at 30 June 2021                                   |  | As at 31 December 2020                               |  |
|---|--|--|--|--|
|   | Deductible/<br>(Taxable)<br>temporary<br>differences | Deferred<br>income tax<br>assets/<br>(liabilities) | Deductible/<br>(Taxable)<br>temporary<br>differences | Deferred<br>income tax<br>assets/<br>(liabilities) |
| <b>Deferred income tax liabilities</b>                            |  |  |  |  |
| Changes in fair value of financial assets at FVOCI                | (4,540)  | (1,135)  | (6,272)  | (1,568)  |
| Changes in fair value of financial assets and liabilities at FVPL | –  | –  | (3,724)  | (931)  |
| Changes in fair value of derivative instruments                   | (35,584)   | (8,841)  | (54,212)   | (13,648)   |
| Changes in fair value of investment properties                    | (2,740)  | (685)  | (2,836)  | (709)  |
| Others  | (3,964)  | (991)  | (3,014)  | (754)  |
|   | <b>(46,828)</b>                                      | <b>(11,652)</b>                                    | <b>(70,058)</b>                                      | <b>(17,610)</b>                                    |
| <b>Deferred income tax assets</b>                                 |  |  |  |  |
| Allowance for impairment of assets                                | 103,388  | 25,847   | 101,480  | 25,370   |
| Provisions  | 10,076   | 2,519  | 8,672  | 2,168  |
| Changes in fair value of financial assets and liabilities at FVPL | 364  | 91   | –  | –  |
| Changes in fair value of financial assets at FVOCI                | 3,844  | 961  | 4,292  | 1,073  |
| Changes in fair value of derivative instruments                   | 33,702   | 8,561  | 55,942   | 13,740   |
| Others  | 5,203  | 1,301  | 7,885  | 1,964  |
|   | <b>156,577</b>                                       | <b>39,280</b>                                      | <b>178,271</b>                                       | <b>44,315</b>                                      |
| Net deferred income tax assets                                    | <b>109,749</b>                                       | <b>27,628</b>                                      | <b>108,213</b>                                       | <b>26,705</b>                                      |

The above net deferred income tax assets are disclosed separately on the statements of financial position based on different taxation authorities and entities:

|                                 | As at<br>30 June 2021 | As at<br>31 December 2020 |
|---------------------------------|-----------------------|---------------------------|
| Deferred income tax assets      | 29,119                | 27,991                    |
| Deferred income tax liabilities | (1,491)               | (1,286)                   |

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 26 DEFERRED INCOME TAX (Continued)

|  | As at<br>30 June 2021 | As at<br>31 December 2020 |
|--|-----------------------|---------------------------|
| Net opening balance  | 26,705                | 23,147                    |
| Including: Deferred income tax assets  | 44,315                | 33,452                    |
| Deferred income tax liabilities  | (17,610)              | (10,305)                  |
| Net change in deferred income tax recognised in income tax expense in the current/previous year          | 951                   | 2,599                     |
| Net changes in deferred income tax recognised in other comprehensive income in the current/previous year | (28)                  | 959                       |
| Net ending balance   | 27,628                | 26,705                    |
| Including: Deferred income tax assets  | 39,280                | 44,315                    |
| Deferred income tax liabilities  | (11,652)              | (17,610)                  |

## 27 OTHER ASSETS

|  | As at<br>30 June 2021 | As at<br>31 December 2020 |
|--|-----------------------|---------------------------|
| Accounts receivable and temporary payments | 47,643                | 44,950                    |
| Less: Allowance for impairment losses (a)  | (3,205)               | (2,764)                   |
| Advance payments                           | 13,336                | 11,865                    |
| Investment properties (b)                  | 6,879                 | 7,353                     |
| Right-of-use assets(c)                     | 6,753                 | 6,669                     |
| Interest receivable <sup>(1)</sup>         | 3,992                 | 3,784                     |
| Land use rights and others                 | 2,158                 | 2,057                     |
| Intangible assets (d)                      | 1,492                 | 1,550                     |
| Long-term deferred expenses                | 503                   | 599                       |
| Foreclosed assets                          | 960                   | 967                       |
| Goodwill (e)                               | 402                   | 401                       |
| Refundable deposits                        | 463                   | 466                       |
| Unsettled assets                           | 31                    | 33                        |
| Precious metal                             | 5,441                 | 10,631                    |
| Others                                     | 6,201                 | 6,104                     |
|  | 93,049                | 94,665                    |

Note 1: The interest receivable account only reflects the interest for relevant financial instruments which is due but not received on balance sheet date.

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

### 27 OTHER ASSETS (Continued)

#### (a) Allowance for impairment losses

|                                   | As at<br>1 January<br>2021 | Amounts<br>accrued | Reversal | Written-offs | Transfers<br>(in)/out | Recoveries<br>after<br>written-offs | Exchange<br>differences | As at<br>30 June<br>2021 |
|-----------------------------------|----------------------------|--------------------|----------|--------------|-----------------------|-------------------------------------|-------------------------|--------------------------|
| Other receivables and prepayments | (2,764)                    | (1,320)            | 635      | 680          | (356)                 | (80)                                | –                       | (3,205)                  |
| Total                             | (2,764)                    | (1,320)            | 635      | 680          | (356)                 | (80)                                | –                       | (3,205)                  |

|                                   | As at<br>1 January<br>2020 | Amounts<br>accrued | Reversal | Written-offs | Transfers<br>(in)/out | Recoveries<br>after<br>written-offs | Exchange<br>differences | As at<br>31 December<br>2020 |
|-----------------------------------|----------------------------|--------------------|----------|--------------|-----------------------|-------------------------------------|-------------------------|------------------------------|
| Other receivables and prepayments | (2,717)                    | (1,972)            | 1,117    | 929          | –                     | (107)                               | (14)                    | (2,764)                      |
| Total                             | (2,717)                    | (1,972)            | 1,117    | 929          | –                     | (107)                               | (14)                    | (2,764)                      |

#### (b) Investment properties

|                       | As at<br>1 January<br>2021 | Decreases of<br>the period | Losses on<br>property<br>revaluation | Exchange<br>differences | As at<br>30 June<br>2021 |
|-----------------------|----------------------------|----------------------------|--------------------------------------|-------------------------|--------------------------|
| Investment properties | 7,353                      | (366)                      | (96)                                 | (12)                    | 6,879                    |

|                       | As at<br>1 January<br>2020 | Decreases of<br>the year | Gains on<br>property<br>revaluation | Exchange<br>differences | As at<br>31 December<br>2020 |
|-----------------------|----------------------------|--------------------------|-------------------------------------|-------------------------|------------------------------|
| Investment properties | 7,894                      | (577)                    | 180                                 | (144)                   | 7,353                        |

The Group's investment properties are located in active real estate markets. The external appraisers make reasonable estimation of fair value using market prices of the similar properties.

As at 30 June 2021, fair value hierarchies of the investment properties of the Group are as follows:

|   | Level 1 | Level 2 | Level 3 | As at<br>30 June 2021 |
|---|---------|---------|---------|-----------------------|
| Commercial property units located in Hong Kong      | –       | –       | 779     | 779                   |
| Commercial property units located outside Hong Kong | –       | –       | 6,100   | 6,100                 |

The valuation of investment properties was performed by independent qualified professional valuers not connected to the Group. Valuation methodologies include "Rental Income Approach" and "Direct Comparison Approach". The inputs to these models mainly include growth rate of rental, capitalisation rate and unit price.

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 27 OTHER ASSETS (Continued)

## (c) Right-of-use assets

|                                  | As at<br>30 June 2021 | As at<br>31 December 2020 |
|----------------------------------|-----------------------|---------------------------|
| <b>Cost</b>                      |                       |                           |
| Opening balance                  | 13,693                | 13,513                    |
| Additions                        | 1,394                 | 3,030                     |
| Decreases                        | (1,234)               | (2,850)                   |
| As at the end of the period/year | 13,853                | 13,693                    |
| <b>Accumulated depreciation:</b> |                       |                           |
| Opening balance                  | (7,024)               | (6,992)                   |
| Additions                        | (1,200)               | (2,445)                   |
| Decreases                        | 1,124                 | 2,413                     |
| As at the end of the period/year | (7,100)               | (7,024)                   |
| Net book value                   | 6,753                 | 6,669                     |
| Lease liabilities                | 6,639                 | 6,532                     |

As at 30 June 2021, committed by leases but not yet commenced amount to RMB157 million (as at 31 December 2020: RMB136 million).

The Group's right-of-use assets include the above assets and land use rights.

## (d) Intangible assets

|                                 | Software |
|---------------------------------|----------|
| <b>Cost</b>                     |          |
| As at 1 January 2021            | 3,888    |
| Additions                       | 121      |
| Disposals                       | (2)      |
| As at 30 June 2021              | 4,007    |
| <b>Accumulated amortisation</b> |          |
| As at 1 January 2021            | (2,338)  |
| Amortisation expense            | (179)    |
| Disposals                       | 2        |
| As at 30 June 2021              | (2,515)  |
| Net book value                  | 1,492    |

|                                 | Software |
|---------------------------------|----------|
| <b>Cost</b>                     |          |
| As at 1 January 2020            | 3,386    |
| Additions                       | 522      |
| Disposals                       | (20)     |
| As at 31 December 2020          | 3,888    |
| <b>Accumulated amortisation</b> |          |
| As at 1 January 2020            | (2,018)  |
| Amortisation expense            | (326)    |
| Disposals                       | 6        |
| As at 31 December 2020          | (2,338)  |
| Net book value                  | 1,550    |

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

### 27 OTHER ASSETS (Continued)

#### (e) Goodwill

|  | As at<br>1 January<br>2021 | Addition<br>during the<br>period | Decrease<br>during the<br>period | Exchange<br>differences | As at<br>30 June<br>2021 |
|--|----------------------------|----------------------------------|----------------------------------|-------------------------|--------------------------|
| Bank of Communications International Trust Co., Ltd. | 200                        | –                                | –                                | –                       | 200                      |
| BoCommLife Insurance Company Limited                 | 122                        | –                                | –                                | –                       | 122                      |
| BANCO Bocom BBM S.A.                                 | 79                         | –                                | –                                | 1                       | 80                       |
| Total  | 401                        | –                                | –                                | 1                       | 402                      |

|  | As at<br>1 January<br>2020 | Addition<br>during the<br>year | Decrease<br>during the<br>year | Exchange<br>differences | As at<br>31 December<br>2020 |
|--|----------------------------|--------------------------------|--------------------------------|-------------------------|------------------------------|
| Bank of Communications International Trust Co., Ltd. | 200                        | –                              | –                              | –                       | 200                          |
| BoCommLife Insurance Company Limited                 | 122                        | –                              | –                              | –                       | 122                          |
| BANCO Bocom BBM S.A.                                 | 108                        | –                              | –                              | (29)                    | 79                           |
| Total  | 430                        | –                              | –                              | (29)                    | 401                          |

### 28 DUE TO AND PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

|   | As at<br>30 June 2021 | As at<br>31 December 2020 |
|---|-----------------------|---------------------------|
| Borrowing from central banks                                    | 437,922               | 472,460                   |
| Accrued interest  | 6,865                 | 6,285                     |
| Due to banks  |                       |                           |
| – Banks operating in Mainland China                             | 204,758               | 200,025                   |
| – Banks operating outside Mainland China                        | 19,425                | 28,084                    |
| Due to other financial institutions                             |                       |                           |
| – Other financial institutions operating in Mainland China      | 686,873               | 664,299                   |
| – Other financial institutions operating outside Mainland China | 11,722                | 9,548                     |
| Accrued interest  | 3,414                 | 3,002                     |
| Placements from banks   |                       |                           |
| – Banks operating in Mainland China                             | 256,711               | 164,583                   |
| – Banks operating outside Mainland China                        | 136,736               | 153,341                   |
| Placements from other financial institutions                    |                       |                           |
| – Other financial institutions operating in Mainland China      | 1,200                 | 2,500                     |
| – Other financial institutions operating outside Mainland China | 8,360                 | 9,124                     |
| Accrued interest  | 772                   | 1,019                     |
| Financial assets sold under repurchase agreements               |                       |                           |
| Securities  |                       |                           |
| – Governments   | 28,342                | 9,706                     |
| – Policy banks  | 5,020                 | 3,283                     |
| – Financial institutions  | 15,340                | 25,515                    |
| – Corporates  | 12,371                | 9,312                     |
| Bills   | 2,242                 | 25,363                    |
| Accrued interest  | 33                    | 42                        |
| Total   | 1,838,106             | 1,787,491                 |

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 29 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

|   | As at<br>30 June 2021 | As at<br>31 December 2020 |
|---|-----------------------|---------------------------|
| Short position of securities held for trading             | 131                   | –                         |
| Certificates of deposit issued                            | 1,644                 | 7,868                     |
| Financial liabilities related to precious metal contracts | 11,282                | 16,104                    |
| Notes issued  | 700                   | 417                       |
| Others  | 6,775                 | 4,890                     |
| Total   | 20,532                | 29,279                    |

Except for certificates of deposit issued by branch in Hong Kong, notes issued by BoCom International Holdings Company Limited, and shares of consolidated structured entities held by other parties rather than the Group which are designated at fair value through profit or loss, financial liabilities at fair value through profit or loss are financial liabilities held for trading.

*Financial liabilities designated at fair value through profit or loss*

|  | As at<br>30 June 2021 | As at<br>31 December 2020 |
|--|-----------------------|---------------------------|
| Difference between carrying amount and maturity amount |                       |                           |
| Fair values  | 9,119                 | 13,175                    |
| Amount payable at maturity                             | 9,033                 | 12,962                    |
|  | 86                    | 213                       |

For the six months ended 30 June 2021 and the year ended 31 December 2020, there were no significant changes in the fair value of the Group's financial liabilities designated at fair value through profit or loss that were attributable to the changes in credit risk.

## 30 DUE TO CUSTOMERS

|                                | As at<br>30 June 2021 | As at<br>31 December 2020 |
|--------------------------------|-----------------------|---------------------------|
| Corporate demand deposits      | 2,088,099             | 2,005,934                 |
| Corporate time deposits        | 2,464,371             | 2,335,590                 |
| Personal demand deposits       | 824,774               | 812,534                   |
| Personal time deposits         | 1,558,707             | 1,379,697                 |
| Other deposits                 | 2,433                 | 5,499                     |
| Due to customers               | 6,938,384             | 6,539,254                 |
| Accrued interest               | 78,268                | 68,076                    |
| Total                          | 7,016,652             | 6,607,330                 |
| Including:                     |                       |                           |
| Deposits pledged as collateral | 227,459               | 229,546                   |

## 31 CERTIFICATES OF DEPOSITS ISSUED

Certificates of deposits were issued by the Bank's domestic branches, branches in Macau, Hong Kong, New York, Tokyo, Singapore, Seoul, Sydney, London and Luxembourg, Bank of Communications (Luxemburg) Limited, Bank of Communications (Hong Kong) Limited and BANCO Bocom BBM S.A., which were measured at amortised cost.

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

### 32 DEBT SECURITIES ISSUED

|                            |      | As at<br>30 June 2021 | As at<br>31 December 2020 |
|----------------------------|------|-----------------------|---------------------------|
| Carried at amortised cost: |      |                       |                           |
| Subordinated bonds         |      |                       |                           |
| The Bank                   | 32.1 | 25,950                | 25,950                    |
| Subsidiaries               | 32.1 | 3,000                 | –                         |
| Tier-2 capital bonds       |      |                       |                           |
| The Bank                   | 32.2 | 113,795               | 113,945                   |
| Subsidiaries               | 32.2 | 1,995                 | 1,995                     |
| Bonds                      |      |                       |                           |
| The Bank                   | 32.3 | 286,812               | 251,580                   |
| Subsidiaries               | 32.3 | 90,349                | 85,767                    |
| Accrued interest           |      | 9,374                 | 5,145                     |
| Subtotal                   |      | 531,275               | 484,382                   |
| Carried at fair value:     |      |                       |                           |
| Bonds                      |      |                       |                           |
| The Bank                   | 32.3 | 10,322                | 13,373                    |
| Total                      |      | 541,597               | 497,755                   |

Note: Debt securities issued are designated as fair value through profit or loss upon initiation as the Hong Kong branch of the Bank considers such designation could eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise result from measuring the corresponding derivative assets or recognising the gains or losses on them on different basis. Accordingly, the debts are designated as fair value through profit or loss with changes in fair values charged to profit and loss account. For the six months ended 30 June 2021 and the year ended 31 December 2020, there were no significant changes that were attributable to the Group's changes in credit risks.

#### 32.1 Subordinated bonds

Detailed information of subordinated bonds is disclosed as follows:

|                 | Currency | Issue place    | Coupon<br>rate % | Par value<br>(CCY) | Issue date | Maturity | Note | Ending<br>balance | Opening<br>balance |
|-----------------|----------|----------------|------------------|--------------------|------------|----------|------|-------------------|--------------------|
| 11 BoComm 01    | RMB      | Mainland China | 5.75             | 26,000             | 2011/10/21 | 15 years | (a)  | 25,950            | 25,950             |
| Subtotal        |          |                |                  |                    |            |          |      | 25,950            | 25,950             |
| Subsidiary      |          |                |                  |                    |            |          |      |                   |                    |
| 21 Insurance 01 | RMB      | Mainland China | 4.30             | 3,000              | 2021/03/25 | 10 years | (b)  | 3,000             | –                  |
| Subtotal        |          |                |                  |                    |            |          |      | 3,000             | –                  |
| Total           |          |                |                  |                    |            |          |      | 28,950            | 25,950             |

(a) The Group has an option to redeem 11 BoComm 01 on 24 October 2021. The bonds bear a fixed coupon rate of 5.75%.

(b) BoCommLife Insurance Company Limited has an option to redeem 21 Insurance 01 at the par value partially or as a whole on the last day of the fifth interest-bearing year, provided that the permission of the PBOC and the CBIRC is acquired in advance and the BoCommLife Insurance Company Limited's solvency ratio is not less than 100% if the redemption is exercised.



## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 32 DEBT SECURITIES ISSUED (Continued)

## 32.2 Tier-2 capital bonds

Detailed information of tier-2 capital bonds is disclosed as follows:

|                   | Currency | Issue place     | Coupon<br>rate % | Par value<br>(CCY) | Issue date | Maturity | Note | Ending<br>balance | Opening<br>balance |
|-------------------|----------|-----------------|------------------|--------------------|------------|----------|------|-------------------|--------------------|
| The Bank          |          |                 |                  |                    |            |          |      |                   |                    |
| 14 BoComm 01-Euro | EUR      | Hong Kong China | 3.625            | 500                | 2014/10/03 | 12 years | (a)  | 3,826             | 3,984              |
| 17 BoComm         | RMB      | Mainland China  | 4.50             | 30,000             | 2017/04/11 | 10 years | (b)  | 29,976            | 29,973             |
| 19 BoComm 01      | RMB      | Mainland China  | 4.10             | 30,000             | 2019/08/14 | 10 years | (c)  | 29,998            | 29,993             |
| 19 BoComm 02      | RMB      | Mainland China  | 4.49             | 10,000             | 2019/08/14 | 15 years | (d)  | 9,999             | 9,999              |
| 20 BoComm         | RMB      | Mainland China  | 3.24             | 40,000             | 2020/05/19 | 10 years | (e)  | 39,996            | 39,996             |
| Subtotal          |          |                 |                  |                    |            |          |      | 113,795           | 113,945            |
| Subsidiaries      |          |                 |                  |                    |            |          |      |                   |                    |
| 18 Leasing 02     | RMB      | Mainland China  | 5.15             | 2,000              | 2018/09/18 | 10 years | (f)  | 1,995             | 1,995              |
| Subtotal          |          |                 |                  |                    |            |          |      | 1,995             | 1,995              |
| Total             |          |                 |                  |                    |            |          |      | 115,790           | 115,940            |

- (a) The Group has an option to redeem 14 BoComm 01-Euro as a whole on 3 October 2021. If the issuer does not exercise the redemption right by 3 October 2021, the interest rate will be readjusted based on the median of 5-year Euro swap rate plus 300 basis points initial rate differential.
- (b) The Group has an option to redeem 17 BoComm at the par value partially or as a whole on 13 April 2022, the first day upon the end of the fifth interest-bearing year, provided that the CBIRC's permission is acquired in advance and the Group's capital structure fulfills the CBIRC requirements on capital if the redemption is exercised.
- (c) The Group has an option to redeem 19 BoComm 01 at the par value partially or as a whole on 16 August 2024, the last day of the interest-bearing year with early redemption option embedded, provided that the CBIRC's permission is acquired in advance and the Group's capital structure fulfills the CBIRC requirements on capital if the redemption is exercised.
- (d) The Group has an option to redeem 19 BoComm 02 at the par value partially or as a whole on 16 August 2029, the last day of the interest-bearing year with early redemption option embedded, provided that the CBIRC's permission is acquired in advance and the Group's capital structure fulfills the CBIRC requirements on capital if the redemption is exercised.
- (e) The Group has an option to redeem 20 BoComm at the par value partially or as a whole on 21 May 2025, the last day of the interest-bearing year with early redemption option embedded, provided that the CBIRC's permission is acquired in advance and the Group's capital structure fulfills the CBIRC requirements on capital if the redemption is exercised.
- (f) Bank of Communications Financial Leasing Co., Ltd. has an option to redeem 18 Leasing 02 at the par value partially or as a whole on 20 September 2023, the first day upon the end of the fifth interest-bearing year, provided that the CBIRC's permission is acquired in advance and Bank of Communications Financial Leasing Co., Ltd.'s capital structure fulfills the CBIRC requirements on capital if the redemption is exercised.

These tier-2 capital bonds have the write-down feature, which allows the Group or Bank of Communications Financial Leasing Co., Ltd to write down the entire principals of the bonds when regulatory triggering events as stipulated in the offering documents occur and any accumulated unpaid interest would become not payable. These bonds are regarded as tier-2 capital without any guarantees provided and the proceeds of the debts cannot be used for compensating daily operating loss of the Group or Bank of Communications Financial Leasing Co., Ltd.

# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

## 32 DEBT SECURITIES ISSUED (Continued)

### 32.3 Bonds

Detailed information of bonds held at amortised cost is as follows:

|                                       | Currency | Issue place     | Coupon rate % | Par value<br>(CCY) | Issue date | Maturity | Ending<br>balance | Opening<br>balance |
|---------------------------------------|----------|-----------------|---------------|--------------------|------------|----------|-------------------|--------------------|
| <b>The Bank</b>                       |          |                 |               |                    |            |          |                   |                    |
| 16 BoComm Green Financial bond 02     | RMB      | Mainland China  | 3.25          | 20,000             | 2016/11/18 | 5 years  | 20,000            | 20,000             |
| 18 Bocom Micro Small Enterprises Bond | RMB      | Mainland China  | 3.79          | 10,000             | 2018/11/28 | 3 years  | 10,000            | 10,000             |
| 19 Bocomm 01                          | RMB      | Mainland China  | 3.35          | 50,000             | 2019/11/25 | 3 years  | 50,000            | 50,000             |
| 19 Bocomm 02                          | RMB      | Mainland China  | 3.35          | 40,000             | 2019/12/11 | 3 years  | 40,000            | 40,000             |
| 20 Bocomm 01                          | RMB      | Mainland China  | 3.18          | 50,000             | 2020/08/05 | 3 years  | 50,000            | 50,000             |
| 20 Bocomm 02                          | RMB      | Mainland China  | 3.50          | 40,000             | 2020/11/11 | 3 years  | 40,000            | 40,000             |
| 21 Bocom Micro Small Enterprises Bond | RMB      | Mainland China  | 3.40          | 40,000             | 2021/04/06 | 3 years  | 40,000            | -                  |
| 14 Formosa Bond C                     | RMB      | Taiwan China    | 4.15          | 500                | 2014/06/23 | 7 years  | -                 | 500                |
| 17 medium-term notes 02               | USD      | Hong Kong China | 3MLibor+0.88  | 300                | 2017/05/15 | 5 years  | 1,938             | 1,957              |
| 17 medium-term notes 04               | USD      | Hong Kong China | 3MLibor+0.90  | 600                | 2017/12/04 | 5 years  | 3,877             | 3,915              |
| 18 medium-term notes 01               | USD      | Hong Kong China | 3MLibor+0.75  | 600                | 2018/05/17 | 3 years  | -                 | 3,915              |
| 18 medium-term notes 02               | USD      | Hong Kong China | 3MLibor+0.85  | 700                | 2018/05/17 | 5 years  | 4,523             | 4,567              |
| 20 Hong Kong medium-term notes 01     | HKD      | Hong Kong China | 2.25          | 2,800              | 2020/01/22 | 2 years  | 2,329             | 2,357              |
| 20 Hong Kong medium-term notes 02     | USD      | Hong Kong China | 3MLibor+0.58  | 1,300              | 2020/01/22 | 3 years  | 8,399             | 8,482              |
| 20 Hong Kong medium-term notes 04     | USD      | Hong Kong China | 3MLibor+0.75  | 100                | 2020/06/05 | 3 years  | 645               | 651                |
| 20 Hong Kong medium-term notes 05     | USD      | Hong Kong China | 3MLibor+0.80  | 650                | 2020/07/20 | 3 years  | 4,200             | 4,241              |
| 20 Hong Kong medium-term notes 06     | USD      | Hong Kong China | 3MLibor+0.90  | 400                | 2020/07/20 | 5 years  | 2,584             | 2,610              |
| 20 Hong Kong medium-term notes 07     | USD      | Hong Kong China | 1.20          | 800                | 2020/09/10 | 5 years  | 5,151             | 5,199              |
| 20 Hong Kong medium-term notes 08     | USD      | Hong Kong China | 3MLibor+0.80  | 350                | 2020/09/10 | 3 years  | 2,261             | 2,284              |
| P14JHTP1C                             | RMB      | Taiwan China    | 3.90          | 700                | 2014/12/04 | 7 years  | 704               | 702                |
| P14JHTP1D                             | RMB      | Taiwan China    | 4.00          | 200                | 2014/12/04 | 10 years | 201               | 200                |
| <b>Sub-total</b>                      |          |                 |               |                    |            |          | <b>286,812</b>    | <b>251,580</b>     |
| <b>Subsidiaries</b>                   |          |                 |               |                    |            |          |                   |                    |
| 13 Azure Orbit                        | USD      | Hong Kong China | 3.75          | 500                | 2013/03/06 | 10 years | 3,227             | 3,260              |
| 5 Year USD bond                       | USD      | Hong Kong China | 2.625         | 600                | 2016/03/15 | 5 years  | -                 | 3,914              |
| 3 Year USD bond                       | USD      | Hong Kong China | 3.50          | 300                | 2018/01/25 | 3 years  | -                 | 1,957              |
| 5 Year USD bond                       | USD      | Hong Kong China | 3.75          | 950                | 2018/01/25 | 5 years  | 6,119             | 6,179              |
| 10 Year USD bond                      | USD      | Hong Kong China | 4.00          | 250                | 2018/01/25 | 10 years | 1,599             | 1,614              |
| 19 Brazil bonds                       | BRL      | Brazil          | 110%SELIC     | 200                | 2019/01/30 | 5 years  | 49                | 48                 |
| 16 Leasing 03                         | RMB      | Mainland China  | 3.25          | 500                | 2016/09/07 | 5 years  | 500               | 449                |
| 18 Leasing 01                         | RMB      | Mainland China  | 4.53          | 4,000              | 2018/07/05 | 3 years  | 4,000             | 3,998              |
| 18 Leasing 02                         | RMB      | Mainland China  | 4.14          | 4,000              | 2018/10/22 | 3 years  | 3,999             | 3,997              |
| 19 Leasing 01                         | RMB      | Mainland China  | 3.68          | 5,000              | 2019/05/20 | 3 years  | 4,996             | 4,994              |
| 19 Leasing 02                         | RMB      | Mainland China  | 3.65          | 5,000              | 2019/07/08 | 3 years  | 4,996             | 4,994              |
| 19 Leasing 03                         | RMB      | Mainland China  | 3.49          | 3,500              | 2019/10/22 | 3 years  | 3,496             | 3,495              |
| 20 Leasing 01                         | RMB      | Mainland China  | 3.65          | 3,000              | 2020/11/05 | 3 years  | 2,995             | 2,915              |
| 21 Leasing 01                         | RMB      | Mainland China  | 3.62          | 4,000              | 2021/03/01 | 3 years  | 3,992             | -                  |
| 21 Leasing 02                         | RMB      | Mainland China  | 3.45          | 3,000              | 2021/04/22 | 3 years  | 2,623             | -                  |
| Azure Nova                            | USD      | Hong Kong China | 2.625         | 1,000              | 2016/10/25 | 5 years  | 6,449             | 6,514              |
| Azure Nova                            | USD      | Hong Kong China | 3.50          | 1,050              | 2017/03/21 | 5 years  | 6,776             | 6,843              |
| Azure Nova                            | USD      | Hong Kong China | 4.25          | 250                | 2017/03/21 | 10 years | 1,610             | 1,626              |
| 19 USD medium-term notes 01           | USD      | Hong Kong China | 4.00          | 800                | 2019/01/22 | 3 years  | 3,725             | 3,726              |
| 19 USD medium-term notes 02           | USD      | Hong Kong China | 4.375         | 700                | 2019/01/22 | 5 years  | 2,789             | 2,713              |
| 19 USD medium-term notes 03           | USD      | Hong Kong China | 3MLibor+1.20  | 120                | 2019/04/12 | 3 years  | 775               | 783                |
| 19 USD medium-term notes 04           | USD      | Hong Kong China | 3MLibor+1.175 | 400                | 2019/09/05 | 5 years  | 1,201             | 1,319              |
| 19 USD medium-term notes 05           | USD      | Hong Kong China | 2.625         | 200                | 2019/09/05 | 5 years  | 728               | 767                |
| 19 USD medium-term notes 06           | USD      | Hong Kong China | 3MLibor+1.05  | 180                | 2019/10/25 | 3 years  | 1,162             | 1,174              |
| 19 USD medium-term notes 07           | USD      | Hong Kong China | 3MLibor+1.075 | 600                | 2019/12/10 | 5 years  | 1,594             | 1,773              |
| 20 USD medium-term notes 01           | USD      | Hong Kong China | 3MLibor+0.95  | 500                | 2020/03/02 | 5 years  | 1,812             | 2,021              |
| 20 USD medium-term notes 02           | USD      | Hong Kong China | 3MLibor+0.83  | 300                | 2020/03/02 | 3 years  | 1,526             | 1,602              |
| 20 USD medium-term notes 03           | USD      | Hong Kong China | 1.750         | 350                | 2020/07/08 | 3 years  | 1,484             | 1,650              |
| 20 USD medium-term notes 04           | USD      | Hong Kong China | 3MLibor+1.70  | 450                | 2020/07/08 | 5 years  | 1,383             | 1,457              |
| 21 USD medium-term notes 01           | USD      | Hong Kong China | 1.125         | 500                | 2021/06/16 | 3 years  | 1,875             | -                  |
| 21 Bocomm International 01            | USD      | Hong Kong China | 1.75          | 500                | 2021/06/22 | 5 years  | 2,881             | -                  |
| 20 Financial Investing 01             | RMB      | Mainland China  | 2.70          | 3,000              | 2020/03/11 | 3 years  | 2,998             | 2,997              |
| 20 Financial Investing 02             | RMB      | Mainland China  | 2.80          | 7,000              | 2020/03/11 | 5 years  | 6,990             | 6,988              |
| <b>Sub-total</b>                      |          |                 |               |                    |            |          | <b>90,349</b>     | <b>85,767</b>      |
| <b>Total</b>                          |          |                 |               |                    |            |          | <b>377,161</b>    | <b>337,347</b>     |

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 32 DEBT SECURITIES ISSUED (Continued)

## 32.3 Bonds (Continued)

Detailed information of bonds held at fair value is as follows:

|                                    | Currency | Issue place     | Coupon rate % | Par value (CCY) | Issue date | Maturity | Fair value at the end of the period | Fair value at the beginning of the period |
|------------------------------------|----------|-----------------|---------------|-----------------|------------|----------|-------------------------------------|---|
| 14 Hong Kong bond                  | HKD      | Hong Kong China | 4.00          | 500             | 2014/02/14 | 7 years  | –                                   | 428                                       |
| 19 Hong Kong RMB medium-term notes | RMB      | Hong Kong China | 3.40          | 2,500           | 2019/03/21 | 2 years  | –                                   | 2,526                                     |
| 19 Hong Kong medium-term notes     | HKD      | Hong Kong China | 2.85          | 3,500           | 2019/03/21 | 5 years  | 3,100                               | 3,157                                     |
| 19 Hong Kong USD medium-term notes | USD      | Hong Kong China | 3MLibor+0.78  | 800             | 2019/03/21 | 3 years  | 5,186                               | 5,226                                     |
| 20 Hong Kong medium-term notes 03  | RMB      | Hong Kong China | 3.15          | 2,000           | 2020/01/22 | 2 years  | 2,036                               | 2,036                                     |
| Total                              |          |                 |               |                 |            |          | 10,322                              | 13,373                                    |

## 33 OTHER LIABILITIES

|   | As at 30 June 2021 | As at 31 December 2020 |
|---|--------------------|------------------------|
| Insurance liabilities   | 68,767             | 58,842                 |
| Clearing and settlement   | 23,404             | 31,482                 |
| Temporary receipts  | 20,459             | 23,212                 |
| Staff compensation payable  | 6,640              | 11,591                 |
| Deposits received for finance lease   | 6,871              | 6,893                  |
| Lease liabilities   | 6,639              | 6,532                  |
| Provision for outstanding litigations (a)   | 620                | 1,032                  |
| Expected credit impairment allowance of credit related commitments and financial guarantees (b) | 10,327             | 10,500                 |
| VAT and other taxes payable   | 5,299              | 4,208                  |
| Special purpose funding   | 2,338              | 2,571                  |
| Dividends payable   | 25,758             | 124                    |
| Others  | 52,975             | 44,835                 |
| Total   | 230,097            | 201,822                |

## (a) Movements in the provision for outstanding litigations

|                                       | As at 1 January 2021 | Amounts accrued during the period | Amounts settled during the period | Amounts reversed during the period | Exchange differences | As at 30 June 2021 |
|---------------------------------------|----------------------|-----------------------------------|-----------------------------------|------------------------------------|----------------------|--------------------|
| Provision for outstanding litigations | 1,032                | 47                                | (358)                             | (101)                              | –                    | 620                |

|                                       | As at 1 January 2020 | Amounts accrued during the year | Amounts settled during the year | Amounts reversed during the year | Exchange differences | As at 31 December 2020 |
|---------------------------------------|----------------------|---------------------------------|---------------------------------|----------------------------------|----------------------|------------------------|
| Provision for outstanding litigations | 1,029                | 120                             | (29)                            | (88)                             | –                    | 1,032                  |

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

### 33 OTHER LIABILITIES (Continued)

- (b) Movements in the expected credit impairment allowance of credit related commitments and financial guarantees

|  | Stage 1<br>12-month ECL | Stage 2<br>Lifetime ECL | Stage 3<br>Lifetime ECL | Total         |
|--|-------------------------|-------------------------|-------------------------|---------------|
| <b>As at 1 January 2021</b>                      | <b>6,858</b>            | <b>3,642</b>            | <b>–</b>                | <b>10,500</b> |
| Addition/(Reversal), net                         | 850                     | 421                     | –                       | 1,271         |
| Transfer out                                     | –                       | (2,947)                 | –                       | (2,947)       |
| Transfers:                                       | (43)                    | 43                      | –                       | –             |
| <i>Transfer between Stage 1 and Stage 2, net</i> | <i>(43)</i>             | <i>43</i>               | <i>–</i>                | <i>–</i>      |
| Remeasurement                                    | 1,233                   | 275                     | –                       | 1,508         |
| Exchange differences                             | (3)                     | (2)                     | –                       | (5)           |
| <b>As at 30 June 2021</b>                        | <b>8,895</b>            | <b>1,432</b>            | <b>–</b>                | <b>10,327</b> |

|  | Stage 1<br>12-month ECL | Stage 2<br>Lifetime ECL | Stage 3<br>Lifetime ECL | Total         |
|--|-------------------------|-------------------------|-------------------------|---------------|
| <b>As at 1 January 2020</b>                      | <b>5,358</b>            | <b>974</b>              | <b>–</b>                | <b>6,332</b>  |
| Addition/(Reversal), net                         | 1,443                   | 2,261                   | –                       | 3,704         |
| Transfer out                                     | (35)                    | (651)                   | –                       | (686)         |
| Transfers:                                       | (928)                   | 928                     | –                       | –             |
| <i>Transfer between Stage 1 and Stage 2, net</i> | <i>(928)</i>            | <i>928</i>              | <i>–</i>                | <i>–</i>      |
| Remeasurement                                    | 1,037                   | 133                     | –                       | 1,170         |
| Exchange differences                             | (17)                    | (3)                     | –                       | (20)          |
| <b>As at 31 December 2020</b>                    | <b>6,858</b>            | <b>3,642</b>            | <b>–</b>                | <b>10,500</b> |

### 34 SHARE CAPITAL AND CAPITAL SURPLUS

|                      | Number of shares<br>(in millions) | Ordinary shares<br>of RMB1 each | Capital surplus |
|----------------------|-----------------------------------|---------------------------------|-----------------|
| As at 1 January 2021 | 74,263                            | 74,263                          | 111,428         |
| As at 30 June 2021   | 74,263                            | 74,263                          | 111,428         |

|                        | Number of shares<br>(in millions) | Ordinary shares<br>of RMB1 each | Capital surplus |
|------------------------|-----------------------------------|---------------------------------|-----------------|
| As at 1 January 2020   | 74,263                            | 74,263                          | 113,663         |
| As at 31 December 2020 | 74,263                            | 74,263                          | 111,428         |

As at 30 June 2021 and 31 December 2020, the number of A shares of the Group was 39,251 million, and the number of H shares of the Group was 35,012 million, both with par value of RMB1 per share.

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 34 SHARE CAPITAL AND CAPITAL SURPLUS (Continued)

As at 30 June 2021 and 31 December 2020, the Group's capital surplus is listed as follows:

|                       | As at<br>1 January 2021 | Additions | Reductions | As at<br>30 June 2021 |
|-----------------------|-------------------------|-----------|------------|-----------------------|
| Share premium         | 110,770                 | –         | –          | 110,770               |
| Other capital reserve | 658                     | –         | –          | 658                   |
| Total                 | 111,428                 | –         | –          | 111,428               |

|                       | As at<br>1 January 2020 | Additions | Reductions | As at<br>31 December 2020 |
|-----------------------|-------------------------|-----------|------------|---------------------------|
| Share premium         | 113,005                 | –         | (2,235)    | 110,770                   |
| Other capital reserve | 658                     | –         | –          | 658                       |
| Total                 | 113,663                 | –         | (2,235)    | 111,428                   |

## 35 OTHER EQUITY INSTRUMENTS

## 35.1 Preference shares

## 35.1.1 Preference shares outstanding at the end of the period

|                            |                              |                    |             |                     | In original<br>currency<br>(in millions) | In RMB<br>(in millions) | Maturity | Conversion<br>condition | Conversion                         |
|----------------------------|------------------------------|--------------------|-------------|---------------------|--|-------------------------|----------|-------------------------|------------------------------------|
| Issue date                 | Accounting<br>classification | Dividend rate<br>% | Issue price | Amount in<br>shares |  |                         |          |                         |                                    |
| Domestic preference shares |                              |                    |             |                     |  |                         |          |                         |                                    |
| Preference shares in RMB   | 2 September 2016             | Equity             | 3.90        | RMB100/ share       | 450,000,000                              | 45,000                  | 45,000   | No maturity date        | Mandatory                          |
|                            |                              |                    |             |                     |  |                         |          |                         | No conversion during<br>the period |
| Total                      |                              |                    |             |                     |  | 45,000                  |          |                         |                                    |
| Less: Issuance fees        |                              |                    |             |                     |  | (48)                    |          |                         |                                    |
| Carrying amount            |                              |                    |             |                     |  | 44,952                  |          |                         |                                    |

## 35.1.2 Movements of preference shares issued

|                            | As at<br>1 January 2021 | Movements |           | As at<br>30 June 2021 |
|----------------------------|-------------------------|-----------|-----------|-----------------------|
|                            |                         | Additions | Decreases |                       |
| Domestic preference shares |                         |           |           |                       |
| Amount (shares)            | 450,000,000             | –         | –         | 450,000,000           |
| In RMB(millions)           | 44,952                  | –         | –         | 44,952                |

## 35 OTHER EQUITY INSTRUMENTS *(Continued)*

### 35.1 Preference shares *(Continued)*

#### **35.1.3 Main clauses**

##### *Domestic preference shares*

##### (a) Dividend

The domestic preference shares will accrue dividends on their issue price at the relevant dividend rate below:

- (1) From and including the issue date to but excluding the first reset date, at the rate of 3.90% per annum; and
- (2) The dividend rate will be re-priced every five years thereafter with reference to the arithmetic average value (rounding off to 0.01%) of five-year Chinese treasury bonds yield at the date which is 20 transaction days before the reset date (excluding the date) plus a fixed premium of 1.37%. As authorised by the shareholders' annual general meeting, the Board of Directors has the sole discretion to declare and distribute dividends on domestic preference shares.

The dividend for domestic preference shares is non-cumulative. Where the Bank determines to cancel the dividend for domestic preference shares in whole or in part, the omitted dividend will not be carried forward and claimed in the future period. After receiving dividends at the agreed dividend rate, domestic preference shareholders of the Bank will not participate in the distribution of residual profits with ordinary shareholders. Domestic preference shares issued by the Bank have the same dividend distribution order as the offshore preference shares.

##### (b) Conditions to distribution of dividends

The Bank could pay dividends while the Bank still has distributable after-tax profit after making up previous years' losses, contributing to the statutory reserve and making general provisions, and the Bank's capital adequacy ratio meets regulatory requirements. Domestic preference shareholders of the Bank are senior to the ordinary shareholders on the right to dividends.

Subject to a resolution to be passed at a shareholders' general meeting of the Bank on each such occasion, the Bank may elect to cancel (in whole or in part) any preference share dividend. The Bank shall not distribute any dividends to its ordinary shareholders before it declares such dividends to preference shareholders for the relevant periods.

##### (c) Mandatory conversion trigger events

Upon occurrence of the triggering events as stipulated by the offering documents and subject to regulatory approval, domestic preference shares shall be mandatorily converted into ordinary A Shares of the Bank, partially or entirely. The initial mandatory conversion price is RMB6.25 per share. To balance the interest between preference shareholders and ordinary shareholders, the mandatory conversion price of the preference shares will be cumulatively adjusted in sequence where certain events occur including issuances of bonus shares, capitalisation of reserves, new issuances of ordinary shares at a price lower than the market price (excluding equity increased due to exercise of convertible financing instruments that can be converted into ordinary shares) and rights issues, subject to terms and formulas provided for in the offering documents. Appropriation of dividends to ordinary shareholders is not trigger event for price adjustment.

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 35 OTHER EQUITY INSTRUMENTS (Continued)

## 35.1 Preference shares (Continued)

## 35.1.3 Main clauses (Continued)

## Domestic preference shares (Continued)

## (d) Order of distribution and liquidation method

On winding-up of the Bank, distribution to domestic preference shareholders is made after all debts of the Bank (including subordinated debts) and obligations that are issued or guaranteed by the Bank and specifically stated to be distributed prior to the domestic preference shares; all domestic preference shareholders are ranked at the same in the distribution sequence without priority among them and have the same repayment sequence rights as holders of obligations with equivalent rights. In addition, distribution is made to domestic preference shareholders prior to ordinary shareholders.

On winding-up of the Bank, any remaining assets of the Bank shall, after the distributions in accordance with the terms and conditions of the domestic preference shares have been made, be applied to the claims of the domestic preference shareholders equally in all respects with the claims of holders of any parity obligations (which term, for the avoidance of doubt, includes the domestic preference shares and any other preference shares of the Bank issued from time to time to investors outside the PRC) and in priority to the claims of the holders of ordinary shares.

The distribution amount obtained by the domestic preference shareholders shall be the total par value of the issued and outstanding preference shares plus dividends declared but not paid in the current period; if the distribution amount is insufficient, domestic and offshore preference shareholders will share the distribution amount on a proportional basis.

## (e) Redemption

The domestic preference shares are perpetual and have no maturity date. The Bank may, subject to obtaining the CBIRC approval and in compliance with the redemption preconditions, redeem all or some of the domestic preference shares on 2 September 2021 and on any preference share dividend payment date thereafter. The redemption period ends at the date when shares are fully converted or redeemed.

## 35.2 Perpetual bonds

## 35.2.1 Perpetual bonds outstanding at the end of the period

|                           | Issue date        | Accounting classification | Original interest rate % | Issue price      | Amount in shares | In original currency (in millions) | In RMB (in millions) | Maturity               |
|---------------------------|-------------------|---------------------------|--------------------------|------------------|------------------|------------------------------------|----------------------|------------------------|
| Perpetual bonds in RMB(1) | 20 September 2019 | Equity                    | 4.20                     | RMB100/bond      | 400,000,000      | 40,000                             | 40,000               | No fixed maturity date |
| Perpetual bonds in RMB(2) | 25 September 2020 | Equity                    | 4.59                     | RMB100/bond      | 300,000,000      | 30,000                             | 30,000               | No fixed maturity date |
| Perpetual bonds in RMB(2) | 10 June 2021      | Equity                    | 4.06                     | RMB100/bond      | 415,000,000      | 41,500                             | 41,500               | No fixed maturity date |
| Perpetual bonds in USD(3) | 18 November 2020  | Equity                    | 3.80                     | USD 200,000/bond | 14,000           | 2,800                              | 18,366               | No fixed maturity date |
| Total                     |                   |                           |                          |                  |                  |                                    | 129,866              |                        |
| Less: Issuance fees       |                   |                           |                          |                  |                  |                                    | (28)                 |                        |
| Carrying amount           |                   |                           |                          |                  |                  |                                    | 129,838              |                        |

## 35 OTHER EQUITY INSTRUMENTS *(Continued)*

### 35.2 Perpetual bonds *(Continued)*

#### 35.2.2 Main clauses

- (1) With the approvals by relevant regulatory authorities, the Bank issued RMB40.0 billion undated capital bonds in China's National Inter-Bank Bond Market on 18 September 2019, and the issuance was completed on 20 September 2019. The denomination of the bonds is RMB100 each and coupon rate of 4.20%. The bonds adopt a coupon rate adjusted on a stage-by-stage basis and a coupon rate adjustment period for every five years during which interests will be paid at the agreed coupon rate.

The perpetual bonds will continue to be outstanding so long as the Bank's business continues to operate. The bonds have set forth terms regarding the Bank's redemption with pre-conditions, by which the Bank is entitled to redeem the bonds after five years since the issue date in whole or in part on the annual interest payment date (including the interest payment date of the fifth year after the issue date). If, after the issuance, the perpetual bonds no longer qualify as additional tier-1 capital as a result of an unforeseeable change or amendment to relevant provisions of supervisory regulations, the Bank may redeem the whole but not part of the perpetual bonds.

The claims in respect of the perpetual bonds are subordinated to the claims of depositors, general creditors, and subordinated indebtedness that rank senior to the perpetual bonds; and will rank in priority to all classes of equity shares held by the Bank's shareholders and rank *pari passu* with the claims in respect of any other additional tier-1 capital instruments of the Bank that rank *pari passu* with the perpetual bonds.

Upon the occurrence of Additional tier-1 capital trigger event, namely, the Bank's core tier-1 capital adequacy ratio having fallen to 5.125% (or below), the Bank has the right, subject to the approval of the CBIRC but without the need for the consent of the bondholders, to write down whole or part of the aggregate amount of the perpetual bonds then issued and outstanding, in order to restore the core tier-1 capital adequacy ratio to above 5.125%. Upon the occurrence of a Non-Viability Triggering Event, the Bank has the right to write down all the above perpetual bond issued and existing at that time in accordance with the total par value without the consent of the bondholders.

The distributions on the perpetual bonds are non-cumulative, and 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. The Bank may, at its sole discretion, use the proceeds from the cancelled distributions to meet other obligations as they fall due. Cancellation of any distributions on the bonds, no matter in whole or in part, will not impose any other restriction on the Bank, except in relation to dividend distributions to ordinary shares.

Investors have no right to redeem their subscription from the Bank. The net proceeds from the Bank's issuance of the above bonds, after deducting offering related expenses, will be used to replenish the Additional tier-1 capital of the Bank.



## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021

(All amounts expressed in millions of RMB unless otherwise stated)

35 OTHER EQUITY INSTRUMENTS *(Continued)*35.2 Perpetual bonds *(Continued)***35.2.2 Main clauses** *(Continued)*

- (2) With the approvals by relevant regulatory authorities, the Bank issued RMB30.0 billion undated capital bonds in China's National Inter-Bank Bond Market on 23 September 2020, and the issuance was completed on 25 September 2020. The denomination of the Bonds is RMB100 each and coupon rate of 4.59%. The Bonds adopt a coupon rate adjusted on a stage-by-stage basis and a coupon rate adjustment period for every five years during which interests will be paid at the agreed coupon rate.

With the approvals by relevant regulatory authorities, the Bank issued RMB41.5 billion undated capital bonds in China's National Inter-Bank Bond Market on 8 June 2021, and the issuance was completed on 10 June 2021. The denomination of the Bonds is RMB100 each and coupon rate of 4.06%. The Bonds adopt a coupon rate adjusted on a stage-by-stage basis and a coupon rate adjustment period for every five years during which interests will be paid at the agreed coupon rate.

The perpetual bonds will continue to be outstanding so long as the Bank's business continues to operate. The bonds have set forth terms regarding the Bank's redemption with pre-conditions, by which the Bank is entitled to redeem the bonds after five years since the issue date in whole or in part on the annual interest payment date (including the interest payment date of the fifth year after the issue date). If, after the issuance, the perpetual bonds no longer qualify as additional tier-1 capital as a result of an unforeseeable change or amendment to relevant provisions of supervisory regulations, the Bank may redeem the whole but not part of the perpetual bonds.

The claims in respect of the perpetual bonds are subordinated to the claims of depositors, general creditors, and subordinated indebtedness that rank senior to the perpetual bonds; and will rank in priority to all classes of equity shares held by the Bank's shareholders and rank pari passu with the claims in respect of any other additional tier-1 capital instruments of the Bank that rank pari passu with the perpetual bonds.

Upon the occurrence of a Non-Viability Triggering Event, the Bank has the right to write down/write off in whole or in part, without the need for the consent of the holders of the bonds, the principal amount of the bonds.

The distributions on the perpetual bonds are non-cumulative, and 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. The Bank may, at its sole discretion, use the proceeds from the cancelled distributions to meet other obligations as they fall due. Cancellation of any distributions on the bonds, no matter in whole or in part, will not impose any other restriction on the Bank, except in relation to dividend distributions to ordinary shares.

Investors have no right to redeem their subscription from the Bank. The net proceeds from the Bank's issuance of the above bonds, after deducting offering related expenses, will be used to replenish the additional tier-1 capital of the Bank.

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

### 35 OTHER EQUITY INSTRUMENTS (Continued)

#### 35.2 Perpetual bonds (Continued)

##### 35.2.2 Main clauses (Continued)

- (3) With the approvals by relevant regulatory authorities, the Bank has completed the issuance of the USD2.8 billion undated capital bonds in the offshore market on 18 November 2020. The coupon rate of the bonds is 3.80%. The bonds adopt a coupon rate adjusted on a stage-by-stage basis and a coupon rate adjustment period for every five years during which interests will be paid at the agreed coupon rate.

The perpetual bonds will continue to be outstanding so long as the Bank's business continues to operate. The bonds have set forth terms regarding the Bank's redemption with pre-conditions. Subject to the satisfaction of the redemption conditions and having obtained the prior approval of the CBIRC, the bank is entitled to redeem the bonds after five years since the issue date in whole or in part on the annual interest payment date (including the interest payment date of the fifth year after the issue date). If, after the issuance, the perpetual bonds no longer qualify as additional tier-1 capital as a result of an unforeseeable change or amendment to relevant provisions of supervisory regulations, the Bank may redeem the whole but not part of the perpetual bonds.

The claims in respect of the perpetual bonds are subordinated to the claims of depositors, general creditors, and subordinated indebtedness that rank senior to the perpetual bonds; and will rank in priority to all classes of equity shares held by the Bank's shareholders and rank pari passu with the claims in respect of any other additional tier-1 capital instruments of the Bank that rank pari passu with the perpetual bonds.

Upon the occurrence of a Non-Viability Triggering Event, the Bank has the right to write down/write off in whole or in part, without the need for the consent of the holders of the bonds. Once the principal amount of the Bonds (in whole or in part) has been written-off, such relevant written-off portion of the bonds will not be restored or become payable again in any circumstances (including where the relevant Non-Viability Triggering Event ceases to continue), and any accrued but unpaid distribution in respect of such relevant written-off portion of the bonds shall cease to be payable. In addition, there will be no compensation in any form to remedy the loss of the bondholders.

The distributions on the perpetual bonds are non-cumulative, and 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. The Bank may, at its sole discretion, use the proceeds from the cancelled distributions to meet other obligations as they fall due. Cancellation of any distributions on the bonds, no matter in whole or in part, will not impose any other restriction on the Bank, except in relation to dividend distributions to ordinary shares.

Investors have no right to redeem their subscription from the Bank. The net proceeds from the Bank's issuance of the above bonds, after deducting offering related expenses, will be used to replenish the additional tier-1 capital of the Bank.

#### 35.3 Interests attributable to holders of other equity instruments

|   | As at<br>30 June 2021 | As at<br>31 December 2020 |
|---|-----------------------|---------------------------|
| Total equity attributable to equity holders of the parent company   | 923,608               | 866,607                   |
| Equity attributable to ordinary shareholders of the parent company  | 748,818               | 733,315                   |
| Equity attributable to preference shareholders of the parent company  | 44,952                | 44,952                    |
| Equity attributable to perpetual bond holders of the parent company   | 129,838               | 88,340                    |
| Total equity attributable to non-controlling interests  | 12,307                | 12,021                    |
| Equity attributable to non-controlling interests of ordinary shares   | 9,086                 | 8,763                     |
| Equity attributable to non-controlling interests of Non-cumulative Subordinated<br>Additional Tier-1 Capital Securities (Note 38) | 3,221                 | 3,258                     |

Dividends paid to preference shareholders and interest paid to perpetual bond holders for the six months ended 30 June 2021 are disclosed in Note 37.

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 36 OTHER RESERVES AND RETAINED EARNINGS

Pursuant to the relevant PRC regulations, the appropriation of profits to the statutory general reserve, the discretionary reserve and the distribution of dividends in each year are based on the recommendations of the directors and are subject to the resolutions to be passed at the General Meeting of Shareholders.

Pursuant to relevant PRC regulations, the Bank appropriated 10% of its net profit for the year under CAS to the statutory surplus reserve until the reserve balance reaches 50% of the Bank's registered capital. The statutory surplus reserve can be used to compensate losses or to increase share capital upon approval. The Bank appropriate RMB6,897 million to the statutory surplus upon approval from the 2020 Annual General Meeting of Shareholders held on 29 June 2021.

|                       | As at<br>1 January 2021 | Appropriate | Decrease | As at<br>30 June 2021 |
|-----------------------|-------------------------|-------------|----------|-----------------------|
| Statutory reserve     | 72,431                  | 7,100       | –        | 79,531                |
| Discretionary reserve | 139,930                 | –           | –        | 139,930               |
| Total                 | 212,361                 | 7,100       | –        | 219,461               |

Pursuant to relevant PRC banking regulations, since 1 July 2012, the Bank made statutory general reserve from net profit through profit appropriation according to Administrative Measures for the Provisioning of Financial Enterprises (Cai Jin [2012] No. 20). The proportion is determined based on several factors including the Bank's overall exposure to risk, normally no lower than 1.5% of the ending balance of risk assets. The statutory general reserve is an integral part of shareholders' equity but not subject to dividend distribution. The Bank's subsidiaries and overseas branches, if required by local regulation requirements, also need to make such general reserve. The 2020 Annual General Meeting of Shareholders, held on 29 June 2021, considered and adopted the 2020 profit distribution scheme, which stipulates as follows:

|                           | As at<br>1 January 2021 | Appropriate | Decrease | As at<br>30 June 2021 |
|---------------------------|-------------------------|-------------|----------|-----------------------|
| Statutory general reserve | 123,163                 | 6,715       | –        | 129,878               |

The Bank appropriated RMB6,432 million to the statutory general reserve upon approval from the 2020 Annual General Meeting of Shareholders held on 29 June 2021, of which the overseas branches of the Bank have appropriated RMB11 million to statutory general reserve according to the requirement of local regulatory authorities in the year ended 31 December 2020.

## Retained earnings

The movements of retained earnings are set out below:

|  |          |
|--|----------|
| As at 1 January 2021                         | 214,448  |
| Profit for the period                        | 42,019   |
| Appropriation to statutory reserve           | (7,100)  |
| Appropriation to general reserve             | (6,715)  |
| Dividends payable to ordinary shareholders   | (23,541) |
| Dividends payable to preference shareholders | (1,755)  |
| Others                                       | 1        |
| As at 30 June 2021                           | 217,357  |

|  |          |
|--|----------|
| As at 1 January 2020                           | 177,141  |
| Profit for the year                            | 78,274   |
| Appropriation to statutory reserve             | (7,534)  |
| Appropriation to general reserve               | (5,596)  |
| Appropriation to discretionary reserve         | (77)     |
| Dividends payable to ordinary shareholders     | (23,393) |
| Dividends payable to preference shareholders   | (2,714)  |
| Interest to perpetual bond holders of the Bank | (1,680)  |
| Others   | 27       |
| As at 31 December 2020                         | 214,448  |

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

### 37 DIVIDENDS

|  | Six months ended 30 June |        |
|--|--------------------------|--------|
|  | 2021                     | 2020   |
| Dividends to ordinary shareholders of the Bank   | 23,541                   | 23,393 |
| Dividends to preference shareholders of the Bank | 1,755                    | 2,714  |

Under PRC Company Law and the Bank's Articles of Association, the net profit after tax as reported in the PRC statutory financial statements can only be distributed as dividends after allowances for the following:

- (1) Making up cumulative losses from prior years, if any;
- (2) Allocations to the non-distributable statutory reserve of 10% of the net profit of the Bank as determined under the relevant PRC accounting standards;
- (3) Allocations to statutory general reserve;
- (4) Allocations to the discretionary reserve upon approval by the Annual General Meeting of Shareholders. These funds form part of the shareholders' equity.

The cash dividends are recognised in the consolidated statement of financial position upon approval by the shareholders at Annual General Meeting.

Pursuant to the approval by the Board meeting on 29 April 2021, the Bank will appropriate domestic preference dividends on 7 September 2021 with a dividend yield of 3.9% (the actual dividend yield obtained by the preference shareholders), with total amount of RMB1,755 million.

Pursuant to the approval by the Annual General Meeting of Shareholders on 29 June 2021, the Bank appropriated RMB6,432 million to the statutory general reserve. It was also resolved that a cash dividend of RMB0.317 (before tax) for each ordinary share, with total amount of RMB23,541 million, calculated based on 74,263 million shares outstanding (the par value per share is RMB1) as at 31 December 2020, will be distributed to ordinary shareholders.

### 38 NON-CONTROLLING INTERESTS

Non-controlling interests of the Group include equity attributable to non-controlling interests of ordinary shares and equity attributable to non-controlling interests of other equity instruments. As at 30 June 2021, equity attributable to other equity instruments holders was RMB3,221 million. Other equity instruments were non-cumulative subordinated additional tier-1 capital securities issued by Bank of Communications (Hong Kong) Limited on 3 March 2020.

|                                    |  |
|------------------------------------|--|
| Issue Date                         | 3 March 2020   |
| Face Value                         | USD500 million   |
| First Call Date                    | 3 March 2025   |
| Distribution Rate                  | (i) from the issue date to the first call date, 3.725% per annum<br>(ii) for every five calendar years after the first call date, the then-prevailing five-year US Treasury Rate plus 2.525% per annum |
| Frequency of distribution payments | Semi-annually  |

Bank of Communications (Hong Kong) Limited may determine the policies of distribution payments and whether to redeem the bonds. Therefore, the Group recognised the bonds as equity instruments.

Pursuant to the terms and conditions of the Non-Cumulative Subordinated Additional Tier-1 Capital Securities, Bank of Communications (Hong Kong) Limited has paid a total distribution of RMB61 million during the six months ended 30 June 2021.

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 39 CREDIT RELATED COMMITMENTS AND FINANCIAL GUARANTEES, OTHER COMMITMENTS AND CONTINGENT LIABILITIES

## Credit related commitments and financial guarantees

The following tables provide the contractual amounts of the Group's credit related commitments and financial guarantees which the Group has committed to its customers:

|                               | As at<br>30 June 2021 | As at<br>31 December 2020 |
|-------------------------------|-----------------------|---------------------------|
| Letters of guarantee          | 353,592               | 333,610                   |
| Letters of credit commitments | 193,956               | 163,151                   |
| Acceptance bills              | 340,022               | 319,076                   |
| Credit card commitments       | 902,668               | 800,441                   |
| Loan commitments              |                       |                           |
| – Under 1 year                | 5,737                 | 5,111                     |
| – 1 year and above            | 54,805                | 55,323                    |
|                               | 1,850,780             | 1,676,712                 |

## Capital expenditure commitments

|                                 | As at<br>30 June 2021 | As at<br>31 December 2020 |
|---------------------------------|-----------------------|---------------------------|
| Contracted but not provided for | 52,214                | 62,224                    |

## Operating lease commitments

The Group acts as lessor in operating leases principally through aircraft and vessels leasing undertaken by its subsidiaries. The future minimum lease receivables on certain aircraft and vessel under irrevocable operating leases are as follows:

|   | As at<br>30 June 2021 | As at<br>31 December 2020 |
|---|-----------------------|---------------------------|
| Within 1 year (inclusive)                           | 12,941                | 13,074                    |
| Beyond 1 year but no more than 2 years (inclusive)  | 12,454                | 12,622                    |
| Beyond 2 years but no more than 3 years (inclusive) | 12,081                | 12,220                    |
| Beyond 3 years but no more than 5 years (inclusive) | 21,316                | 22,062                    |
| More than 5 years                                   | 33,877                | 36,562                    |
|   | 92,669                | 96,540                    |

## Commitments on security underwriting and bond acceptance

The Group is entrusted by Ministry of Finance to underwrite certain Certificated Bonds and Savings Bonds. The investors of Certificated Bonds and Savings Bonds have early redemption right while the Group has the obligation to buy back those Certificated Bonds and Savings Bonds. The redemption price is the principal value of the Certificated Bonds or Savings Bonds plus unpaid interest till redemption date. As at 30 June 2021, the principal value of the certain Certificated Bonds and Savings Bonds that the Group had the obligation to buy back amounted to RMB80,433 million (31 December 2020: RMB81,548 million). The Ministry of Finance will not provide funding for the early redemption of these Certificated Bonds and Savings Bonds on a back-to-back basis but will pay interest and principal at maturity. The Group expects the amount of redemption before the maturity dates of these bonds through the Group will not be material.

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

### 39 CREDIT RELATED COMMITMENTS AND FINANCIAL GUARANTEES, OTHER COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

#### Commitments on security underwriting and bond acceptance (Continued)

The original maturities of these bonds vary from 1 to 5 years.

As at 30 June 2021, the Group had no announced but unfulfilled irrevocable commitment on security underwriting (31 December 2020: Nil).

#### Legal proceedings

The Group has been involved as defendants in certain lawsuits arising from its normal business operations. Management of the Group believes, based on legal advice, the final result of these lawsuits will not have a material impact on the financial position or operations of the Group. Provision for litigation losses as advised by in-house or external legal professionals is disclosed in Note 33. The total outstanding claims against the Group (as defendant) by a number of third parties at the end of the year are summarised as follows:

|  | As at<br>30 June 2021 | As at<br>31 December 2020 |
|--|-----------------------|---------------------------|
| Outstanding litigations                        | 3,075                 | 3,876                     |
| Provision for outstanding litigation (Note 33) | 620                   | 1,032                     |

### 40 COLLATERALS

#### (1) Assets pledged

The Group uses part of its assets as collaterals for interbank repurchase arrangements and other liabilities-related business. All of these arrangements mature within 12 months from the date they take effect. The carrying amount of these collaterals and the balance of operations related are listed below:

|                       | Pledged assets        |                           | Associated liabilities |                           |
|-----------------------|-----------------------|---------------------------|------------------------|---------------------------|
|                       | As at<br>30 June 2021 | As at<br>31 December 2020 | As at<br>30 June 2021  | As at<br>31 December 2020 |
| Investment securities | 507,720               | 520,254                   | 440,442                | 456,210                   |
| Bills                 | 6,434                 | 28,854                    | 6,434                  | 28,854                    |
| Total                 | 514,154               | 549,108                   | 446,876                | 485,064                   |

Financial assets sold under repurchase agreements included certain transactions under which the title of the pledged securities has been transferred to counterparties. These transactions have been disclosed in Note 45 transfers of financial assets.

In addition, loans and advances to customers pledged as collateral for placements from banks by the Group as at 30 June 2021 amounted to RMB7,572 million in total (31 December 2020: RMB6,401 million).

#### (2) Collateral accepted

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 had received securities with a fair value of RMB3,604 million on such terms (31 December 2020: Nil). As at 30 June 2021 and 31 December 2020, the Group did not sell or re-pledge any collaterals received.

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 41 OTHER COMPREHENSIVE INCOME

|  | Six months ended 30 June 2021 |            |                   |
|--|-------------------------------|------------|-------------------|
|  | Before tax amount             | Tax effect | Net of tax amount |
| Other comprehensive income   |                               |            |                   |
| Loans and advances to customers – carried at FVOCI   | 234                           | (59)       | 175               |
| <i>Amount recognised in equity</i>   | 426                           | (107)      | 319               |
| <i>Amount reclassified to profit or loss</i>   | (192)                         | 48         | (144)             |
| Debt investments at FVOCI  | (85)                          | 104        | 19                |
| <i>Amount recognised in equity</i>   | 170                           | 41         | 211               |
| <i>Amount reclassified to profit or loss</i>   | (255)                         | 63         | (192)             |
| Effective portion of gains or losses on hedging instruments in cash flow hedges                              | 285                           | (53)       | 232               |
| <i>Amount recognised in equity</i>   | 1,271                         | (299)      | 972               |
| <i>Amount reclassified to profit or loss</i>   | (986)                         | 246        | (740)             |
| Translation difference on foreign operations   | (1,344)                       | –          | (1,344)           |
| Changes in fair value of equity investments designated at FVOCI  | (435)                         | (20)       | (455)             |
| Changes in fair value attributable to changes in the credit risk of financial liabilities designated at FVPL | (36)                          | –          | (36)              |
| Actuarial gains on pension benefits  | 58                            | –          | 58                |
| Others   | 12                            | –          | 12                |
| Other comprehensive income for the period  | (1,311)                       | (28)       | (1,339)           |

|  | Six months ended 30 June 2020 |            |                   |
|--|-------------------------------|------------|-------------------|
|  | Before tax amount             | Tax effect | Net of tax amount |
| Other comprehensive income   |                               |            |                   |
| Loans and advances to customers – carried at FVOCI   | 67                            | (16)       | 51                |
| <i>Amount recognised in equity</i>   | 331                           | (82)       | 249               |
| <i>Amount reclassified to profit or loss</i>   | (264)                         | 66         | (198)             |
| Debt investments at FVOCI  | (1,259)                       | 70         | (1,189)           |
| <i>Amount recognised in equity</i>   | 158                           | (285)      | (127)             |
| <i>Amount reclassified to profit or loss</i>   | (1,417)                       | 355        | (1,062)           |
| Effective portion of gains or losses on hedging instruments in cash flow hedges                              | (824)                         | 169        | (655)             |
| <i>Amount recognised in equity</i>   | (829)                         | 170        | (659)             |
| <i>Amount reclassified to profit or loss</i>   | 5                             | (1)        | 4                 |
| Translation difference on foreign operations   | 1,093                         | –          | 1,093             |
| Changes in fair value of equity investments designated at FVOCI  | (484)                         | 113        | (371)             |
| Changes in fair value attributable to changes in the credit risk of financial liabilities designated at FVPL | 44                            | –          | 44                |
| Actuarial gains on pension benefits  | (34)                          | –          | (34)              |
| Others   | 57                            | (3)        | 54                |
| Other comprehensive income for the period  | (1,340)                       | 333        | (1,007)           |

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

### 42 NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

#### Analysis of the balance of cash and cash equivalents

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise the following balances with maturities of less than or equal to 90 days from date of purchase and used for the purpose of meeting short-term cash commitments:

|   | As at<br>30 June 2021 | As at<br>30 June 2020 |
|---|-----------------------|-----------------------|
| Cash and balances with central banks                                | 131,543               | 162,440               |
| Due from and placements with banks and other financial institutions | 147,086               | 85,873                |
|   | 278,629               | 248,313               |

### 43 CONSOLIDATED STRUCTURED ENTITIES

Structured entities consolidated by the Group include certain trust investment plans, funds, and securitisation products issued, managed and invested by the Group. The Group controls these entities because the Group has power over, is exposed to, or has right to variable returns from its involvement with these entities and has the ability to use its power over these entities to affect the amount of the Group's returns. As at 30 June 2021, the consolidated structured entities amounted to RMB145,051 million (As at 31 December 2020, the consolidated structured entities amounted to RMB36,716 million).

### 44 UNCONSOLIDATED STRUCTURED ENTITIES

The Group has been involved in other structured entities through investments in structured entities or acting as sponsors of structured entities that provide specialised investment opportunities to investors. These structured entities generally finance the purchase of assets by issuing units of the products. The Group does not control these structured entities and therefore, these structured entities are not consolidated.

As at 30 June 2021, those structured entities sponsored by the Group consist primarily of funds, trusts, asset management products, limited partnerships, wealth management products with principals not guaranteed by the Group and securitisation products. The Group earns commission income by providing management services to the investors of these structured entities. In addition, the Group is also involved in certain structured entities sponsored by the Group or third parties through direct investments. These investments are recognised as financial investments at fair value through profit or loss, financial investments at fair value through other comprehensive income, and financial investments at amortised cost.

As at 30 June 2021, the balance of the non-principal guaranteed wealth management products set up by the Group amounted to RMB1,221,762 million (As at 31 December 2020: RMB1,211,959 million), the balance of funds issued by the Group amounted to RMB423,852 million and the balance of trusts and asset management plans and others sponsored by the Group amounted to RMB778,442 million (As at 31 December 2020: the balance of funds issued by the Group amounted to RMB339,871 million and the balance of trusts and asset management plans and others sponsored by the Group amounted to RMB843,540 million).

For the six months ended 30 June 2021, the Group's commission income from providing services to the investors of the structured entities managed by the Group was RMB4,318 million (For the six months ended 30 June 2020: RMB3,107 million), and no interest income from placements and repurchase transactions with those unconsolidated wealth management products (For the six months ended 30 June 2020: RMB1 million).



## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 44 UNCONSOLIDATED STRUCTURED ENTITIES (Continued)

As at 30 June 2021 and 31 December 2020, the carrying amount of interests in unconsolidated structured entities held by the Group through investment was set out as follows:

As at 30 June 2021

|                                      | Carrying amount               |                                |   |                          | Type of income  |
|--------------------------------------|-------------------------------|--------------------------------|---|--------------------------|---|
|                                      | Financial investments at FVPL | Financial investments at FVOCI | Financial investments at amortised cost | Maximum exposure to loss |   |
| Funds                                | 225,204                       | –                              | –                                       | 225,204                  | Net gains arising from trading activities   |
| Trusts and asset management products | 5,508                         | –                              | 84,436                                  | 89,944                   | Net interest income, net gains arising from trading activities                          |
| Limited partnerships                 | 2,850                         | 619                            | –                                       | 3,469                    | Net gains arising from trading activities, net gains arising from financial investments |
| Securitisation products              | –                             | –                              | 81                                      | 81                       | Net interest income   |
| Total                                | 233,562                       | 619                            | 84,517                                  | 318,698                  |   |

The information of total size of the unconsolidated structured entities listed above is not readily available from the public domain.

As at 31 December 2020

|                                      | Carrying amount               |                                |   |                          | Type of income  |
|--------------------------------------|-------------------------------|--------------------------------|---|--------------------------|---|
|                                      | Financial investments at FVPL | Financial investments at FVOCI | Financial investments at amortised cost | Maximum exposure to loss |   |
| Funds                                | 243,980                       | –                              | –                                       | 243,980                  | Net gains arising from trading activities   |
| Trusts and asset management products | 3,956                         | –                              | 101,599                                 | 105,555                  | Net interest income, net gains arising from trading activities                          |
| Limited partnerships                 | 2,729                         | 619                            | –                                       | 3,348                    | Net gains arising from trading activities, net gains arising from financial investments |
| Securitisation products              | –                             | –                              | 134                                     | 134                      | Net interest income   |
| Total                                | 250,665                       | 619                            | 101,733                                 | 353,017                  |   |

The information of total size of the unconsolidated structured entities listed above is not readily available from the public domain.

## 45 TRANSFERS OF FINANCIAL ASSETS

## 45.1 Financial assets sold under repurchase agreements

Sales and repurchase agreements are transactions in which the Group sells a security and simultaneously agrees to repurchase it (or an asset that is substantially the same) at a fixed price on a future date. Since the repurchase prices are fixed, the Group is still exposed to substantially all the credit risks and market risks and rewards of those securities sold. These securities, which the Group does not have the ability to use during the term of the arrangements, are not derecognised from the financial statements but regarded as “collateral” for the secured lending. In addition, the Group recognises a financial liability for cash received.

As at 30 June 2021 and 31 December 2020, the Group entered into repurchase agreements with certain counterparties. The proceeds from selling such securities are presented as “financial assets sold under repurchase agreements” (Note 28).

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

### 45 TRANSFERS OF FINANCIAL ASSETS (Continued)

#### 45.1 Financial assets sold under repurchase agreements (Continued)

The following table provides a summary of carrying amounts related to the transferred financial assets that are not derecognised and the associated liabilities:

|                       | Collaterals           |                           | Associated liabilities |                           |
|-----------------------|-----------------------|---------------------------|------------------------|---------------------------|
|                       | As at<br>30 June 2021 | As at<br>31 December 2020 | As at<br>30 June 2021  | As at<br>31 December 2020 |
| Investment securities | 3,327                 | 2,020                     | 3,256                  | 1,806                     |

#### 45.2 Securities lending transactions

Transferred financial assets that do not qualify for de-recognition mainly include debt securities lent to counterparties under securities lending agreements. The counterparties are allowed to sell or repledge those securities lent under agreements to repurchase in the absence of default by the Group, but has an obligation to return the securities at the maturity of the contract. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. As at 30 June 2021, the carrying value of debt securities lent to counterparties was RMB12,890 million (31 December 2020: RMB12,640 million).

#### 45.3 Asset securitisation

The Group enters into securitisation transactions in the normal course of business by which it transfers credit assets to special purpose trusts which issue asset-backed securities to investors.

The Group may retain interests in the form of subordinated tranches which may give rise to the Group's continuing involvement in the transferred assets. Those financial assets are recognised on the consolidated statement of financial position to the extent of the Group's continuing involvement, while the rest are derecognised. The extent of the Group's continuing involvement is the extent of risk the Group faces due to changes in the value of the transferred assets.

As at 30 June 2021, loans with an original value of RMB57,364 million and carrying amount of RMB46,030 million (31 December 2020: RMB53,492 million and carrying amount of RMB41,600 million) have been securitised by the Group. For the six months ended 30 June 2021, the Group transferred financial assets amounted to RMB14,144 million through assets backed securitization transactions, and all have met the requirement of derecognition (For the year ended 31 December 2020, the Group transferred financial assets amounted to RMB15,272 million through assets backed securitization transactions, all have met the requirement of derecognition).

As at 30 June 2021, the Group retained their continued involvement in securitised credit assets by holding subordinated securities. The value of the assets that the Group continued to recognise was RMB4,455 million (31 December 2020: RMB4,275 million).

#### 45.4 Package disposal of non-performing loans and advances to customers

The Group disposes non-performing loans and advances to customers through transferring to third parties in the normal course of business. For the six months ended 30 June 2021, the Group had transferred non-performing loans and advances to customers with a gross carrying amount of RMB8,718 million (For the six months ended 30 June 2020: RMB5,770 million) and collected cash totalling RMB5,543 million (For the six months ended 30 June 2020: RMB2,792 million) from the transfer. The difference between the gross carrying amount and the cash collected had been written off. The Group derecognised the non-performing loans and advances to customers from the Group's financial statements at the time of disposal.

### 46 RELATED PARTY TRANSACTIONS

#### (a) Transactions with Ministry of Finance

As at 30 June 2021, Ministry of Finance held 17,732 million (31 December 2020: 17,732 million) ordinary shares of Bank of Communications Co., Ltd. which represented 23.88% (31 December 2020: 23.88%) of the total share capital.

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 46 RELATED PARTY TRANSACTIONS (Continued)

## (a) Transactions with Ministry of Finance (Continued)

The Ministry of Finance is a Chinese government ministry, primarily responsible for managing state fiscal revenue and expenditures, and establishing and enforcing taxation policies. The Group enters into banking transactions with Ministry of Finance under normal commercial terms and at market rates. These transactions mainly include the purchase and redemption of financial investments issued by Ministry of Finance.

Details of transaction volumes and outstanding balances are summarised below:

|   | As at<br>30 June 2021    | As at<br>31 December 2020 |
|---|--------------------------|---------------------------|
| Bonds issued by Ministry of Finance       | 887,963                  | 801,187                   |
|   | Six months ended 30 June |                           |
|   | 2021                     | 2020                      |
| Interest income                           | 12,445                   | 10,612                    |
| Net gains arising from trading activities | 47                       | 92                        |

The interest rates of the transactions between the Group and Ministry of Finance are summarised below:

|                                     | Six months ended 30 June<br>2021 | 2020      |
|-------------------------------------|----------------------------------|-----------|
|                                     | %                                | %         |
| Bonds issued by Ministry of Finance | 0.13~5.06                        | 0.13~5.32 |

## (b) Transactions with the National Council for Social Security Fund

As at 30 June 2021, the National Council for Social Security Fund held 12,160 million (31 December 2020: 12,160 million) ordinary shares of Bank of Communications Co., Ltd. which represented 16.37% (31 December 2020: 16.37%) of the total share capital. The Group enters into transactions with the National Council for Social Security Fund in the normal course of business and they mainly include deposits which are carried out under normal commercial terms and paid at market rates.

Details of transaction volumes and outstanding balances are summarised below:

|                  | As at<br>30 June 2021    | As at<br>31 December 2020 |
|------------------|--------------------------|---------------------------|
| Due to customers | 88,531                   | 87,356                    |
|                  | Six months ended 30 June |                           |
|                  | 2021                     | 2020                      |
| Interest expense | (1,836)                  | (1,758)                   |

The interest rates of the transactions between the Group and the National Council for Social Security Fund are summarised below:

|                  | Six months ended 30 June<br>2021 | 2020      |
|------------------|----------------------------------|-----------|
|                  | %                                | %         |
| Due to customers | 4.13~5.20                        | 3.85~5.30 |

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

### 46 RELATED PARTY TRANSACTIONS (Continued)

#### (c) Transactions with the Hongkong and Shanghai Banking Corporation Limited ("HSBC") Group and its joint ventures

As at 30 June 2021, HSBC held 13,886 million (31 December 2020: 13,886 million) ordinary shares of the Bank of Communications Co., Ltd. which represented 18.70% (31 December 2020: 18.70%) of the total share capital. Transactions between the Group and HSBC are carried out under normal commercial terms and paid at market rates.

Details of transaction volumes and outstanding balances are summarised below:

|   | As at<br>30 June 2021 | As at<br>31 December 2020 |
|---|-----------------------|---------------------------|
| On-balance sheet items  |                       |                           |
| Due from and placements with banks and other financial institutions | 6,330                 | 11,328                    |
| Derivative financial assets   | 1,474                 | 2,370                     |
| Financial investments at FVPL                                       | 2,075                 | 2,709                     |
| Financial investments at amortised cost                             | 420                   | 432                       |
| Financial investments at FVOCI                                      | 3,947                 | 3,354                     |
| Due to and placements from banks and other financial institutions   | 14,202                | 8,261                     |
| Financial liabilities at FVPL                                       | 1,651                 | 212                       |
| Derivative financial liabilities                                    | 1,820                 | 2,963                     |
| Off-balance sheet items   |                       |                           |
| Notional principal of derivative financial instruments              | 227,029               | 192,032                   |

|  | Six months ended 30 June |         |
|--|--------------------------|---------|
|  | 2021                     | 2020    |
| Interest income                            | 65                       | 123     |
| Interest expense                           | (55)                     | (118)   |
| Fee and commission income                  | 1                        | 27      |
| Fee and commission expense                 | (2)                      | (6)     |
| Net gains/(losses) from trading activities | 1,214                    | (1,482) |

The interest rates of the transactions between the Group and HSBC are summarised below:

|   | Six months ended 30 June |             |
|---|--------------------------|-------------|
|   | 2021                     | 2020        |
|   | %                        | %           |
| Due from and placements with banks and other financial institutions | 0.0001~3.35              | 0.01~3.42   |
| Financial investments at FVPL                                       | 0.98~6.00                | 1.49~6.00   |
| Financial investments at amortised cost                             | 3.26~4.74                | 3.26~4.74   |
| Financial investments at FVOCI                                      | (0.04)~4.95              | 1.26~4.95   |
| Due to and placements from banks and other financial institutions   | (0.40)~3.15              | (0.24)~4.12 |
| Financial liabilities at FVPL                                       | 0.46~0.64                | 0.50~0.70   |

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 46 RELATED PARTY TRANSACTIONS (Continued)

## (d) Transactions with state-owned entities in PRC

The Group operates in an economic environment predominated by enterprises directly or indirectly owned and/or controlled by the government through its authorities, affiliates or other organisations (collectively the “state-owned entities”). During the period, the Group entered into extensive banking transactions with these state-owned entities including, but not limited to, the provision of credit and guarantees, deposits, foreign exchange, derivatives transactions, agency business, underwriting and distribution of bonds issued by the government as well as trading and redemption of securities issued by the government.

Management considers that transactions with state-owned entities are activities conducted in the ordinary course of business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and these state-owned entities are ultimately controlled or owned by the government. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are state-owned entities.

## (e) Transactions with subsidiaries

Transactions between the Bank and its subsidiaries are carried out under normal commercial terms and paid at market rates. These transactions are eliminated on consolidation.

Details of transaction volumes and outstanding balances are summarised below:

|   | As at<br>30 June 2021 | As at<br>31 December 2020 |
|---|-----------------------|---------------------------|
| <b>The Bank</b>   |                       |                           |
| Due from and placements with banks and other financial institutions | 132,804               | 141,231                   |
| Loans and advances to customers                                     | 558                   | 521                       |
| Financial investments at FVPL                                       | 259                   | 891                       |
| Financial investments at amortised cost                             | 1,566                 | 1,240                     |
| Financial investments at FVOCI                                      | 11,724                | 8,986                     |
| Derivative financial assets   | 1,084                 | 1,736                     |
| Other assets  | 1,122                 | 808                       |
| Due to and placements from banks and other financial institutions   | 18,625                | 16,236                    |
| Derivative financial liabilities                                    | 998                   | 429                       |
| Due to customers  | 9,292                 | 14,873                    |
| Debt securities issued  | 52                    | 51                        |
| Other liabilities   | 110                   | 97                        |

|   | Six months ended 30 June |      |
|---|--------------------------|------|
| <b>The Bank</b>                                       | 2021                     | 2020 |
| Sale of financial investments at FVPL to subsidiaries | –                        | 75   |

|  | Six months ended 30 June |       |
|--|--------------------------|-------|
| <b>The Bank</b>                                    | 2021                     | 2020  |
| Interest income                                    | 1,041                    | 1,117 |
| Interest expense                                   | (112)                    | (199) |
| Fee and commission income                          | 909                      | 696   |
| Fee and commission expense                         | (56)                     | (95)  |
| Other operating income                             | 294                      | 284   |
| Other operating expense                            | (21)                     | (82)  |
| Net gains/(losses) arising from trading activities | 817                      | (189) |

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

### 46 RELATED PARTY TRANSACTIONS (Continued)

#### (e) Transactions with subsidiaries (Continued)

The interest rates of the transactions between the Bank and its subsidiaries are summarised below:

| The Bank  | Six months ended 30 June |           |
|---|--------------------------|-----------|
|   | 2021<br>%                | 2020<br>% |
| Due from and placements with banks and other financial institutions | 0.01~6.40                | 0.01~3.91 |
| Financial investments at FVPL                                       | 1.75~1.89                | 1.97~4.38 |
| Financial investments at amortised cost                             | 1.08~6.00                | 1.29~4.70 |
| Financial investments at FVOCI                                      | 0.96~4.38                | 1.14~4.38 |
| Loans and advances to customers                                     | 1.29~3.00                | 1.61~3.97 |
| Due to and placements from banks and other financial institutions   | 0.01~2.95                | 0.01~4.24 |
| Due to customers  | 0.04~3.00                | 0.70~4.18 |
| Debt securities issued  | 5.75                     | 5.75      |

#### (f) Transactions with directors, supervisors and senior management

Transactions with directors, supervisors, senior management, their close relatives and entities that are controlled, jointly controlled or significantly influenced by either such directors, supervisors and senior management or their close relatives mainly include loans and deposits and are carried out under normal commercial terms and paid at market rates.

Details of transaction volumes and outstanding balances are summarised below:

|                                 | As at<br>30 June 2021 | As at<br>31 December 2020 |
|---------------------------------|-----------------------|---------------------------|
| Due to customers                | 6                     | 6                         |
| Loans and advances to customers | 1                     | 1                         |

Compensations of directors and senior management are disclosed in Note 15.

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 46 RELATED PARTY TRANSACTIONS (Continued)

## (g) Transactions with associates and joint ventures

Transactions between the Group and its associates and joint ventures are carried out under normal commercial terms and paid at market rates.

Details of transaction volumes and outstanding balances are summarised below:

|   | As at<br>30 June 2021    | As at<br>31 December 2020 |
|---|--------------------------|---------------------------|
| On-balance sheet items  |                          |                           |
| Due from and placements with banks and other financial institutions       | –                        | 100                       |
| Derivative financial assets   | 14                       | 7                         |
| Loans and advances to customers   | 6,248                    | 4,767                     |
| Due to and placements from banks and other financial institutions         | 309                      | 44                        |
| Derivative financial liabilities  | 15                       | 16                        |
| Due to customers  | 26                       | –                         |
| Off-balance sheet items   |                          |                           |
| Notional principal of derivative financial instruments                    | 5,793                    | 2,094                     |
| Credit related commitments(Guarantees, acceptances and letters of credit) | 10,596                   | 10,337                    |
|   | Six months ended 30 June |                           |
|   | 2021                     | 2020                      |
| Interest income   | 107                      | 85                        |
| Interest expense  | (3)                      | –                         |
| Net gains/(losses) from trading activities                                | 9                        | (4)                       |

The interest rates of the transactions between the Group and its associates and joint ventures are summarised below:

|   |                          |           |
|---|--------------------------|-----------|
|   | Six months ended 30 June |           |
|   | 2021                     | 2020      |
|   | %                        | %         |
| Due from and placements with banks and other financial institutions | 0.30~3.19                | 0.30~1.81 |
| Loans and advances to customers                                     | 3.30~4.90                | 3.48~4.90 |
| Due to and placements from banks and other financial institutions   | 0.0001~0.35              | 0.01~0.35 |
| Due to customers  | 0.75~1.89                | 0.30~1.35 |

## (h) Transactions with other related parties

Details of transaction volumes and outstanding balances are summarised below:

|   | As at<br>30 June 2021 | As at<br>31 December 2020 |
|---|-----------------------|---------------------------|
| Loans and advances to customers                                   | 969                   | 744                       |
| Financial investments at amortised cost                           | –                     | 204                       |
| Due to and placements from banks and other financial institutions | 68                    | 92                        |
| Due to customers  | 65,808                | 42,313                    |

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

### 46 RELATED PARTY TRANSACTIONS (Continued)

#### (h) Transactions with other related parties (Continued)

|                  | Six months ended 30 June |         |
|------------------|--------------------------|---------|
|                  | 2021                     | 2020    |
| Interest income  | 12                       | 22      |
| Interest expense | (1,180)                  | (1,093) |

The interest rates of the transactions between the Group and other related parties are summarised below:

|   | Six months ended 30 June |           |
|---|--------------------------|-----------|
|   | 2021<br>%                | 2020<br>% |
| Loans and advances to customers                                   | 0.30~4.79                | 0.30~5.06 |
| Financial investments at amortised cost                           | 3.78                     | 3.19~3.78 |
| Due to and placements from banks and other financial institutions | 0.35                     | 0.30~5.40 |
| Due to customers  | 0.30~4.18                | 0.30~4.18 |

### 47 SEGMENTAL ANALYSIS

The Group's Board of Directors and senior management reviews the Group's operation by the particular economic areas in which the Group's branches and subsidiaries provide products or services. The Group's geographical operating segments are decided based upon location of the assets, as the Group's branches and subsidiaries mainly serve local customers.

The reportable geographical operating segments derive their revenue primarily from commercial banking services and investing activities, including deposits, loans, bills, trade financing, money market placements and takings, and securities investments, etc.

The Group's geographical operating segments include provincial and directly managed branches and subsidiaries (if any) in relevant regions, as follows:

- (1) Yangtze River Delta: including Shanghai (excluding Head Office), Jiangsu Province, Zhejiang Province, and Anhui Province;
- (2) Pearl River Delta: including Fujian Province and Guangdong Province;
- (3) Bohai Rim Economic Zone: including Beijing, Tianjin, Hebei Province, and Shandong Province;
- (4) Central China: including Shanxi Province, Jiangxi Province, Henan Province, Hubei Province, Hunan Province, Hainan Province, and Guangxi Zhuang Autonomous Region;
- (5) Western China: including Chongqing, Sichuan Province, Guizhou Province, Yunnan Province, Shanxi Province, Gansu Province, Qinghai Province, Inner Mongolia Autonomous Region, Ningxia Autonomous Region, and Xinjiang Uyghur Autonomous Region;
- (6) Northeastern China: including Liaoning Province, Jilin Province and Heilongjiang Province;
- (7) Overseas: including Hong Kong, New York, Tokyo, Singapore, Seoul, Frankfurt, Macau, Ho Chi Minh City, San Francisco, Sydney, Taipei, London, Luxembourg, Brisbane, Paris, Rome, Brazil, Melbourne, Toronto, Prague, Johannesburg;
- (8) Head Office, including the Pacific Credit Card Centre.



## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 47 SEGMENTAL ANALYSIS (Continued)

The revenue from external parties is reported to the Board of Directors and the senior management in a manner consistent with that in the consolidated statement of profit or loss and other comprehensive income.

As the Group's major revenue is derived from interest, and the Board of Directors and the senior management relies primarily on net interest income to assess the performance of segments, the interest income and expenses for all reportable segments are presented on a net basis.

The Group's Board of Directors and senior management reviews the segment performance on the basis of profit before tax. Funds are ordinarily allocated between segments. Costs of these funds are charged at the Group's cost of capital and disclosed in inter-segment net interest income. There are no other material items of income or expenses between the segments.

## Geographical operating segment information

|  | Six months ended 30 June 2021 |                      |                            |               |               |                        |              |               | Total          |
|--|-------------------------------|----------------------|----------------------------|---------------|---------------|------------------------|--------------|---------------|----------------|
|  | Yangtze River<br>Delta        | Pearl River<br>Delta | Bohai Rim<br>Economic Zone | Central China | Western China | North Eastern<br>China | Overseas     | Head Office   |                |
| External interest income                                 | 36,034                        | 16,439               | 17,864                     | 23,338        | 15,755        | 4,975                  | 9,258        | 60,289        | 183,952        |
| External interest expense                                | (23,886)                      | (10,339)             | (17,559)                   | (12,317)      | (7,692)       | (4,585)                | (3,917)      | (25,171)      | (105,466)      |
| Inter-segment net interest<br>income/(expense)           | 10,576                        | 3,059                | 10,883                     | 3,396         | 935           | 2,481                  | 75           | (31,405)      | -              |
| Net interest income                                      | 22,724                        | 9,159                | 11,188                     | 14,417        | 8,998         | 2,871                  | 5,416        | 3,713         | 78,486         |
| Fee and commission income                                | 8,056                         | 1,901                | 3,056                      | 3,122         | 1,651         | 630                    | 1,487        | 7,396         | 27,299         |
| Fee and commission expense                               | (1,530)                       | (20)                 | (35)                       | (50)          | (13)          | (9)                    | (120)        | (556)         | (2,333)        |
| Net fee and commission<br>income                         | 6,526                         | 1,881                | 3,021                      | 3,072         | 1,638         | 621                    | 1,367        | 6,840         | 24,966         |
| Net gains arising from trading<br>activities             | 2,188                         | 289                  | 172                        | 322           | 40            | 13                     | 6            | 7,139         | 10,169         |
| Net gains/(losses) arising from<br>financial investments | 457                           | -                    | 27                         | -             | -             | 11                     | 326          | (49)          | 772            |
| Insurance business income                                | 10,998                        | -                    | -                          | -             | -             | -                      | 24           | -             | 11,022         |
| Share of profits of associates<br>and joint ventures     | -                             | -                    | -                          | -             | -             | -                      | 12           | 102           | 114            |
| Other operating income                                   | 7,216                         | 186                  | 380                        | 288           | 261           | 95                     | 14           | 82            | 8,522          |
| <b>Total operating income - net</b>                      | <b>50,109</b>                 | <b>11,515</b>        | <b>14,788</b>              | <b>18,099</b> | <b>10,937</b> | <b>3,611</b>           | <b>7,165</b> | <b>17,827</b> | <b>134,051</b> |
| Credit impairment losses                                 | (4,105)                       | (4,029)              | (7,902)                    | (3,725)       | (4,382)       | (3,157)                | (291)        | (5,491)       | (33,082)       |
| Other assets impairment losses                           | (270)                         | -                    | (1)                        | 2             | (39)          | (110)                  | -            | -             | (418)          |
| Insurance business expense                               | (10,922)                      | -                    | -                          | -             | -             | -                      | (3)          | -             | (10,925)       |
| Other operating expense                                  | (12,824)                      | (3,371)              | (4,562)                    | (4,764)       | (3,245)       | (1,838)                | (2,210)      | (10,224)      | (43,038)       |
| <b>Profit before tax</b>                                 | <b>21,988</b>                 | <b>4,115</b>         | <b>2,323</b>               | <b>9,612</b>  | <b>3,271</b>  | <b>(1,494)</b>         | <b>4,661</b> | <b>2,112</b>  | <b>46,588</b>  |
| Income tax   |                               |                      |                            |               |               |                        |              |               | (3,715)        |
| <b>Net profit for the period</b>                         |                               |                      |                            |               |               |                        |              |               | <b>42,873</b>  |
| Depreciation and amortisation                            | (897)                         | (451)                | (558)                      | (548)         | (465)         | (243)                  | (243)        | (572)         | (3,977)        |
| Capital expenditure                                      | (7,092)                       | (51)                 | (100)                      | (230)         | (158)         | (42)                   | (140)        | (358)         | (8,171)        |

# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

## 47 SEGMENTAL ANALYSIS (Continued)

### Geographical operating segment information (Continued)

| Six months ended 30 June 2020                         |                        |                      |                               |               |               |                        |              |                |                |
|---|------------------------|----------------------|-------------------------------|---------------|---------------|------------------------|--------------|----------------|----------------|
|   | Yangtze River<br>Delta | Pearl River<br>Delta | Bohai Rim<br>Economic<br>Zone | Central China | Western China | North Eastern<br>China | Overseas     | Head Office    | Total          |
| External interest income                              | 35,092                 | 14,220               | 17,200                        | 21,284        | 14,010        | 4,283                  | 14,702       | 65,438         | 186,229        |
| External interest expense                             | (24,586)               | (9,815)              | (17,440)                      | (11,930)      | (7,769)       | (4,581)                | (10,494)     | (25,765)       | (112,380)      |
| Inter-segment net interest income/(expense)           | 11,273                 | 3,233                | 10,088                        | 3,761         | 1,305         | 2,558                  | (93)         | (32,125)       | -              |
| <b>Net interest income</b>                            | <b>21,779</b>          | <b>7,638</b>         | <b>9,848</b>                  | <b>13,115</b> | <b>7,546</b>  | <b>2,260</b>           | <b>4,115</b> | <b>7,548</b>   | <b>73,849</b>  |
| Fee and commission income                             | 6,635                  | 1,791                | 2,601                         | 2,690         | 1,520         | 581                    | 1,771        | 8,626          | 26,215         |
| Fee and commission expense                            | (1,045)                | (16)                 | (34)                          | (20)          | (7)           | (9)                    | (141)        | (666)          | (1,938)        |
| <b>Net fee and commission income</b>                  | <b>5,590</b>           | <b>1,775</b>         | <b>2,567</b>                  | <b>2,670</b>  | <b>1,513</b>  | <b>572</b>             | <b>1,630</b> | <b>7,960</b>   | <b>24,277</b>  |
| Net gains/(losses) arising from trading activities    | 1,144                  | 128                  | 171                           | 196           | 47            | 17                     | (110)        | 5,760          | 7,353          |
| Net gains/(losses) arising from financial investments | 512                    | -                    | -                             | -             | -             | -                      | 1,017        | (24)           | 1,505          |
| Insurance business income                             | 10,898                 | -                    | -                             | -             | -             | -                      | 38           | -              | 10,936         |
| Share of profits of associates and joint ventures     | -                      | -                    | -                             | -             | -             | -                      | 2            | 83             | 85             |
| Other operating income                                | 6,964                  | 217                  | 505                           | 236           | 261           | 85                     | 596          | 90             | 8,954          |
| <b>Total operating income - net</b>                   | <b>46,887</b>          | <b>9,758</b>         | <b>13,091</b>                 | <b>16,217</b> | <b>9,367</b>  | <b>2,934</b>           | <b>7,288</b> | <b>21,417</b>  | <b>126,959</b> |
| Credit impairment losses                              | (7,691)                | (2,474)              | (4,918)                       | (3,715)       | (181)         | (1,139)                | (568)        | (12,647)       | (33,333)       |
| Other assets impairment losses                        | (164)                  | -                    | 1                             | -             | -             | -                      | 4            | -              | (159)          |
| Insurance business expense                            | (11,006)               | -                    | -                             | -             | -             | -                      | (16)         | -              | (11,022)       |
| Other operating expense                               | (12,585)               | (3,361)              | (4,432)                       | (4,914)       | (3,120)       | (1,872)                | (2,358)      | (9,845)        | (42,487)       |
| <b>Profit before tax</b>                              | <b>15,441</b>          | <b>3,923</b>         | <b>3,742</b>                  | <b>7,588</b>  | <b>6,066</b>  | <b>(77)</b>            | <b>4,350</b> | <b>(1,075)</b> | <b>39,958</b>  |
| Income tax  | -                      | -                    | -                             | -             | -             | -                      | -            | -              | (2,961)        |
| <b>Net profit for the period</b>                      |                        |                      |                               |               |               |                        |              |                | <b>36,997</b>  |
| Depreciation and amortisation                         | (829)                  | (437)                | (547)                         | (541)         | (470)         | (243)                  | (302)        | (539)          | (3,908)        |
| Capital expenditure                                   | (13,515)               | (295)                | (86)                          | (101)         | (136)         | (47)                   | (60)         | (221)          | (14,461)       |

Given the adjustment to the standards of dividing segments and evaluation guidelines of income allocation within segment, the comparative figures were stated under existing standards.

| As at 30 June 2021                           |                        |                      |                               |               |               |                        |             |             |              |                     |
|--|------------------------|----------------------|-------------------------------|---------------|---------------|------------------------|-------------|-------------|--------------|---------------------|
|  | Yangtze River<br>Delta | Pearl River<br>Delta | Bohai Rim<br>Economic<br>Zone | Central China | Western China | North Eastern<br>China | Overseas    | Head Office | Eliminations | Total               |
| Segment assets                               | 2,795,905              | 1,026,051            | 1,608,059                     | 1,276,579     | 855,889       | 386,394                | 1,094,045   | 4,395,387   | (2,053,468)  | 11,384,841          |
| Including:                                   |                        |                      |                               |               |               |                        |             |             |              |                     |
| Investments in associates and joint ventures | 4                      | -                    | -                             | 6             | -             | -                      | 151         | 5,344       | -            | 5,505               |
| Unallocated assets                           |                        |                      |                               |               |               |                        |             |             |              | 29,119              |
| <b>Total assets</b>                          |                        |                      |                               |               |               |                        |             |             |              | <b>11,413,960</b>   |
| Segment liabilities                          | (2,590,061)            | (1,019,695)          | (1,597,418)                   | (1,251,985)   | (849,877)     | (389,656)              | (1,042,043) | (3,789,287) | 2,053,468    | (10,476,554)        |
| Unallocated liabilities                      |                        |                      |                               |               |               |                        |             |             |              | (1,491)             |
| <b>Total liabilities</b>                     |                        |                      |                               |               |               |                        |             |             |              | <b>(10,478,045)</b> |

| As at 31 December 2020                       |                        |                      |                               |               |               |                        |             |             |              |                    |
|--|------------------------|----------------------|-------------------------------|---------------|---------------|------------------------|-------------|-------------|--------------|--------------------|
|  | Yangtze River<br>Delta | Pearl River<br>Delta | Bohai Rim<br>Economic<br>Zone | Central China | Western China | North Eastern<br>China | Overseas    | Head Office | Eliminations | Total              |
| Segment assets                               | 2,641,386              | 920,887              | 1,543,501                     | 1,194,919     | 822,759       | 384,627                | 1,114,676   | 4,187,998   | (2,141,128)  | 10,669,625         |
| Including:                                   |                        |                      |                               |               |               |                        |             |             |              |                    |
| Investments in associates and joint ventures | 4                      | -                    | -                             | 6             | -             | -                      | 203         | 4,468       | -            | 4,681              |
| Unallocated assets                           |                        |                      |                               |               |               |                        |             |             |              | 27,991             |
| <b>Total assets</b>                          |                        |                      |                               |               |               |                        |             |             |              | <b>10,697,616</b>  |
| Segment liabilities                          | (2,437,106)            | (908,645)            | (1,524,423)                   | (1,162,723)   | (808,702)     | (385,778)              | (1,057,224) | (3,674,229) | 2,141,128    | (9,817,702)        |
| Unallocated liabilities                      |                        |                      |                               |               |               |                        |             |             |              | (1,286)            |
| <b>Total liabilities</b>                     |                        |                      |                               |               |               |                        |             |             |              | <b>(9,818,988)</b> |

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 47 SEGMENTAL ANALYSIS (Continued)

## Business information

The Group is engaged predominantly in banking and related financial activities. It comprises corporate banking, personal banking, treasury and other business. Corporate banking mainly comprises corporate loans, bills, trade financing, corporate deposits and remittance. Personal banking mainly comprises personal loans, personal deposits, credit cards and remittance. Treasury mainly comprises money market placements and takings, financial investment, and securities sold under repurchase agreements. The “Others Business” segment mainly comprises items which cannot be categorised in the above business segments.

The business information of the Group is summarised as follows:

|   | Six months ended 30 June 2021    |                                 |                      |                   |                |
|---|----------------------------------|---------------------------------|----------------------|-------------------|----------------|
|   | Corporate<br>Banking<br>Business | Personal<br>Banking<br>Business | Treasury<br>Business | Other<br>Business | Total          |
| External net interest income                      | 34,366                           | 24,920                          | 19,170               | 30                | 78,486         |
| Inter-segment net interest income/(expense)       | 7,803                            | 9,365                           | (17,168)             | –                 | –              |
| Net interest income                               | 42,169                           | 34,285                          | 2,002                | 30                | 78,486         |
| Net fee and commission income                     | 8,255                            | 15,538                          | 1,094                | 79                | 24,966         |
| Net gains arising from trading activities         | 3,070                            | 999                             | 6,100                | –                 | 10,169         |
| Net gains arising from financial investments      | –                                | –                               | 772                  | –                 | 772            |
| Share of profits of associates and joint ventures | –                                | –                               | –                    | 114               | 114            |
| Insurance business income                         | 24                               | 10,998                          | –                    | –                 | 11,022         |
| Other operating income                            | 6,866                            | 1,206                           | 21                   | 429               | 8,522          |
| <b>Total operating income – net</b>               | <b>60,384</b>                    | <b>63,026</b>                   | <b>9,989</b>         | <b>652</b>        | <b>134,051</b> |
| Credit impairment losses                          | (27,936)                         | (5,523)                         | 377                  | –                 | (33,082)       |
| Other assets impairment losses                    | (418)                            | –                               | –                    | –                 | (418)          |
| Insurance business expense                        | (3)                              | (10,922)                        | –                    | –                 | (10,925)       |
| Other operating expense                           |                                  |                                 |                      |                   |                |
| – Depreciation and amortisation                   | (1,450)                          | (1,918)                         | (378)                | (231)             | (3,977)        |
| – Others  | (17,067)                         | (19,901)                        | (1,717)              | (376)             | (39,061)       |
| <b>Profit before tax</b>                          | <b>13,510</b>                    | <b>24,762</b>                   | <b>8,271</b>         | <b>45</b>         | <b>46,588</b>  |
| Income tax  |                                  |                                 |                      |                   | (3,715)        |
| <b>Net profit for the period</b>                  |                                  |                                 |                      |                   | <b>42,873</b>  |
| Depreciation and amortisation                     | (1,450)                          | (1,918)                         | (378)                | (231)             | (3,977)        |
| Capital expenditure                               | (2,979)                          | (3,941)                         | (777)                | (474)             | (8,171)        |

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

### 47 SEGMENTAL ANALYSIS (Continued)

#### Business information (Continued)

|   | Six months ended 30 June 2020    |                                 |                      |                   |                |
|---|----------------------------------|---------------------------------|----------------------|-------------------|----------------|
|   | Corporate<br>Banking<br>Business | Personal<br>Banking<br>Business | Treasury<br>Business | Other<br>Business | Total          |
| External net interest income                      | 28,622                           | 23,634                          | 21,564               | 29                | 73,849         |
| Inter-segment net interest income/(expense)       | 8,573                            | 9,327                           | (17,900)             | –                 | –              |
| Net interest income                               | 37,195                           | 32,961                          | 3,664                | 29                | 73,849         |
| Net fee and commission income                     | 8,489                            | 14,859                          | 850                  | 79                | 24,277         |
| Net gains arising from trading activities         | 1,596                            | 980                             | 4,750                | 27                | 7,353          |
| Net gains arising from financial investments      | –                                | –                               | 1,505                | –                 | 1,505          |
| Share of profits of associates and joint ventures | –                                | –                               | –                    | 85                | 85             |
| Insurance business income                         | 38                               | 10,898                          | –                    | –                 | 10,936         |
| Other operating income                            | 7,171                            | 1,198                           | 50                   | 535               | 8,954          |
| <b>Total operating income – net</b>               | <b>54,489</b>                    | <b>60,896</b>                   | <b>10,819</b>        | <b>755</b>        | <b>126,959</b> |
| Credit impairment losses                          | (19,688)                         | (13,683)                        | 38                   | –                 | (33,333)       |
| Other assets impairment losses                    | (163)                            | –                               | –                    | 4                 | (159)          |
| Insurance business expense                        | (16)                             | (11,006)                        | –                    | –                 | (11,022)       |
| Other operating expense                           |                                  |                                 |                      |                   |                |
| – Depreciation and amortisation                   | (1,430)                          | (2,250)                         | (176)                | (52)              | (3,908)        |
| – Others  | (16,858)                         | (19,555)                        | (1,678)              | (488)             | (38,579)       |
| <b>Profit before tax</b>                          | <b>16,334</b>                    | <b>14,402</b>                   | <b>9,003</b>         | <b>219</b>        | <b>39,958</b>  |
| Income tax  |                                  |                                 |                      |                   | (2,961)        |
| <b>Net profit for the period</b>                  |                                  |                                 |                      |                   | <b>36,997</b>  |
| Depreciation and amortisation                     | (1,430)                          | (2,250)                         | (176)                | (52)              | (3,908)        |
| Capital expenditure                               | (5,289)                          | (8,327)                         | (651)                | (194)             | (14,461)       |

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 47 SEGMENTAL ANALYSIS (Continued)

## Business information (Continued)

|  | As at 30 June 2021               |                                 |                      |                   |                     |
|--|----------------------------------|---------------------------------|----------------------|-------------------|---------------------|
|  | Corporate<br>Banking<br>Business | Personal<br>Banking<br>Business | Treasury<br>Business | Other<br>Business | Total               |
| Segment assets                               | 4,456,590                        | 2,211,505                       | 4,654,307            | 62,439            | 11,384,841          |
| Including:                                   |                                  |                                 |                      |                   |                     |
| Investments in associates and joint ventures | -                                | -                               | -                    | 5,505             | 5,505               |
| Unallocated assets                           |                                  |                                 |                      |                   | 29,119              |
| <b>Total assets</b>                          |                                  |                                 |                      |                   | <b>11,413,960</b>   |
| Segment liabilities                          | (4,924,055)                      | (2,511,670)                     | (2,960,317)          | (77,186)          | (10,473,228)        |
| Unallocated liabilities                      |                                  |                                 |                      |                   | (4,817)             |
| <b>Total liabilities</b>                     |                                  |                                 |                      |                   | <b>(10,478,045)</b> |

|  | As at 31 December 2020           |                                 |                      |                   |                    |
|--|----------------------------------|---------------------------------|----------------------|-------------------|--------------------|
|  | Corporate<br>Banking<br>Business | Personal<br>Banking<br>Business | Treasury<br>Business | Other<br>Business | Total              |
| Segment assets                               | 4,192,292                        | 2,067,778                       | 4,346,218            | 63,337            | 10,669,625         |
| Including:                                   |                                  |                                 |                      |                   |                    |
| Investments in associates and joint ventures | -                                | -                               | -                    | 4,681             | 4,681              |
| Unallocated assets                           |                                  |                                 |                      |                   | 27,991             |
| <b>Total assets</b>                          |                                  |                                 |                      |                   | <b>10,697,616</b>  |
| Segment liabilities                          | (4,832,353)                      | (2,312,508)                     | (2,598,865)          | (70,190)          | (9,813,916)        |
| Unallocated liabilities                      |                                  |                                 |                      |                   | (5,072)            |
| <b>Total liabilities</b>                     |                                  |                                 |                      |                   | <b>(9,818,988)</b> |

There were no significant transactions with a single external customer that the Group mainly relied on.

The comparative information was prepared in accordance with the categorisation of the current period since the assessment rules of the income distribution between various business segments have been adjusted.

## 48 FINANCIAL STATEMENTS DURING COMPARATIVE PERIOD

Certain comparative figures have been adjusted to conform with changes in disclosures in current year.

## 49 NON-ADJUSTING EVENTS AFTER REPORTING PERIOD

In July 2021, Bank of Communications (Hong Kong) Limited issued tier-2 capital bonds with the face value of USD1,000 million and coupon rate of 2.304% due 2031, Bank of Communications (Hong Kong) Limited has an option to redeem them at the end of 2026.

# UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(All amounts expressed in millions of RMB unless otherwise stated)

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## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(All amounts expressed in millions of RMB unless otherwise stated)

## 1 CURRENCY CONCENTRATIONS

|                               | USD         | HKD       | Others    | Total       |
|-------------------------------|-------------|-----------|-----------|-------------|
| <b>As at 30 June 2021</b>     |             |           |           |             |
| Spot assets                   | 1,002,764   | 220,809   | 190,460   | 1,414,033   |
| Spot liabilities              | (935,001)   | (325,014) | (118,223) | (1,378,238) |
| Forward purchases             | 1,182,486   | 245,066   | 96,442    | 1,523,994   |
| Forward sales                 | (1,306,235) | (111,541) | (154,235) | (1,572,011) |
| Net option position           | 11,606      | 35        | (7,240)   | 4,401       |
| Net long/(short) position     | (44,380)    | 29,355    | 7,204     | (7,821)     |
| Net structural position       | 116,266     | 30,937    | 10,819    | 158,022     |
|                               | USD         | HKD       | Others    | Total       |
| <b>As at 31 December 2020</b> |             |           |           |             |
| Spot assets                   | 971,473     | 232,530   | 200,619   | 1,404,622   |
| Spot liabilities              | (866,247)   | (339,250) | (131,716) | (1,337,213) |
| Forward purchases             | 1,130,911   | 298,686   | 81,772    | 1,511,369   |
| Forward sales                 | (1,293,531) | (155,669) | (141,908) | (1,591,108) |
| Net option position           | (1,878)     | 41        | 2,663     | 826         |
| Net long/(short) position     | (59,272)    | 36,338    | 11,430    | (11,504)    |
| Net structural position       | 117,569     | 30,147    | 11,065    | 158,781     |

The net options position is calculated using the approach set out by the CBIRC in the regulatory report. The net structural position of the Group includes the structural positions of the Group's overseas branches, banking subsidiaries and other subsidiaries substantially involved in foreign exchange. Structural assets and liabilities include:

- Investments in fixed assets and properties, net of depreciation charges;
- Capital and statutory reserve of overseas branches;
- Investments in overseas subsidiaries and related companies; and
- Loan capital

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(All amounts expressed in millions of RMB unless otherwise stated)

### 2 INTERNATIONAL CLAIMS

International claims are the sum of cross-border claims in all currencies and local claims in foreign currencies. The Group is principally engaged in business operations within Mainland China.

In respect of this unaudited supplementary financial information, Mainland China excludes Hong Kong Special Administrative Region of the PRC ("Hong Kong"), Macau Special Administrative Region of the PRC ("Macau") and Taiwan.

International claims include loans and advances to customers, due from and placements with banks and other financial institutions, holdings of trade bills and certificates of deposits and investment securities.

International claims have been disclosed by country or region. A country or region is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfers are only made if risk exposure is transferred to other counterparty by risk resolving methods. Exposure to credit risk is also mitigated through methods of guarantees, collaterals and credit derivatives.

| As at 30 June 2021                      | Bank    | Official sector | Non-bank private sector | Others | Total     |
|---|---------|-----------------|-------------------------|--------|-----------|
| Asia Pacific                            | 513,804 | 69,652          | 701,642                 | –      | 1,285,098 |
| <i>Of which attributed to Hong Kong</i> | 85,669  | 13,827          | 309,464                 | –      | 408,960   |
| North and South America                 | 39,136  | 11,058          | 67,638                  | –      | 117,832   |
| Africa                                  | 759     | 590             | –                       | –      | 1,349     |
| Europe                                  | 41,851  | 3,377           | 29,351                  | –      | 74,579    |
|   | 595,550 | 84,677          | 798,631                 | –      | 1,478,858 |

| As at 31 December 2020                  | Bank    | Official sector | Non-bank private sector | Others | Total     |
|---|---------|-----------------|-------------------------|--------|-----------|
| Asia Pacific                            | 509,860 | 53,881          | 568,620                 | –      | 1,132,361 |
| <i>Of which attributed to Hong Kong</i> | 129,213 | 23,119          | 299,229                 | –      | 451,561   |
| North and South America                 | 41,818  | 28,597          | 70,286                  | –      | 140,701   |
| Africa                                  | 575     | 613             | –                       | –      | 1,188     |
| Europe                                  | 42,235  | 2,727           | 31,132                  | –      | 76,094    |
|   | 594,488 | 85,818          | 670,038                 | –      | 1,350,344 |



## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(All amounts expressed in millions of RMB unless otherwise stated)

## 3 OVERDUE AND RESTRUCTURED ASSETS

## 3.1 Balance of overdue loans

|  | As at<br>30 June 2021 | As at<br>31 December 2020 |
|--|-----------------------|---------------------------|
| Loans and advances to customers which have been overdue for: |                       |                           |
| – Less than 3 months   | 25,923                | 25,480                    |
| – 3 to 6 months  | 13,414                | 10,884                    |
| – 6 to 12 months   | 19,211                | 23,261                    |
| – Over 12 months   | 35,692                | 30,578                    |
|  | 94,240                | 90,203                    |
| Percentage (%):  |                       |                           |
| – Less than 3 months   | 0.41                  | 0.44                      |
| – 3 to 6 months  | 0.21                  | 0.19                      |
| – 6 to 12 months   | 0.30                  | 0.40                      |
| – Over 12 months   | 0.56                  | 0.51                      |
|  | 1.48                  | 1.54                      |

## 3.2 Overdue and restructured loans

|  | As at<br>30 June 2021 | As at<br>31 December 2020 |
|--|-----------------------|---------------------------|
| Total restructured loans and advances to customers   | 9,553                 | 8,299                     |
| <i>Including: Restructured loans and advances to customers overdue above 3 months</i>            | 2,299                 | 2,394                     |
| Percentage of restructured loans and advances to customers overdue above 3 months in total loans | 0.04                  | 0.04                      |

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(All amounts expressed in millions of RMB unless otherwise stated)

### 4 SEGMENTAL INFORMATION OF LOANS

#### 4.1 Impaired loans and advances to customers by geographical area

|  | As at 30 June 2021                             |                                    | As at 31 December 2020                         |                                    |
|--|--|------------------------------------|--|------------------------------------|
|  | Impaired loans<br>and advances to<br>customers | Allowance for<br>impairment losses | Impaired loans<br>and advances to<br>customers | Allowance for<br>impairment losses |
| PRC domestic regions                             |  |                                    |  |                                    |
| –Yangtze River Delta                             | 22,841   | (12,846)                           | 20,932   | (11,747)                           |
| –Pearl River Delta                               | 8,315  | (4,756)                            | 7,332  | (4,050)                            |
| –Bohai Rim Economic Zone                         | 16,850   | (12,085)                           | 17,058   | (12,068)                           |
| –Central China                                   | 18,797   | (8,917)                            | 18,005   | (9,808)                            |
| –Western China                                   | 10,126   | (6,709)                            | 9,220  | (6,105)                            |
| –North Eastern China                             | 10,572   | (7,663)                            | 10,998   | (7,891)                            |
| –Head Office                                     | 10,392   | (10,052)                           | 10,567   | (10,466)                           |
| Subtotal   | 97,893   | (63,028)                           | 94,112   | (62,135)                           |
| Hong Kong, Macau, Taiwan and<br>overseas regions | 3,539  | (1,212)                            | 3,586  | (843)                              |
| Total  | 101,432  | (64,240)                           | 97,698   | (62,978)                           |

#### 4.2 Overdue loans and advances to customers by geographical area

|  | As at 30 June 2021 |                                    | As at 31 December 2020 |                                    |
|--|--------------------|------------------------------------|------------------------|------------------------------------|
|  | Overdue loans      | Allowance for<br>impairment losses | Overdue loans          | Allowance for<br>impairment losses |
| PRC domestic regions                             |                    |                                    |                        |                                    |
| –Yangtze River Delta                             | 18,272             | (9,737)                            | 16,505                 | (10,996)                           |
| –Pearl River Delta                               | 7,614              | (4,087)                            | 6,167                  | (3,208)                            |
| –Bohai Rim Economic Zone                         | 13,047             | (9,141)                            | 14,517                 | (10,140)                           |
| –Central China                                   | 13,450             | (7,144)                            | 13,622                 | (8,252)                            |
| –Western China                                   | 12,436             | (4,944)                            | 7,312                  | (4,748)                            |
| –North Eastern China                             | 8,089              | (5,619)                            | 10,283                 | (7,194)                            |
| –Head Office                                     | 17,635             | (12,263)                           | 18,251                 | (13,048)                           |
| Subtotal   | 90,543             | (52,935)                           | 86,657                 | (57,586)                           |
| Hong Kong, Macau, Taiwan and<br>overseas regions | 3,697              | (1,235)                            | 3,546                  | (976)                              |
| Total  | 94,240             | (54,170)                           | 90,203                 | (58,562)                           |
| Fair value of collaterals                        | 46,041             | Not applicable                     | 44,069                 | Not applicable                     |

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(All amounts expressed in millions of RMB unless otherwise stated)

## 5 LOANS AND ADVANCES TO CUSTOMERS

## 5.1 The risk concentration analysis for loans and advances to customers by industry sectors (gross)

|   | As at 30 June 2021 |        |                               | As at 31 December 2020 |        |                               |
|---|--------------------|--------|-------------------------------|------------------------|--------|-------------------------------|
|   |                    | %      | Amount covered by collaterals |                        | %      | Amount covered by collaterals |
| <b>Hong Kong</b>  |                    |        |                               |                        |        |                               |
| Corporate loans   |                    |        |                               |                        |        |                               |
| Manufacturing   |                    |        |                               |                        |        |                               |
| – Petroleum and chemical  | 1,303              | 0.62   | 150                           | 1,325                  | 0.68   | –                             |
| – Electronics   | 1,395              | 0.66   | 25                            | 4,441                  | 2.28   | 21                            |
| – Textile and clothing  | 296                | 0.14   | 13                            | 312                    | 0.16   | 6                             |
| – Other manufacturing   | 26,332             | 12.44  | 5,527                         | 15,599                 | 8.02   | 5,401                         |
| Production and supply of power, heat, gas and water                         | 1,729              | 0.82   | 370                           | 861                    | 0.44   | 365                           |
| Construction  | 4,916              | 2.32   | 1,100                         | 4,469                  | 2.30   | 1,009                         |
| Transportation, storage and postal service                                  | 14,624             | 6.91   | 4,154                         | 14,550                 | 7.48   | 2,540                         |
| Information transmission, software and IT services                          | 3,951              | 1.87   | 4                             | 3,257                  | 1.67   | 8                             |
| Wholesale and retail  | 13,061             | 6.17   | 2,957                         | 15,912                 | 8.18   | 3,657                         |
| Finance   | 4,063              | 1.92   | 557                           | 5,339                  | 2.74   | 594                           |
| Real estate   | 62,038             | 29.30  | 18,235                        | 55,315                 | 28.43  | 16,532                        |
| Leasing and commercial services   | 12,167             | 5.75   | 2,822                         | 6,636                  | 3.41   | 2,903                         |
| Others  | 23,126             | 10.91  | 5,526                         | 29,347                 | 15.09  | 5,640                         |
| Total corporate loans   | 169,001            | 79.83  | 41,440                        | 157,363                | 80.88  | 38,676                        |
| Personal loans  |                    |        |                               |                        |        |                               |
| Mortgage  | 27,316             | 12.90  | 27,314                        | 23,621                 | 12.14  | 23,616                        |
| Credit cards  | 101                | 0.05   | –                             | 97                     | 0.05   | –                             |
| Others  | 15,281             | 7.22   | 13,055                        | 13,492                 | 6.93   | 12,745                        |
| Total personal loans  | 42,698             | 20.17  | 40,369                        | 37,210                 | 19.12  | 36,361                        |
| Gross amount of loans and advances to customers before impairment allowance | 211,699            | 100.00 | 81,809                        | 194,573                | 100.00 | 75,037                        |
| Outside Hong Kong   | 6,135,004          |        |                               | 5,653,851              |        |                               |

Note: The classification of industries is consistent with the latest national standards for industry classification (Industrial Classification for National Economic Activities (GB/T 4754-2017) issued by SAC and AQSIQ in 2017).

The risk concentration analysis for loans and advances to customers by industry sectors is based on the Group's internal classification system.

The ratio of collateral and pledge loans to the total loans of the Group was 52% as at 30 June 2021 (31 December 2020: 52%).

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(All amounts expressed in millions of RMB unless otherwise stated)

### 5 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

#### 5.2 Allowance on loans and advances to customers by type of loan

|                           | As at 30 June 2021 |                                 | As at 31 December 2020 |                                 |
|---------------------------|--------------------|---------------------------------|------------------------|---------------------------------|
|                           | Impaired loans     | Allowance for impairment losses | Impaired loans         | Allowance for impairment losses |
| Corporates                | 83,283             | (50,106)                        | 78,925                 | (47,973)                        |
| Individuals               | 18,149             | (14,134)                        | 18,773                 | (15,005)                        |
|                           | 101,432            | (64,240)                        | 97,698                 | (62,978)                        |
| Fair value of collaterals | 48,086             | Not applicable                  | 46,359                 | Not applicable                  |

Collaterals held against such loans mainly include cash deposits and mortgages over properties.

The amount of new provisions charged to statement of profit or loss, and the amount of loans and advances written off during the years are disclosed below:

|             | Six months ended 30 June 2021 |   |  | Six months ended 30 June 2020 |   |  |
|-------------|-------------------------------|---|--|-------------------------------|---|--|
|             | New provisions                | Loans and advances written off as uncollectible | Recoveries of loans and advances written off in previous years | New provisions                | Loans and advances written off as uncollectible | Recoveries of loans and advances written off in previous years |
| Corporates  | 25,984                        | (15,855)  | 2,545  | 18,305                        | (13,820)  | 1,476  |
| Individuals | 5,189                         | (7,438)   | 950  | 12,829                        | (9,967)   | 660  |
|             | 31,173                        | (23,293)  | 3,495  | 31,134                        | (23,787)  | 2,136  |

# SUPPLEMENTARY INFORMATION ON CAPITAL ADEQUACY RATIO, LEVERAGE RATIO, LIQUIDITY COVERAGE RATIO AND NET STABLE FUNDING RATIO

Appendices 1 to 4 are disclosed in accordance with the *Regulations on the Information Disclosure of Capital Composition of Commercial Banks* issued by the CBIRC.

## APPENDIX 1: GROUP'S CAPITAL BREAKDOWN

(in millions of RMB)

| Items   | 30 June<br>2021 | 31 December<br>2020 | Code |
|---|-----------------|---------------------|------|
| Core Tier-1 Capital:  |                 |                     |      |
| 1 Share capital   | 74,263          | 74,263              | r    |
| 2 Retained earnings   | 564,036         | 547,516             |      |
| 2a Surplus reserve  | 219,333         | 212,276             | y    |
| 2b General reserve for risk assets  | 129,757         | 123,080             | z    |
| 2c Retained earnings  | 214,946         | 212,160             | aa   |
| 3 Accumulated other comprehensive income and disclosed reserve  | 108,508         | 109,466             |      |
| 3a Capital surplus  | 111,454         | 111,462             | u    |
| 3b Others   | (2,946)         | (1,996)             | v    |
| 4 Amount recognised in core tier-1 capital during transition period (Only applicable to non-stock companies; for joint-stock companies, to be completed with "0")   | 0               | 0                   |      |
| 5 Non-controlling interests recognised in core tier-1 capital   | 1,841           | 1,618               | ab   |
| 6 Core tier-1 capital before regulatory adjustments   | 748,648         | 732,863             |      |
| Core Tier-1 Capital: Regulatory adjustments   |                 |                     |      |
| 7 Prudent valuation adjustment  | 0               | 0                   |      |
| 8 Goodwill (net of deferred tax liabilities)  | 280             | 279                 | m-p  |
| 9 Other intangible assets (excluding land use rights) (net of deferred tax liabilities)   | 1,936           | 1,851               | l-q  |
| 10 Net deferred tax assets arising from the carried forward losses and be realised upon future profits  | 0               | 0                   | k    |
| 11 Cash flow hedge reserves   | (301)           | (532)               | x    |
| 12 Gap of loan allowance  | 0               | 0                   |      |
| 13 Gains from sales of asset securitisation   | 0               | 0                   |      |
| 14 Unrealised profit/loss arising from the changes in fair value liability due to credit risk   | 0               | 0                   |      |
| 15 Net defined-benefit pension assets (excluding deferred tax liabilities)  | 0               | 0                   |      |
| 16 Direct or indirect holding of the Bank's ordinary shares   | 0               | 0                   |      |
| 17 Cross holdings in core tier-1 capital based on agreements with interbank institutions or with other financial institutions   | 0               | 0                   |      |
| 18 Deductible amount from the core tier-1 capital of non-significant minority capital investments in financial institutions outside the scope of regulatory consolidation   | 0               | 0                   |      |
| 19 Deductible amount from the core tier-1 capital of significant minority capital investments in financial institutions outside the scope of regulatory consolidation   | 0               | 0                   |      |
| 20 Mortgage servicing rights  | 0               | 0                   |      |
| 21 Net deferred tax assets depending on the Bank's future profits   | 0               | 0                   |      |
| 22 Deduction of the undeductible amount of the core tier-1 capital of significant minority capital investments in financial institutions outside the scope of regulatory consolidation and other net deferred tax assets depending on the Bank's future profits which exceed the 15% of the core tier-1 capital | 0               | 0                   |      |

# SUPPLEMENTARY INFORMATION ON CAPITAL ADEQUACY RATIO, LEVERAGE RATIO, LIQUIDITY COVERAGE RATIO AND NET STABLE FUNDING RATIO (CONTINUED)

## APPENDIX 1: GROUP'S CAPITAL BREAKDOWN *(CONTINUED)*

(in millions of RMB)

| Items  | 30 June<br>2021 | 31 December<br>2020 | Code |
|--|-----------------|---------------------|------|
| 23 Including: Deductions of significant minority capital investments in financial institutions                                       | 0               | 0                   |      |
| 24 Including: Deductions of Mortgage servicing rights  | 0               | 0                   |      |
| 25 Including: Deductions of other deferred tax assets based on the Bank's future profits   | 0               | 0                   |      |
| 26a Investments in core tier-1 capital of financial institutions being controlled but outside the scope of regulatory consolidation  | 3,654           | 3,654               | f    |
| 26b Gaps of core tier-1 capital of financial institutions being controlled but outside the scope of regulatory consolidation         | 0               | 0                   |      |
| 26c Other deductions from core tier-1 Capital  | 0               | 0                   |      |
| 27 Other tier-1 capital and tier-2 capital to cover deductions   | 0               | 0                   |      |
| 28 Total regulatory adjustments to core tier-1 capital   | 5,569           | 5,252               |      |
| 29 Core tier-1 capital   | 743,079         | 727,611             |      |
| Other Tier-1 Capital:  |                 |                     |      |
| 30 Directly issued qualifying other tier-1 instruments plus stock surplus  | 174,790         | 133,292             |      |
| 31 Including: Classified as equity   | 174,790         | 133,292             | t    |
| 32 Including: Classified as liabilities  | 0               | 0                   |      |
| 33 Instruments not recognised in other tier-1 capital after the transition period  | 0               | 0                   |      |
| 34 Non-controlling interests recognised in other tier-1 capital  | 1,505           | 1,318               | ac   |
| 35 Including: Portions not recognised in other tier-1 capital after the transition period  | 0               | 0                   |      |
| 36 Other tier-1 capital before regulatory adjustments  | 176,295         | 134,610             |      |
| Other Tier-1 Capital: Regulatory adjustments   |                 |                     |      |
| 37 Direct or indirect investments in other tier-1 capital instruments of the Bank  | 0               | 0                   |      |
| 38 Cross holdings in other tier-1 instruments based on agreements with interbank institutions or with other financial institutions   | 0               | 0                   |      |
| 39 Non-significant investments in the other tier-1 capital of financial institutions outside the scope of regulatory consolidation   | 0               | 0                   |      |
| 40 Significant investments in the other tier-1 capital of financial institutions outside the scope of regulatory consolidation       | 0               | 0                   |      |
| 41a Investments in other tier-1 capital of financial institutions being controlled but outside the scope of regulatory consolidation | 0               | 0                   |      |
| 41b Gap of other tier-1 capital of financial institutions being controlled but outside the scope of regulatory consolidation         | 0               | 0                   |      |
| 41c Other deductions from other tier-1 capital   | 0               | 0                   |      |
| 42 – Undeducted gaps that should be deducted from tier-2 capital   | 0               | 0                   |      |
| 43 Total regulatory adjustments to other tier-1 capital  | 0               | 0                   |      |

# SUPPLEMENTARY INFORMATION ON CAPITAL ADEQUACY RATIO, LEVERAGE RATIO, LIQUIDITY COVERAGE RATIO AND NET STABLE FUNDING RATIO (CONTINUED)

## APPENDIX 1: GROUP'S CAPITAL BREAKDOWN (CONTINUED)

(in millions of RMB)

| Items  | 30 June<br>2021 | 31 December<br>2020 | Code |
|--|-----------------|---------------------|------|
| 44 Other tier-1 capital  | 176,295         | 134,610             |      |
| 45 Tier-1 capital (core tier-1 capital + other tier-1 capital)   | 919,374         | 862,221             |      |
| Tier-2 Capital:  |                 |                     |      |
| 46 Tier-2 instruments plus their premiums  | 120,495         | 127,345             | n    |
| 47 Portions not recognised in tier-2 capital after the transition period   | 0               | 0                   |      |
| 48 Minority interest recognised in tier-2 capital  | 2,294           | 2,204               | ad   |
| 49 Including: Portions not recognised after the transition period  | 0               | 0                   |      |
| 50 Excess loan loss provisions recognized in tier-2 capital  | 30,741          | 29,476              |      |
| 51 Tier-2 capital before regulatory adjustments  | 153,530         | 159,025             |      |
| Tier-2 Capital: Regulatory adjustments   |                 |                     |      |
| 52 Directly or indirectly holding of the Bank's tier-2 capital   | 0               | 0                   |      |
| 53 Interbank or with other financial institutions cross-holdings in tier-2 instruments   | 0               | 0                   |      |
| 54 The portion of tier-2 capital that should be deducted from the small capital investment of financial institutions outside the scope of regulatory consolidation | 0               | 0                   |      |
| 55 Tier-2 capital in large minority capital investment of financial institutions outside the scope of regulatory consolidation                                     | 0               | 0                   |      |
| 56a Investments in tier-2 capital of financial institutions being controlled but outside the scope of regulatory consolidation                                     | 0               | 0                   |      |
| 56b Gaps of tier-2 capital of financial institutions being controlled but outside the scope of regulatory consolidation  | 0               | 0                   |      |
| 56c Other deductions from tier-2 capital   | 0               | 0                   |      |
| 57 Total regulatory adjustments to tier-2 capital  | 0               | 0                   |      |
| 58 Tier-2 capital  | 153,530         | 159,025             |      |
| 59 Total capital (tier-1 capital + tier-2 capital)   | 1,072,904       | 1,021,246           |      |
| 60 Total risk-weighted assets  | 7,015,362       | 6,695,462           |      |
| Capital adequacy ratio and reserve capital requirements  |                 |                     |      |
| 61 Core tier-1 capital adequacy ratio (%)  | 10.59           | 10.87               |      |
| 62 Tier-1 capital adequacy ratio (%)   | 13.11           | 12.88               |      |
| 63 Capital adequacy ratio (%)  | 15.29           | 15.25               |      |
| 64 Specific buffer requirements of regulators (%)  | 3.50            | 3.50                |      |
| 65 Including: Capital conservation buffer requirements (%)   | 2.50            | 2.50                |      |
| 66 Including: Countercyclical buffer requirements (%)  | 0.00            | 0.00                |      |
| 67 Including: Additional buffer requirements of global systemically important banks (%)  | 1.00            | 1.00                |      |
| 68 Core tier-1 capital available to meet buffers as a percentage of risk-weighted assets (%)   | 5.59            | 5.87                |      |

# SUPPLEMENTARY INFORMATION ON CAPITAL ADEQUACY RATIO, LEVERAGE RATIO, LIQUIDITY COVERAGE RATIO AND NET STABLE FUNDING RATIO (CONTINUED)

## APPENDIX 1: GROUP'S CAPITAL BREAKDOWN *(CONTINUED)*

(in millions of RMB)

| Items   | 30 June<br>2021 | 31 December<br>2020 | Code      |
|---|-----------------|---------------------|-----------|
| Domestic minimum regulatory capital requirements  |                 |                     |           |
| 69 Core tier-1 capital adequacy ratio (%)   | 5.00            | 5.00                |           |
| 70 Tier-1 capital adequacy ratio (%)  | 6.00            | 6.00                |           |
| 71 Capital adequacy ratio (%)   | 8.00            | 8.00                |           |
| Amounts below the threshold deductions  |                 |                     |           |
| 72 The undeducted part of the small minority investments in Core tier-1 capital of financial institutions outside the scope of regulatory consolidation | 31,972          | 37,454              | b+c+d+e+g |
| 73 The undeducted part of the large minority investments in the capital of financial institutions outside the scope of regulatory consolidation         | 1,583           | 1,452               | a+h       |
| 74 Mortgage servicing rights (net of deferred tax liabilities)  | 0               | 0                   |           |
| 75 Other net deferred tax assets depending on the Bank's future profits (net of deferred tax liabilities)   | 27,597          | 26,742              | j-k-o     |
| Limit of excess loan loss provisions in Tier-2 Capital  |                 |                     |           |
| 76 Loan loss provisions actually made in respect of exposures subject to risk-weighted approach   | 5,035           | 3,467               |           |
| 77 Excess loan loss provisions eligible for inclusion in tier-2 capital under risk-weighted approach  | 1,743           | 2,200               |           |
| 78 Loan loss provisions actually made in respect of exposures subject to internal rating-based approach   | 146,391         | 137,094             |           |
| 79 Excess loan loss provisions eligible for inclusion in tier-2 capital under internal rating-based approach  | 28,998          | 27,276              |           |
| Capital instruments subject to phase-out arrangements   |                 |                     |           |
| 80 Amount recognised in current-period core tier-1 capital due to transitional arrangements   | 0               | 0                   |           |
| 81 Amount not recognised in current period core tier-1 capital due to transitional arrangements   | 0               | 0                   |           |
| 82 Amount recognised in current-period other tier-1 capital due to transitional arrangements  | 0               | 0                   |           |
| 83 Amount not recognised in current period other tier-1 capital due to transitional arrangements  | 0               | 0                   |           |
| 84 Amount recognised in current-period tier-2 capital due to transitional arrangements  | 6,700           | 13,400              |           |
| 85 Amount not recognised in current-period tier-2 capital due to transitional arrangements  | 19,300          | 12,600              |           |



# SUPPLEMENTARY INFORMATION ON CAPITAL ADEQUACY RATIO, LEVERAGE RATIO, LIQUIDITY COVERAGE RATIO AND NET STABLE FUNDING RATIO (CONTINUED)

## APPENDIX 2: GROUP BALANCE SHEET (ACCOUNTING AND REGULATORY CONSOLIDATION)

(in millions of RMB)

|                     |  | 30 June 2021                                 |   | 31 December 2020                             |   |
|---------------------|--|--|---|--|---|
|                     |  | Balance sheet of the consolidation under CAS | Balance sheet of the consolidation under the regulation | Balance sheet of the consolidation under CAS | Balance sheet of the consolidation under the regulation |
| <b>Assets:</b>      |  |  |   |  |   |
| 1                   | Cash and balances with central banks                                   | 810,320                                      | 810,164   | 817,561                                      | 817,460   |
| 2                   | Deposits from banks and other financial institutions                   | 179,926                                      | 175,329   | 159,170                                      | 152,436   |
| 3                   | Placements to banks and other financial institutions                   | 399,499                                      | 399,570   | 370,404                                      | 370,482   |
| 4                   | Derivative financial assets  | 35,584                                       | 35,619  | 54,212                                       | 54,236  |
| 5                   | Financial assets purchased under reverse agreements                    | 132,945                                      | 131,578   | 41,556                                       | 40,314  |
| 6                   | Loans and advances to customers  | 6,208,293                                    | 6,207,564   | 5,720,568                                    | 5,720,075   |
| 7                   | Financial assets at fair value through current profit or loss          | 575,837                                      | 544,144   | 482,588                                      | 457,403   |
| 8                   | Financial investments at amortized cost                                | 2,050,282                                    | 2,024,649   | 2,019,529                                    | 1,996,132   |
| 9                   | Financial investments at fair value through other comprehensive income | 726,547                                      | 698,780   | 735,220                                      | 717,876   |
| 10                  | Long term equity investments   | 5,505  | 12,167  | 4,681  | 11,358  |
| 11                  | Property and equipment   | 164,391                                      | 163,834   | 166,118                                      | 165,644   |
| 12                  | Land use rights  | 1,686  | 1,686   | 1,722  | 1,722   |
| 13                  | Deferred income tax assets   | 29,119                                       | 29,033  | 27,991                                       | 27,982  |
| 14                  | Goodwill   | 402  | 280   | 401  | 279   |
| 15                  | Intangible assets  | 1,964  | 1,936   | 1,885  | 1,851   |
| 16                  | Other Asset  | 91,660                                       | 92,559  | 94,009                                       | 92,083  |
| 17                  | <b>Total assets</b>  | <b>11,413,960</b>                            | <b>11,328,892</b>                                       | <b>10,697,615</b>                            | <b>10,627,333</b>                                       |
| <b>Liabilities:</b> |  |  |   |  |   |
| 18                  | Borrowings from central banks  | 444,787                                      | 444,787   | 478,745                                      | 478,745   |
| 19                  | Deposits from banks and other financial institutions                   | 926,192                                      | 927,209   | 904,958                                      | 903,374   |
| 20                  | Placements from banks and other financial institutions                 | 403,779                                      | 403,540   | 330,567                                      | 330,298   |
| 21                  | Transactional financial liabilities                                    | 20,532                                       | 19,395  | 29,279                                       | 28,863  |
| 22                  | Financial assets sold under repurchase agreements                      | 63,348                                       | 51,024  | 73,221                                       | 66,262  |
| 23                  | Due to customers   | 7,016,652                                    | 7,023,183   | 6,607,330                                    | 6,613,475   |
| 24                  | Derivative financial liabilities                                       | 33,702                                       | 33,705  | 55,942                                       | 55,934  |
| 25                  | Debt securities issued   | 541,597                                      | 539,262   | 497,755                                      | 498,223   |
| 26                  | Employee benefits payable  | 6,640  | 6,489   | 11,591                                       | 11,365  |
| 27                  | Taxes payable  | 8,625  | 8,563   | 7,994  | 7,977   |
| 28                  | Deferred tax liabilities   | 1,491  | 1,436   | 1,286  | 1,240   |
| 29                  | Provisions   | 10,947                                       | 10,947  | 11,532                                       | 11,532  |
| 30                  | Other liabilities  | 999,753                                      | 928,355   | 808,787                                      | 746,473   |
| 31                  | <b>Total liabilities</b>   | <b>10,478,045</b>                            | <b>10,397,895</b>                                       | <b>9,818,987</b>                             | <b>9,753,761</b>  |
| <b>Equity:</b>      |  |  |   |  |   |
| 32                  | Share capital  | 74,263                                       | 74,263  | 74,263                                       | 74,263  |
| 33                  | Other equity instruments   | 174,790                                      | 174,790   | 133,292                                      | 133,292   |
| 34                  | Capital surplus  | 111,428                                      | 111,454   | 111,428                                      | 111,462   |
| 35                  | Other comprehensive income   | (3,569)                                      | (2,946)   | (2,348)                                      | (1,996)   |
| 36                  | Surplus reserve  | 219,461                                      | 219,333   | 212,361                                      | 212,276   |
| 37                  | General risk reserve   | 129,878                                      | 129,757   | 123,163                                      | 123,080   |
| 38                  | Retained earnings  | 217,357                                      | 214,946   | 214,448                                      | 212,160   |
| 39                  | Minority interests   | 12,307                                       | 9,400   | 12,021                                       | 9,035   |
| 40                  | <b>Total equity</b>  | <b>935,915</b>                               | <b>930,997</b>  | <b>878,628</b>                               | <b>873,572</b>  |

# SUPPLEMENTARY INFORMATION ON CAPITAL ADEQUACY RATIO, LEVERAGE RATIO, LIQUIDITY COVERAGE RATIO AND NET STABLE FUNDING RATIO (CONTINUED)

## APPENDIX 3: BALANCE SHEET UNDER REGULATORY CONSOLIDATION

(in millions of RMB)

|  | Balance sheet of the<br>regulatory consolidation | Code |
|--|--|------|
| <b>Assets:</b>   |  |      |
| Cash and balances with central banks   | 810,164  |      |
| Due from banks and other financial institutions  | 175,329  |      |
| Loans to banks and other financial institutions  | 399,570  |      |
| Derivative financial assets  | 35,619   |      |
| Financial assets purchased under reverse agreements  | 131,578  |      |
| Loans and advances to customers  | 6,207,564  |      |
| Financial assets at fair value through profit or loss  | 544,144  |      |
| Including: Core tier-1 capital from significant investments in the capital of<br>financial institutions outside the scope of regulatory consolidation      | 659  | a    |
| Including: Core tier-1 capital from non-significant investments in the capital of<br>financial institutions outside the scope of regulatory consolidation  | 214  | b    |
| Including: Core tier-2 capital from non-significant investments in the capital of<br>financial institutions outside the scope of regulatory consolidation  | 25,028   | c    |
| Financial investments at amortized cost  | 2,024,649  |      |
| Financial investment at fair value through other comprehensive income  | 698,780  |      |
| Including: Core tier-1 capital from non-significant investments in the capital of<br>financial institutions outside the scope of regulatory consolidation  | 3,146  | d    |
| Including: Other tier-1 capital from non-significant investments in the capital of<br>financial institutions outside the scope of regulatory consolidation | 267  | e    |
| Long term equity investments   | 12,167   |      |
| Including: Investments in core tier-1 capital of financial institutions being<br>controlled but outside the scope of regulatory consolidation              | 3,654  | f    |
| Including: Core tier-1 capital from non-significant investments in the capital of<br>financial institutions outside the scope of regulatory consolidation  | 4,067  | g    |
| Including: Core tier-1 capital from significant investments in the capital of<br>financial institutions outside the scope of regulatory consolidation      | 924  | h    |
| Property and equipment   | 163,834  |      |
| Land use rights  | 1,686  | i    |
| Deferred tax assets  | 29,033   | j    |
| Including: Deferred tax assets arising from operating losses which are<br>expected to offset against future profits  | 0  | k    |
| Including: Other deferred tax assets depending on the Bank's future profits  | 29,033   |      |
| Intangible assets  | 1,936  | l    |
| Goodwill   | 280  | m    |
| Other assets   | 92,559   |      |
| <b>Total assets</b>  | <b>11,328,892</b>                                |      |

# SUPPLEMENTARY INFORMATION ON CAPITAL ADEQUACY RATIO, LEVERAGE RATIO, LIQUIDITY COVERAGE RATIO AND NET STABLE FUNDING RATIO (CONTINUED)

## APPENDIX 3: BALANCE SHEET UNDER REGULATORY CONSOLIDATION

(CONTINUED)

(in millions of RMB)

|  | Balance sheet of the<br>regulatory consolidation | Code |
|--|--|------|
| <b>Liabilities:</b>  |  |      |
| Borrowings from central banks  | 444,787  |      |
| Deposits from banks and other financial institutions   | 927,209  |      |
| Placements from banks and other financial institutions                                       | 403,540  |      |
| Financial liabilities at fair value through profit or loss                                   | 19,395   |      |
| Financial assets sold under repurchase agreements  | 51,024   |      |
| Due to customers   | 7,023,183  |      |
| Derivative financial liabilities   | 33,705   |      |
| Debt securities issued   | 539,262  |      |
| Including: Recognised in tier-2 capital  | 120,495  | n    |
| Employee benefits payable  | 6,489  |      |
| Taxes payable  | 8,563  |      |
| Deferred tax liabilities   | 1,436  | o    |
| Including: Deferred tax liabilities relating to goodwill                                     | 0  | p    |
| Including: Deferred tax liabilities relating to other intangible assets                      | 0  | q    |
| Provisions   | 10,947   |      |
| Other liabilities  | 928,355  |      |
| <b>Total liabilities</b>   | <b>10,397,895</b>                                |      |
| <b>Equity:</b>   |  |      |
| Share capital  | 74,263   |      |
| Including: Those to be included in core tier-1 capital                                       | 74,263   | r    |
| Including: Those to be included in other tier-1 capital                                      | 0  | s    |
| Other equity instruments   | 174,790  | t    |
| Capital surplus  | 111,454  | u    |
| Other comprehensive income   | (2,946)  | v    |
| Including: Exchange reserve  | (4,671)  | w    |
| Including: Effective portion of gains or losses on hedging instruments in cash<br>flow hedge | (301)  | x    |
| Surplus reserve  | 219,333  | y    |
| General reserve for risk assets  | 129,757  | z    |
| Retained earnings  | 214,946  | aa   |
| Non-controlling interests  | 9,400  |      |
| Including: Those to be included in core tier-1 capital                                       | 1,841  | ab   |
| Including: Those to be included in other tier-1 Capital                                      | 1,505  | ac   |
| Including: Those to be included in tier-2 capital  | 2,294  | ad   |
| <b>Total equity</b>  | <b>930,997</b>                                   |      |

# SUPPLEMENTARY INFORMATION ON CAPITAL ADEQUACY RATIO, LEVERAGE RATIO, LIQUIDITY COVERAGE RATIO AND NET STABLE FUNDING RATIO (CONTINUED)

## APPENDIX 4: MAIN FEATURES OF QUALIFIED REGULATORY CAPITAL INSTRUMENTS

| 1                    | Issuer   | Bank of Communications                                     | Bank of Communications        | Bank of Communications   | Bank of Communications   | Bank of Communications  | Bank of Communications  | Bank of Communications  | Bank of Communications  | Bank of Communications  | Bank of Communications  | Bank of Communications   | Bank of Communications  |
|----------------------|--|--|-------------------------------|--|--|---|---|---|---|---|---|--|---|
| 2                    | Unique identifier  | 3328   | 601328                        | XS1115459528   | 360021   | 1728007   | 1928019   | 1928020   | 1928025   | 2028018   | 2028040   | XS2238561281   | 2128022   |
| 3                    | Governing law(s)   | China Hong Kong/Hong Kong Securities and Futures Ordinance | China/Securities Law of China | Non-contractual obligation of bonds, arising from or relating to bonds shall be governed by and construed in accordance with British laws, while provisions relating to subordinated position of bonds in the bonds terms are governed by and construed in accordance with Chinese laws. | China/Company Law of China, Securities Administrative law of China, Administrative Measures for the Capital of Commercial Banks (Trial Implementation), State Council Guidance on the Implementation of Pilot Scheme of Preference Shares, Measures for the Pilot Management of Preferred Shares, etc. | China/Company Law of China, Administrative Measures for the Capital of Commercial Banks (Trial Implementation) etc. | China/Company Law of China, Administrative Measures for the Capital of Commercial Banks (Trial Implementation) etc. | China/Company Law of China, Administrative Measures for the Capital of Commercial Banks (Trial Implementation) etc. | China/Company Law of China, Administrative Measures for the Capital of Commercial Banks (Trial Implementation) etc. | China/Company Law of China, Administrative Measures for the Capital of Commercial Banks (Trial Implementation) etc. | China/Company Law of China, Administrative Measures for the Capital of Commercial Banks (Trial Implementation) etc. | Non-contractual obligation of bonds, arising from or relating to bonds shall be governed by and construed in accordance with British laws, while provisions relating to subordinated position of bonds in the bonds terms are governed by and construed in accordance with Chinese laws. | China/Company Law of China, Administrative Measures for the Capital of Commercial Banks (Trial Implementation) etc. |
| Regulatory treatment |  |  |                               |  |  |   |   |   |   |   |   |  |   |
| 4                    | Including: Transitional rules under the Administrative Measures for the Capital Management of Commercial Banks (Trial Implementation)      | Core tier-1 capital  | Core tier-1 capital           | Tier-2 capital   | Other tier-1 capital   | Tier-2 capital  | Tier- 2 capital   | Tier- 2 capital   | Other tier-1 capital  | Tier- 2 capital   | Other tier-1 capital  | Other tier-1 capital   | Other tier-1 capital  |
| 5                    | Including: Post-transitional rules under the Administrative Measures for the Capital Management of Commercial Banks (Trial Implementation) | Core tier-1 capital  | Core tier-1 capital           | Tier-2 capital   | Other tier- 1 capital  | Tier-2 capital  | Tier- 2 capital   | Tier- 2 capital   | Other tier-1 capital  | Tier- 2 capital   | Other tier-1 capital  | Other tier-1 capital   | Other tier-1 capital  |
| 6                    | Including: Eligible at Bank/Group level  | Bank and Group Level                                       | Bank and Group Level          | Bank and Group Level   | Bank and Group Level   | Bank and Group Level  | Bank and Group Level  | Bank and Group Level  | Bank and Group Level  | Bank and Group Level  | Bank and Group Level  | Bank and Group Level   | Bank and Group Level  |
| 7                    | Instrument type  | Ordinary shares  | Ordinary shares               | Tier-2 capital bonds   | Preference shares  | Tier-2 capital bonds  | Tier-2 capital bonds  | Tier-2 capital bonds  | Undated capital bonds   | Tier-2 capital bonds  | Undated capital bonds   | Undated capital bonds  | Undated capital bonds   |

# SUPPLEMENTARY INFORMATION ON CAPITAL ADEQUACY RATIO, LEVERAGE RATIO, LIQUIDITY COVERAGE RATIO AND NET STABLE FUNDING RATIO (CONTINUED)

## APPENDIX 4: MAIN FEATURES OF QUALIFIED REGULATORY CAPITAL INSTRUMENTS (CONTINUED)

|    |   |                                   |                                   |  |   |                            |                            |   |   |   |   |   |   |
|----|---|-----------------------------------|-----------------------------------|--|---|----------------------------|----------------------------|---|---|---|---|---|---|
| 8  | Amount recognised in regulatory capital (In millions of RMB, as at the latest reporting date) | RMB89,498                         | RMB97,534                         | Equivalent to RMB3,824   | RMB44,952   | RMB29,978                  | RMB29,998                  | RMB9,999  | RMB39,994   | RMB39,996   | RMB29,999   | Equivalent to RMB18,347   | RMB41,498   |
| 9  | Par value of instrument (in millions of RMB)  | RMB35,012                         | RMB39,251                         | EUR500   | RMB45,000   | RMB30,000                  | RMB30,000                  | RMB10,000   | RMB40,000   | RMB40,000   | RMB30,000   | USD2,800  | RMB41,500   |
| 10 | Accounting treatment  | Share capital and capital reserve | Share capital and capital reserve | Bonds issuance   | Other equity instruments  | Bonds issuance             | Bonds issuance             | Bonds issuance  | Other equity instruments  | Bonds issuance  | Other equity instruments  | Other equity instruments  | Other equity instruments  |
| 11 | Original date of issuance   | 2005/6/23                         | 2007/4/24                         | 2014/10/3  | 2016/9/2  | 2017/4/13                  | 2019/8/16                  | 2019/8/16   | 2019/9/20   | 2020/5/21   | 2020/9/25   | 2020/11/18  | 2021/6/10   |
| 12 | Perpetual or dated  | Perpetual                         | Perpetual                         | Dated  | Perpetual   | Dated                      | Dated                      | Dated   | Perpetual   | Dated   | Perpetual   | Perpetual   | Perpetual   |
| 13 | Including: Original maturity date   | No maturity date                  | No maturity date                  | 2026/10/3  | No maturity date  | 2027/4/13                  | 2029/8/16                  | 2034/8/16   | No maturity date  | 2030/5/21   | No maturity date  | No maturity date  | No maturity date  |
| 14 | Issuer call subject to prior supervisory approval   | No                                | No                                | Yes  | Yes   | Yes                        | Yes                        | Yes   | Yes   | Yes   | Yes   | Yes   | Yes   |
| 15 | Including: Optional call date, contingent call dates and redemption amount                    | N/A                               | N/A                               | 2021/10/3; full  | First call date 2021/9/7, full or partial   | 2022/4/13; full or partial | 2024/8/16; full or partial | 2029/8/16; full or partial                                  | First call date 2024/9/20, full or partial  | 2025/5/21; full or partial                                  | First call date 2025/9/25, full or partial  | First call date 2025/11/18, full or partial   | First call date 2026/6/10, full or partial  |
| 16 | Including: Subsequent call dates, if applicable   | N/A                               | N/A                               | Nil  | 7 September of each year subsequent to the first call date Nil  | Nil                        | Nil                        | 20 September of each year subsequent to the first call date | Nil   | 25 September of each year subsequent to the first call date | 18 November of each year subsequent to the first call date  | 10 June of each year subsequent to the first call date  |   |
| 17 | Including: Fixed or floating dividend/coupon  | Floating                          | Floating                          | Floating (coupon rate is fixed for the first 7 years; if issuer does not exercise the right of redemption at the end of the seventh year, the coupon rate will be reset) | Floating, the dividend rate is fixed in a dividend rate adjustment period (5 years) and is subject to reset every 5 years | Fixed                      | Fixed                      | Fixed   | Floating, the dividend rate is fixed in a dividend rate adjustment period (5 years) and is subject to reset every 5 years | Fixed   | Floating, the dividend rate is fixed in a dividend rate adjustment period (5 years) and is subject to reset every 5 years | Floating, the dividend rate is fixed in a dividend rate adjustment period (5 years) and is subject to reset every 5 years | Floating, the dividend rate is fixed in a dividend rate adjustment period (5 years) and is subject to reset every 5 years |

# SUPPLEMENTARY INFORMATION ON CAPITAL ADEQUACY RATIO, LEVERAGE RATIO, LIQUIDITY COVERAGE RATIO AND NET STABLE FUNDING RATIO (CONTINUED)

## APPENDIX 4: MAIN FEATURES OF QUALIFIED REGULATORY CAPITAL INSTRUMENTS (CONTINUED)

|    |  |     |     |  |  |       |       |       |  |       |   |  |  |
|----|--|-----|-----|--|--|-------|-------|-------|--|-------|---|--|--|
| 18 | Including: Coupon rate and any related index       | N/A | N/A | 3.625% for the first 7 years; if issuer does not exercise the right of redemption at the end of the seventh year (3 October 2021), the coupon rate will be reset based on the 7-year EUR swaps median value, plus 300 basis points | 3.9% for the first 5 years. The dividend rate will be reset every 5 years based on the benchmark interest rate at reset dates plus 137 basis points. Note: the benchmark interest rate at reset dates refers to the arithmetic mean value (rounding off to 0.01%) of five-year Chinese treasury bonds yield, in the yield curve of interbank Chinese treasury bonds at fixed interest rate published 20 transaction days (excluding that day) prior to the reset dates (the days when each five years are expired as from the first day of issuance, 2 September). | 4.50% | 4.10% | 4.49% | 4.2% for the first 5 years. The coupon rate will be reset every 5 years based on the benchmark interest rate at the reset dates (the days when each five years are expired as from the first day of issuance and payment, 20 September) plus 124 basis points. If the benchmark interest rate is not available on the adjustment date, the issuer and investors will determine the subsequent benchmark interest rate or its determination principle according to the requirements of the regulatory authorities | 3.24% | 4.59% for the first 5 years. The coupon rate will be reset every 5 years based on the benchmark interest rate at the reset dates (the days when each five years are expired as from the first day of issuance and payment, 25 September) plus 161 basis points. If the benchmark interest rate is not available on the adjustment date, the issuer and investors will determine the subsequent benchmark interest rate or its determination principle according to the requirements of the regulatory authorities | 3.8% for the first 5 years. The coupon rate will be reset every 5 years based on the benchmark interest rate at reset dates (Reset dates: The first reset date will be 18 November 2025 and the same day in the following 5 years or multiple years of 5 years. Benchmark interest rate at reset dates refers to the arithmetic mean of five-year American treasury bond yield one week before the second fixed interest date before the reset date) plus 334.5 basis points. If the benchmark interest rate is not available on the adjustment date, the issuer and investors will determine the subsequent benchmark interest rate or its determination principle according to the requirements of the regulatory authorities. | 4.06% for the first 5 years. The coupon rate will be reset every 5 years based on the benchmark interest rate at the reset dates (the days when each five years are expired as from the first day of issuance and payment, 10 June) plus 112 basis points. If the benchmark interest rate is not available on the adjustment date, the issuer and investors will determine the subsequent benchmark interest rate or its determination principle according to the requirements of the regulatory authorities |
| 19 | Including: Existence of a dividend brake mechanism | N/A | N/A | No   | Yes  | No    | No    | No    | Yes  | No    | Yes   | Yes  | Yes  |

## SUPPLEMENTARY INFORMATION ON CAPITAL ADEQUACY RATIO, LEVERAGE RATIO, LIQUIDITY COVERAGE RATIO AND NET STABLE FUNDING RATIO (CONTINUED)

### APPENDIX 4: MAIN FEATURES OF QUALIFIED REGULATORY CAPITAL INSTRUMENTS (CONTINUED)

|    | Including:<br>Discretionary<br>of cancelling<br>dividend<br>distribution or<br>coupon interest | Totally at<br>discretion | Totally at<br>discretion | Without discretion | Totally at<br>discretion  | Without discretion | Without discretion | Without discretion | Totally at<br>discretion | Without discretion | Totally at<br>discretion | Totally at<br>discretion | Totally at<br>discretion |
|----|--|--------------------------|--------------------------|--------------------|---|--------------------|--------------------|--------------------|--------------------------|--------------------|--------------------------|--------------------------|--------------------------|
| 20 |  |                          |                          |                    |   |                    |                    |                    |                          |                    |                          |                          |                          |
| 21 | Including:<br>Existence of<br>incentive to call  | No                       | No                       | No                 | No  | No                 | No                 | No                 | No                       | No                 | No                       | No                       | No                       |
| 22 | Including:<br>Cumulative or<br>noncumulative   | Non-cumulative           | Non-cumulative           | Non-cumulative     | Non-cumulative  | Non-cumulative     | Non-cumulative     | Non-cumulative     | Non-cumulative           | Non-cumulative     | Non-cumulative           | Non-cumulative           | Non-cumulative           |
| 23 | Convertible or<br>nonconvertible   | No                       | No                       | No                 | Yes   | No                 | No                 | No                 | No                       | No                 | No                       | No                       | No                       |
| 24 | Including: If<br>convertible,<br>state conversion<br>condition                                 | N/A                      | N/A                      | N/A                | If any trigger<br>event of other<br>tier-1 Capital<br>instrument<br>occurs, which<br>means core tier-1<br>Capital adequacy<br>ratio reduces<br>to 5.125% (or<br>below); or any<br>trigger event of<br>tier-2 Capital<br>instrument<br>occurs, earlier<br>of (1) the Bank<br>will not survive<br>if not converted<br>as required by<br>CBIRC. (2) the<br>Bank will not<br>survive if no<br>capital injection<br>or same effect<br>of support<br>from relevant<br>department. | N/A                | N/A                | N/A                | N/A                      | N/A                | N/A                      | N/A                      | N/A                      |

# SUPPLEMENTARY INFORMATION ON CAPITAL ADEQUACY RATIO, LEVERAGE RATIO, LIQUIDITY COVERAGE RATIO AND NET STABLE FUNDING RATIO (CONTINUED)

## APPENDIX 4: MAIN FEATURES OF QUALIFIED REGULATORY CAPITAL INSTRUMENTS (CONTINUED)

|    |   |     |     |     |  |     |     |     |     |     |     |     |     |
|----|---|-----|-----|-----|--|-----|-----|-----|-----|-----|-----|-----|-----|
| 25 | Including: If convertible, fully or partially | N/A | N/A | N/A | When any trigger event of other tier-1 capital instrument occurs, the Bank is entitled to fully or partially convert the issued and outstanding domestic preference shares to A ordinary shares based on the total par value without prior consent from the shareholders of preference shares; when any trigger event of tier-2 capital instrument occurs, the Bank is entitled to fully convert the issued and outstanding domestic preference shares to A ordinary shares based on the total par value without prior consent from the shareholders of preference shares. | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
|----|---|-----|-----|-----|--|-----|-----|-----|-----|-----|-----|-----|-----|



## SUPPLEMENTARY INFORMATION ON CAPITAL ADEQUACY RATIO, LEVERAGE RATIO, LIQUIDITY COVERAGE RATIO AND NET STABLE FUNDING RATIO (CONTINUED)

### APPENDIX 4: MAIN FEATURES OF QUALIFIED REGULATORY CAPITAL INSTRUMENTS (CONTINUED)

|    |  |     |     |     |   |     |     |     |     |     |     |     |     |
|----|--|-----|-----|-----|---|-----|-----|-----|-----|-----|-----|-----|-----|
| 26 | Including: If convertible, state conversation price determination method | N/A | N/A | N/A | The average stock transaction price of A ordinary shares 20 transactions days prior to the approval of resolution at the Board of Directors concerning the propose on issuing domestic preference shares is deemed as initial conversion price (i.e. RMB6.25 per share) and the mandatory conversion price adjustment is conducted in accordance with Paragraph 5 "Mandatory Conversion Price Adjustment Mode" in Section 4 "Main Terms of Issuance Scheme" under Prospectus for Private Placement of Preference Shares by Bank of Communications Co., Ltd. | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| 27 | Including: If convertible, state whether mandatory convertible           | N/A | N/A | N/A | Mandatory   | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| 28 | Including: If convertible, state the instrument type after conversation  | N/A | N/A | N/A | A ordinary shares   | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |

# SUPPLEMENTARY INFORMATION ON CAPITAL ADEQUACY RATIO, LEVERAGE RATIO, LIQUIDITY COVERAGE RATIO AND NET STABLE FUNDING RATIO (CONTINUED)

## APPENDIX 4: MAIN FEATURES OF QUALIFIED REGULATORY CAPITAL INSTRUMENTS (CONTINUED)

|    |  |     |     |   |                        |   |   |   |   |  |  |  |  |
|----|--|-----|-----|---|------------------------|---|---|---|---|--|--|--|--|
| 29 | Including: If convertible, state the issuer of instrument after conversion | N/A | N/A | N/A   | Bank of Communications | N/A   | N/A   | N/A   | N/A   | N/A  | N/A  | N/A  | N/A  |
| 30 | Write-down feature   | No  | No  | Yes   | No                     | Yes   | Yes   | Yes   | Yes   | Yes  | Yes  | Yes  | Yes  |
| 31 | Including: If written down, state the trigger events of write-down         | N/A | N/A | Earlier of the following: (1) the issuer will not survive if not written down as required by CBIRC (2) the issuer will not survive if no capital injection or same effect of support from relevant department | N/A                    | Earlier of the following: (1) the issuer will not survive if not written down as required by CBIRC (2) the issuer will not survive if no capital injection or same effect of support from relevant department | Earlier of the following: (1) the issuer will not survive if not written down as required by CBIRC (2) the issuer will not survive if no capital injection or same effect of support from relevant department | Earlier of the following: (1) the issuer will not survive if not written down as required by CBIRC (2) the issuer will not survive if no capital injection or same effect of support from relevant department | When the triggering event of other tier-1 capital instruments occurs, that is, when the core tier-1 capital adequacy ratio drops to 5.125% (or below), or when the trigger event of tier-2 capital instruments occurs, it refers to the earlier of the following two situations: (1) CBIRC identifies that the issuer is unable to survive if writedown or conversion is not carried out; (2) Relevant departments identify that the issuer is unable to survive if capital is not injected by the public departments or equally authentic support is not provided. | Earlier of the following: (1) the issuer will not survive if not written down as required by CBIRC. (2) the issuer will not survive if no capital injection or same effect of support from relevant department | Earlier of the following: (1) the issuer will not survive if not written down as required by CBIRC. (2) the issuer will not survive if no capital injection or same effect of support from relevant department | Earlier of the following: (1) the issuer will not survive if not written down as required by CBIRC. (2) the issuer will not survive if no capital injection or same effect of support from relevant department | Earlier of the following: (1) the issuer will not survive if not written down as required by CBIRC. (2) the issuer will not survive if no capital injection or same effect of support from relevant department |
| 32 | Including: If written down, state wholly write-down or partial write-down  | N/A | N/A | Full or partial   | N/A                    | Full or partial   | Full or partial   | Full or partial   | Full or partial   | Full or partial  | Full or partial  | Full or partial  | Full or partial  |

# SUPPLEMENTARY INFORMATION ON CAPITAL ADEQUACY RATIO, LEVERAGE RATIO, LIQUIDITY COVERAGE RATIO AND NET STABLE FUNDING RATIO (CONTINUED)

## APPENDIX 4: MAIN FEATURES OF QUALIFIED REGULATORY CAPITAL INSTRUMENTS (CONTINUED)

|    |   |   |   |   |  |  |  |  |   |  |   |   |   |
|----|---|---|---|---|--|--|--|--|---|--|---|---|---|
| 33 | Including: if written down, state permanent write-down or temporary write-down                              | N/A   | N/A   | Permanent   | N/A  | Permanent  | Permanent  | Permanent  | Permanent   | Permanent  | Permanent   | Permanent   | Permanent   |
| 34 | Including: if temporary write-down, state reversal to book value mechanism                                  | N/A   | N/A   | N/A   | N/A  | N/A  | N/A  | N/A  | N/A   | N/A  | N/A   | N/A   | N/A   |
| 35 | Position in subordination hierarchy in liquidation (state instrument type immediately senior to instrument) | Ranking after depositors, normal creditors and subordinated debt holders and other tier-1 capital holders | Ranking after depositors, normal creditors and subordinated debt holders and other tier-1 capital holders | Ranking after depositors and normal creditors, ranking before the holders of equity capital, other tier-1 instruments and mixed capital bonds, at least ranking at the same sequence as all other subordinated debts that are issued by the issuer currently and in future (including other tier-2 instruments which have the same repayment sequence as the current bonds and are probable to issue in the future) | Ranking after depositors and normal creditors, ranking before the holders of equity capital, other tier-1 instruments and mixed capital bonds, the same ranking as other subordinated debts which have the same repayment sequence as the current bonds issued by the issuer, ranking at the same sequence as tier-2 capital Bonds issued and other tier-2 instruments which have the same repayment sequence as the current bonds and are probable to issue in the future | Ranking after depositors and normal creditors, ranking before the holders of equity capital, other tier-1 instruments and mixed capital bonds, the same ranking as other subordinated debts which have the same repayment sequence as the current bonds issued by the issuer, ranking at the same sequence as tier-2 capital Bonds issued and other tier-2 instruments which have the same repayment sequence as the current bonds and are probable to issue in the future | Ranking after depositors and normal creditors, ranking before the holders of equity capital, other tier-1 instruments and mixed capital bonds, the same ranking as other subordinated debts which have the same repayment sequence as the current bonds issued by the issuer, ranking at the same sequence as tier-2 capital Bonds issued and other tier-2 instruments which have the same repayment sequence as the current bonds and are probable to issue in the future | Ranking after depositors and normal creditors, ranking before the holders of equity capital, other tier-1 instruments and mixed capital bonds, the same ranking as other subordinated debts which have the same repayment sequence as the current bonds issued by the issuer, ranking at the same sequence as tier-2 capital Bonds issued and other tier-2 instruments which have the same repayment sequence as the current bonds and are probable to issue in the future | Ranking after depositors, normal creditors and subordinated debts ranking senior to bond as well as ranking before all classes of shares held by the issuer's shareholders; compensated in the same order as other tier-1 capital instruments with the same repayment order | Ranking after depositors and normal creditors, ranking before the holders of equity capital, other tier-1 instruments and mixed capital bonds, the same ranking as other subordinated debts which have the same repayment sequence as the current bonds issued by the issuer, ranking at the same sequence as tier-2 Capital Bonds issued and other tier-2 instruments which have the same repayment sequence as the current bonds and are probable to issue in the future | Ranking after depositors, normal creditors and subordinated debts ranking senior to bond as well as ranking before all classes of shares held by the issuer's shareholders; compensated in the same order as other tier-1 capital instruments with the same repayment order | Ranking after depositors, normal creditors and subordinated debts ranking senior to bond as well as ranking before all classes of shares held by the issuer's shareholders; compensated in the same order as other tier-1 capital instruments with the same repayment order | Ranking after depositors, normal creditors and subordinated debts ranking senior to bond as well as ranking before all classes of shares held by the issuer's shareholders; compensated in the same order as other tier-1 capital instruments with the same repayment order |
| 36 | Whether any temporary noncompliance features  | No  | No  | No  | No   | No   | No   | No   | No  | No   | No  | No  | No  |
|    | Including: If yes, state the feature  | N/A   | N/A   | N/A   | N/A  | N/A  | N/A  | N/A  | N/A   | N/A  | N/A   | N/A   | N/A   |

# SUPPLEMENTARY INFORMATION ON CAPITAL ADEQUACY RATIO, LEVERAGE RATIO, LIQUIDITY COVERAGE RATIO AND NET STABLE FUNDING RATIO (CONTINUED)

## APPENDIX 5: INFORMATION RELATED TO LEVERAGE RATIO

Leverage ratio disclosure is disclosed according to Note 3 *Leverage Ratio Disclosure Format* of the *Measures for the Administration of the Leverage Ratio of Commercial Banks (Revised)*.

### Reconciliation of Regulatory Consolidation and Accounting Consolidation

(in millions of RMB)

| SN | Item   | 30 June 2021 | 31 December 2020 |
|----|--|--------------|------------------|
| 1  | Total consolidated assets                            | 11,413,960   | 10,697,615       |
| 2  | Adjustments of consolidation                         | (85,067)     | (70,282)         |
| 3  | Adjustments item of customer's assets                | 0            | 0                |
| 4  | Adjustments of derivatives                           | 37,940       | 33,616           |
| 5  | Adjustments of securities financing transactions     | 6,926        | 2,022            |
| 6  | Adjustments of off-balance sheet item                | 915,378      | 844,885          |
| 7  | Other Adjustments                                    | (5,569)      | (5,252)          |
| 8  | Balance of adjusted on- and off-balance sheet assets | 12,283,568   | 11,502,604       |

### Leverage Ratio Information

(in millions of RMB unless otherwise stated)

| SN | Item  | 30 June 2021      | 31 December 2020  |
|----|---|-------------------|-------------------|
| 1  | On-balance-sheet assets (excluding derivatives and securities financing transactions)   | 11,110,672        | 10,495,090        |
| 2  | Less: Deduction of tier-1 capital   | (5,569)           | (5,252)           |
| 3  | <b>Balance of adjusted on-balance sheet assets (excluding derivatives and securities financing transactions)</b>                            | <b>11,105,103</b> | <b>10,489,838</b> |
| 4  | Replacement costs of derivatives (less eligible margin)   | 35,619            | 54,236            |
| 5  | Potential risk exposure of derivatives  | 37,940            | 33,616            |
| 6  | Sum of collaterals deducted from the balance sheet  | 0                 | 0                 |
| 7  | Less: Assets receivable from providing eligible margin  | 0                 | 0                 |
| 8  | Less: Derivative assets resulting from the transactions with central counterparties in providing clearing settlement services for customers | 0                 | 0                 |
| 9  | Notional principal of sold credit derivatives   | 0                 | 0                 |
| 10 | Less: Deductible balance of sold credit derivatives   | 0                 | 0                 |
| 11 | <b>Derivative asset balance</b>   | <b>73,559</b>     | <b>87,852</b>     |
| 12 | Accounting asset balance of securities financing transactions   | 182,602           | 78,007            |
| 13 | Less: Balance of deductible securities financing transaction assets   | 0                 | 0                 |
| 14 | Counterparty credit risk exposure of securities financing transactions  | 6,926             | 2,022             |
| 15 | Balance of securities financing transaction assets from acting for securities financing transactions  | 0                 | 0                 |
| 16 | <b>Securities financing assets balance</b>  | <b>189,528</b>    | <b>80,029</b>     |
| 17 | Balance of off-balance-sheet items  | 2,231,597         | 2,007,150         |
| 18 | Less: Balance of off-balance-sheet items arising from the reduction of credit transfer  | (1,316,219)       | (1,162,265)       |
| 19 | <b>Adjusted off-balance sheet items balance</b>   | <b>915,378</b>    | <b>844,885</b>    |
| 20 | Net tier- 1 capital   | 919,374           | 862,221           |
| 21 | Adjusted balance of on- and off-balance sheet assets  | 12,283,568        | 11,502,604        |
| 22 | <b>Leverage ratio (%)</b>   | <b>7.48</b>       | <b>7.50</b>       |

# SUPPLEMENTARY INFORMATION ON CAPITAL ADEQUACY RATIO, LEVERAGE RATIO, LIQUIDITY COVERAGE RATIO AND NET STABLE FUNDING RATIO (CONTINUED)

## APPENDIX 6: THE DAILY AVERAGE LIQUIDITY COVERAGE RATIO AND ITS DETAILS OF THE GROUP IN THE SECOND QUARTER OF 2021

(in millions of RMB unless otherwise stated)

| Serial Number  | Amount<br>before conversion | Amount<br>after conversion |
|--|-----------------------------|----------------------------|
| <b>The qualified high-quality liquid assets</b>                            |                             |                            |
| 1 The qualified high-quality liquid assets                                 |                             | 1,907,569                  |
| <b>Cash Outflow</b>  |                             |                            |
| 2 Retail deposits, small business deposits, including:                     | 2,186,722                   | 209,128                    |
| 3 Stable deposit   | 188,696                     | 9,325                      |
| 4 Less stable deposit  | 1,998,026                   | 199,803                    |
| 5 Unsecured wholesale funding, including:                                  | 4,582,681                   | 1,899,643                  |
| 6 Business relationship deposit (excluding agency business)                | 2,633,945                   | 657,152                    |
| 7 Non-business relationship deposit (including all counterparties)         | 1,945,050                   | 1,238,805                  |
| 8 Unsecured debt   | 3,686                       | 3,686                      |
| 9 Secured funding  |                             | 10,131                     |
| 10 Other items, including:   | 1,757,867                   | 883,287                    |
| 11 Cash outflow relates to derivatives and other collateral/pledged assets | 850,444                     | 832,817                    |
| 12 Cash outflow relates to loss of funding on asset-blocked securities     | 131                         | 131                        |
| 13 Committed credit and liquidity facilities                               | 907,292                     | 50,339                     |
| 14 Other contractual obligation to extend funds                            | 57,410                      | 57,410                     |
| 15 Contingent funding obligations  | 1,526,827                   | 53,527                     |
| 16 Total expected cash outflow   |                             | 3,113,126                  |
| <b>Cash Inflow</b>   |                             |                            |
| 17 Secured lending (including reverse repos and securities borrowing)      | 129,788                     | 127,639                    |
| 18 Inflows from fully performing exposure                                  | 927,932                     | 621,852                    |
| 19 Other cash inflow   | 867,202                     | 847,938                    |
| 20 Total expected cash inflow  | 1,924,922                   | 1,597,429                  |
|  |                             | Amount<br>after adjustment |
| 21 The qualified high-quality liquid assets                                |                             | 1,907,569                  |
| 22 Net cash outflow  |                             | 1,515,697                  |
| 23 Liquidity Coverage Ratio (%)  |                             | 125.63                     |

## APPENDIX I FINANCIAL STATEMENTS

### (I) Unaudited Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

(All amounts expressed in millions of RMB unless otherwise stated)

|   | Three months ended |          | Nine months ended |           |
|---|--------------------|----------|-------------------|-----------|
|   | 30 September       |          | 30 September      |           |
|   | 2021               | 2020     | 2021              | 2020      |
| Interest income   | 95,927             | 91,772   | 279,879           | 278,001   |
| Interest expense  | (55,169)           | (51,607) | (160,635)         | (163,987) |
| <b>Net interest income</b>  | <b>40,758</b>      | 40,165   | <b>119,244</b>    | 114,014   |
| Fee and commission income   | 12,275             | 11,807   | 39,574            | 38,022    |
| Fee and commission expense  | (1,092)            | (1,101)  | (3,425)           | (3,039)   |
| <b>Net fee and commission income</b>  | <b>11,183</b>      | 10,706   | <b>36,149</b>     | 34,983    |
| Net gains arising from trading activities   | 7,117              | 1,405    | 17,286            | 8,758     |
| Net gains arising from financial investments  | 258                | 637      | 1,030             | 2,142     |
| <i>Including: Net gains on derecognition of financial assets measured at amortised cost</i> |                    |          |                   |           |
|   | 5                  | 3        | 45                | 71        |
| Share of profits of associates and joint ventures   | 56                 | 58       | 170               | 143       |
| Insurance business income   | 2,284              | 1,586    | 13,306            | 12,522    |
| Other operating income  | 4,503              | 4,119    | 13,025            | 13,073    |
| <b>Net operating income</b>   | <b>66,159</b>      | 58,676   | <b>200,210</b>    | 185,635   |
| Credit impairment losses  | (19,346)           | (18,581) | (52,428)          | (51,914)  |
| Other assets impairment losses  | –                  | 3        | (418)             | (156)     |
| Insurance business expense  | (2,682)            | (1,879)  | (13,607)          | (12,901)  |
| Other operating expense   | (21,300)           | (20,662) | (64,338)          | (63,149)  |
| <b>Profit before tax</b>  | <b>22,831</b>      | 17,557   | <b>69,419</b>     | 57,515    |

(All amounts expressed in millions of RMB unless otherwise stated)

|  | Three months ended |                | Nine months ended |                |
|--|--------------------|----------------|-------------------|----------------|
|  | 30 September       |                | 30 September      |                |
|  | 2021               | 2020           | 2021              | 2020           |
| Income tax   | (212)              | (1,083)        | (3,927)           | (4,044)        |
| <b>Net profit for the period</b>   | <b>22,619</b>      | <b>16,474</b>  | <b>65,492</b>     | <b>53,471</b>  |
| <b>Other comprehensive income,<br/>net of tax</b>                                      |                    |                |                   |                |
| <b>Items that may be reclassified<br/>subsequently to profit or loss:</b>              |                    |                |                   |                |
| Loans and advances to customers at<br>fair value through other<br>comprehensive income |                    |                |                   |                |
| <i>Amount recognised in equity</i>   | <i>(101)</i>       | <i>(102)</i>   | <i>218</i>        | <i>147</i>     |
| <i>Amount reclassified to profit or loss</i>   | <i>(151)</i>       | <i>51</i>      | <i>(295)</i>      | <i>(147)</i>   |
| Debt investments at fair value through<br>other comprehensive income                   |                    |                |                   |                |
| <i>Amount recognised in equity</i>   | <i>2,184</i>       | <i>(1,951)</i> | <i>2,395</i>      | <i>(2,078)</i> |
| <i>Amount reclassified to profit or loss</i>   | <i>(86)</i>        | <i>(474)</i>   | <i>(278)</i>      | <i>(1,536)</i> |
| Effective portion of gains or losses<br>on hedging instruments in cash flow<br>hedges  |                    |                |                   |                |
| <i>Amount recognised in equity</i>   | <i>(20)</i>        | <i>197</i>     | <i>952</i>        | <i>(462)</i>   |
| <i>Amount reclassified to profit or loss</i>   | <i>100</i>         | <i>(62)</i>    | <i>(640)</i>      | <i>(58)</i>    |
| Translation difference on foreign<br>operations  | (119)              | (2,521)        | (1,463)           | (1,428)        |
| Others   | (1)                | (21)           | 4                 | 7              |
| <b>Subtotal</b>  | <b>1,806</b>       | <b>(4,883)</b> | <b>893</b>        | <b>(5,555)</b> |

(All amounts expressed in millions of RMB unless otherwise stated)

|  | Three months ended<br>30 September |               | Nine months ended<br>30 September |               |
|--|------------------------------------|---------------|-----------------------------------|---------------|
|  | 2021                               | 2020          | 2021                              | 2020          |
| <b>Items that will not be reclassified<br/>subsequently to profit or loss:</b>   |                                    |               |                                   |               |
| Changes in fair value of equity<br>investments designated at fair value<br>through other comprehensive income                                    | (347)                              | (3)           | (802)                             | (374)         |
| Actuarial losses on pension benefits   | 5                                  | (154)         | 63                                | (188)         |
| Changes in fair value attributable<br>to changes in the credit risk of<br>financial liability designated at fair<br>value through profit or loss | (9)                                | (11)          | (45)                              | 33            |
| Others   | (5)                                | (6)           | 2                                 | 20            |
| Subtotal   | (356)                              | (174)         | (782)                             | (509)         |
| Other comprehensive income, net of<br>tax  | 1,450                              | (5,057)       | 111                               | (6,064)       |
| <b>Total Comprehensive income for the<br/>period</b>   | <b>24,069</b>                      | <b>11,417</b> | <b>65,603</b>                     | <b>47,407</b> |
| <b>Net profit attributable to:</b>   |                                    |               |                                   |               |
| Shareholders of the Bank   | 22,341                             | 16,207        | 64,360                            | 52,712        |
| Non-controlling interests  | 278                                | 267           | 1,132                             | 759           |
|  | 22,619                             | 16,474        | 65,492                            | 53,471        |
| <b>Total comprehensive income<br/>attributable to:</b>   |                                    |               |                                   |               |
| Shareholders of the Bank   | 23,795                             | 11,375        | 64,594                            | 46,778        |
| Non-controlling interests  | 274                                | 42            | 1,009                             | 629           |
|  | 24,069                             | 11,417        | 65,603                            | 47,407        |
| <b>Basic and diluted earnings per<br/>share for profit attributable to the<br/>ordinary shareholders of the Bank<br/>(in RMB yuan)</b>           |                                    |               |                                   |               |
|  | 0.26                               | 0.19          | 0.80                              | 0.65          |



## (II) Unaudited Condensed Consolidated Statement of Financial Position

*(All amounts expressed in millions of RMB unless otherwise stated)*

|   | As at<br>30 September<br>2021 | As at<br>31 December<br>2020 |
|---|-------------------------------|------------------------------|
| <b>ASSETS</b>   |                               |                              |
| Cash and balances with central banks                                      | 782,993                       | 817,561                      |
| Due from and placements with banks and other<br>financial institutions    | 628,788                       | 571,130                      |
| Derivative financial assets   | 30,078                        | 54,212                       |
| Loans and advances to customers   | 6,317,333                     | 5,720,568                    |
| Financial investments at fair value through profit<br>or loss             | 579,252                       | 482,588                      |
| Financial investments at amortised cost                                   | 2,133,730                     | 2,019,529                    |
| Financial investments at fair value through other<br>comprehensive income | 699,068                       | 735,220                      |
| Investments in associates and joint ventures                              | 5,670                         | 4,681                        |
| Property and equipment  | 167,814                       | 169,471                      |
| Deferred income tax assets  | 30,897                        | 27,991                       |
| Other assets  | 97,000                        | 94,665                       |
| <b>Total assets</b>   | <b>11,472,623</b>             | <b>10,697,616</b>            |
| <b>LIABILITIES</b>  |                               |                              |
| Due to and placements from banks and other<br>financial institutions      | 1,824,461                     | 1,787,491                    |

(All amounts expressed in millions of RMB unless otherwise stated)

|   | As at<br>30 September<br>2021 | As at<br>31 December<br>2020 |
|---|-------------------------------|------------------------------|
| Financial liabilities at fair value through profit<br>or loss                   | 23,068                        | 29,279                       |
| Derivative financial liabilities  | 27,710                        | 55,942                       |
| Due to customers  | 6,986,659                     | 6,607,330                    |
| Certificates of deposits issued   | 822,843                       | 634,297                      |
| Current income tax liabilities  | 3,977                         | 3,786                        |
| Deferred income tax liabilities   | 1,622                         | 1,286                        |
| Debt securities issued  | 576,347                       | 497,755                      |
| Other liabilities   | 249,076                       | 201,822                      |
| <b>Total liabilities</b>  | <b>10,515,763</b>             | <b>9,818,988</b>             |
| <b>EQUITY</b>   |                               |                              |
| Share capital   | 74,263                        | 74,263                       |
| Other equity instruments  | 174,790                       | 133,292                      |
| <i>Including: Preference shares</i>   | 44,952                        | 44,952                       |
| <i>Perpetual bonds</i>  | 129,838                       | 88,340                       |
| Capital surplus   | 111,428                       | 111,428                      |
| Other reserves  | 347,379                       | 333,176                      |
| Retained earnings   | 236,486                       | 214,448                      |
| <b>Equity attributable to shareholders of the<br/>Bank</b>                      | <b>944,346</b>                | <b>866,607</b>               |
| Equity attributable to non-controlling interests<br>of ordinary shares          | 9,289                         | 8,763                        |
| Equity attributable to non-controlling interests<br>of other equity instruments | 3,225                         | 3,258                        |
| <b>Non-controlling interests</b>  | <b>12,514</b>                 | <b>12,021</b>                |
| <b>Total equity</b>   | <b>956,860</b>                | <b>878,628</b>               |
| <b>Total equity and liabilities</b>   | <b>11,472,623</b>             | <b>10,697,616</b>            |

### (III) Unaudited Condensed Consolidated Statement of Cash Flows

*(All amounts expressed in millions of RMB unless otherwise stated)*

|  | <b>Nine months ended</b> |             |
|--|--------------------------|-------------|
|  | <b>30 September</b>      |             |
|  | <b>2021</b>              | <b>2020</b> |
| <b>Cash flows from operating activities:</b>   |                          |             |
| Net Profit before tax:   | <b>69,419</b>            | 57,515      |
| Adjustments for:   |                          |             |
| Provision for impairment losses  | <b>52,428</b>            | 51,914      |
| Provision for other assets impairment losses   | <b>418</b>               | 156         |
| Provision for insurance contracts reserve  | <b>12,426</b>            | 10,652      |
| Depreciation and amortisation  | <b>11,028</b>            | 10,990      |
| Reversal for outstanding litigation and unsettled obligation                                   | <b>(221)</b>             | (34)        |
| Net gains on the disposal of property, equipment and other assets                              | <b>(351)</b>             | (230)       |
| Interest income from financial investments   | <b>(65,429)</b>          | (68,592)    |
| Interest income from impaired financial assets   | <b>(974)</b>             | (1,140)     |
| Fair value gains   | <b>(263)</b>             | (1,539)     |
| Share of profit of associates and joint ventures   | <b>(170)</b>             | (143)       |
| Net gains arising from financial investments   | <b>(1,030)</b>           | (2,142)     |
| Interest expense on debt securities issued   | <b>12,277</b>            | 10,567      |
|  | <hr/>                    | <hr/>       |
| Operating cash flows before movements in operating assets and liabilities                      | <b>89,558</b>            | 67,974      |
|  | <hr/>                    | <hr/>       |
| Net (increase)/decrease in balances with central banks   | <b>(11,114)</b>          | 37,044      |
| Net (increase)/decrease in due from and placements with banks and other financial institutions | <b>(99,070)</b>          | 22,693      |
| Net increase in financial assets at fair value through profit or loss                          | <b>(102,458)</b>         | (95,428)    |
| Net increase in loans and advances to customers  | <b>(653,577)</b>         | (551,983)   |
| Net increase in other assets   | <b>(10,628)</b>          | (7,995)     |
| Net increase/(decrease) in due to and placements from banks and other financial institutions   | <b>36,479</b>            | (114,014)   |
| Net increase in financial liabilities at fair value through profit or loss                     | <b>3,157</b>             | 2,426       |
| Net increase in due to customers and certificates of deposits issued                           | <b>550,276</b>           | 799,120     |
| Net increase in other liabilities  | <b>66,728</b>            | 34,956      |
| Net increase in value-added tax and surcharge payable  | <b>1,464</b>             | 235         |
| Income tax paid  | <b>(6,833)</b>           | (10,835)    |
|  | <hr/>                    | <hr/>       |
| <b>Net cash flows generated from operating activities</b>                                      | <b>(136,018)</b>         | 184,193     |
|  | <hr/>                    | <hr/>       |

(All amounts expressed in millions of RMB unless otherwise stated)

|   | <b>Nine months ended</b> |                  |
|---|--------------------------|------------------|
|   | <b>30 September</b>      |                  |
|   | <b>2021</b>              | <b>2020</b>      |
| <b>Cash flows from investing activities:</b>                          |                          |                  |
| Cash payments for financial investments                               | (740,663)                | (793,018)        |
| Cash received on disposal or redemption of financial investments      | 655,069                  | 607,780          |
| Dividends received  | 2,763                    | 1,390            |
| Interest received from financial investments                          | 64,661                   | 72,023           |
| Cash payments for acquisition of intangible assets and other assets   | (1,308)                  | (940)            |
| Cash received on disposal of intangible assets and other assets       | 388                      | 245              |
| Cash payments for purchase and construction of property and equipment | (10,639)                 | (19,231)         |
| Cash received on disposal of property and equipment                   | 3,066                    | 7,880            |
| <b>Net cash flows generated from investing activities</b>             | <b>(26,663)</b>          | <b>(123,871)</b> |
| <b>Cash flows from financing activities:</b>                          |                          |                  |
| Cash received from issuing other equity instruments                   | 41,498                   | 33,456           |
| Cash received on debt securities issued                               | 93,349                   | 136,513          |
| Repayment of principals and interests of lease liabilities            | (1,791)                  | (1,792)          |
| Cash payment for distribution of dividends                            | (28,351)                 | (27,785)         |
| Repayment of principals of debt securities issued                     | (17,693)                 | (25,286)         |
| Cash payments for interests on debt securities                        | (7,996)                  | (5,772)          |
| Cash payments for redemption of other equity instruments              | –                        | (17,125)         |
| Dividends and others paid to non-controlling interests                | (556)                    | (146)            |
| <b>Net cash flows generated from financing activities</b>             | <b>78,460</b>            | <b>92,063</b>    |
| <b>Effect of exchange rate changes on cash and cash equivalents</b>   | <b>(1,374)</b>           | <b>(1,638)</b>   |
| <b>Net (decrease)/increase in cash and cash equivalents</b>           | <b>(85,595)</b>          | <b>150,747</b>   |
| <b>Cash and cash equivalents at the beginning of the period</b>       | <b>307,120</b>           | <b>167,735</b>   |
| <b>Cash and cash equivalents at the end of the period</b>             | <b>221,525</b>           | <b>318,482</b>   |
| Net cash flows from operating activities include:                     |                          |                  |
| Interest received   | 216,761                  | 210,701          |
| Interest paid   | (130,588)                | (150,449)        |

**ISSUER**

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Hong Kong

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PRC

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**PricewaterhouseCoopers**

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Registered Public Interest Entity Auditor  
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**FISCAL AGENT AND PAYING AGENT**

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**Appendix 2**  
**Supplemental Offering Circular dated 22 November 2022**

## IMPORTANT NOTICE

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

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

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “**SECURITIES ACT**”), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES, EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

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

**Confirmation of your Representation:** In order to be eligible to view the Supplemental Offering Circular or make an investment decision with respect to the securities, investors must not be located in the United States. The Supplemental Offering Circular is being sent at your request and by accepting the e-mail and accessing the Supplemental Offering Circular, you shall be deemed to have represented to Bank of Communications Co., Ltd. Hong Kong Branch (the “**Issuer**”), Bank of Communications Co., Ltd. Hong Kong Branch, Agricultural Bank of China Limited Hong Kong Branch, ABCI Capital Limited, Bank of China Limited, Bank of China (Hong Kong) Limited, BOCOM International Securities Limited, China CITIC Bank International Limited, China Construction Bank (Asia) Corporation Limited, China Construction Bank Corporation, Singapore Branch, China Everbright Bank Co., Ltd., Hong Kong Branch, China International Capital Corporation Hong Kong Securities Limited, CLSA Limited, CMBC Securities Company Limited, CMB International Capital Limited, CNCB (Hong Kong) Capital Limited, Crédit Agricole Corporate and Investment Bank, Guotai Junan Securities (Hong Kong) Limited, The Hongkong and Shanghai Banking Corporation Limited, ICBC International Securities Limited, Industrial and Commercial Bank of China Limited, Dubai (DIFC) Branch, Industrial and Commercial Bank of China Limited, Singapore Branch, Industrial Bank Co., Ltd. Hong Kong Branch, Shanghai Pudong Development Bank Co., Ltd., Hong Kong Branch and Standard Chartered Bank (together, the “**Joint Lead Managers for the USD Notes**”) and Bank of Communications Co., Ltd. Hong Kong Branch, Agricultural Bank of China Limited Hong Kong Branch, Agricultural Bank of China Limited, Singapore Branch, Bank of China (Hong Kong) Limited, China CITIC Bank International Limited, China



Minsheng Banking Corp., Ltd., Hong Kong Branch, Crédit Agricole Corporate and Investment Bank, The Hongkong and Shanghai Banking Corporation Limited, Industrial Bank Co., Ltd. Hong Kong Branch and Standard Chartered Bank (together, the “**Joint Lead Managers for the CNY Notes**” and together with the Joint Lead Managers for the USD Notes, the “**Joint Lead Managers**”) that you and any customers you represent are persons outside the United States and the electronic mail address that you gave us and to which this e-mail has been delivered is not located in the United States and that you consent to delivery of the attached Supplemental Offering Circular and any amendments or supplements thereto by electronic transmission.

**Notice to capital market intermediaries and prospective investors pursuant to paragraph 21 of the Hong Kong SFC Code of Conduct – Important Notice to Prospective Investors:** Prospective investors should be aware that certain intermediaries in the context of the offering of each of the Series (as defined in the Supplemental Offering Circular) of Notes (as defined in the Supplemental Offering Circular), including certain Joint Lead Managers are “capital market intermediaries” (together, the “**CMI**s”) subject to Paragraph 21 of the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission (the “**Code**”). This notice to prospective investors is a summary of certain obligations the Code imposes on such CMI, which require the attention and cooperation of prospective investors. Certain CMI may also be acting as “overall coordinators” (together, the “**OC**s”) for the offering and are subject to additional requirements under the Code.

Prospective investors who are the directors, employees or major shareholders of the Issuer, Bank of Communications Co., Ltd. (the “**Bank**”), a CMI or its group companies would be considered under the Code as having an association (“**Association**”) with the Issuer, the Bank, the CMI or the relevant group company. Prospective investors associated with the Issuer, the Bank or any CMI (including its group companies) should specifically disclose this when placing an order for the relevant Series of Notes and should disclose, at the same time, if such orders may negatively impact the price discovery process in relation to the relevant offering. Prospective investors who do not disclose their Associations are hereby deemed not to be so associated. Where prospective investors disclose their Associations but do not disclose that such order may negatively impact the price discovery process in relation to the relevant offering, such order is hereby deemed not to negatively impact the price discovery process in relation to such offering.

Prospective investors should ensure, and by placing an order prospective investors are deemed to confirm, that orders placed are bona fide, are not inflated and do not constitute duplicated orders (i.e. two or more corresponding or identical orders placed via two or more CMI). If a prospective investor is an asset management arm affiliated with any Joint Lead Manager, such prospective investor should indicate when placing an order if it is for a fund or portfolio where the Joint Lead Manager or its group company has more than 50 per cent. interest, in which case it will be classified as a “proprietary order” and subject to appropriate handling by CMI in accordance with the Code and should disclose, at the same time, if such “proprietary order” may negatively impact the price discovery process in relation to the offering of the relevant Series of Notes. Prospective investors who do not indicate this information when placing an order are hereby deemed to confirm that their order is not such a “proprietary order”. If a prospective investor is otherwise affiliated with any Joint Lead Manager, such that its order may be considered to be a “proprietary order” (pursuant to the Code), such prospective investor should indicate to the relevant Joint Lead Manager when placing such order. Prospective investors who do not indicate this information when placing an order are hereby deemed to confirm that their order is not such a “proprietary order”. Where prospective investors disclose such information but do not disclose that such “proprietary order” may negatively impact the price discovery process in relation to the relevant offering, such “proprietary order” is hereby deemed not to negatively impact the price discovery process in relation to such offering.

Prospective investors should be aware that certain information may be disclosed by CMI (including private banks) which is personal and/or confidential in nature to the prospective investor. By placing an order,

prospective investors are deemed to have understood and consented to the collection, disclosure, use and transfer of such information by the Joint Lead Managers and/or any other third parties as may be required by the Code, including to the Issuer, the Bank, any OCs, relevant regulators and/or any other third parties as may be required by the Code, it being understood and agreed that such information shall only be used for the purpose of complying with the Code, during the bookbuilding process for the offering of each Series of Notes. Failure to provide such information may result in that order being rejected.

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

The materials relating to the offering of securities to which the Supplemental Offering Circular relates do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the underwriters or any affiliate of the underwriters is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the underwriters or such affiliate on behalf of the Issuer (as defined in the Supplemental Offering Circular) in such jurisdiction. For a description of certain restrictions on offers, sales and transfer of securities and on the distribution of the Supplemental Offering Circular, see “*Subscription and Sale*” in the Original Offering Circular (as defined in the Supplemental Offering Circular).

The Supplemental Offering Circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Issuer, the Bank, the Joint Lead Managers, any person who controls any of the Joint Lead Managers, any director, officer, employee nor agent of the Issuer, the Bank, the Joint Lead Managers, or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Supplemental Offering Circular distributed to you in electronic format and the hard copy version available to you on request from the Joint Lead Managers. You are responsible for protecting against viruses and other destructive items. Your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.



## Bank of Communications Co., Ltd. Hong Kong Branch

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

**Issue of U.S.\$200,000,000 4.75 per cent. Notes due 2025**

**Issue of CNY1,420,000,000 3.05 per cent. Notes due 2024**

**each issued under the U.S.\$12,000,000,000**

### **Medium Term Note Programme**

This supplemental offering circular (this “**Supplemental Offering Circular**”) is supplemental to, forms part of and must be read and construed in conjunction with, to the offering circular dated 7 March 2022 (the “**Original Offering Circular**”, together with this Supplemental Offering Circular, the “**Offering Circular**”) prepared by Bank of Communications Co., Ltd. Hong Kong Branch (the “**Issuer**”), in connection with the U.S.\$12,000,000,000 Medium Term Note Programme described in the Original Offering Circular (the “**Programme**”). This Supplemental Offering Circular is prepared in connection with the U.S.\$200,000,000 4.75 per cent. Notes due 2025 (the “**USD Notes**”) and the CNY1,420,000,000 3.05 per cent. Notes due 2024 (the “**CNY Notes**”) each to be issued by the Issuer under the Programme only and does not otherwise modify the Programme. Terms given a defined meaning in the Original Offering Circular shall, unless the context otherwise requires, have the same meaning when used in this Supplemental Offering Circular. In this Supplemental Offering Circular, references to “**Notes**” are to any of the USD Notes and the CNY Notes; and references to a “**Series of Notes**” or to a “**Series**” are to the USD Notes or the CNY Notes, separately. To the extent there is any inconsistency between any statement in this Supplemental Offering Circular and any statement in the Original Offering Circular, the statement in this Supplemental Offering Circular shall prevail. Capitalised terms used but not defined in this Supplemental Offering Circular have the meanings given to them in the Original Offering Circular.

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, the Notes by way of debt issues to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) (“**Professional Investors**”) only. This document is for distribution to Professional Investors only.

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

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

The USD Notes will be issued in registered form and initially represented by a Global Certificate which will be registered in the name of a nominee of, and shall be deposited on or about the Issue Date (as defined in the applicable Pricing Supplement in respect of the USD Notes) with, a common depository for Euroclear Bank SA/NV (“**Euroclear**”) and Clearstream Banking S.A. (“**Clearstream**”).

The CNY Notes will be issued in registered form and initially represented by a Global Certificate which will be registered in the name of, and lodged with the Hong Kong Monetary Authority and deposited on or about the Issue Date (as defined in the applicable Pricing Supplement in respect of the CNY Notes) with a sub-custodian for the Central Moneymarkets Unit Service (the “**CMU**”), operated by the Hong Kong Monetary Authority (the “**HKMA**”).

**The Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States. The Notes may not be offered or sold within the United States except in accordance with Regulation S under the United States Securities Act of 1933, as amended (the “**Securities Act**”) or pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. For a description of these and certain restrictions on offers and sales of the Notes and the distribution of the Original Offering Circular, see “**Subscription and Sale**” in the Original Offering Circular. The Notes may be subject to additional selling restrictions as set out in the relevant Pricing Supplement.**

Each Series of Notes is expected to be assigned a rating of “A-” by S&P Global Ratings. The Programme has been rated “BBB” by Fitch Ratings Ltd.. These ratings are only correct as at the date of this Supplemental Offering Circular. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction, revision or withdrawal at any time by the assigning rating agency.

Investing in the Notes involves certain risks and may not be suitable for all investors. See “**Risk Factors**” herein and in the Original Offering Circular for a discussion of certain factors to be considered in connection with an investment in the Notes. Investors should have sufficient knowledge and experience in financial and business matters to evaluate the information contained in this Supplemental Offering Circular and the Original Offering Circular and the merits and risks of investing in the Notes in the context of their financial position and particular circumstances. Investors also should have the financial capacity to bear the risks associated with an investment in the Notes. Investors should not purchase the Notes unless they understand and are able to bear risks associated with the Notes.

The sections of the Original Offering Circular entitled “**Summary Financial Information**”, “**Risk Factors**”, “**Capitalisation and Indebtedness**”, “**Use of Proceeds**”, “**Description of the Bank**”, “**Risk Management and Internal Control**”, “**Description of the Bank’s Assets and Liabilities**”, “**Substantial Shareholders**”, “**Management of the Bank**”, “**Subscription and Sale**” and “**General Information**” have been supplemented and/or amended with the information in this Supplemental Offering Circular.

With effect from the date of this Supplemental Offering Circular the information appearing in the Original Offering Circular with respect to the Notes shall be amended and/or supplemented by the inclusion of the information set out below.

*Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers for the USD Notes*

|   |  |  |                            |                          |
|---|--|--|----------------------------|--------------------------|
| <b>Bank of Communications</b>                     | <b>Agricultural Bank of China</b>                        | <b>Bank of China</b>                           | <b>BOCOM International</b> | <b>China CITIC Bank</b>  |
| <b>China Construction Bank</b>                    | <b>China Everbright Bank Hong Kong Branch</b>            | <b>China International Capital Corporation</b> | <b>CITIC Securities</b>    | <b>CMB International</b> |
| <b>CMBC Capital</b>                               | <b>Crédit Agricole CIB</b>                               | <b>Guotai Junan International</b>              | <b>HSBC</b>                | <b>ICBC</b>              |
| <b>Industrial Bank Co., Ltd. Hong Kong Branch</b> | <b>Shanghai Pudong Development Bank Hong Kong Branch</b> | <b>Standard Chartered Bank</b>                 |                            |                          |

*Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers for the CNY Notes*

|                               |                                   |   |                                       |   |
|-------------------------------|-----------------------------------|---|---------------------------------------|---|
| <b>Bank of Communications</b> | <b>Agricultural Bank of China</b> | <b>Bank of China (Hong Kong)</b>                  | <b>China CITIC Bank International</b> | <b>China Minsheng Banking Corp., Ltd., Hong Kong Branch</b> |
| <b>Crédit Agricole CIB</b>    | <b>HSBC</b>                       | <b>Industrial Bank Co., Ltd. Hong Kong Branch</b> | <b>Standard Chartered Bank</b>        |   |

Supplemental Offering Circular dated 22 November 2022

## IMPORTANT NOTICE

This Supplemental Offering Circular (read together with the Original Offering Circular) includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) for the purpose of giving information with regard to the Issuer, the Bank and the Group. The Issuer accepts full responsibility for the accuracy of the information contained in this Supplemental Offering Circular (read together with the Original 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 Notes will be issued on the terms set out under “*Terms and Conditions of the Notes*” in the Original Offering Circular, as amended and/or supplemented by the Pricing Supplement in respect of the USD Notes (the “**USD Notes Pricing Supplement**”) and the Pricing Supplement in respect of the CNY Notes (the “**CNY Notes Pricing Supplement**”, together with the USD Notes Pricing Supplement, the “**Pricing Supplements**”), each set out in this Supplemental Offering Circular. This Supplemental Offering Circular and the Original Offering Circular must be read and construed together with any amendments or supplements hereto and with any information incorporated by reference herein and, in relation to the Notes, must be read and construed together with the relevant Pricing Supplement. This Supplemental Offering Circular shall be read and construed on the basis that such documents are incorporated and form part of the Original Offering Circular.

The distribution of this Supplemental Offering Circular (together with the Original Offering Circular) and the Pricing Supplements and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Supplemental Offering Circular (together with the Original Offering Circular) comes are required by the Issuer, the Bank and its subsidiaries (the “**Group**”), Bank of Communications Co., Ltd. Hong Kong Branch, Agricultural Bank of China Limited Hong Kong Branch, ABCI Capital Limited, Bank of China Limited, Bank of China (Hong Kong) Limited, BOCOM International Securities Limited, China CITIC Bank International Limited, China Construction Bank (Asia) Corporation Limited, China Construction Bank Corporation, Singapore Branch, China Everbright Bank Co., Ltd., Hong Kong Branch, China International Capital Corporation Hong Kong Securities Limited, CLSA Limited, CMBC Securities Company Limited, CMB International Capital Limited, CNCB (Hong Kong) Capital Limited, Crédit Agricole Corporate and Investment Bank, Guotai Junan Securities (Hong Kong) Limited, The Hongkong and Shanghai Banking Corporation Limited, ICBC International Securities Limited, Industrial and Commercial Bank of China Limited, Dubai (DIFC) Branch, Industrial and Commercial Bank of China Limited, Singapore Branch, Industrial Bank Co., Ltd. Hong Kong Branch, Shanghai Pudong Development Bank Co., Ltd., Hong Kong Branch and Standard Chartered Bank (together, the “**Joint Lead Managers for the USD Notes**”) and Bank of Communications Co., Ltd. Hong Kong Branch, Agricultural Bank of China Limited Hong Kong Branch, Agricultural Bank of China Limited, Singapore Branch, Bank of China (Hong Kong) Limited, China CITIC Bank International Limited, China Minsheng Banking Corp., Ltd., Hong Kong Branch, Crédit Agricole Corporate and Investment Bank, The Hongkong and Shanghai Banking Corporation Limited, Industrial Bank Co., Ltd. Hong Kong Branch and Standard Chartered Bank (together, the “**Joint Lead Managers for the CNY Notes**”) and together with the Joint Lead Managers for the USD Notes, the “**Joint Lead Managers**”) to inform themselves about and to observe any such restrictions. None of the Issuer, the Group or the Joint Lead Managers represents that this Supplemental Offering Circular (together with the Original Offering Circular) or the Pricing Supplements may be lawfully distributed, or that the Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Group or the Joint Lead Managers which would permit a public offering of the Notes or distribution of this Supplemental Offering Circular (together with the Original Offering Circular) or the Pricing Supplements in any jurisdiction where action for such purposes is required. Accordingly, no

Notes may be offered or sold, directly or indirectly, and none of the Supplemental Offering Circular (together with the Original Offering Circular), the Pricing Supplements or any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations.

There are restrictions on the offer and sale of the Notes and the circulation of documents relating thereto, in certain jurisdictions including, but not limited to, the United States of America, the European Economic Area, the United Kingdom, Japan, Hong Kong, the PRC, Singapore and Taiwan, and to persons connected therewith. The Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States. Subject to certain exceptions, the Notes may not be offered or sold within the United States. The Notes are being offered and sold outside the United States in reliance on Regulation S under the Securities Act. For a description of certain restrictions on offers, sales and transfers of Notes and on the distribution of the Original Offering Circular, see “*Subscription and Sale*” in the Original Offering Circular. The Notes may be subject to additional selling restrictions as set out in each of the Pricing Supplements.

**Singapore SFA Product Classification:** In connection with Section 309B of the Securities and Futures Act 2001 of Singapore, as modified or amended from time to time (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 309(A)(1) of the SFA), that the USD Notes and the CNY Notes are ‘prescribed capital markets products’ (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

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

No person has been authorised by the Issuer or the Group to give any information or to make any representation not contained in or not consistent with this Supplemental Offering Circular (read together with the Original Offering Circular) or any other document entered into in relation to the Programme and the sale of Notes and, if given or made, such information or representation should not be relied upon as having been authorised by the Issuer, the Group or any of the Joint Lead Managers.

No representation or warranty, express or implied, is made by the Joint Lead Managers, any fiscal agent, paying agents or any of their respective officers, employees, affiliates, advisors or agents as to the accuracy, completeness or sufficiency of the information contained in this Supplemental Offering Circular, and nothing contained in this Supplemental Offering Circular is, or should be, relied upon as a promise or representation by the Joint Lead Managers, fiscal agent, paying agent or their officers, employees, affiliates, advisors or agents. The Joint Lead Managers, the fiscal agent, the paying agents and their respective officers, employees, affiliates, advisors and agents have not independently verified the information contained herein (financial, legal or otherwise) and, to the fullest extent permitted by law, none of the Joint Lead Managers, the fiscal agent, the paying agents or their respective officers, employees, affiliates, advisors or agents accepts any responsibility for the contents of this Supplemental Offering Circular or for any other statement, made or purported to be made by the Joint Lead Managers or on their behalf in connection with the Issuer, the Bank, the Group or the issue and offering of the Notes. The Joint Lead Managers, the fiscal agent, the paying agents and their respective officers, employees, affiliates, advisors or agents accordingly disclaim all and any liability whether arising in tort or contract or otherwise (save as referred to above) which might otherwise have in respect of this Supplemental Offering Circular or any such statement.

Neither the delivery of this Supplemental Offering Circular (read together with the Original Offering Circular) nor the Pricing Supplements nor the offering, sale or delivery of any Notes shall in any circumstances create any implication that the information contained in this Supplemental Offering Circular (read together with the Original Offering Circular) is true subsequent to the date hereof or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the prospects or financial or trading position of the Issuer of the Group since the date hereof or that any other information supplied in connection with the Programme is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same. The Joint Lead Managers expressly do not undertake to review the financial condition or affairs of the Issuer or the Group during the term of the Notes or to advise any investor in the Notes of any information coming to their attention.

None of the Joint Lead Managers or any Agents (as defined under “*Terms and Conditions of the Notes*” in the Original Offering Circular) has separately verified the information contained in this Supplemental Offering Circular or the Original Offering Circular. To the fullest extent permitted by law, none of the Joint Lead Managers or any Agents or any director, officer, employee, agent or affiliate of any such person makes any representation, warranty or undertaking, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information in this Supplemental Offering Circular or the Original Offering Circular. To the fullest extent permitted by law, none of the Joint Lead Managers or any Agents or any director, officer, employee, agent or affiliate of any such person accepts any responsibility for the contents of this Supplemental Offering Circular or the Original Offering Circular or for any other statement made or purported to be made by any Joint Lead Manager, any Agent, or any director, officer, employee, agent or affiliate of any such person or on its behalf in connection with the Issuer, the Bank, the Group, the Notes or the issue and offering of the Notes. Each Joint Lead Manager and each Agent accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Supplemental Offering Circular or the Original Offering Circular or any such statement.

Neither this Supplemental Offering Circular nor the Original Offering Circular describes all of the risks and investment considerations (including those relating to each investor’s particular circumstances) of an investment in the Notes. Each potential purchaser of the Notes should refer to and consider carefully the Pricing Supplements for the Notes, which may describe additional risks and investment considerations associated with such Notes. The risks and investment considerations identified in this Supplemental Offering Circular (read together with the Original Offering Circular) and the Pricing Supplements are provided as general information only. Investors should consult their own financial and legal advisers as to the risks and investment considerations arising from an investment in the Notes and should possess the appropriate resources to analyse such investment and the suitability of such investment in their particular circumstances.

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

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



## PRESENTATION OF FINANCIAL INFORMATION

Certain financial information in this Supplemental Offering Circular has been derived from the audited consolidated financial statements of the Bank as at and for the year ended 31 December 2020 (the “**2020 Historical Financial Statements**”), which were published on 22 April 2021, on the website of the Hong Kong Stock Exchange and the audited consolidated financial statements of the Bank as at and for the year ended 31 December 2021 (the “**2021 Historical Financial Statements**”), which were published on 21 April 2022, on the website of the Hong Kong Stock Exchange. The 2020 Historical Financial Statements and the 2021 Historical Financial Statements are incorporated by reference in the Supplemental Offering Circular. The 2020 Historical Financial Statements and the 2021 Historical Financial Statements were prepared and presented in accordance with the International Financial Reporting Standards (the “**IFRS**”) and have been audited by PricewaterhouseCoopers, Certified Public Accountant, Hong Kong, in accordance with International Standards on Auditing (“**ISA**”).

Certain financial information in this Supplemental Offering Circular has been derived from the unaudited condensed consolidated interim financial statements as at and for the six months ended 30 June 2022 (the “**2022 Interim Financial Information**”) of the Group, which were published on 22 September 2022, on the website of the Hong Kong Stock Exchange. Furthermore, certain financial information in this Supplemental Offering Circular has been derived from the unaudited condensed consolidated third quarter financial statements as at and for the nine months ended 30 September 2022 (the “**2022 Third Quarter Financial Information**”) of the Group, which were published on 28 October 2022, on the website of the Hong Kong Stock Exchange. The 2022 Interim Financial Information and the 2022 Third Quarter Financial Information are incorporated by reference in the Supplemental Offering Circular. The 2022 Interim Financial Information and the 2022 Third Quarter Financial Information have not been audited by KPMG. The 2022 Interim Financial Information has been reviewed by KPMG in accordance with International Standard on Review Engagements 2410, “*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*”. Consequently, the 2022 Interim Financial Information and the 2022 Third Quarter Financial Information should not be relied upon by you to provide the same quality of information associated with information that has been subject to an audit, as appropriate. Investors must exercise caution when using such data to evaluate the Bank’s financial condition and results of operations. The 2022 Interim Financial Information and the 2022 Third Quarter Financial Information should not be taken as an indication of the expected financial condition and results of operations of the Bank as at and for the full financial year ending 31 December 2022.

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

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

Solely for the sake of convenience, this Supplemental Offering Circular contains translations of certain Renminbi amounts into US dollar amounts. Unless indicated otherwise, the translation of Renminbi amounts into US dollar amounts has been made at the rate of RMB6.6981 to U.S.\$1.00, the noon buying rate as set forth in the H.10 statistical release of the Federal Reserve Bank of New York on 30 June 2022. These translations should not be construed as representations that the Renminbi amounts could actually be converted into any US dollar amounts at the rates indicated or at all.

## FORWARD-LOOKING STATEMENTS

Certain statements under “Risk Factors”, “Business” and elsewhere in this Supplemental Offering Circular constitute “forward-looking statements”. The words including “believe”, “expect”, “plan”, “anticipate”,

“schedule”, “estimate”, “may”, “will”, “would”, “could”, “aim”, “intend”, “project”, “potential”, “future”, “seek”, “should” and similar words or the negative thereof, or expressions identify forward-looking statements. In addition, all statements other than statements of historical facts included in this Supplemental Offering Circular, including, but without limitation, those regarding the financial position, business strategy, prospects, capital expenditure and investment plans of the Group and the plans and objectives of the Group’s management for its future operations (including development plans and objectives relating to the Group’s operations), are forward-looking statements.

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

## **STABILISATION**

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

## **DOCUMENTS INCORPORATED BY REFERENCE**

This Supplemental Offering Circular should be read and construed in conjunction with the Original Offering Circular (and the documents incorporated by reference therein) and all amendments and supplements from time to time to this Supplemental Offering Circular, which shall be deemed to be incorporated in, and to form part of, this Supplemental Offering Circular and which shall be deemed to modify or supersede the contents of this Supplemental Offering Circular to the extent that a statement contained in any such document is inconsistent with such contents.

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

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## SUMMARY FINANCIAL INFORMATION

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

The summary consolidated financial information as at and for the years ended 31 December 2019, 2020 and 2021 set forth below is derived from the Bank's published audited consolidated financial statements as at and for the years ended 31 December 2020 and 2021, which are prepared and presented in accordance with IFRS. The summary consolidated financial information as at and for the six months ended 30 June 2021 and 2022 and the summary consolidated financial information as at and for the nine months ended 30 September 2021 and 2022 set forth below are derived from the Bank's unaudited condensed consolidated interim financial statements as at and for the six months ended 30 June 2022 and the Bank's unaudited consolidated third quarter financial statements as at and for the nine months ended 30 September 2022, respectively, which are prepared and presented in accordance with IFRS. The Bank's unaudited consolidated interim financial statements as at and for the six months ended 30 June 2022 has been reviewed by KPMG in accordance with International Standard on Review Engagements 2410, "*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*". The Bank's unaudited condensed consolidated interim financial statements as at and for the six months ended 30 June 2022 and the Bank's unaudited condensed consolidated third quarter financial statements as at and for the nine months ended 30 September 2022 have not been audited by KPMG. Investors must exercise caution when using such data to evaluate the Bank's financial condition and results of operations. Such summary consolidated financial information should be read in conjunction with such published audited consolidated financial statements, the unaudited consolidated interim financial statements and the unaudited consolidated third quarter financial statements and the notes thereto. The Bank's published audited consolidated financial statements as at and for the years ended 31 December 2020 and 2021 have been audited by PricewaterhouseCoopers in accordance with IAS.

The 2022 Interim Financial Information and the 2022 Third Quarter Financial Information should not be taken as an indication of the expected financial condition and results of operations of the Bank as at and for the full financial year ended 31 December 2022.

## Consolidated Statement of Comprehensive Income for the Years Ended 31 December 2019, 2020 and 2021

The consolidated statements of comprehensive income of the Group for the years ended 31 December 2019, 2020 and 2021 as set forth below is extracted from the 2020 and 2021 Audited Financial Statements prepared in accordance with IFRS and have been audited by PricewaterhouseCoopers in accordance with IAS.

|  | Year ended 31 December                   |           |           |
|--|--|-----------|-----------|
|  | 2019                                     | 2020      | 2021      |
|  | (RMB in million unless otherwise stated) |           |           |
|  | (audited)                                |           |           |
| Interest income .....  | 367,453                                  | 369,101   | 377,646   |
| Interest expense .....   | (223,370)                                | (215,765) | (215,953) |
| Net interest income .....  | 144,083                                  | 153,336   | 161,693   |
| Fee and commission income .....  | 47,669                                   | 49,298    | 52,285    |
| Fee and commission expense .....   | (4,044)                                  | (4,212)   | (4,712)   |
| Net fee and commission income .....  | 43,625                                   | 45,086    | 47,573    |
| Net gains arising from trading activities .....  | 15,936                                   | 13,844    | 23,344    |
| Net gains arising from financial investments .....   | 313                                      | 1,177     | 1,311     |
| Including: Net gains/(losses) on derecognition of financial assets<br>measured at amortised cost ..... | (281)                                    | 27        | 46        |
| Share of profits of associates and joint venture .....   | 414                                      | 222       | 277       |
| Insurance business income .....  | 11,687                                   | 15,170    | 16,515    |
| Other operating income .....   | 16,799                                   | 17,889    | 19,035    |
| Net operating income .....   | 232,857                                  | 246,724   | 269,748   |
| Credit impairment losses .....   | (51,954)                                 | (62,059)  | (66,371)  |
| Other assets impairment losses .....   | (270)                                    | (484)     | (2,320)   |
| Insurance business expense .....   | (11,432)                                 | (15,729)  | (17,054)  |
| Other operating expenses .....   | (81,001)                                 | (82,027)  | (90,044)  |
| Profit before tax .....  | 88,200                                   | 86,425    | 93,959    |
| Income tax .....   | (10,138)                                 | (6,855)   | (5,020)   |
| Net profit for the year .....  | 78,062                                   | 79,570    | 88,939    |
| <b>Other comprehensive income</b>  |  |           |           |
| <i>Items that may be reclassified subsequently to profit or loss:</i>                                  |  |           |           |
| Loans and advances to customers carried at FVOCI   |  |           |           |
| Amount recognised in equity .....  | (335)                                    | 19        | 459       |
| Amount reclassified to profit or loss .....  | (378)                                    | (183)     | (428)     |
| Debt instruments at fair value through other comprehensive income                                      |  |           |           |
| Amount recognised in equity .....  | 3,715                                    | (920)     | 2,796     |
| Amount reclassified to profit or loss .....  | (395)                                    | (825)     | (442)     |
| Effective portion of gains or losses on hedging instruments in a cash<br>flow hedge                    |  |           |           |
| Changes in fair value recorded in equity .....   | (156)                                    | (1,362)   | 891       |
| Changes in fair value reclassified from equity to profit or loss .....                                 | 147                                      | 815       | (463)     |
| Others .....   | 18                                       | (8)       | 14        |

|   | Year ended 31 December                   |         |         |
|---|--|---------|---------|
|   | 2019                                     | 2020    | 2021    |
|   | (RMB in million unless otherwise stated) |         |         |
|   | <i>(audited)</i>                         |         |         |
| Translation difference on foreign operations .....  | 1,141                                    | (4,776) | (3,450) |
| Subtotal .....  | 3,757                                    | (7,240) | (623)   |
| <b>Items that will not be reclassified subsequently to profit or loss:</b>  |  |         |         |
| Changes in fair value of equity investments designated at fair value through other comprehensive income .....                               | (560)                                    | (1,204) | (1,555) |
| Actuarial gains/(losses) on pension benefits .....  | (20)                                     | (132)   | 55      |
| Changes in fair value attributable to change in the credit risk of financial liability designated at FVPL .....                             | 25                                       | 7       | (36)    |
| Others .....  | -  | 20      | 2       |
| Subtotal .....  | (555)                                    | (1,309) | (1,534) |
| Other comprehensive income for the year .....   | 3,202                                    | (8,549) | (2,157) |
| Comprehensive income for the period .....   | 81,264                                   | 71,021  | 86,782  |
| Net profit attributable to:   |  |         |         |
| Shareholders of the Bank .....  | 77,281                                   | 78,274  | 87,581  |
| Non-controlling interests .....   | 781                                      | 1,296   | 1,358   |
| Total comprehensive income attributable to:   |  |         |         |
| Shareholders of the Bank .....  | 80,414                                   | 69,960  | 85,696  |
| Non-controlling interests .....   | 850                                      | 1,061   | 1,086   |
| Basic and diluted earnings per share for profit attributable to the shareholders of the Bank (in RMB yuan/U.S.\$ per share (Restated) ..... | 1.00                                     | 0.99    | 1.10    |

### Condensed Consolidated Statement of Comprehensive Income for the Six Months Ended 30 June 2021 and 2022 and Nine Months Ended 30 September 2021 and 2022

The condensed consolidated statements of comprehensive income of the Group for the six months ended 30 June 2021 and 2022 and the nine months ended 30 September 2021 and 2022 as set forth below is extracted from the 2022 Interim Financial Information prepared and presented in accordance with IFRS and reviewed by KPMG in accordance with International Standards on Review Engagements 2410, and from the 2022 Third Quarter Financial Statements prepared and presented in accordance with IFRS, respectively.

|                           | Six months ended 30 June                 |           | Nine months ended 30 September           |           |
|---------------------------|--|-----------|--|-----------|
|                           | 2021                                     | 2022      | 2021                                     | 2022      |
|                           | (RMB in million unless otherwise stated) |           | (RMB in million unless otherwise stated) |           |
|                           | <i>(unaudited)</i>                       |           | <i>(unaudited)</i>                       |           |
| Interest income .....     | 183,952                                  | 202,568   | 279,879                                  | 309,244   |
| Interest expense .....    | (105,466)                                | (117,475) | (160,635)                                | (181,217) |
| Net interest income ..... | 78,486                                   | 85,093    | 119,244                                  | 128,027   |

|  | Six months ended 30 June                 |          | Nine months ended 30 September           |          |
|--|--|----------|--|----------|
|  | 2021                                     | 2022     | 2021                                     | 2022     |
|  | (RMB in million unless otherwise stated) |          | (RMB in million unless otherwise stated) |          |
|  | (unaudited)                              |          | (unaudited)                              |          |
| Fee and commission income.....   | 27,299                                   | 27,072   | 39,574                                   | 38,278   |
| Fee and commission expense.....  | (2,333)                                  | (2,418)  | (3,425)                                  | (3,546)  |
| Net fee and commission income.....   | 24,966                                   | 24,654   | 36,149                                   | 34,732   |
| Net gains arising from trading activities.....   | 10,169                                   | 9,954    | 17,286                                   | 15,596   |
| Net gains arising from financial investments.....  | 772                                      | 660      | 1,030                                    | 556      |
| Including: Net gains/(losses) on derecognition of financial assets measured at amortised cost.....   | 40                                       | (13)     | 45                                       | 63       |
| Share of profits of associates and joint venture....   | 114                                      | 70       | 170                                      | 164      |
| Insurance business income .....  | 11,022                                   | 13,519   | 13,306                                   | 15,980   |
| Other operating income .....   | 8,522                                    | 9,618    | 13,025                                   | 15,292   |
| Net operating income .....   | 134,051                                  | 143,568  | 200,210                                  | 210,347  |
| Credit impairment losses .....   | (33,082)                                 | (36,827) | (52,428)                                 | (51,460) |
| Other assets impairment losses .....   | (418)                                    | (690)    | (418)                                    | (699)    |
| Insurance business expense .....   | (10,925)                                 | (13,790) | (13,607)                                 | (16,809) |
| Other operating expense .....  | (43,038)                                 | (46,644) | (64,338)                                 | (70,426) |
| Profit before tax.....   | 46,588                                   | 45,617   | 69,419                                   | 70,953   |
| Income tax .....   | (3,715)                                  | (1,485)  | (3,927)                                  | (2,933)  |
| Net profit for the period.....   | 42,873                                   | 44,132   | 65,492                                   | 68,020   |
| <b>Other comprehensive income</b>  |  |          |  |          |
| <b>Items that may be reclassified subsequently to profit or loss:</b>                                |  |          |  |          |
| Changes in fair value of debt instruments measured at fair value through other comprehensive income  |  |          |  |          |
| Amount recognised in equity.....   | 708                                      | (7,739)  | 3,120                                    | (9,304)  |
| Amount reclassified to profit or loss.....   | (335)                                    | 630      | (571)                                    | (591)    |
| Expected credit losses of debt instruments measured at fair value through other comprehensive income |  |          |  |          |
| Amount recognised in equity.....   | (179)                                    | 296      | (509)                                    | 644      |
| Amount reclassified to profit or loss.....   | -  | -        | -  | -        |
| Effective portion of gains or losses on hedging instruments in a cash flow hedge                     |  |          |  |          |
| Amount recognised in equity.....   | 972                                      | 709      | 952                                      | 730      |
| Amount reclassified to profit or loss.....   | (740)                                    | (97)     | (640)                                    | 169      |
| Others .....   | 5  | 131      | 4  | 140      |
| Translation difference on foreign operations .....   | (1,344)                                  | 4,122    | (1,463)                                  | 9,388    |
| Subtotal .....   | (913)                                    | (1,948)  | 893                                      | 1,176    |
| <b>Items that will not be reclassified subsequently to profit or loss:</b>                           |  |          |  |          |

|  | Six months ended 30 June                 |         | Nine months ended 30 September           |        |
|--|--|---------|--|--------|
|  | 2021                                     | 2022    | 2021                                     | 2022   |
|  | (RMB in million unless otherwise stated) |         | (RMB in million unless otherwise stated) |        |
|  | (unaudited)                              |         | (unaudited)                              |        |
| Changes in fair value of equity investments designated at fair value through other comprehensive income .....                                | (455)                                    | (192)   | (802)                                    | (386)  |
| Actuarial gains/(losses) on pension benefits .....   | 58                                       | (20)    | 63                                       | (35)   |
| Changes in fair value attributable to change in the credit risk of financial liability designated at FVPL .....                              | (36)                                     | 46      | (45)                                     | (141)  |
| Others .....   | 7  | 1       | 2  | 2      |
| Subtotal .....   | (426)                                    | (165)   | (782)                                    | (560)  |
| Other comprehensive income for the year .....  | (1,339)                                  | (2,113) | 111                                      | 616    |
| Comprehensive income for the period .....  | 41,534                                   | 42,019  | 65,603                                   | 68,636 |
| Net profit attributable to:  |  |         |  |        |
| Shareholders of the Bank .....   | 42,019                                   | 44,040  | 64,360                                   | 67,883 |
| Non-controlling interests .....  | 854                                      | 92      | 1,132                                    | 137    |
| Total comprehensive income attributable to:  |  |         |  |        |
| Shareholders of the Bank .....   | 40,799                                   | 41,776  | 64,594                                   | 68,086 |
| Non-controlling interests .....  | 735                                      | 243     | 1,009                                    | 550    |
| Basic and diluted earnings per share for profit attributable to the shareholders of the Bank (in RMB yuan/U.S.\$ per share (Restated)) ..... | 0.54                                     | 0.55    | 0.80                                     | 0.83   |

### Consolidated Statement of Financial Position as at 31 December 2019, 2020 and 2021

The consolidated statements of financial position of the Group as at 31 December 2019, 2020 and 2021 as set forth below is extracted from the 2020 and 2021 Audited Financial Statements prepared in accordance with IFRS and have been audited by PricewaterhouseCoopers in accordance with IAS.

|  | As at 31 December |           |           |
|--|-------------------|-----------|-----------|
|  | 2019              | 2020      | 2021      |
|  | (RMB in million)  |           |           |
|  | (audited)         |           |           |
| <b>Assets</b>  |                   |           |           |
| Cash and balances with central banks .....                               | 760,185           | 817,561   | 734,728   |
| Due from and placements with banks and other financial institutions .... | 648,488           | 571,130   | 632,708   |
| Derivative financial assets .....  | 20,937            | 54,212    | 39,220    |
| Financial investments at fair value through profit or loss .....         | 406,498           | 482,588   | 638,483   |
| Financial investments at amortised cost .....                            | 1,929,689         | 2,019,529 | 2,203,037 |



|   | As at 31 December |                |                |
|---|-------------------|----------------|----------------|
|   | 2019              | 2020           | 2021           |
|   | (RMB in million)  |                |                |
| Financial investments at fair value through other comprehensive income.....       | 669,656           | 735,220        | 681,729        |
| Loans and advances to customers.....  | 5,183,653         | 5,720,568      | 6,412,201      |
| Investment in associates and joint ventures.....                                  | 4,600             | 4,681          | 5,779          |
| Property and equipment.....   | 171,179           | 169,471        | 171,194        |
| Deferred income tax assets.....   | 24,065            | 27,991         | 32,061         |
| Other assets.....   | 86,650            | 94,665         | 114,617        |
| Total assets.....   | 9,905,600         | 10,697,616     | 11,665,757     |
| <b>Liabilities</b>  |                   |                |                |
| Due to and placements from banks and other financial institutions.....            | 1,904,082         | 1,787,491      | 1,947,768      |
| Financial liabilities at fair value through profit or loss.....                   | 26,980            | 29,279         | 50,048         |
| Derivative financial liabilities.....   | 26,424            | 55,942         | 36,074         |
| Due to customers.....   | 6,072,908         | 6,607,330      | 7,039,777      |
| Certificates of deposits issued.....  | 498,991           | 634,297        | 892,020        |
| Current income tax liabilities.....   | 7,086             | 3,786          | 4,725          |
| Deferred income tax liabilities.....  | 918               | 1,286          | 1,889          |
| Debt securities issued.....   | 403,918           | 497,755        | 503,525        |
| Other liabilities.....  | 163,381           | 201,822        | 212,695        |
| Total liabilities.....  | 9,104,688         | 9,818,988      | 10,688,521     |
| <b>Equity</b>   |                   |                |                |
| Share capital.....  | 74,263            | 74,263         | 74,263         |
| Other equity Instruments.....   | 99,870            | 133,292        | 174,790        |
| Including: Preference shares.....   | 59,876            | 44,952         | 44,952         |
| Perpetual bonds.....  | 39,994            | 88,340         | 129,838        |
| Capital surplus.....  | 113,663           | 111,428        | 111,428        |
| Other reserves.....   | 328,310           | 333,176        | 346,092        |
| Retained earnings.....  | 177,141           | 214,448        | 258,074        |
| <b>Equity attributable to shareholders of the Bank.....</b>                       | <b>793,247</b>    | <b>866,607</b> | <b>964,647</b> |
| Equity attributable to non-controlling interests of ordinary shares.....          | 7,665             | 8,763          | 9,424          |
| Equity attributable to non-controlling interests of other equity instruments..... | —                 | 3,258          | 3,165          |
| Non-controlling interests.....  | 7,665             | 12,021         | 12,589         |
| Total equity.....   | 800,912           | 878,628        | 977,236        |
| Total equity and liabilities.....   | 9,905,600         | 10,697,616     | 11,665,757     |

### Consolidated Statement of Financial Position as at 31 December 2021, 30 June 2022 and 30 September 2022

*The consolidated statements of financial position of the Group as at 31 December 2021, 30 June 2022 and 30 September 2022 as set forth below is extracted from the 2021 Audited Financial Statements prepared in accordance with IFRS and have been audited by PricewaterhouseCoopers in accordance with IAS, the 2022*

*Interim Financial Information prepared and presented in accordance with IFRS and reviewed by KPMG in accordance with International Standards on Review Engagements 2410, and from the 2022 Third Quarter Financial Statements prepared and presented in accordance with IFRS, respectively.*

|  | As at 31<br>December | As at 30 June    | As at 30<br>September |
|--|----------------------|------------------|-----------------------|
|  | 2021                 | 2022             | 2022                  |
|  | (RMB in million)     | (RMB in million) | (RMB in million)      |
|  | (audited)            | (unaudited)      | (unaudited)           |
| <b>Assets</b>  |                      |                  |                       |
| Cash and balances with central banks.....                                      | 734,728              | 746,660          | 788,506               |
| Due from and placements with banks and other financial institutions ....       | 632,708              | 799,743          | 687,951               |
| Derivative financial assets.....   | 39,220               | 56,150           | 107,173               |
| Financial investments at fair value through profit or loss .....               | 638,483              | 666,260          | 683,955               |
| Financial investments at amortised cost.....                                   | 2,203,037            | 2,375,762        | 2,324,085             |
| Financial investments at fair value through other comprehensive<br>income..... | 681,729              | 650,592          | 671,635               |
| Loans and advances to customers.....   | 6,412,201            | 6,923,521        | 7,046,335             |
| Investment in associates and joint ventures .....                              | 5,779                | 7,389            | 7,760                 |
| Property and equipment.....  | 171,194              | 179,238          | 188,729               |
| Deferred income tax assets .....   | 32,061               | 38,856           | 41,639                |
| Other assets .....   | 114,617              | 136,405          | 145,435               |
| Total assets.....  | 11,665,757           | 12,580,576       | 12,693,203            |
| <b>Liabilities</b>   |                      |                  |                       |
| Due to and placements from banks and other financial institutions .....        | 1,947,768            | 1,898,934        | 1,910,678             |
| Financial liabilities at fair value through profit or loss .....               | 50,048               | 59,887           | 65,102                |
| Derivative financial liabilities.....  | 36,074               | 39,488           | 88,908                |
| Due to customers.....  | 7,039,777            | 7,811,363        | 7,887,813             |
| Certificates of deposits issued .....  | 892,020              | 982,520          | 945,991               |
| Current income tax liabilities.....  | 4,725                | 4,953            | 6,718                 |
| Deferred income tax liabilities.....   | 1,889                | 1,508            | 3,080                 |
| Debt securities issued .....   | 503,525              | 518,676          | 537,269               |
| Other liabilities.....   | 212,695              | 274,311          | 235,207               |
| Total liabilities.....   | 10,688,521           | 11,591,640       | 11,680,766            |
| <b>Equity</b>  |                      |                  |                       |
| Share capital.....   | 74,263               | 74,263           | 74,263                |
| Other equity Instruments .....   | 174,790              | 174,790          | 174,790               |
| Including: Preference shares.....  | 44,952               | 44,952           | 44,952                |
| Perpetual bonds.....   | 129,838              | 129,838          | 129,838               |
| Capital surplus.....   | 111,428              | 111,428          | 111,429               |
| Other reserves.....  | 346,092              | 364,948          | 367,693               |
| Retained earnings .....  | 258,074              | 251,114          | 271,622               |
| <b>Equity attributable to shareholders of the Bank.....</b>                    | <b>964,647</b>       | <b>976,543</b>   | <b>999,797</b>        |
| Equity attributable to non-controlling interests of ordinary shares .....      | 9,424                | 9,082            | 9,139                 |

|  | As at 31<br>December | As at 30 June    | As at 30<br>September |
|--|----------------------|------------------|-----------------------|
|  | 2021                 | 2022             | 2022                  |
|  | (RMB in million)     | (RMB in million) | (RMB in million)      |
| Equity attributable to non-controlling interests of other equity instruments ..... | 3,165                | 3,311            | 3,501                 |
| Non-controlling interests .....  | 12,589               | 12,393           | 12,640                |
| Total equity .....   | 977,236              | 988,936          | 1,012,437             |
| Total equity and liabilities .....   | 11,665,757           | 12,580,576       | 12,693,203            |

## Financial Indicators

|  | As at/ for the years ended 31 December |        |        | As at/for the<br>six months<br>ended 30<br>June | As at/for the<br>nine months<br>ended 30<br>September |
|--|--|--------|--------|---|---|
|  | 2019                                   | 2020   | 2021   | 2022  | 2022  |
|  |  |        | (%)    |   |   |
| Return on average assets <sup>(1)</sup> .....                                  | 0.80                                   | 0.77   | 0.80   | 0.73  | 0.74  |
| Cost-to-income ratio <sup>(2)</sup> .....                                      | 30.11                                  | 28.29  | 29.00  | 28.31   | 29.10   |
| Non-performing loan ratio .....  | 1.47                                   | 1.67   | 1.48   | 1.46  | 1.41  |
| Provision coverage ratio .....   | 171.77                                 | 143.87 | 166.50 | 173.10  | 181.54  |
| Tier 1 capital adequacy ratio <sup>(3)</sup> .....                             | 12.85                                  | 12.88  | 13.01  | 12.20   | 12.16   |
| Core Tier 1 / Common Equity Tier 1 capital adequacy ratio <sup>(3)</sup> ..... | 11.22                                  | 10.87  | 10.62  | 9.99  | 10.00   |
| Capital adequacy ratio <sup>(3)</sup> .....                                    | 14.83                                  | 15.25  | 15.45  | 14.49   | 14.41   |

### Notes:

- (1) Calculated by dividing annualised net profit of the reporting period by the average of total assets at the beginning and the end of the reporting period.
- (2) Calculated as business and management fees divided by net operating income after the deduction of other operating expenses, consistent with the financial report in accordance with China Accounting Standards.
- (3) Calculated pursuant to the Administrative Measures for the Capital Management of Commercial Banks (Trial Implementation) by the China Banking and Insurance Regulatory Commission.

## RISK FACTORS

*The risk factors relevant to the Issuer, the Bank and the Notes shall consist of the risk factors set out herein and in the section entitled “Risk Factors” of the Original Offering Circular. Prior to making any investment decision, prospective investors should consider carefully all of the information in this Supplemental Offering Circular and the Original Offering Circular, including but not limited to the risks and uncertainties described below. The Bank believes that the factors described below represent the principal risks inherent in investing in the Notes, but the inability of the Issuer to repay principal, pay interest or other amounts or fulfil other obligations on or in connection with the Notes may occur for other reasons and the Bank does not represent that the statements below regarding the risks of holding the Notes are exhaustive. The following factors are contingencies which may or may not occur and each of the Bank and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring. Any of the risks or uncertainties described below, as well as additional risks or uncertainties, including those which are not currently known to the Bank or which the Bank currently deems to be immaterial, may affect the Group’s business, financial condition or results of operations or the Issuer’s ability to fulfil its obligations under the Notes.*

*The sub-section entitled “Risks Relating to the Bank’s Business” of “Risk Factors” on pages 19 to 34 in the Original Offering Circular shall be deemed to be deleted in its entirety and replaced with the following:*

### **Risks Relating to the Bank’s Business**

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

The Group has been, and in the future will continue to be, materially affected by geo-political, economic and market conditions, including factors such as the liquidity of the global financial markets, any Sino-U.S. trade friction, recent conflicts between Russian and Ukraine, the level and volatility of debt and equity prices, interest rates, currency and commodities prices, investor sentiment, inflation, and the availability and cost of capital and credit. A number of governments revised GDP growth forecasts downward for 2022 in response to the economic slowdown caused by the spread of COVID-19, and it is possible that the outbreak of COVID-19 may cause a prolonged global economic crisis or recession.

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

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

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

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

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

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

Results of the Bank's operations may be negatively impacted by its impaired loans. Under IFRS, the accounting standards that are applicable to the Bank, loans are impaired if there is objective evidence that the Bank will not be able to collect all amounts due according to the original contractual terms of loans. In this regard, the Bank seeks to continue to improve its credit risk management policies, procedures and systems, and has been able to effectively control the level of its impaired loans in recent years, despite the ongoing weak macroeconomic environment. As at 31 December 2019, 2020 and 2021 and 30 June 2022, the Bank's individually identified impaired loans were RMB78,043 million, RMB97,698 million, RMB96,796 million and RMB103,232 million, respectively, and its impaired loan ratios were 1.47 per cent., 1.67 per cent., 1.48 per cent. and 1.46 per cent., respectively. However, there can be no assurance that the Bank's credit risk management policies, procedures and systems are free from any deficiency. The occurrence of any deficiencies in the Bank's credit risk management policies, procedures and systems may result in an increase in the level of its impaired loans and adversely affect the quality of its loan portfolio. As a result, there can be no assurance that the Bank will be able to continue to effectively control the level of impaired loans in its loan portfolio. In particular, the amount of the Bank's reported impaired loans and the ratio of its impaired loans to its loans and advances to customers may increase in the future as a result of deterioration in the quality of its loan portfolio. Such deterioration may occur for a variety of reasons, including factors which are beyond the Bank's control, such as a recent slowdown in economic growth and other adverse macroeconomic trends in China, the significant decline in market liquidity of China's interbank market or a deterioration in the financial condition or results of operations of the Bank's borrowers, which could impair the ability of the Bank's borrowers to service their debt. These include the Bank's corporate and individual loan borrowers, as well as the domestic and overseas commercial banks and non-bank financial institutions with whom the Bank engages in interbank lending activities. If such a deterioration occurs, it could materially and adversely affect the Bank's financial condition and results of operations.

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

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

As at 30 June 2022, approximately 11.05 per cent., 3.71 per cent., 11.13 per cent., 9.86 per cent., 5.93 per cent. and 6.97 per cent. of the Bank's loans were concentrated in the manufacturing sector, the wholesale and retail trade sector, the transportation, storage and postal services sector, the leasing and commercial services sector, the water conservancy, environmental and other public utilities sector and the real estate sector, respectively. Although the Bank follows credit risk management policies with respect to extensions of credit to different industry sectors, including credit extension guidelines for different industry sectors, closely monitors its credit risks in different industries and has recently enhanced its guidelines in extending credit, any significant or extended downturn in any of these sectors may reduce the borrowing activities in these sectors, increase the level of the Bank's impaired loans and related provision for impaired loans, reduce the Bank's net profit and adversely affect its financial condition and results of operations.

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

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

As at 30 June 2022, 21.56 per cent. of the Bank's loans were mortgage loans and 6.97 per cent. of its loans were lent to real estate development companies, which together accounted for 28.53 per cent. of the Bank's total outstanding loans before impairment allowance. The PRC government has in recent years, from time to time, imposed macroeconomic control measures that are aimed at preventing the real estate market and certain other industries from over-heating. Such measures may adversely affect the growth and quality of the Bank's loans related to real estate and such other industries. In accordance with the PRC government's macroeconomic policy and the guidance and compliance requirements of the CBIRC, the Bank aims to maintain a cautious approach to real estate development loans, and has further adopted industry-specific risk management procedures with respect to the real estate sector. The Bank has also adopted a rigorous mortgage evaluation system to ensure the quality of its mortgage customers. In addition, the Bank regularly subjects its assets to multi-factor stress tests, including movements in housing prices, which the Bank's loans have been able to withstand without significant deterioration.

Under prevailing PRC banking regulations, the total outstanding credit exposure to a single group customer may not exceed 15 per cent. of the net capital base of a bank and the total outstanding loans to the same borrower shall not exceed 10 per cent. of the net capital base of a bank. The Bank is currently in compliance with these regulatory requirements.

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

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

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

With respect to its real estate loans, the Bank follows strictly its credit risk management procedures, including ongoing credit monitoring of borrowers' financial information, and strict enforcement of repayment schedules. In addition, the Bank has established a regional risk alert system and loan policy adjustment mechanism applicable to the real estate sector. The Bank has instructed its branches to strengthen research of regional and local real estate market conditions, adjust credit guidelines applicable to real estate loans and implement different credit limits to reflect different levels of risk for these loans. However, the real estate market may be affected by factors beyond the Bank's control, including cyclical economic volatility and downturns. In addition, the PRC government has in recent years, from time to time, imposed macroeconomic control measures that are aimed at preventing the real estate market from over-heating. Such factors may adversely affect the growth and quality of the Bank's loans to the real estate industry and its financial condition and results of operations.

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

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

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

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

As at 30 June 2022, approximately 27.48 per cent., 15.35 per cent. and 15.23 per cent. of the Bank's loans and advances were concentrated in the Yangtze River Delta, the Pearl River Delta and the Bohai Rim Economic Zone, respectively. In addition, a substantial portion of the Bank's corporate customers and the majority of its branches, sub-branches and self-service centres are located in the Yangtze River Delta, the Bohai Rim Economic Zone and the Pearl River Delta. The Bank currently expects that the future growth of its corporate and personal finance businesses, especially its corporate and individual loan businesses, will continue to be concentrated in these areas. Any significant economic downturn in any of these regions may adversely affect the Bank's financial condition and results of operations. Moreover, any inaccurate assessment of the credit risks regarding the borrowers in any of these regions may adversely affect the Bank's asset quality, financial condition and results of operations.

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

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

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

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

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

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



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

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

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

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

- the Bank may not have sufficient experience or expertise in certain new products and services and may not compete effectively in these areas;
- the Bank's new products and services may not be accepted by its customers or meet its expectations for profitability;

- the Bank may need to hire additional qualified personnel who may not be available on commercially viable terms;
- the Bank may not have sufficient financial, operational, management and other human resources to support the expanded range of its products and services;
- the Bank may have disagreements with the joint venture partners and other entities with which the Bank offers certain of its new financial products and services, and they may be unable or unwilling to continue their arrangements with the Bank due to financial difficulties or other reasons;
- the Bank may be faced with risks in integrating the acquired businesses with which the Bank offers certain of these new products and services;
- the Bank may fail to obtain regulatory approval for its new products or services;
- a slowdown in China's economic development could adversely affect the ability of personal borrowers and credit card holders to make payments, thereby increasing the probability of defaults and reducing the demand for personal loans and credit cards; and
- the Bank may not be successful in enhancing its risk management and internal control capabilities and information technology systems to support a broader range of products and services.

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

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

The Bank is required to comply with applicable anti-money-laundering, anti-terrorism laws and other regulations in the PRC, Hong Kong and other jurisdictions where the Bank has operations. These laws and regulations require the Bank, among other things, to adopt and enforce "know your customer" policies and procedures and to report suspicious and large transactions to the applicable regulatory authorities in different jurisdictions. While the Bank has adopted policies and procedures aimed at detecting and preventing the use of its banking network for money laundering activities or by terrorists and terrorist-related organisations and individuals generally, such policies and procedures may not completely eliminate instances where the Bank may be used by other parties to engage in money laundering or other illegal or improper activities. To the extent the Bank may fail to fully comply with applicable laws and regulations, the relevant government agencies to whom the Bank reports have the power and authority to impose fines and other penalties on the Bank, which could harm its business and reputation, which in turn may negatively affect the Bank's ability to service the Notes and to satisfy its other obligations under the Notes.

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

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

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

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

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

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

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

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

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

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

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

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

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

The Bank's total loans and advances to customers have grown significantly in recent years, increasing from RMB5,304,275 million as at 31 December 2019 to RMB5,848,424 million as at 31 December 2020, representing an increase of 10.26 per cent. and increased further to RMB6,560,400 million as at 31 December 2021, representing an increase of 12.17 per cent. The Bank's total loans and advances to customers has further increased to RMB7,087,730 million as at 30 June 2022, representing an increase of 8.04 per cent over the end of the previous year. The growth of the Bank's loan portfolio may be affected by various factors, such as China's macroeconomic policies and capital constraints. In the future, the growth rate of the Bank's loan portfolio may

slow down, or the Bank's loan portfolio may not grow or may even decline. In addition, due to the constraints from the amount of its regulatory capital, the Bank may adopt strategies to reduce its reliance on its loan portfolio or expand its activities in other lower risk businesses that have relatively lower capital requirements. Any of the foregoing factors could impact the growth of the Bank's loan portfolio and thereby adversely affect the Bank's business and future prospects.

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

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

The Basel Committee on Banking Supervision formally promulgated Basel III in December 2010. The CBRC promulgated the CBIRC Capital Regulations on 7 June 2012 based on the reform of the banking industry and the existing regulatory framework of the PRC, taking into account the effect of and requirements set out in Basel II and Basel III. The CBIRC Capital Regulations came into effect as of 1 January 2013; and on the same date the Measures on the Administration of the Capital Adequacy Ratio of Commercial Banks, which was promulgated by the CBRC on 23 February 2004 and amended on 3 July 2007, was revoked. The CBIRC Capital Regulations establish a unified regulatory system in respect of the capital adequacy ratio, clarify the definition of capital, expand the range of capital risk coverage, raise the bottom line for the capital adequacy ratio and set a six-year transition period (from 2013 to 2018) for banks to comply with capital adequacy ratio requirements. On 30 November 2012, the CBRC issued the Notice on Matters in relation to the Implementation of Transition Period Arrangements in the (Trial) Measures on the Administration of the Capital of Commercial Banks, which provides the regulatory standards and implementation course for the transition period. As a result, the Bank is required to maintain a minimum core tier one capital adequacy of 5 per cent., a minimum tier one capital adequacy of 6 per cent. and a minimum capital adequacy of 8 per cent. The capital conservation buffer requirement for the Bank is 2.5 per cent., which should be satisfied through core tier one capital. In addition, pursuant to the Provisions on Additional Regulation of Systemically Important Banks (for Trial Implementation) and the list of systemically important banks jointly announced by the PBOC and the CBIRC, the Bank is designated as a domestic systemically important bank and is required to maintain additional capital. The relevant regulatory authorities are also able to impose countercyclical capital buffer requirements on an individual bank from time to time. As at 30 June 2022, the Group's core tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio were 9.99 per cent., 12.20 per cent. and 14.49 per cent., respectively, which satisfy the regulation requirements. Although the Bank was in compliance with the regulatory requirements as at 30 June 2022, future developments could affect the Bank's ability to continue to satisfy applicable capital adequacy requirements, including:

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

- decreases in the Bank's net profits and thus decreases in its retained earnings.

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

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

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

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

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

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

The Bank classifies its loans as "pass", "special-mention", "sub-standard", "doubtful" and "loss" by using the five-category classification system according to PRC regulations. The Bank's five-category classification

system may be different in certain respects from those of banks incorporated in other countries or regions. As a result, it may reflect a different degree of risk than would be reported if the Bank were incorporated in those countries or regions.

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

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

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

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

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

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

As at 30 June 2022, the Bank's top three shareholders, MOF, HKSCC Nominees Limited (ultimately held by all institutional and individual investors who maintained an account with it) and The Hongkong and Shanghai Banking Corporation Limited, collectively own, directly and indirectly, 62.75 per cent. of the Bank's outstanding shares. Accordingly, the Bank's largest shareholders may have the ability to individually or collectively exercise significant influence over the Bank's business, including matters relating to:

- the issuance of new securities;
- the election of the Bank's directors and supervisors;
- the Bank's management, especially the composition of its senior management, due to their significant influence over the Bank's Board;
- the Bank's business strategies and policies;
- the timing and amount of the distribution of dividends;
- any plans relating to mergers, acquisitions, joint ventures, investments or divestitures; and
- amendments to the Bank's articles of association (the "**Articles of Association**").

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

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

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

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

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

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

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

As a result of current PRC regulatory restrictions, substantially all of the Bank's Renminbi-denominated investment assets are concentrated in a limited number of investments permitted for PRC commercial banks, such as debt securities issued by central governments and central banks, public sector entities, banks and other financial institutions. The Bank is only permitted to a limited degree to invest in debt and equity securities of



eligible corporate entities. These restrictions on the Bank's ability to diversify its investment portfolio limit the Bank's ability to seek an optimal return. In addition, the Bank is exposed to a certain level of risk as a result of the concentration of its Renminbi-denominated investment securities. For example, any deterioration of the financial condition of commercial banks in China would increase the risks associated with holding their debt securities. Consequently, a decrease in the value of any of these types of investments could have a material adverse effect on the Bank's financial condition and results of operations.

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

The PRC Commercial Banking Law, which became effective in July 1995 and last amended in 2015, prohibits any investment by a PRC financial institution in a non-financial institution. The Bank's holdings or investments were completed prior to the enactment of the 1995 PRC Commercial Banking Law. The Bank has been unable to completely dispose of these investments primarily because: (1) certain of these institutions are undergoing bankruptcy or liquidation; (2) the Bank's investments in certain institutions is small, making it difficult to find a buyer for these investments; and (3) the Bank is unable to find buyers for some of the investments due to their poor market liquidity and low rates of return. The Bank has been active in its efforts to terminate these investments, including making provisions for impairment; writing off or disposing of these investments in accordance with relevant rules and policy changes; actively seeking purchasers for its shareholdings in these institutions; and otherwise disposing of these investments in accordance with reasonable market terms. While the Bank has not been subject to any material administrative sanctions, fines or other penalties for such investments, there can be no assurance that the relevant regulatory authorities would not take additional actions against the Bank in the future. Any future administrative sanctions, fines or other penalties, including those discussed above, may have a material adverse effect on the Bank's business, financial condition and results of operations.

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

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

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

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

The Bank acts primarily as an intermediary in domestic and international foreign exchange and derivative markets, and the Bank currently has foreign currency forward and swap arrangements with a number of domestic and international banks, financial institutions and other entities. The Bank also has interest rate swap arrangements. The Bank does not typically enter into foreign currency or interest rate derivative arrangements for its own account but are subject to credit risk from its various counterparties. As at 30 June 2022, the fair values of the Bank's outstanding derivative assets and liabilities amounted to RMB56,150 million and RMB39,488 million, respectively. Although the Bank believes that the overall credit quality of its counterparties is adequate, there can be no assurances that parties which the Bank has significant exposures to will not face difficulty in paying amounts on derivative contracts when due.

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

In recent years, the Bank has continued to expand its international operations. As at 30 June 2022, the Bank had overseas subsidiaries branches and representative offices in Hong Kong, New York, Tokyo, Singapore, Seoul, Frankfurt, Macau, Ho Chi Minh City, San Francisco, Sydney, Taipei, London, Luxembourg, Brisbane, Paris, Rome, Brazil, Melbourne, Toronto, Prague and Johannesburg (excluding the representative office). As at 30 June 2022, the Bank had established 23 overseas branches (sub-branches) and representative offices with 69 operating outlets in 18 countries and regions. The Bank's international expansion into multiple jurisdictions exposes it to a variety of regulatory and business challenges and risks and has increased the complexity of the Bank's risks in a number of areas, including currency risk, interest rate risk, credit risk, regulatory and compliance risk, reputational risk and operational risk. The loan portfolio of the Bank's international branches includes foreign currency-denominated loans to PRC companies engaged in international trade. This exposes the Bank to additional risks including default risk resulting from the failure in the performance of the import or export agreements by any party, trade protectionist measures or other factors, and the Bank's inexperience in various aspects of the economic and legal framework in overseas markets. Adverse market conditions in these international jurisdictions may result in mark-to-market and realised losses on the investment assets held by the Bank's overseas branches and subsidiaries and increase their cost of funding. Furthermore, despite the Bank's best efforts to comply with all applicable regulations in all the jurisdictions in which the Bank operates, there may be incidents of its failure to comply with the regulations in certain jurisdictions. Regulators have the power to bring administrative or judicial proceedings against the Bank or its employees, representatives, agents and third party service providers, which could result, among other things, in suspension or revocation of one or more of the Bank's licenses, cease and desist orders, fines, civil penalties, criminal penalties or other disciplinary actions. In addition, the recent global financial crisis is expected to lead to significant regulatory changes in various jurisdictions, including those in which the Bank has operations. These changes may include changes with respect to capital and liquidity ratios, cross-border capital flows and consumer protection.

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

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

The Bank does not hold the land use right certificates or building ownership certificates of some land or buildings it occupies. The Bank will apply for relevant land use right certificates and building ownership certificates that it does not yet hold. Upon obtaining the relevant certificates for these properties, the Bank will

have the legal right to occupy, let, transfer and mortgage such property. The Bank may not be able to obtain all of the title deeds for the defective properties and the Bank is uncertain how the Bank's rights as owner/occupier of these defective properties would be adversely affected as a result of the absence of the title deeds as described above.

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

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

The Bank determines a level of allowance for impairment losses and recognises any related provisions made in a year using the concept of impairment under IFRS 9. The Bank's provisioning policies may be different in certain respects from those of banks incorporated in certain other countries or regions which do not assess loans under IFRS 9. As a result, the Bank's allowance for impairment losses, as determined under the provisioning policies, may differ from those that would be reported if it was incorporated in those countries or regions.

As at 31 December 2019, 2020 and 2021 and 30 June 2022, the Bank's impairment allowances for loans and advances were RMB132,719 million (expected credit loss allowance, "ECL Allowance", under IFRS 9), RMB139,274 million (ECL Allowance), RMB160,089 million (ECL Allowance) and RMB177,434 million (ECL Allowance), respectively. As at 31 December 2019, 2020 and 2021 and 30 June 2022, the Bank's provision coverage ratio, calculated by dividing the outstanding balance of its impairment allowances by the outstanding balance of impaired loans, was 171.77 per cent., 143.87 per cent., 166.50 per cent. and 173.10 per cent., respectively. The Bank's business, financial position and results of operations may be affected by its policies regarding provisioning. If the Bank's approach to provisioning policies proves not to be adequate, the Bank's business, financial position and results of operations may be negatively affected, which in turn may negatively affect the Bank's ability to service the Notes and to satisfy its other obligations under the Notes.

## **PRICING SUPPLEMENT IN RESPECT OF THE USD NOTES**

**Singapore SFA Product Classification** – In connection with Section 309B of the Securities and Futures Act 2001 of Singapore, as modified or amended from time to time (the “SFA”) and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the “CMP Regulations 2018”), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are prescribed capital markets products (as defined in the CMP Regulations 2018) and are Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendation on Investment Products).

**Pricing Supplement dated 22 November 2022**

**Bank of Communications Co., Ltd. Hong Kong Branch**

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

**Legal Entity Identifier of Bank of Communications Co., Ltd.: 549300AX1UM10U30HK09**

**Issue of U.S.\$200,000,000 4.75 per cent. Notes due 2025 (the “Notes”)  
under the U.S.\$12,000,000,000 Medium Term Note Programme (the “Programme”)**

This document constitutes the Pricing Supplement relating to the issue of Notes described herein. Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the offering circular dated 7 March 2022 (the “**Original Offering Circular**”) and the supplemental offering circular dated 22 November 2022 (the “**Supplemental Offering Circular**”, together with the Original Offering Circular, the “**Offering Circular**”).

This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Offering Circular. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of the Offering Circular and this Pricing Supplement.

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

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

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

The Managers and their respective officers, employees, affiliates, advisors and agents have not independently verified the information contained herein (financial, legal or otherwise) and, to the fullest extent permitted by law, none of the Managers or their respective officers, employees, affiliates, advisors or agents accepts any responsibility for the contents of this Pricing Supplement or for any other statement, made or purported to be made by the Managers or on their behalf in connection with the Issuer, the Bank, the Group, the Programme or the issue and offering of the Notes under the

Programme. The Managers and their respective officers, employees, affiliates, advisors or agents accordingly disclaim all and any liability whether arising in tort or contract or otherwise (save as referred to above) which might otherwise have in respect of this Pricing Supplement or any such statement.

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

|    |  |   |
|----|--|---|
| 1  | Issuer:  | Bank of Communications Co., Ltd. Hong Kong Branch   |
| 2  | (i) Series Number:   | 43  |
|    | (ii) Tranche Number:   | 01  |
|    | (iii) Date on which the Notes will be consolidated and form a single Series: | Not Applicable  |
| 3  | Specified Currency or Currencies:  | U.S. Dollar (" <b>U.S.\$</b> ")   |
| 4  | Aggregate Nominal Amount:  | U.S.\$200,000,000   |
| 5  | Issue Price:   | 99.592 per cent. of the Aggregate Nominal Amount  |
|    | Gross Proceeds:  | U.S.\$199,184,000   |
| 6  | Use of Proceeds:   | The net proceeds of the issue of the Notes will be used for the Issuer's working capital and general corporate purposes |
| 7  | (i) Specified Denominations:   | U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof   |
|    | (ii) Calculation Amount:   | U.S.\$1,000   |
| 8  | (i) Issue Date:  | 30 November 2022  |
|    | (ii) Interest Commencement Date:   | Issue Date  |
| 9  | Maturity Date:   | 30 November 2025  |
| 10 | Interest Basis:  | 4.75 per cent. Fixed Rate<br>(further particulars specified below)  |
| 11 | Redemption/Payment Basis:  | Redemption at par   |
| 12 | Change of Interest or Redemption/ Payment Basis:                             | Not Applicable  |
| 13 | Put/Call Options:  | Not Applicable  |
| 14 | (i) Status of the Notes:   | Senior Notes  |
|    | (ii) Regulatory approval for issuance of Notes obtained:                     | Quota approval from the National Development and Reform Commission of the PRC obtained on 28 September 2022             |

|    |                                 |  |
|----|---------------------------------|--|
| 15 | Listing:                        | The Stock Exchange of Hong Kong Limited on 1 December 2022 |
| 16 | Method of distribution:         | Syndicated   |
| 17 | Private Bank Rebate/Commission: | Not Applicable   |

#### **PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

|    |  |   |
|----|--|---|
| 18 | Fixed Rate Note Provisions   | Applicable  |
|    | (i) Rate of Interest:  | 4.75 per cent. per annum payable semi-annually in arrear  |
|    | (ii) Interest Payment Date(s):   | 30 May and 30 November in each year, up to and including the Maturity Date. The first Interest Payment Date will be 30 May 2023 |
|    | (iii) Fixed Coupon Amount(s):  | U.S.\$23.75 per Calculation Amount  |
|    | (iv) Broken Amount:  | Not Applicable  |
|    | (v) Day Count Fraction (Condition 5(j)):   | 30/360  |
|    | (vi) Determination Date(s) (Condition 5(j)):   | Not Applicable  |
|    | (vii) Other terms relating to the method of calculating interest for Fixed Rate Notes: | Not Applicable  |
| 19 | Floating Rate Note Provisions  | Not Applicable  |
| 20 | Zero Coupon Note Provisions  | Not Applicable  |
| 21 | Index Linked Interest Note Provisions  | Not Applicable  |
| 22 | Dual Currency Note Provisions  | Not Applicable  |

#### **PROVISIONS RELATING TO REDEMPTION**

|    |   |                                    |
|----|---|------------------------------------|
| 23 | Call Option   | Not Applicable                     |
| 24 | Put Option  | Not Applicable                     |
| 25 | Final Redemption Amount of each Note  | U.S.\$1,000 per Calculation Amount |
| 26 | Early Redemption Amount   |                                    |
|    | (i) Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons (Condition 6(c)) or Event of Default (Condition 10) and/or the method of calculating the same (if required or if different from that set out in the Conditions): | U.S.\$1,000                        |

#### **GENERAL PROVISIONS APPLICABLE TO THE NOTES**

|    |                |                  |
|----|----------------|------------------|
| 27 | Form of Notes: | Registered Notes |
|----|----------------|------------------|

|    |   |  |
|----|---|--|
|    |   | Global Certificate exchangeable for Definitive Certificates in the limited circumstances specified in the Global Certificate |
| 28 | Financial Centre(s) (Condition 7(h)) or other special provisions relating to payment dates:   | Not Applicable   |
| 29 | Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):   | No   |
| 30 | Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment: | Not Applicable   |
| 31 | Details relating to Instalment Notes:   | Not Applicable   |
| 32 | Redenomination, renominatisation and reconventioning provisions:  | Not Applicable   |
| 33 | Consolidation provisions:   | Not Applicable   |
| 34 | Other terms or special conditions:  | Not Applicable   |

## DISTRIBUTION

|    |                                       |  |
|----|---------------------------------------|--|
| 35 | (i) If syndicated, names of Managers: | <u>Joint Global Coordinators, Joint Lead Managers and Joint Bookrunners</u><br>Bank of Communications Co., Ltd. Hong Kong Branch<br>Agricultural Bank of China Limited Hong Kong Branch<br>ABCI Capital Limited<br>Bank of China Limited<br>Bank of China (Hong Kong) Limited<br>BOCOM International Securities Limited<br>China CITIC Bank International Limited<br>China Construction Bank (Asia) Corporation Limited<br>China Construction Bank Corporation, Singapore Branch<br>China Everbright Bank Co., Ltd., Hong Kong Branch<br>China International Capital Corporation Hong Kong Securities Limited<br>CLSA Limited<br>CMBC Securities Company Limited |
|----|---------------------------------------|--|



|    |   |   |
|----|---|---|
|    |   | CMB International Capital Limited   |
|    |   | CNCB (Hong Kong) Capital Limited  |
|    |   | Crédit Agricole Corporate and Investment Bank                                     |
|    |   | Guotai Junan Securities (Hong Kong) Limited                                       |
|    |   | The Hongkong and Shanghai Banking Corporation Limited                             |
|    |   | ICBC International Securities Limited   |
|    |   | Industrial and Commercial Bank of China Limited, Dubai (DIFC) Branch              |
|    |   | Industrial and Commercial Bank of China Limited, Singapore Branch                 |
|    |   | Industrial Bank Co., Ltd. Hong Kong Branch  |
|    |   | Shanghai Pudong Development Bank Co., Ltd., Hong Kong Branch                      |
|    |   | Standard Chartered Bank   |
|    | (ii) Stabilisation Manager (if any):          | Any of the Managers appointed and acting in its capacity as stabilisation manager |
| 36 | If non-syndicated, name of Dealer:            | Not Applicable  |
| 37 | U.S. Selling Restrictions                     | Reg. S Category 1; TEFRA Not Applicable   |
| 38 | Additional selling restrictions:              | Not Applicable  |
| 39 | Prohibition of Sales to EEA Retail Investors: | Not Applicable  |
| 40 | Prohibition of Sales to UK Retail Investors:  | Not Applicable  |

#### OPERATIONAL INFORMATION

|    |   |   |
|----|---|---|
| 41 | ISIN Code:  | XS2559584888  |
| 42 | Common Code:  | 255958488   |
| 43 | CMU Instrument Number:  | Not Applicable  |
| 44 | Any clearing system(s) other than Euroclear, Clearstream and the CMU and the relevant identification number(s): | Not Applicable  |
| 45 | Delivery:   | Delivery against payment                                    |
| 46 | Additional Paying Agents (if any):  | Not Applicable  |
| 47 | Rating:   | The Notes to be issued are expected to be rated:<br>S&P: A- |

#### GENERAL

|    |  |                |
|----|--|----------------|
| 48 | Translation of the aggregate principal amount of Notes issued: | Not Applicable |
|----|--|----------------|

- |    |   |                |
|----|---|----------------|
| 49 | In the case of Registered Notes, specify the location of the office of the Registrar if other than Hong Kong: | Not Applicable |
| 50 | In the case of Bearer Notes, specify the location of the office of the Fiscal Agent if other than London:     | Not Applicable |

#### **HONG KONG SFC CODE OF CONDUCT**

- |    |   |   |
|----|---|---|
| 51 | Contact email addresses of the Overall Coordinators where underlying investor information in relation to omnibus orders should be sent: | dcm@bankcomm.com.hk<br>abchk.dcm@abchina.com.hk<br>abcic.dcm@abci.com.hk<br>dcmhk@bocgroup.com<br>dcm@bochk.com<br>ccba_dcm@asia.ccb.com<br>dcm.cebhk@cebbank.com.hk<br>haoyang.zhang@cicc.com.cn<br>ib.dcm.fig@clsa.com<br>dcm@cmbccap.com<br>ProjectGoldenII@cmbi.com.hk<br>HKG-Syndicate@ca-cib.com<br>Project.GoldenII@ca-cib.com<br>hk_syndicate_omnibus@hsbc.com.hk<br>lixx@dxb.icbc.com.cn<br>rsaraf@dxb.icbc.com.cn<br>ongmingjie@dxb.icbc.com.cn<br>xizi.chen@sg.icbc.com.cn<br>lijun.tan@sg.icbc.com<br>cmd_dcm@cibhk.com<br>spdbhk.dcm@spdb.com.cn<br>SYNHK@sc.com |
|----|---|---|

#### **LISTING APPLICATION**

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

#### **STABILISATION**

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

conducted by the relevant Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) in accordance with all applicable laws and regulations.

#### **MATERIAL ADVERSE CHANGE STATEMENT**

Except as disclosed in the Offering Circular, there has been no significant change in the financial or trading position of the Issuer or of the Group since 30 June 2022 and no material adverse change in the financial position or prospects of the Issuer or of the Group since 31 December 2021.

#### **RESPONSIBILITY**

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

Signed on behalf of

**BANK OF COMMUNICATIONS CO., LTD. HONG KONG BRANCH**

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

By: \_\_\_\_\_  
Duly authorised

## **PRICING SUPPLEMENT IN RESPECT OF THE CNY NOTES**

**Singapore SFA Product Classification** – In connection with Section 309B of the Securities and Futures Act 2001 of Singapore, as modified or amended from time to time (the “SFA”) and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the “CMP Regulations 2018”), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are prescribed capital markets products (as defined in the CMP Regulations 2018) and are Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendation on Investment Products).

**Pricing Supplement dated 22 November 2022**

**Bank of Communications Co., Ltd. Hong Kong Branch**

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

**Legal Entity Identifier of Bank of Communications Co., Ltd.: 549300AX1UM10U30HK09**

**Issue of CNY1,420,000,000 3.05 per cent. Notes due 2024 (the “Notes”)  
under the U.S.\$12,000,000,000 Medium Term Note Programme (the “Programme”)**

This document constitutes the Pricing Supplement relating to the issue of Notes described herein. Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the offering circular dated 7 March 2022 (the “**Original Offering Circular**”) and the supplemental offering circular dated 22 November 2022 (the “**Supplemental Offering Circular**”, together with the Original Offering Circular, the “**Offering Circular**”).

The parties have agreed to enter into a fourth supplemental fiscal agency agreement dated on or about 30 November 2022 in respect of the Notes, which makes certain modifications to the existing fiscal agency agreements between Bank of Communications Co., Ltd. Hong Kong Branch, Bank of Communications Co., Ltd. Hong Kong Branch as initial Fiscal Agent, CMU Lodging and Paying Agent, Registrar and the other agents named in it relating to the Programme.

This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Offering Circular. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of the Offering Circular and this Pricing Supplement.

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

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

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

The Managers and their respective officers, employees, affiliates, advisors and agents have not independently verified the information contained herein (financial, legal or otherwise) and, to the fullest extent permitted by law, none of the Managers or their respective officers, employees, affiliates, advisors or agents accepts any responsibility for the contents of this Pricing Supplement or for any other statement, made or purported to be made by the Managers or on their behalf in connection with the Issuer, the Bank, the Group, the Programme or the issue and offering of the Notes under the Programme. The Managers and their respective officers, employees, affiliates, advisors or agents accordingly disclaim all and any liability whether arising in tort or contract or otherwise (save as referred to above) which might otherwise have in respect of this Pricing Supplement or any such statement.

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

|    |  |   |
|----|--|---|
| 1  | Issuer:  | Bank of Communications Co., Ltd. Hong Kong Branch   |
| 2  | (i) Series Number:   | 44  |
|    | (ii) Tranche Number:   | 01  |
|    | (iii) Date on which the Notes will be consolidated and form a single Series: | Not Applicable  |
| 3  | Specified Currency or Currencies:  | Renminbi ("CNY")  |
| 4  | Aggregate Nominal Amount:  | CNY1,420,000,000  |
| 5  | Issue Price:   | 100.00 per cent. of the Aggregate Nominal Amount  |
|    | Gross Proceeds   | CNY1,420,000,000  |
| 6  | Use of Proceeds:   | The net proceeds of the issue of the Notes will be used for the Issuer's working capital and general corporate purposes |
| 7  | (i) Specified Denominations:   | CNY1,000,000 and integral multiples of CNY10,000 in excess thereof  |
|    | (ii) Calculation Amount:   | CNY10,000   |
| 8  | (i) Issue Date:  | 30 November 2022  |
|    | (ii) Interest Commencement Date:   | Issue Date  |
| 9  | Maturity Date:   | Interest Payment Date falling in or nearest to 30 November 2024   |
| 10 | Interest Basis:  | 3.05 per cent. Fixed Rate<br>(further particulars specified below)  |
| 11 | Redemption/Payment Basis:  | Redemption at par   |
| 12 | Change of Interest or Redemption/ Payment Basis:                             | Not Applicable  |

|    |  |   |
|----|--|---|
| 13 | Put/Call Options:  | Not Applicable  |
| 14 | (i) Status of the Notes:                                 | Senior Notes  |
|    | (ii) Regulatory approval for issuance of Notes obtained: | Quota approval from the National Development and Reform Commission of the PRC obtained on 28 September 2022 |
| 15 | Listing:   | The Stock Exchange of Hong Kong Limited on 1 December 2022  |
| 16 | Method of distribution:                                  | Syndicated  |
| 17 | Private Bank Rebate/Commission:                          | Not Applicable  |

#### **PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

|    |  |  |
|----|--|--|
| 18 | Fixed Rate Note Provisions   | Applicable   |
|    | (i) Rate of Interest:  | 3.05 per cent. per annum payable semi-annually in arrear   |
|    | (ii) Interest Payment Date(s):   | 30 May and 30 November in each year, commencing on 30 May 2023 until the Maturity Date, adjusted in accordance with the Modified Following Business Day Convention   |
|    | (iii) Fixed Coupon Amount(s):  | Each Fixed Coupon Amount shall be calculated by multiplying the product of the Rate of Interest and the Calculation Amount by the Day Count Fraction and rounding the resultant figure to the nearest CNY0.01 (CNY0.005 being rounded upwards) |
|    | (iv) Broken Amount:  | Not Applicable   |
|    | (v) Day Count Fraction (Condition 5(j)):   | Actual/365 (Fixed)   |
|    | (vi) Determination Date(s) (Condition 5(j)):   | Not Applicable   |
|    | (vii) Other terms relating to the method of calculating interest for Fixed Rate Notes: | Not Applicable   |
| 19 | Floating Rate Note Provisions  | Not Applicable   |
| 20 | Zero Coupon Note Provisions  | Not Applicable   |
| 21 | Index Linked Interest Note Provisions  | Not Applicable   |
| 22 | Dual Currency Note Provisions  | Not Applicable   |

#### **PROVISIONS RELATING TO REDEMPTION**

|    |                                      |                                  |
|----|--------------------------------------|----------------------------------|
| 23 | Call Option                          | Not Applicable                   |
| 24 | Put Option                           | Not Applicable                   |
| 25 | Final Redemption Amount of each Note | CNY10,000 per Calculation Amount |



- 26 Early Redemption Amount
- (i) Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons (Condition 6(c)) or Event of Default (Condition 10) and/or the method of calculating the same (if required or if different from that set out in the Conditions): CNY10,000

#### GENERAL PROVISIONS APPLICABLE TO THE NOTES

- 27 Form of Notes: Registered Notes  
Global Certificate exchangeable for Definitive Certificates in the limited circumstances specified in the Global Certificate
- 28 Financial Centre(s) (Condition 7(h)) or other special provisions relating to payment dates: Not Applicable
- 29 Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature): No
- 30 Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment: Not Applicable
- 31 Details relating to Instalment Notes: Not Applicable
- 32 Redenomination, renominatisation and reconventioning provisions: Not Applicable
- 33 Consolidation provisions: Not Applicable
- 34 Other terms or special conditions: Refer to Schedule 1

#### DISTRIBUTION

- 35 (i) If syndicated, names of Managers: Joint Global Coordinators, Joint Lead Managers and Joint Bookrunners  
Bank of Communications Co., Ltd. Hong Kong Branch  
Agricultural Bank of China Limited Hong Kong Branch  
Agricultural Bank of China Limited, Singapore Branch  
Bank of China (Hong Kong) Limited  
China CITIC Bank International Limited

|    |   |   |
|----|---|---|
|    |   | China Minsheng Banking Corp., Ltd., Hong Kong Branch                              |
|    |   | Crédit Agricole Corporate and Investment Bank                                     |
|    |   | The Hongkong and Shanghai Banking Corporation Limited                             |
|    |   | Industrial Bank Co., Ltd. Hong Kong Branch  |
|    |   | Standard Chartered Bank   |
|    | (ii) Stabilisation Manager (if any):          | Any of the Managers appointed and acting in its capacity as stabilisation manager |
| 36 | If non-syndicated, name of Dealer:            | Not Applicable  |
| 37 | U.S. Selling Restrictions                     | Reg. S Category 1; TEFRA Not Applicable   |
| 38 | Additional selling restrictions:              | Not Applicable  |
| 39 | Prohibition of Sales to EEA Retail Investors: | Not Applicable  |
| 40 | Prohibition of Sales to UK Retail Investors:  | Not Applicable  |

#### OPERATIONAL INFORMATION

|    |   |   |
|----|---|---|
| 41 | ISIN Code:  | HK0000892338  |
| 42 | Common Code:  | 255935658   |
| 43 | CMU Instrument Number:  | BCMKN22030  |
| 44 | Any clearing system(s) other than Euroclear, Clearstream and the CMU and the relevant identification number(s): | Not Applicable  |
| 45 | Delivery:   | Delivery against payment                                    |
| 46 | Additional Paying Agents (if any):  | Not Applicable  |
| 47 | Rating:   | The Notes to be issued are expected to be rated:<br>S&P: A- |

#### GENERAL

|    |   |                      |
|----|---|----------------------|
| 48 | The aggregate principal amount of Notes issued has been translated into US dollars at the rate of CNY7.1388 = U.S.\$1.00, producing a sum of (for Notes not denominated in US dollars): | U.S.\$198,912,982.57 |
| 49 | In the case of Registered Notes, specify the location of the office of the Registrar if other than Hong Kong:   | Not Applicable       |
| 50 | In the case of Bearer Notes, specify the location of the office of the Fiscal Agent if other than London:   | Not Applicable       |

## HONG KONG SFC CODE OF CONDUCT

- 51 Contact email addresses of the Overall Coordinators where underlying investor information in relation to omnibus orders should be sent:
- dcm@bankcomm.com.hk  
abchk.dcm@abchina.com.hk  
dcmsg@abchina.com  
dcm@bochk.com  
HKG-Syndicate@ca-cib.com  
Project.GoldenII@ca-cib.com  
hk\_syndicate\_omnibus@hsbc.com.hk  
cmd\_dcm@cibhk.com  
SYNHK@sc.com

## LISTING APPLICATION

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

## STABILISATION

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

## MATERIAL ADVERSE CHANGE STATEMENT

Except as disclosed in the Offering Circular, there has been no significant change in the financial or trading position of the Issuer or of the Group since 30 June 2022 and no material adverse change in the financial position or prospects of the Issuer or of the Group since 31 December 2021.

## RESPONSIBILITY

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

Signed on behalf of the Issuer:

**BANK OF COMMUNICATIONS CO., LTD. HONG KONG BRANCH**

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

By: \_\_\_\_\_  
Duly authorised

## SCHEDULE 1

This Appendix sets out the special conditions referred to in Item 34 (*Other terms or special conditions*):

### 1. Payments and Talons

Condition 7(a) and 7(b) shall be amended and restated as follows with respect to the Notes:

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

- (i) in the case of Notes denominated in a currency other than Renminbi, at the specified office of any Paying Agent outside the United States by a cheque payable in the relevant currency drawn on, or, at the option of the holder, by transfer to an account denominated in such currency with, a Bank;
- (ii) in the case of Notes denominated in Renminbi, by transfer to a Renminbi account maintained by or on behalf of the Noteholder with a bank in Hong Kong; and
- (iii) In this Condition 7(a), “Bank” means a bank in the principal financial centre for such currency or, in the case of euro, in a city in which banks have access to the TARGET System.

*Payments of principal and interest in respect of Bearer Notes held in the CMU will be made to the CMU for their distribution to the person(s) for whose account(s) interests in the relevant Bearer Note are credited as being held with the CMU in accordance with the CMU Rules (as defined in the Agency Agreement) at the relevant time and payment made in accordance thereof shall discharge the obligations of the Issuer in respect of that payment.*

(a) **Registered Notes:**

- (i) Payments of principal (which for the purposes of this Condition 7(b) shall include final Instalment Amounts but not other Instalment Amounts) in respect of Registered Notes shall be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in paragraph (ii) below.
- (ii) Interest (which for the purpose of this Condition 7(b) shall include all Instalment Amounts other than final Instalment Amounts) on Registered Notes shall be paid to the person shown on the Register at the close of business on the fifth (in the case of Notes denominated in Renminbi) and fifteenth (in the case of Notes denominated in a currency other than Renminbi) day before the due date for payment thereof (the “Record Date”). Payments of interest on each Registered Note shall be made:
  - (A) in the case of Notes denominated in a currency other than Renminbi, in the relevant currency by cheque drawn on a Bank and mailed to the holder (or to the first-named of joint holders) of such Note at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a Bank; and

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

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

*Payments of principal and interest in respect of Registered Notes held in the CMU will be made to the person(s) for whose account(s) interests in the relevant Registered Note are credited as being held with the CMU in accordance with the CMU Rules at the relevant time and payment made in accordance thereof shall discharge the obligations of the Issuer in respect of that payment.”*

## CAPITALISATION AND INDEBTEDNESS

*The section “Capitalisation and Indebtedness” on pages 94 to 95 of the Original Offering Circular shall be deleted in its entirety and replaced with the following:*

### Capitalisation and Indebtedness of the Bank

The following table sets forth the actual consolidated debt and capitalisation of the Bank as at 30 June 2022. Investors should read this table in conjunction with the Bank’s unaudited condensed consolidated interim financial statements as at and for the six months ended 30 June 2022 and the notes thereto included in this Offering Circular.

Except for the translation amount shown in U.S.\$, the Bank’s unaudited condensed consolidated interim financial statements as at 30 June 2022 set forth below are derived from the published unaudited consolidated interim financial statements as at and for the six months ended 30 June 2022.

|                                       | As at 30 June 2022 |                     |
|---------------------------------------|--------------------|---------------------|
|                                       | (RMB in million)   | (U.S.\$ in million) |
|                                       | (unaudited)        | (unaudited)         |
| <b>Debt</b>                           |                    |                     |
| Debt securities issued <sup>(1)</sup> | 518,676            | 77,436              |
| Other borrowings <sup>(2)</sup>       | 9,139,694          | 1,364,520           |
| Total debt                            | 9,658,370          | 1,441,957           |
| <b>Equity</b>                         |                    |                     |
| Share capital                         | 74,263             | 11,087              |
| Other equity instruments              | 174,790            | 26,095              |
| Capital surplus                       | 111,428            | 16,636              |
| Other reserves                        | 364,948            | 54,485              |
| Retained earnings                     | 251,114            | 37,490              |
| Non-controlling interests             | 12,393             | 1,850               |
| Total equity                          | 988,936            | 147,644             |
| Total capitalisation <sup>(3)</sup>   | 10,647,306         | 1,589,601           |

Notes:

- (1) On 9 August 2022, the Bank issued RMB20 billion 2.42 per cent. green bonds due 2025. On 11 November 2022, the Bank issued RMB37 billion 3.03 per cent. tier-2 capital bonds due 2032 and RMB13 billion 3.36 per cent. tier-2 capital bonds due 2037.
- (2) Other borrowings include amounts due to and placements from banks and other financial institutions and deposits from customers.
- (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 capitalisation of the Bank since 30 June 2022.

## **USE OF PROCEEDS**

The net proceeds of the USD Notes and the CNY Notes shall each be used for the Issuer's working capital and general corporate purposes.



## DESCRIPTION OF THE BANK

*The section “Description of the Bank” on pages 99 to 119 of the Original Offering Circular shall be deleted in its entirety and replaced with the following:*

### OVERVIEW

Founded in 1908, the Bank is one of the note-issuing banks with the longest history in modern China. In 1986, the State Council of the PRC decided to reorganise the Bank. The Bank reopened after reorganisation on 1 April 1987. It is the first nationwide state-owned joint-stock commercial bank in China, with the head office located in Shanghai. The Bank made its first public offering of its H shares and listing on the Hong Kong Stock Exchange in June 2005, and its first public offering of its A shares and listing on the Shanghai Stock Exchange in May 2007. The Bank was the sixth largest commercial bank in the PRC based on total assets as at 31 December 2021. The Group was ranked in Fortune 500 for thirteen consecutive years, and ranked No. 137 in 2021. The Group ranked No.11 among the Global Top 1000 World Banks rated by *The Banker*.

Substantially all of the Bank’s operations are located in the PRC and the Bank is headquartered in Shanghai. As at 31 December 2021, the Group had 248 domestic branches, including 37 provincial branches and directly-managed branches and 211 branches managed by provincial branches, most of which are concentrated in the Yangtze River Delta, Pearl River Delta and Bohai Rim Economic Zone, as well as large cities in other areas. Through this network and other distribution channels, the Group provides a broad range of financial products and services to its corporate and personal finance customers. As at 30 June 2022, in addition to its PRC operations, the Bank had branches or subsidiaries which are located in Hong Kong, New York, San Francisco, Tokyo, Singapore, Seoul, Frankfurt, Macau, Ho Chi Minh City, Sydney, Brisbane, Melbourne, Taipei, London, Luxembourg, Paris, Rome, Brazil, Prague and Johannesburg, and its representative office in Toronto commenced operations in November 2014.

The Group is engaged predominantly in banking and related financial activities. It comprises corporate banking, personal banking, treasury and other business. Corporate banking mainly comprises corporate loans, bills, trade financing, corporate deposits and remittance. Personal banking mainly comprises personal loans, personal deposits, credit cards and remittance. Treasury mainly comprises money market placements and takings, financial investment, and securities sold under repurchase agreements. The “Others Business” segment mainly comprises items which cannot be categorised in the above business segments.

For the years ended 31 December 2019, 2020 and 2021 and for the six months ended 30 June 2022, the Group’s profit before tax were RMB88,200 million, RMB86,425 million, RMB93,959 million and RMB45,617 million, respectively. As at 31 December 2019, 2020 and 2021 and 30 June 2022, the Group had total assets of RMB9,905,600 million, RMB10,697,616 million, RMB11,665,757 million and RMB12,580,576 million, respectively, gross amount of loans and advances to customers before allowance for impairment of RMB5,304,275 million, RMB5,848,424 million, RMB6,560,400 million and RMB7,087,730 million, respectively, total amounts due to customers of RMB6,072,908 million, RMB6,607,330 million, RMB7,039,777 million and RMB7,811,363 million, respectively, and total equity attributable to equity holders of the parent company of RMB793,247 million, RMB866,607 million, RMB964,647 million and RMB976,543 million, respectively. As at 31 December 2019, 2020 and 2021 and 30 June 2022, the Group’s non-performing loan ratios were 1.47 per cent., 1.67 per cent., 1.48 per cent. and 1.46 per cent., respectively. As at 31 December 2019, 2020 and 2021 and 30 June 2022, the Group’s provision coverage ratios were 171.77 per cent., 143.87 per cent., 166.50 per cent. and 173.10 per cent., respectively.

## RECENT DEVELOPMENTS

### Highlights of third quarter 2022 results

The 2022 Third Quarter Financial Information was published on 28 October 2022 on the website of the Hong Kong Stock Exchange. During the third quarter of 2022, in response to the impact of the unexpected factors such as the sophisticated and challenging global environment and the scattered and frequent outbreaks of the pandemic over the country, the Group insisted on the principle of making progress while maintaining stability, focused on the three tasks of serving the real economy, prevented financial risks and deepened financial reform and coordinated the pandemic prevention, business development and risk management, thus the main operating indicators are in line with the development expectation. The Group has maintained and further consolidated the operating status of making ongoing progress and quality improvement while maintaining stability. As at 30 September 2022, the total assets of the Group increased by 8.81 per cent. over the end of the previous year to RMB12,693.203 billion. The total liabilities increased by 9.28 per cent. over the end of the previous year to RMB11,680.766 billion. Shareholders' equity (attributable to shareholders of the Bank) increased by 3.64 per cent. over the end of the previous year to RMB999.797 billion. For the nine months ended 30 September 2022, the net operating income increased by 5.06 per cent. on a year-on-year basis to RMB210.347 billion. The net profit (attributable to shareholders of the Bank) increased by 5.47 per cent. on a year-on-year basis to RMB67.883 billion. The annualised return on average assets and the annualised return on weighted average net assets were 0.74 per cent. and 10.34 per cent., respectively.

### THE BANK'S AWARDS

The Bank believes the brand of "Bank of Communications" is one of the most recognised financial service brand names in China. The Bank ranked No. 11 among the Top 1000 World Banks 2021 by *The Banker*. The Bank was honoured in Fortune 500 for thirteen consecutive years and was ranked No. 137 in 2021. The Bank was awarded "Advanced Unit in National Poverty Alleviation" by the CPC Central Committee, the State Council, "First prize of FinTech Development Award in 2020" and "Assessment A+ on Protecting Financial Consumers' Rights and Interests of the People's Bank of China in 2020" by the PBOC, "First prize of Shanghai Financial Innovation Achievement Award in 2020" by Shanghai Municipal People's Government, "Best Open Bank Award, Best Corporate Mobile Banking Award and Best Personal Mobile Banking Award" by China Financial Certification Authority ("CFCA"), Best Bank for Payment and Settlement Solution (Project of Intelligent Financial Services Platform of Jiangsu Financial Leasing) by *The Asset*, "Best Bank for International Business" by *Trade Finance*, "Best Innovative Investment Bank in 2021" and "Best Bank for Securitisation Deal in 2021" by *Asia Money* and "Credit Card Centre in 2021" by *21st Century Business Herald*. Besides, the Bank was also awarded "Excellent Bank for Brand Construction in 2021" by *China.com.cn* and "2021 People's Corporate Social Responsibility – Corporate Performance Award" by *People.cn*. In 2020, the Bank was awarded "Outstanding Corporate Social Responsibility Award or Chinese Enterprises in 2020" and "Excellent Corporate Social Responsibility Cases in 2020" by *Xinhuanet* and "Best Bank for Poverty Alleviation Support in 2020" by *Financial Times*. Besides, the Bank was awarded "Best Brand Image Bank of the Year" and "Best Innovative FinTech Bank of the Year" by *Sina Finance*, and "Mobile Banking with Best User Experience Award" and "Best Open Bank Award" by CFCA. The Bank was awarded "2020 Gamma Award for Best Comprehensive Bank in Undertaking Investment Bank Business" by the *Securities Times* and "Best Green Bond 2020 (China)" by *The Asset*. In 2019, the Bank was awarded "2019 Best Bank for Poverty Alleviation" (最佳脫貧攻堅銀行) by *Financial Times*, "2019 Excellent Green Bank" by the Green Credit Business Committee of China Banking Association ("CBA"), A Level for 2019 in consumer protection by the PBOC, "Annual Financial Institution" (年度金融機構) by 2019 TOP Financial List, "Award for Achievement on Implementing the Belt and Road Initiative" (積極踐行「一帶一路」倡議成效獎) by CBA, and "Top 10 Cases of Financial Innovation Serving

the Real Economy in 2019” (2019 金融創新服務實體經濟十大案例) by *Hong Kong Commercial Daily*. Besides, the Bank was awarded “Best Wealth Management Bank in China” (最佳銀團項目獎) by CBA.

## THE BANK’S COMPETITIVE ADVANTAGES

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

Known as a “centuries-old bank”, the Bank established its time-honoured financial brand with a long-standing history and accumulative competitive advantages. As at 30 June 2022, the total assets of the Group amounted to approximately RMB12,580,576 million. As at 30 June 2022, the deposit balances of the Group reached RMB7,811,363 million and the loans and advances balances of the Group amounted to RMB7,087,730 million. The Bank enjoys high recognition and reputation nationwide. The Bank was ranked in Fortune 500 for thirteen consecutive years, and ranked No. 137 in 2021. The Bank ranked No. 11 among the Top 1000 World Banks 2021 by *The Banker*.

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

The Bank is one of the first banks to initiate the concept of wealth management services in the industry. The brand and characteristics of wealth management became more and more prominent with the continuous development of the Bank’s wealth management service system. The Bank has also obtained various licenses relating to trust, leasing, fund, insurance, securities and financial investment, to develop its wealth management business. In 2019, the Bank set up and continuously expanded its asset management subsidiary and fund management subsidiary. The Bank has built up a product and service system categorised by wealth preservation and incrementation, financial planning and risk hedging in order to provide online and offline financial services in relation to on-and-off balance sheet and debt and equity investment. Targeting retail customers, the Bank also integrated certain retail services into the system with respect to wealth management, family trust, insurance broker and asset management. As at 30 June 2022, the personal financial assets under management (“AUM”) managed by domestic branches was nearly RMB4.5 trillion, representing an increase of 5.20 per cent. over the end of the previous year. The mobile banking month active users (“MAU”) increased by 6.4 per cent. over the end of the previous year. During the six months ended 30 June 2022, the Group reported fees and commission income from wealth management of RMB8.543 billion through the consignment of wealth management products, funds and wealth management business.

The Group maintains constant and steady growth in terms of its business scale. The Group’s corporate banking businesses routinely increased. As at 30 June 2022, the Group’s corporate loan balance increased by RMB415,266 million or 10.03 per cent. as compared with 31 December 2021, in which related loans to the manufacturing industry, loans to strategic emerging industries, green credit, loans for “specialisation, delicacy, characterisation and novelty” small and medium-sized enterprises loans and the agriculture-related loans increased by 20.48 per cent., 71.85 per cent., 20.42 per cent., 28.40 per cent. and 15.80 per cent. respectively. During the six months ended 30 June 2022, the volume of industrial value chain financial business increased by 35.66 per cent. on a year-on-year basis, and the sci-tech finance credit customers increased by 21.72 per cent. over the end of the previous year. As at 30 June 2022, the balance of loans of inclusive loans for small and

micro enterprises amounted to RMB403,893 million, representing an increase of 19.21 per cent. over the end of the previous year. The number of customers with loan balance was 245,800, representing an increase of 15.84 per cent. over the end of the previous year. During the six months ended 30 June 2022, the industrial chain finance business increased by 35.66 per cent. on a year-on-year basis. As at 30 June 2022, the balance of industrial chain finance reached RMB174,449 million, representing an increase of 11.83 per cent. over the end of the previous year.

The Group's personal banking business also showed an upward trend. As at 30 June 2022, the Group's balance of personal deposits increased by 13.54 per cent. over the end of the previous year to RMB2,728,060 million, and its balance of personal loans increased by 2.79 per cent. over the end of the previous year to RMB2,348,890 million, of which personal mortgage loans increased by 2.61 per cent. over the end of the previous year. As at 30 June 2022, the number of credit cards registered with domestic branches was 75,286,300, increasing by 1,017,500 over the end of the previous year. As at 30 June 2022, the credit card overdraft balance in domestic branches was RMB480,771 million. As at 30 June 2022, the accumulated consumption of debit cards amounted to RMB1,166,026 million. The accumulated number of debit cards issued amounted to 169.0228 million, representing a net increase of 3.2714 million over the end of the previous year. The Group also focused on developing consumer finance, optimising its online application named "Benefit Loan" (namely online credit consumption loans launched by the Bank for qualified customers), leveraging its FinTech services and improving its intelligent risk management capabilities during the same period. The Bank accelerated the innovation and iteration of consumption loan products, on the basis of meeting customers' demands concerning clothing, food, housing, travel and medical care to improve the whole-process customer experience. The Bank also provided supporting territorial differentiated credit policies and service solutions to enhance consumer loan services for new citizens. It actively provided relief measures to the retail credit customers affected by the pandemic. As at 30 June 2022, the balance of personal non-housing consumption loans increased by 27.45 per cent. over the end of the previous year to RMB68,285 million, and the incremental amount increased by RMB11,020 million on a year-on-year basis.

### **Committed to building the international and comprehensive financial service platform**

The Bank is committed to becoming a first-class international bank with advantages in international businesses and delivering global financial services. The Bank is one of the most internationalised domestic banks in China and its international layouts are at the forefront with respect to its domestic counterparts. Its overseas banking institutions have initially sprouted up within the Asia-Pacific area. Taking it as a base camp, the Bank also expanded its global landscape by tapping into Europe and the United States. As at 30 June 2022, the Bank established 23 overseas branches (sub-branches) and representative offices with 69 operating outlets in 18 countries and regions, providing customers with comprehensive financial services including deposits, loans and advances, international settlement, trade financing and foreign currency exchange. In the first half of 2022, the Bank's overseas banking institutions closely monitored changes in the global market, improved their emergency plans, strengthened risk prevention, and carried out operational management work in a stable and orderly manner. As at 30 June 2022, the Bank had established overseas banking service network with 1,005 banks in 126 countries and regions, set up 238 cross-border Renminbi interbank accounts for 100 overseas Renminbi participating banks in 31 countries and regions, and opened 82 foreign currency settlement accounts in 27 major currencies with 63 banks in 31 countries and regions. In addition, for the six months ended 30 June 2022, the net profit of the Group's overseas banking institutions was RMB3,054 million, whose contribution to the Group's total net profit was 6.93 per cent. As at 30 June 2022, the total assets of the Group's overseas banking institutions were RMB1,318.503 billion, whose contribution to the Group's total assets was 10.48 per cent.

To facilitate the globalisation of domestic enterprises, the Bank and HSBC has also jointly launched a program named "1+1 Global Financial Cooperation" to provide related services and advices. The Bank also connected to the "Single Window" of the customs to provide one-stop trading, settlement and financing services to foreign

trade companies. In addition, the Bank developed a new format of trade services, actively connected the Bank with cross-border e-Commerce enterprises and integrated foreign trade service platforms to improve the foreign exchange settlement autonomy and capital turnover efficiency of medium, small and micro enterprises. In 2021, international payment reached U.S.\$230.455 billion, an increase of 52.72 per cent. on a year-on-year basis. The volume of financing for cross-border trade increased by 27.20 per cent. on a year-on-year basis to U.S.\$17.225 billion. In addition to enhancing its global influence, the Bank is also devoted to promoting the integration of its businesses. To be facilitated by its various wholly-owned and controlling subsidiaries, the Group provides comprehensive financial services and products to its customers, comprising fund, trust, financial leasing, onshore insurance, investment banking, offshore insurance, debt-to-equity swap and wealth management.

BoCom Schroder Fund, whose primary businesses are fund raising, fund sales and asset management, was awarded “Top 10 Star Fund Company” and “Star Fund Companies with Positive Return for Five Consecutive Years”, “Star Fund Company in Active Equity investment” by *Securities Times* and “Golden Bull Fund Management Company” by *China Securities Journal* in 2020. As at 30 June 2022, the yield of equity investment under active management ranked 2/73 in the industry in recent seven years, 4/91 in recent five years, and 25/117 in recent three years.

Staying committed to fulfilling the original mission as a trust company to serve the real economy, Bank of Communications International Trust Co., Ltd. (“**BoCom International Trust**”) focuses on trust loans, investment fund trusts, accounts receivable financing, real estate trusts, family trusts, charitable trusts, credit asset securitisation, corporate asset securitisation, qualified domestic institutional investor, and private equity investment trusts. During 2021, the value of securitised credit assets publicly issued by BoCom International Trust ranked seventh in the sector. As at 30 June 2022, its total assets, net assets and the AUM were RMB17.884 billion, RMB14.981 billion and RMB554.169 billion, respectively.

Adhering to the development strategies as “Professional, Internalisation, Differentiation and Characteristics”, Bank of Communications Financial Leasing Co., Ltd. (“**BoCom Leasing**”) continues to promote aviation and shipping leasing businesses, covering more than 30 countries and regions on five continents, which further highlighted the professional advantages. As at 30 June 2022, its total assets, net assets and balance of leasing assets amounted to RMB349.486 billion, RMB38.699 billion and RMB304.195 billion, respectively, representing a year-on-year increase of 9.6 per cent., 7.97 per cent. and 6.22 per cent., respectively. During the six months ended 30 June 2022, BoCom Leasing’s net profit reached RMB1.887 billion, representing a year-on-year increase of 8.08 per cent. In addition, Total leasing assets of aircraft and ship amounted to RMB188.614 billion, with fleets of 432 ships and 269 planes.

In relation to onshore insurance, BoComm MSIG Life Insurance Company Limited (“**BoCommLife**”) remains committed to providing insurance guarantee and maintains a stable performance. As at 30 June 2022, BoCommLife’s total assets and net assets were RMB109.431 billion and RMB8.007 billion respectively. BoCommLife’s original premium income for the six months ended 30 June 2022 was RMB13.550 billion, representing an increase of 19.03 per cent. on a year-on-year basis, whereas its net profit was RMB0.185 billion, representing a decrease of 69.37 per cent. on a year-on-year basis.

With respect to offshore insurance, BoCom Insurance expands its banking-related insurance business domestically and overseas and officially obtains the full-coverage aviation insurance license issued by the Hong Kong Insurance Authority (namely, No. 5 Aviation Insurance License and No.11 Aviation Liability Insurance License).

As one of the first pilot banks to implement debt-to equity conversion as determined by the State Council, BOCOM Financial Asset Investment Co., Ltd. (“**BOCOM Financial Asset Investment**”) is mainly engaged in debt-to-equity conversion and supporting services. As at 30 June 2022, BOCOM Financial Asset Investment’s total assets and net assets were RMB67.265 billion and RMB20.035 billion, respectively. Its net

profit during the six months ended 30 June 2022 was RMB0.709 billion, representing an increase of 0.84 per cent. on a year-on-year basis. BOCOM Financial Assets Investment's investment amount per person, net profit per person and other indicators were at the top level in the industry, and its capital adequacy ratio was in compliance with regulatory requirements.

For the six months ended 30 June 2022, net profit attributable to shareholders of the Bank from the subsidiaries<sup>1</sup> amounted to RMB3.381 billion, the proportion of which to the Group's net profit was 7.68 per cent.. As at 30 June 2022, the total assets of the Group's subsidiaries were RMB600.223 billion, the proportion of which to the total assets of the Group was 4.77 per cent.

### **Prominent wealth management services**

The Group grasped market opportunities and cooperated with sophisticated fund managers to manage its funds and investments, aiming to create conventional, popular and featured wealth management products and build up the name of BOCOM Wealth. In addition, the Group designed affordable insurance products in response to the outbreak of the COVID-19 pandemic, the trend of resumption of work and the wave of purchase of medical insurance. As at 30 June 2022, individual financial AUM of domestic branches of the Group increased by 5.20 per cent. over the end of the previous year, whereas the mobile banking MAU increased by 6.4 per cent. over the end of the previous year. As at 30 June 2022, there were 73,700 private banking customers of the Group, representing an increase of 4.77 per cent. over the end of the previous year; the assets of private banking customers under management of the Group were RMB1,029.8 billion, representing increase of 3.69 per cent. over the end of the previous year. In addition, the Group has established comprehensive service brands for its customers in relation to wealth preservation. The Group provided retail and individual customers, corporations and financial institutions with comprehensive financial services, building up a complete series structure comprising "Win to Fortune", a corporate wealth management brand of the Bank providing comprehensive one-stop wealth management solutions for corporate and government institutions through intelligent financial service and digital transformation; "OTO Fortune", a main brand of retail business of the Bank with core value of "Creating and Sharing Abundant Wealth with Noble Virtue" devoted to realising value maintenance and appreciation of wealth for customers; and "BoCom Tong Ye Fortune", an interbank wealth management brand of the Bank with core value of "Corporation for Everlasting Enterprises" devoted to providing comprehensive product support and service solution for interbank financial customers. As at 30 June 2022, the number of qualified customers of OTO Fortune increased by 5.79 per cent. over the end of the previous year to RMB2.1189 million.

### **Comprehensive and robust risk management**

The Board of Directors of the Bank assumed the ultimate responsibility, served the highest function of decision making and monitored the Bank's risk management through its Risk Management and Related Party Transaction Control Committee. The Bank's Senior Management established a Risk Management Committee, namely the Comprehensive Risk Management and Internal Control Committee, and two business review committees, namely the Credit and Investment Review Committee and the High-risk Asset Review Committee. The business review committees were guided by and reported to the Comprehensive Risk Management and Internal Control Committee. Each provincial and directly managed branch, overseas branch, subsidiary and directly operating institution correspondingly established the Risk Management Committee accordingly referring to the aforementioned framework, which served as the main platform to study the prevention and control of systematic and regional risks and decision-making risks on major issues, ensured that the comprehensive risk management system had been implemented throughout the Group.

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<sup>1</sup> Net profit was calculated in accordance with the new accounting standard for financial instruments (IFRS 9), which was somewhat different from that calculated under IAS 39 currently adopted in the insurance sector.

During the six months ended 30 June 2022, the Group strengthened risk identification, accelerated risk disposal, and tightened asset quality classification standards. The foundation of asset quality has been continuously consolidated, and the level of asset quality has been steadily improved. As at 30 June 2022, the balance of non-performing loans was RMB103.232 billion and the non-performing loan ratio was 1.46 per cent., representing an increase of RMB6.436 billion and a decrease of 0.02 per cent., respectively, over the end of the previous year.

### **Experienced and professional management team and talent pool**

The Group's senior management has an average of more than 20 years' experience in banking practice and is well experienced in management. Among the Group's senior management, Mr. Ren Deqi, the Chairman of the Board of Directors and Executive Director, has over 30 years' experience in banking sector, holding important positions. The Group also launched three major projects, namely, "10,000 Fintech Talent Plan", "Fintech Management Trainees" and "Empowerment Transformation of Existing Talents" to enrich its Fintech talents pool in a timely fashion. In 2020, the Bank formulated the Plan for the Cultivation of FinTech Talents (2020-2024). The Bank strived to build a technology team consisting of over 10,000 talents with "forward-looking vision, agile mind, efficient work style, and value creating ability" via external talent introduction, internal talent transformation and incentive scheme.

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

### **Strategic cooperation with HSBC**

In 2020, under the new market positioning of "Deepen Strategic Cooperation and Create Shared Value", the Bank and HSBC overcame the adverse effects of the pandemic and continued to deepen all-round strategic cooperation, which in return achieved positive results. In 2020, under the framework of "1+1 Global Financial Services", business cooperation kept a stable growth between both parties. The Bank and HSBC collaborated to assist Chinese enterprises to "go global", concluding 4 cooperative syndicated loan projects. Both parties consolidated cooperative advantages in Hong Kong, concluding 16 cooperative syndicated loan projects and 35 bond underwriting projects. Cooperation in offshore financing and treasury business was promoted in an orderly manner, further deepening the cooperation in foreign currency settlement and cross-border Renminbi settlement. In addition, cooperation in trust business was steadily promoted. In 2020, the scale of cooperation in terms of trust business reached RMB51.57 billion. Meanwhile, both parties worked together to promote the development of businesses empowered by FinTech, enhance the efficiency of trade finance to serve the real economy, and successfully implemented the first domestic securities transaction between Chinese and foreign banks on the interbank trading platform of the CBA.

Both parties, under the framework of "Resources and Experience Sharing", continued to exchange experiences on business services and operating management with the focus on subjects such as business development and risk compliance.

Over the past 16 years, cooperation between these two banks was praised as a classic case and a successful example of the cooperation between Chinese and foreign banks. The Bank will continue to work closely with HSBC while focusing on the Yangtze River Delta integration, FinTech and other fields. Both parties will vigorously explore opportunities, explore the potentials in depth, and collaborate to create more value under the concept of mutual benefit and win-win cooperation.

## THE GROUP'S PRINCIPAL BUSINESS ACTIVITIES

The Bank provides the customers with corporate banking, personal banking and interbank and financial market businesses. Corporate banking businesses include offering deposits and loans, supply chain finance, cash management, international settlement and trade finance, investment banking, asset custody, wealth management and all kinds of intermediary businesses to corporate customers and government agencies. Personal banking businesses include services such as deposits and loans, wealth management, bank cards, private banking and all kinds of intermediary businesses for individual customers. Interbank and financial market businesses include cooperation with customers in the markets of interest rates, exchange rates, commodities, providing comprehensive services such as investment and financing, transactions, agency, settlement and liquidation. In addition, the Group is involved in businesses in financial leasing, fund, trust, insurance, overseas securities, debt-to-equity conversion and asset management through wholly-owned or controlling subsidiaries.

### **Corporate Banking Business**

As at 30 June 2022, the Group's corporate deposit balance increased by 9.50 per cent. over the end of the previous year to RMB4,982,175 million. The Group's corporate loan balance increased by 10.03 per cent. over the end of the previous year to RMB4,553.848 billion, among which short term loans increased by RMB138.820 billion, and medium and long-term loans increased by RMB276.446 billion.

### ***Customer development***

The Bank accelerated the construction of customer projects, and further established a stratified operation and service system. As at 30 June 2022, the total number of corporate customers of domestic branches increased by 5.76 per cent. over the end of the previous year. For group customers, the Bank enhanced its services and support for the strategies of reinvigorating China and Green Development, promoted the integrated expansion programme among the upstream and downstream, the ecosystem and the investment chain, continuously optimised the credit management policies and processes, and strengthened the synergistic collaborative services within the Group. As at 30 June 2022, the number of the Bank's group customers reached 88,400, representing an increase of 5,498 over the end of the previous year. For government institutions customers, the Bank actively participated in the construction of digital government and the process of urban digital transformation, assisted in the provision of convenient government affair services, and expanded the dominant position in the cooperation between banks and governments. As at 30 June 2022, the number of government institutions customers reached 72,900, representing an increase of 2,079 over the end of the previous year. For small and micro basic customers, the Bank enhanced the support for digital marketing, established the "Four-in-One" service system with the electronic channels, online products, outbound call services and outlet supports, and continuously improved services for the basic customer segments. As at 30 June 2022, the number of small and micro basic customers reached 2.1504 million, representing an increase of 0.118 million over the end of the previous year.

### ***Scenario construction***

The Bank intensively explored scenario construction through digital thinking and integrated financial services into subdivided scenarios such as medical care, schools, parks and central corporate treasury. Benefit Medical Payment has been launched in 35 cities including Shanghai, Nanjing, Dalian, Guangzhou and Yichang. The Intelligent Financial Services Platform had reached 0.1 million registered customers in total, representing an increase of 21,000 over the end of the previous year, and received RMB230.529 billion in settlement volume, representing a year-on-year increase of 131.80 per cent. The Bank maintained its leading position in the innovative services of the "Smart Bookkeeping" in Beijing, with the amount of cumulative transactions exceeding RMB60 billion in the first half of the year. Following the reform trend of the central corporate treasury system, the Bank provided business and technical support for the construction of central corporate treasury system in the fields of wealth management and global cash management.



### ***Services to inclusive small and micro enterprises***

With the support of FinTech and big data, the Bank promoted the “Online products+Scenario customisation” mode, enhanced the batched, scenario-based, intelligent and online operating capabilities, and launched a batch of scenario-customised products. For small and micro enterprises in the industrial chain, the Bank built projects such as “Ouyeel Chain2”, “Dairy Chain”, “Liquor Chain”, “Fodder Chain”, etc.; for small and micro enterprises in the field of science and technology innovation, the Bank launched the “Inclusive e-Loan” on the scenario-customised scientific and technological projects in Suzhou, Shenzhen, Anhui, Hunan, Xiamen, Shanghai, Shannxi and other places; for small and micro enterprises in specific industries, the Bank launched special projects such as “Cigarette Loan”, “Government Purchase Loan”, “Medical Insurance Loan” and “Household Loan”. The Bank focused on small and micro key areas, key customer segments and key products, continuously increased the credit issuance to support small and micro enterprises in the recovery, resumption of production and manufacturing as well as the high-quality development. As at 30 June 2022, the balance of inclusive loans to small and micro enterprises was RMB403.893 billion, which was an increase of 19.21 per cent. over the end of the previous year. The number of customers with loan balances was 0.2458 million, representing an increase of 15.84 per cent. over the end of the previous year. The accumulated average interest rate of inclusive loans to small and micro enterprises was 3.84 per cent., representing a decrease of 0.16 percentage point. Non-performing loan ratio of inclusive small and micro enterprises was 0.94 per cent., representing a decrease of 0.22 percentage point over the end of the previous year. Also, 2,763 business outlets of the Bank provided financial services such as financing services to small and micro enterprises.

### ***Industrial chain finance***

The Bank implemented the requirements of stabilising and strengthening the chain, and stimulated special authorisation, system innovation and process optimisation, to meet the personalised financing needs of enterprises in the principle of “one policy for one chain”. Concentrating on technological empowerment, the Bank developed an industrial chain rapid financing product line. The volume incurred of rapid discounted bills amounted to RMB44.350 billion, and the volume incurred of Express Pay reached RMB3.934 billion. The Bank also launched BoCom’s self-built smart transaction chain platform. Moreover, the Bank connected with 16 mainstream platforms, such as TravelSky and CSCC, to realise convenient and cross-scenario financial cooperation, and automate the whole process of rapid payment, which greatly improved user experience. By making use of innovative products, the Bank was able to cooperate deeply with leading enterprises in key industries such as electricity, construction, automobiles and pharmaceuticals to meet the financing demands of both upstream and downstream enterprises. During the six months ended 30 June 2022, the industrial chain finance business increased by 35.66 per cent. on a year-on-year basis. As at 30 June 2022, the balance of industrial chain finance reached RMB174.449 billion, representing an increase of 11.83 per cent. over the end of the previous year.

### ***Investment bank***

The Bank intensified its efforts in scaling up full financing to build an innovative investment bank. During the six months ended 30 June 2022, the bond underwriting according to National Association of Financial Market Institutional Investors (“NAFMII”) (debt financing instructions of non-financial enterprises) reached RMB223.573 billion, representing an increase of 18.54 per cent. on a year-on-year basis. The Bank practiced green finance and mainly underwrote green bonds (including carbon neutrality bonds) amounting to RMB4.165 billion, representing an increase of 47.23 per cent. on a year-on-year basis. The Bank developed nine Credit Risk Mitigation Warrants amounting to RMB3.65 billion. By virtue of scenario innovation, the Bank delved into mergers and acquisitions. In the first half of the year, the newly increased scale of domestic and overseas mergers and acquisitions finance was RMB51.2 billion, representing an increase of 26 per cent. on a year-on-year basis. Focusing on the characteristic of “sci-tech finance”, seven private equity investment funds were set up to invest in strategic emerging industries and sci-tech innovation enterprises. “Win to Fortune e-Smart”, an

information consultancy service, was upgraded and an investment banking full financing platform was launched to further integrate “financing” and “intelligence” collaborative service. The ability to innovate products and services was lifted in all respects and so highly recognised by the market that the Bank was awarded “Excellent ABS Originating Institution” by China Central Depository & Clearing Co., Ltd. and other awards.

### **Personal Banking Business**

As at 30 June 2022, the balance of personal deposits of the Group increased by 13.54 per cent. over the end of the previous year to RMB2,728,060 million. The balance of personal loans was RMB2,348.890 billion, representing an increase of 2.79 per cent. over the end of the previous year, and the market share of personal consumption loans (including credit cards) was over 4.99 per cent.

#### ***Retail customers***

Focusing on people’s diversified financial demands, the Bank enhanced the capacities of asset allocation and customer service with “financial assets + data assets”. The Bank implemented digital transformation, increased collaboration on customer acquisition and scenario-based service provision, consolidated the customer base, and optimised customer structure, thereby keeping scaling up AUM steadily. As at 30 June 2022, the number of retail customers of domestic branches (including debit card and credit card customers) increased by 1.82 per cent. over the end of the previous year to 189 million. The number of qualified customers of OTO Fortune increased by 5.79 per cent. over the end of the previous year to 2.1189 million.

#### ***Wealth management***

Adhering to the concept of “customer orientation and continuous value creation for customers”, the Bank developed the feature of wealth finance by leveraging its advantages of wealth management products, services, and brands. The Bank horizontally leveraged the integrated advantage of the Group to build a full-chain wealth management operating system and vertically developed a sound pension financial service system to enhance customer stickiness. During the six months ended 30 June 2022, the Bank focused on wealth finance digital operations, extended the depth and breadth of customer management systems with data-driven technology, and provided omnichannel and full-link marketing services through the retail digital marketing middle office. As at 30 June 2022, the number of cooperative institutions on the online open platform for wealth increased to 48. The platform provided customers with more professional investment information, product promotion, investor education, investment companion and other services.

In addition, the Bank enhanced product creation and supply capabilities. By adhering to open integration, the Bank introduced quality products and established partnerships with nine external institutions on wealth management products consignment to enrich customers’ investment choices. Quantitative indicators were considered together with experts’ experience to build the “OTO Best Choice” product system covering wealth management, funds and insurance to provide customers with more professional wealth allocation choices. In the first half of 2022, the average yield of the “OTO Best Choice” fund overperformed the market average. Besides, the Bank introduced more low-fluctuating fixed income funds and fixed income+ funds with low starting points and stepped up efforts to drive the growth of the holding scale of personal non-monetary public funds. According to the data published by the Asset Management Association of China, as at 30 June 2022, the Bank ranked the fifth in the banking industry in terms of the holding scale of non-monetary public funds.

During the six months ended 30 June 2022, revenue from consignment of personal wealth management products by domestic branches was RMB5.373 billion. The balance of personal public fund products on consignment was RMB296.622 billion, and the net income of funds on consignment (including securities dealers and exclusive accounts) was RMB1.623 billion; the balance of wealth management products on consignment was RMB871.923 billion, and the net income of wealth management was RMB1.584 billion; the balance of insurance products on consignment was RMB236.559 billion, and the net income of agency insurance business

was RMB1.855 billion, making the Bank one of the market leaders in terms of the growth rate of insurance income.

### ***Scenario and payment***

With a focus on inclusive livelihood scenarios, the Bank practised customer management through digital means. Through government affairs apps used by citizens, the Bank provided solutions of “Payment + Wallet” to citizens covering services such as payment and inquiries. In order to meet the demands of travel scenarios such as urban traffic, new energy vehicle charging, tourism and car owner services, the Bank established a membership system and introduced more payment discounts to provide citizens with safe and compliant account and payment services. The Bank provided medical payment functions on scenarios such as medical service and online sales of medicines. The Bank deepened the construction of smart schools and provided education industry solutions to schools through open banking. To serve the national rural revitalisation strategy, the Bank launched debit cards themed on rural revitalisation and provided customers with exclusive rights and interests such as guidance on agricultural technology and preferential settlement service charges. As at 30 June 2022, the accumulated number of debit cards issued amounted to RMB169.0228 million, representing a net increase of RMB3.2714 million over the end of the previous year. During the six months ended 30 June 2022, the number of debit card customers acquired online increased by 2.44 percentage points compared with the end of the previous year. Under the support of cooperative institutions, the Bank upgraded payment products to improve card holders’ payment experience on mainstream platforms. The Bank launched marketing activities in retail stores, supermarkets, entities for transportation, culture and travel through cooperation with China Unionpay and other leading platforms to enrich consumption payment scenarios. During the six months ended 30 June 2022, the accumulated consumption paid by debit cards amounted to RMB1,166.026 billion.

### ***Customer finance***

The Bank firmly implemented the decisions and arrangements of the CPC Central Committee and the State Council on real estate regulation, continued to optimise the credit policies, and improved the online service level of housing loans. As at 30 June 2022, the personal housing mortgage loan balance increased by 2.61 per cent. to RMB1,528.420 billion over the end of the previous year, and the balance of the domestic market accounted for 4.86 per cent., representing an increase of 0.05 percentage point from the beginning of the year.

The Bank accelerated the innovation and iteration of consumption loan products, on the basis of meeting customers’ demands concerning clothing, food, housing, travel and medical care to improve the whole-process customer experience. The Bank also provided supporting territorial differentiated credit policies and service solutions to enhance consumer loan services for new citizens. It actively provided relief measures to the retail credit customers affected by the pandemic. As at 30 June 2022, the balance of personal non-housing consumption loans increased by 27.45 per cent. over the end of the previous year to RMB68.285 billion, and the incremental amount increased by RMB11.020 billion on a year-on-year basis.

### ***Private banking***

The Bank satisfied customers’ long-term demands for security and wealth inheritance via insurance trust services, which resulted in synergy development with large-value insurance policies and facilitated the accelerated growth of family wealth management business. As at 30 June 2022, the scale of family trusts increased by 37.66 per cent. over the end of the previous year. The Bank also launched equity family trust services to enhance its wealth management characteristics. It enhanced service companion for customers and developed asset allocation model system to improve its capability of providing professional asset allocation services. As at 30 June 2022, the number of private banking customers of the Group was 73,700, increasing by 4.77 per cent. over the end of the previous year. The value of assets managed by the Group for private banking customers was RMB1,029.8 billion, increasing by 3.69 per cent. over the end of the previous year.

### ***Credit card***

The Bank expanded its customer basis by enhancing the off-line customer acquisition and improving the conversion rate of the on-line scenario traffics. It launched out innovative products such as credit cards themed with national cultures to attract quality young customers. As at 30 June 2022, the number of credit cards registered with domestic branches was 75,286,300, increasing by 1,017,500 over the end of the previous year. During the six months ended 30 June 2022, the proportion of customers acquired online was 55.98 per cent., representing an increase of 3.63 percentage points on a year-on-year basis; new active accounts saw a growth of 19.10 per cent. on a year-on-year basis. The Bank continued the marketing campaigns such as “Super Red Friday”, “Weekly Swipe” and launched special activities against the COVID-19, and therefore achieved steady improvement in its share of the consumption market and the amount of mobile payment transactions. During the six months ended 30 June 2022, the cumulative amount of consumption through credit cards was RMB1,507.142 billion, representing a year-on-year increase of 3.83 per cent. In detail, the average consumption of active accounts increased by 3.59 per cent. on a year-on-year basis and the amount of mobile payment transactions increased by 24.55 per cent. on a year-on-year basis. The balance in instalments increased by 3.66 per cent. on a year-on-year basis. As at 30 June 2022, the credit card overdraft balance (including both the balance of personal credit card loans and the balance of corporate business card loans) in domestic branches was RMB480.771 billion.

### ***Pension finance***

The Bank actively served the national strategy of coping with the ageing population and boosted the development of pension finance and elderly care industry finance to facilitate the overall layout of pension financial services. It continuously strengthened the account management and custody services for China’s National Social Security Fund, Basic Pension Insurance Funds and Enterprise Annuity Funds. It also actively participated in the pilot program of personal pension reform and was approved as a qualified pilot bank for pension wealth management products, ranking first in the industry in terms of the scale of pension targeted securities investment funds. The Bank enhanced its efforts in the research and development of unique credit products to strengthen its credit support for elderly care service institutions. As at 30 June 2022, the number of customers in the elderly care service industry receiving credit granting services from the Bank increased by 42.42 per cent. over the end of the previous year. The age-appropriate function modification work has been finished for mobile banking and Go Pay APP, which served more than 530,000 elderly customers in total in the first half of the year.

### **Inter-bank and Financial Market Businesses**

As at 30 June 2022, the balance of due to and placements from banks and other financial institutions of the Group increased by RMB49.395 billion or 4.50 per cent. over the end of the previous year, which accounted for 9.03 per cent. of total liabilities and represented a decrease of 1.23 per cent. over the end of the previous year; the financial investment of the Group reached RMB3,692.614 billion, representing an increase of 4.81 per cent. over the end of the previous year.

### ***Inter-Bank Businesses***

The Bank enhanced the clearing business and settlement service provided in the financial factor market, improved emergency safeguard mechanism for the settlement in the financial factor market to address COVID-19 and other emergencies, so as to support the smooth development of the financial market. The Bank also participated in facilitating the interconnection between financial markets and financial infrastructure and became a qualified settlement bank for interconnection transactions between the interbank and exchange bond markets. It served the development of futures market and became one of the qualified depository banks initially designated by Shanghai International Energy Exchange for commodity swaps. During the six months ended 30

June 2022, the volume of the Bank's agent clearing business in Shanghai Clearing House topped in the market, and the volume of securities and futures settlement of the Bank was also leading the market.

The Bank served the development of the Cross-border Interbank Payment System ("CIPS") to effectively promote the security of core cross-border Renminbi payment technologies. It actively promoted the CIPS standard transmit product and other cross-border Renminbi business handling and information exchange products, making it a market leader in terms of the number of customers using its CIPS standard transmit product.

### ***Financial Market Businesses***

The Bank gave full play to its role of "financial stabiliser" as a large state-owned bank, and actively performed the duties of a market maker in interbank business, maintaining a market leading position in terms of the volume of various interbank financial services.

During the six months ended 30 June 2022, the trading volume in Renminbi money market of domestic branches amounted to RMB36.56 trillion; the trading volume in foreign currency market amounted to US\$944.2 billion; the trading volume of Renminbi bonds amounted to RMB2.69 trillion; the trading volume in interbank foreign exchange market amounted to US\$1.73 trillion; the trading volume of self-operated gold amounted to 2,570.5 tons, maintaining its market position as an active trading bank.

The Bank proactively supported the construction of Shanghai as an international financial centre and became one of the members of China Foreign Exchange Trading System initially qualified for bank transaction settlement and completed the first day trading of X-LENDING bond lending and borrowing businesses. The Bank seized the new opportunity of market-oriented reforms of insurance fund utilisation and conducted the first bond lending business with insurance peers.

### ***Asset Custody***

The Bank focused on the original business of custody, enhanced the improvement of its capability for securities custody business, vigorously developed public fund custody businesses and provided innovative asset management and project custody services to serve the real economy and improve its value contribution. It supported the national pension Security system reform by seizing the opportunities for personal pension business and actively expanding pension custody businesses. It also deepened cooperation with financial institutions including insurance, securities and trust companies to facilitate the promotion of all product lines and enhance market competitiveness. As at 30 June 2022, the assets under custody reached RMB12.12 trillion.

### ***Wealth Management Business***

The Bank continued to optimise the structure of its wealth management products, accelerated the expansion and increase of distribution channels to further increase the net worth of its wealth management products. As at 30 June 2022, the balance of off-balance sheet wealth management products of the Group reached RMB1,276.964 billion, among which the balance of net-worth wealth management products was RMB1,148.520 billion, accounting for 89.94 per cent. of the Group's asset management products and representing a year-on-year increase of 18.62 percentage point.

## **INTEGRATED OPERATION**

For the six months ended 30 June 2022, net profit attributable to shareholders of the Bank from the subsidiaries amounted to RMB3.381 billion, the proportion of which to the Group's net profit was 7.68 per cent. The total assets of the subsidiaries were RMB600.223 billion, the proportion of which to the total assets of the Group was 4.77 per cent.

The Group established a coordinative development pattern to provide comprehensive financial services for customers by using commercial banking businesses as the body, with other businesses including financial leasing, fund, wealth management, trust, insurance, foreign security and debt-to-equity swap developing alongside.

## **Major Subsidiaries**

### ***BoCom Leasing***

As the Bank's wholly-owned subsidiary, BoCom Leasing was set up in December 2007 with a registered capital of RMB14.0 billion. The main business scope includes financing leases and operating leases in sectors such as aviation, shipping and energy power, transportation infrastructure, equipment manufacturing and livelihood services. The company was elected as the Fifth Chief Administration Unit of the Financial Leasing Committee of the CBA. During the six months ended 30 June 2022, the company adhered to the development strategies of "Professionalism, Internationalisation, Differentiation and Characteristics", and deeply engaged in aviation, shipping, traditional financing leasing and other businesses, with its main indicators continuing to rank among the highest in the industry. As at 30 June 2022, BoCom Leasing's total assets, net assets and balance of leasing assets were RMB349.486 billion, RMB38.699 billion and RMB304.195 billion, respectively, representing a year-on-year increase of 9.6 per cent., 7.97 per cent., and 6.22 per cent., respectively. Total leasing assets of aircraft and ship amounted to RMB188.614 billion, with fleets of 432 ships and 269 planes. During the six months ended 30 June 2022, BoCom Leasing's net profit reached RMB1.887 billion, representing a year-on-year increase of 8.08 per cent.

During the six months ended 30 June 2022, BoCom Leasing overcame the adverse effects of the pandemic, expedited transformation and innovation, and fully supported the nation's industrial structure policy and the development of key regions. BoCom Leasing made new investments mainly in manufacturing, livelihood services, energy power and transportation, among which incremental investments in the area of "developing the nation into a manufacturing powerhouse" increased by 116.76 per cent. on a year-on-year basis. As at 30 June 2022, the balance of leasing assets of the company in the Yangtze River Delta increased by 17.39 per cent. over the end of the previous year to RMB36.975 billion, among which the balance of leasing assets in Shanghai increased by 19.7 per cent. over the end of the previous year to RMB22.942 billion. BoCom Leasing adhered to the concept of leading industry through innovation, actively explored the "sell-buy" method of aircraft assets, and won Asia-Pacific Editor's Deal of the Year awarded by Airline Economics in 2022. BoCom Leasing also successfully completed the registration of external claims under an innovative leasing project. Specifically, it launched the first special purpose vehicle cross-border container leasing project among Chinese free trade zones, the first of such kind in domestic finance leasing industry. With this innovative project, the company ensured the supply of containers to enterprises and helped maintain a smooth and stable global logistics supply chain.

### ***BoCom International Trust***

BoCom International Trust was set up in October 2007 with a registered capital of RMB5.765 billion, of which the Bank and Hubei Provincial Communications Investment Group Co., Ltd. contributed 85 per cent. and 15 per cent. stock rights respectively. The main business scope includes non-standard investment and financing trusts, securities investment trusts, asset securitisation trusts, family trusts, and charitable trusts. During the six months ended 30 June 2022, the company actively promoted business transformation and achieved positive results. It issued the first Commercial Mortgage-Backed Medium-termed Notes for underground property in the nation, and implemented the Group's first equity family trust. BoCom International Trust deepened the synergy effect of the Group, and increased investments in key regions such as Shanghai, the Yangtze River Delta, the Yangtze River Economic Belt, and the Guangdong-Hong Kong-Macao Greater Bay Area, with incremental investments increased by 56.56 per cent. BoCom International Trust has been rated as Level A (the

highest level) for seven consecutive years since the China Trustee Association launched the industry rating, and has won approval from Hubei Office of the CBIRC to engage in the equity investment business with inherent assets. During 2021, the value of securitised credit assets publicly issued by BoCom International Trust ranked seventh in the sector. As at 30 June 2022, the total assets, net assets and AUM of BoCom International Trust were RMB17.884 billion, RMB14.981 billion and RMB554.169 billion, respectively. Affected by the decrease in existing business and the restructuring of its trust business, BoCom International Trust's net profit during the six months ended 30 June 2022 decreased by 13.87 per cent. on a year-on-year basis to RMB0.505 billion.

### ***BoCom Schroder Fund***

BoCom Schroder Fund was set up in August 2005 with a registered capital of RMB0.2 billion. BoCom Schroder Fund was jointly contributed by the Bank, Schroder Investment Management Limited and China International Marine Containers (Group) Co., Ltd., with the stock rights accounting for 65 per cent., 30 per cent. and 5 per cent. respectively. The primary businesses include fund raising, fund sales and asset management. The yield of equity investment under active management ranked second (2/73) in the industry in recent seven years, fourth (4/91) in recent five years, and twenty-fifth (25/117) in recent three years. The rate of return of one fund product in recent seven years was more than 300 per cent., the rate of return of three fund products in recent five years was more than 200 per cent., and the rate of return of 14 fund products in recent three years was more than 100 per cent. During the six months ended 30 June 2022, BoCom Schroder Fund and the Group jointly focused on the layout and sales of pension financial products, and thus BoCom One Year Stable Pension FOF became the largest FOF product under management in the market, with a scale of nearly RMB20.0 billion as at 30 June 2022. As at 30 June 2022, BoCom Schroder Fund's total assets and net assets were RMB7.461 billion and RMB5.556 billion, respectively, and the public fund under management reached RMB596.1 billion, representing an increase of 9 per cent. over the end of the previous year. Due to the impact of market fluctuations, BoCom Schroder Fund's net profit during the six months ended 30 June 2022 suffered a year-on-year decrease of 14.81 per cent. to RMB0.832 billion.

### ***BOCOM Wealth***

As a wholly-owned subsidiary of the Bank, BOCOM Wealth was set up in June 2019 with a registered capital of RMB8.0 billion. It primarily issues to customers wealth management products of fixed income, equity, commodities, financial derivatives and hybrid categories. During the six months ended 30 June 2022, BOCOM Wealth contributed to establishing Schroder BOCOM Wealth Management Co., Ltd., and Guomin Pension Insurance Co., Ltd. to align with the nation's development strategy. It was also qualified to participate in the second round of pilot scheme of pension wealth management products. In addition, BOCOM Wealth practiced the ESG investment concept, and successfully raised funds for and launched its first Yangtze River Delta ESG-themed wealth management product. BOCOM Wealth also actively expanded consignment agencies outside the Bank, and ranked top among wealth management subsidiaries, with the balance of wealth management products reaching RMB1,148.520 billion as at 30 June 2022. BOCOM Wealth was awarded the Gold Financial Product of the Year in terms of Market Influence, and the Outstanding Innovative Wealth Management Product, among others, from media and rating agencies. As at 30 June 2022, BOCOM Wealth's total assets and net assets were RMB10.871 billion and RMB10.540 billion, respectively. Its net profit during the six months ended 30 June 2022 was RMB0.634 billion, representing an increase of 4.51 per cent. on a year-on-year basis.

### ***BoCommLife***

BoCommLife was set up in January 2010 with a registered capital of RMB5.1 billion, of which the Bank and the MS&AD Insurance Group contributed 62.50 per cent. and 37.50 per cent. stock rights respectively. The business scope includes life insurance, health insurance, accident insurance and reinsurance businesses of the aforementioned insurances in Shanghai as well as regions where its branches were established. For the six months ended 30 June 2022, BoCommLife enriched its products and further adapted its services in areas such as pension finance and financial services for new urban residents, so as to meet customers' protection needs

throughout their lifetime. BoCommLife also strengthened business innovation, participated in the pilot programme of individual tax-deferred commercial pension insurance, and established a team consisting of nearly 100 wealth planners to satisfy the high net-worth customers through allocation of premium and premium trusts. As at 30 June 2022, BoCommLife's total assets and net assets were RMB109.431 billion and RMB8.007 billion, respectively. During the six months ended 30 June 2022, the original premium income was RMB13.550 billion, representing an increase of 19.03 per cent. on a year-on-year basis. Affected by the fluctuations in the capital market and decrease in investment income, the net profit was RMB0.185 billion, representing a decrease of 69.37 per cent. on a year-on-year basis.

#### ***BOCOM Financial Asset Investment***

As a wholly-owned subsidiary of the Bank, BOCOM Financial Asset Investment was set up in December 2017 with a registered capital of RMB10.0 billion. As one of the first pilot banks to implement debt-to-equity conversion as determined by the State Council, BOCOM Financial Asset Investment is mainly engaged in debt-to-equity conversion and supporting services. As at the date of this Supplemental Offering Circular, the Bank injected additional capital of RMB5.0 billion to BOCOM Financial Asset Investment. During the six months ended 30 June 2022, BOCOM Financial Asset Investment made efforts to develop the main business of market-oriented debt-to-equity swap, and actively reduced leverage ratio and controlled risks to serve the real economy. Its gross incremental investment was RMB4.739 billion, the amount of withdrawal from projects was RMB2.09 billion and the net incremental investment of the year was RMB2.649 billion. As at 30 June 2022, BOCOM Financial Asset Investment's total assets and net assets were RMB67.265 billion and RMB20.035 billion, respectively. BOCOM Financial Asset Investment's net profit during the six months ended 30 June 2022 was RMB0.709 billion, representing an increase of 0.84 per cent. on a year-on-year basis. Pursuant to the Administrative Measures for the Capital of Commercial Banks (Trial Implementation) issued by the CBIRC and the relevant requirements, as at 30 June 2022, the total net value of BOCOM Financial Asset Investment's core tier 1 capital, tier 1 capital and net capital amounted to RMB20.030 billion, with core tier 1 capital adequacy ratio, tier 1 capital adequacy ratio, and capital adequacy ratio all at 14.60 per cent. The leverage ratio was 29.95 per cent., which met the regulatory requirements.

#### ***BoCom International Holdings***

BoCom International Holdings was set up on June 1998 (formerly known as Communications Securities Co., Ltd. and changed its name to BOCOM International Holdings Company Limited in May 2007). It was listed on the main board of Hong Kong Stock Exchange on 19 May 2017. As at the end of 30 June 2022, the Bank's shareholding in BoCom International Holdings was 73.14 per cent. The main business of BoCom International Holdings includes securities brokerage and margin financing, corporate financing and underwriting, asset management and consulting, investment and loan. For the six months ended 30 June 2022, BoCom International Holdings adopted the business strategy of "highlighting the businesses in Yangtze River Delta and Pearl River Delta, focusing on two fields of the industry and achieving transformation with intelligent and digital technologies" with a view to providing customers with comprehensive financial services of the integrated industrial chain. As at 30 June 2022, BoCom International Holdings' total assets and net assets were HK\$29.542 billion and HK\$4.609 billion, respectively. During the six months ended 30 June 2022, BoCom International Holdings' investment business suffered net losses of HK\$1.678 billion due to the adverse impact of poor market performance.

#### ***BoCom Insurance***

As a wholly-owned subsidiary of the Bank, BoCom Insurance was set up in November 2000 with a registered capital of HKD0.4 billion. The main business was the operation of 17 types of general insurances approved by the Insurance Authority of Hong Kong. For the six months ended 30 June 2022, BoCom Insurance took advantage of the Group's only property and casualty insurance platform and a full business license for general insurances to overcome the impact of the pandemic in Hong Kong, and coordinated with the Group to



continuously enhance insurance customer experience. BoCom Insurance's gross premiums increased by 23.30 per cent. on a year-on-year basis, which is higher than the growth rate in Hong Kong's general insurance market. The premium profits before expenditure reached HK\$15.26 million and remained flat on a year-on-year basis, with the net compensation rate at 18.55 per cent. Affected by multiple factors such as the fifth wave of the pandemic in Hong Kong, capital market fluctuations, and a year-on-year increase in claims paid, the net profit suffered a year-on-year decrease of 26.21 per cent. to HK\$4.87 million and revenue from business collaboration amounted to HK\$7.01 million, representing a year-on-year increase of 15.19 per cent.

## **GLOBAL SERVICE CAPABILITIES**

The Group formed an overseas operating network covering major international financial centres across five continents, and had 23 overseas branches (sub-branches) and representative offices in 18 countries and regions, with 69 overseas operating outlets as at 30 June 2022. For the six months ended 30 June 2022, net profit of overseas banking institutions of the Group was RMB3.054 billion, whose contribution to the Group's total net profit was 6.93 per cent. As at 30 June 2022, the total assets of overseas banking institutions were RMB1,318.503 billion, whose contribution to the Group's total assets was 10.48 per cent.

### ***Hong Kong Branch***

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

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

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

### ***Other overseas branches***

Other overseas branches and subsidiaries as at 31 December 2021 were:

- The Bank's New York branch commenced operation in November 1991.
- The Bank's Tokyo branch commenced operation in December 1995.
- The Bank's Singapore branch commenced operation in September 1996.
- The Bank's Seoul branch commenced operation in August 2005.
- The Bank's Frankfurt branch commenced operation in October 2007.
- The Bank's Macau branch commenced operation in November 2007.
- The Bank's Ho Chi Minh City branch commenced operation in February 2011.
- The Bank's London branch commenced operation in November 2011.
- The Bank's Sydney branch commenced operation in November 2011.

- The Bank's San Francisco branch commenced operation in November 2011.
- The Bank's Taipei branch commenced operation in July 2012.
- The Bank's representative office in Toronto was opened in November 2014.
- The Bank's tier-2 branch in Brisbane commenced operation in April 2015.
- The Bank's subsidiary in Luxembourg commenced operation in May 2015.
- The Bank's subsidiary's branch in Paris commenced operation in November 2016.
- The Bank's subsidiary's branch in Rome commenced operation in November 2016.
- Banco BBM S.A. became a non-wholly owned subsidiary of the Bank in November 2016.
- The Bank's tier-2 branch in Melbourne commenced operation in December 2018.
- The Bank's Prague branch commenced operation in May 2019.
- The Bank's Johannesburg branch commenced operation in November 2020.

### ***Internationalisation development***

The Group leveraged its solid domestic and overseas service network and operating capabilities to actively provide financial services for Chinese enterprises going global that are in line with the nation's strategies. In doing so, the Group aimed to proactively respond to China's pursuit of high-level opening-up and a new development pattern of "dual circulation," in which domestic and foreign markets reinforce each other. During the six months ended 30 June 2022, overseas banking institutions closely monitored changes in the global market, improved their emergency plans, strengthened risk prevention, and carried out operational management work in a stable and orderly manner.

### ***International settlement and trade financing***

The Bank actively served trade-oriented enterprises, continuously optimised the functions of online trade finance products, and promoted product iteration and upgrade. The balance of EASY-Remittance, EASY-Certificate and EASY-Loan increased by 173 per cent., 113 per cent. and 123 per cent. from a year earlier, respectively. The Bank also actively implemented the nation's relevant requirements to support the development of new forms of foreign trade, and hence expedited the implementation of newly business and projects such as cross-border e-Commerce, integrated foreign trade services and market procurement trade, which increased by 413 per cent., 114 per cent. and 70 per cent. in business volume on a year-on-year basis, respectively. In addition, the Bank launched a series of international business stewardship services and other scenario-based innovative products to inject a new momentum of FinTech into cross-border trade and facilitate investment and financing. During the six months ended 30 June 2022, the amount of international settlement processed by the Bank reached US\$262.904 billion, representing a year-on-year increase of 14.15 per cent. The volume of financing for cross-border trade reached US\$17.594 billion.

### ***Overseas service network***

As at 30 June 2022, the Group had 23 overseas branches (sub-branches) and representative offices in places including Hong Kong, New York, London, Singapore, Tokyo, Frankfurt, Luxembourg and Sydney, providing customers with financial services including deposits, loans, international settlement, trade financing and foreign currency exchange. As at 30 June 2022, the Bank established an overseas banking service network with 1,005 banks in 126 countries and regions, set up 238 cross-border Renminbi interbank accounts for 100 overseas Renminbi participating banks in 31 countries and regions. In addition, 82 foreign currency settlement accounts in 27 major currencies were opened in 63 banks in 31 countries and regions.

### ***Cross-border Renminbi transactions***

The Bank actively promoted the deployment and application of the CIPS standard transmit product (enterprise version) to complete the “last mile” of cross-border Renminbi payment and clearing services, so as to help construct an independent, secure and controllable cross-border Renminbi payment network. As at 30 June 2022, a total of 507 enterprises adopted the standard transmit product through the Bank, making the Bank ranked first in the market in this regard. The Bank also strived to further align its cross-border Renminbi transactions with its business strategy and strengthened collaboration between domestic and overseas banks. During the six months ended 30 June 2022, the volume of cross-border Renminbi settlement of domestic and overseas banking institutions reached RMB668.237 billion, representing an increase of 10.60 per cent. on a year-on-year basis.

### ***Offshore services***

The Bank strengthened the integrated development of offshore and onshore businesses as well as the integrated operation of non-resident accounts, and fully explored the business potentials of the integration of Yangtze River Delta and Lin-Gang Special Area of Shanghai Pilot Free Trade Zone. As at 30 June 2022, the asset balance of offshore business increased by 9.42 per cent. over the end of the previous year to US\$17.437 billion.

## **MARKETING**

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

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

## **INFORMATION TECHNOLOGY**

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

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

## **EMPLOYEES**

As at 30 June 2022, the Group had a total of 90,654 employees, of whom 84,350 employees were based in domestic banking institutions and 2,519 were local employees in overseas branches. There were 3,785 employees in total working for the Bank's subsidiaries.

## **INTELLECTUAL PROPERTY**

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

## **LEGAL AND REGULATORY PROCEEDINGS**

The Group has been involved as defendants in certain lawsuits arising from its normal business operations. Management of the Group believes, based on legal advice, the final result of these lawsuits will not have a material impact on the financial position or operations of the Group. In the six months ended 30 June 2022, the Group was not involved in any material litigation and arbitration. As at 30 June 2022, the Group was involved in certain outstanding litigations/arbitrations as defendant or third party with an amount of approximately RMB2.602 billion. The Bank believes that there is sufficient provision for current and pending litigations and arbitrations against the Bank or its branches. Even if any judgment or award of the said current and pending litigations or arbitrations against the Bank or its branches is adverse to the Bank, the Bank does not anticipate that any such cases (individually or jointly) would have a material adverse impact on the Bank's financial condition or results of operations.

## **PROPERTIES**

The address of the headquarter of the Bank is No.188 Yincheng Zhong Road, Pudong New District, Shanghai, China. As at 31 December 2021, the Group had 248 domestic branches, including 37 branches at provinces, autonomous regions or municipalities level or directly-managed level and 211 branches managed by branches at provinces, autonomous regions or municipalities level, most of which are concentrated in the Yangtze River Delta, Pearl River Delta and Bohai Rim Economic Zone, as well as large cities in other areas. As at 30 June 2022, in addition to its PRC operations, the Bank had branches or subsidiaries which are located in Hong Kong, New York, San Francisco, Tokyo, Singapore, Seoul, Frankfurt, Macau, Ho Chi Minh City, Sydney, Brisbane, Melbourne, Taipei, London, Luxembourg, Paris, Rome, Brazil, Prague and Johannesburg, and its representative office in Toronto commenced operations in November 2014.

## RISK MANAGEMENT AND INTERNAL CONTROL

*The section “Risk Management and Internal Control” on pages 120 to 125 of the Original Offering Circular shall be deleted in its entirety and replaced with the following:*

The Board of Directors of the Group established the overall risk appetite of “Stability, Balance, Compliance and Innovation” for the Group and further set specific indicators of risk limits against various risk types including credit, market, operation, liquidity, interest rate of banking book, information technology and country to control strictly over various risk types. During the six months ended 30 June 2022, the Bank formulated the “Methods of strengthening unified risk management” to further clarify the unified risk management requirements for each institution in the Group, implement the risk management responsibilities of operating units, to improve the comprehensive risk management system covering all types of risks and businesses, and thus ensured the bottom line of preventing the occurrence of systematic and regional risks. The Group has focused on enhancing its risk management capabilities in the following respects:

- **Strengthened risk management framework**

The Board of Directors of the Bank assumed the ultimate responsibility and the highest decision-making function of risk management, and controlled the Bank’s risk condition through the subordinate Risk Management and Related Party Transaction Control Committee. The Bank’s senior management established the Comprehensive Risk Management and Internal Control Committee, as well as two business review committees, namely the Credit and Investment Review Committee and the Risk Asset Review Committee. The business review committees were guided by and reported regularly to the Comprehensive Risk Management and Internal Control Committee. Each provincial and directly managed branch, overseas branch and subsidiary established its own Comprehensive Risk Management and Internal Control Committee accordingly based on the aforementioned framework, which served as the main platform to study the prevention and control of systematic and regional risks of the Group and decision-making risk management on major issues, ensuring that the comprehensive risk management system had been implemented throughout the Group.

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

The Bank actively practiced digital transformation in risk management and built a strong foundation for risk data across the Bank and an enterprise-level risk management application under the guideline of being market-driven, customer-based, grass roots-oriented and urgency-prioritised to enhance intelligent risk management. It improved the integrated risk monitoring system covering the Group and optimised the unified view of risks. Its risk monitoring system project was awarded the 2021 Top Ten Intelligent Risk Control and Management Innovation Award under the Financial Innovation of China Award by The Banker. The Group pushed forward the construction of risk measurement system, strengthened the unified management of risk measurement throughout the Group and optimised the measurement system covering all types of major risks. The Bank built a unified model management platform, launched the project of implementing new capital management measures and completed the major work of the construction and upgrading of systems.

## BOARD OF DIRECTORS AND ITS RISK MANAGEMENT AND RELATED PARTY TRANSACTION CONTROL COMMITTEE

The Board of the Bank assumed the ultimate responsibility and served the highest function of decision-making and monitored the Group’s risk management through its risk management and related party transaction control committee (the “**Risk Management and Related Party Transaction Control Committee**”). The Bank’s Senior Management established a Risk Management Committee, namely Comprehensive Risk Management

Committee and its risk management subcommittees with various professionals and two business review committees namely Credit and Investment Review Committee and High-risk Asset Review Committee.

The Risk Management and Related Party Transactions Control Committee of the Board of the Bank is primarily responsible for supervising the risk management of the Bank, assessing risks of the Bank and the effectiveness of the Bank's risk management policies, and making recommendations to the Board regarding the Bank's risk management and internal control strategies and policies. The audit committee of the Bank is responsible for proposing the appointment, change or removal of the Bank's auditors, overseeing the Bank's internal auditing system and its implementation, acting as the communication channel between the Bank's internal and external auditors, reviewing the Bank's financial information and related disclosures, overseeing the Bank's accounting policies, financial condition and financial reporting procedures, and evaluating the Bank's compliance with, and adequacy of, the Bank's internal controls. As at 30 June 2022, the audit committee of the Bank consisted of seven members, Mr. Li Longcheng, Mr. Chang Baosheng, Mr. Chen Junkui, Mr. Yeung Chi Wai, Jason, Mr. Woo Chin Wan, Raymond, Mr. Zhang Xiangdong and Ms. Li Xiaohui, with Ms. Li Xiaohui as the Chairwoman of the audit committee.

### **Board of Supervisors**

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

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

The Comprehensive Risk Management Committee of the Bank primarily formulates the Bank's risk management goals, policies and implementation procedures within the framework of the risk management strategies approved by the Board of the Bank, assesses the Bank's bank-wide risk management condition, and reviews and decides on any material violations of the Bank's risk management policies. The Bank's senior management established the Comprehensive Risk Management and Internal Control Committee, as well as two business review committees, namely Credit and Investment Review Committee and Risk Asset Review Committee. The business review committees are guided by and reports regularly to the Comprehensive Risk Management and Internal Control Committee. Each provincial and directly managed branch, overseas branch and subsidiary established the Comprehensive Risk Management and Internal Control Committee accordingly based on the aforementioned framework, which served as the main platform to study the prevention and control of systematic and regional risks of the Group and decision-making risk management on major issues, ensuring that the comprehensive risk management system had been implemented throughout the Group.

### **Credit Risk Management**

The Group's credit risk management is assumed by major functions such as Corporate Business Department, Inclusive Finance Department, Personal Finance Business Department, Pacific Credit Card Centre, Credit Authorisation Department, Credit Approval Department, Risk Management Department/Internal Control and Crime Prevention Office and Asset Preservation Department. They are responsible for the standardised management of corporate and retail credit businesses in terms of guidance on credit investment, credit investigation and report, credit approval, loan granting, post-loan management and non-performing loan management.

During the six months ended 30 June 2022, the Bank had continued to enhance its unified credit risk management. The Bank has promoted the development of credit business in an orderly manner and supported the stabilisation and improvement of the real economy, and has vigorously developed green finance. The Bank has actively provided support to key sectors including inclusive small and micro businesses, advanced manufacturing, infrastructure construction, strategic emerging industries, and trade and logistics. The Bank has also strengthened control over real estate, government's implicit debt, large business group customers,

overcapacity, credit cards, etc. The Bank has continuously improved its management infrastructure, improved its credit policy framework, the outline of its credit and risk policy, its industry investment guideline, its “one industry one policy”, and has been able to adopt special policies swiftly. The Bank has connected to the Unified Registration and Publication System for Chattel Financing of the Credit Reference Centre of the People’s Bank of China, and has been promoting online mortgage registration nationwide, and “cross-province” mortgage registration has been enabled for many cities in the Yangtze River Delta. The Bank’s system tools are constantly being upgraded, and post-loan/investment management and risk monitoring methods have been further enhanced; the Bank’s risk classification has become more accurate and stricter, and its asset quality has been stable and improving.

The Group increased the disposal of non-performing assets and related debt recovery. During the six months ended 30 June 2022, the disposal of non-performing loans was RMB38.247 billion, and the relevant substantial recovery accounted for nearly 47.00 per cent., an increase of nearly six percentage points on a year-on-year basis, and the quality and efficiency of disposal improved steadily. This is due to, firstly, the head office of the Group has brought professional disposal capability and helped with the disposal of major risk projects, and improved the effectiveness of the disposal of nonperforming assets. Secondly, the Group has actively promoted the securitisation and issuance of non-performing assets, with its issuance volume being the second largest in the market during the first half of 2022.

For the real estate sector, the Bank has followed the national macro-control policies, and has promoted the steady and healthy development of the real estate market. Firstly, the Bank has strengthened access control, followed the general principle of “implementing policies on a city-by-city basis and a client-by-client basis, differentiating management in level and in category”, adhered to the five-factor client acceptance criteria of “client, region, business status, cost and return”, and strengthened differentiated management. Secondly, the Bank has handled and resolved risks diligently, and has followed the guiding of “three stabilisation” (the stabilisation of land cost, property cost and market expectation) and “three assurance” (the assurance of property delivery, public livelihood and social stability). In accordance with the principles of legal compliance and marketisation, the Bank has cooperated with local governments to carry out “two protections” (protect the real estate market’s stable and healthy development; and protect the rights and interests of home buyers). In accordance with the principles of legal compliance, risk controllability, and business sustainability, steady and orderly, the Bank has supported mergers and acquisitions of high-quality real estate enterprises out of risk and high-quality projects of real estate enterprises in difficulty. Thirdly, the Bank has strengthened risk prevention and control, and has used various internal and external tools to strengthen risk monitoring, investigated risks diligently. The Bank improved the initiative of risk management, and has achieved early identification, early warning, early detection and early disposal of risks. The Bank has continued to promote the adjustment of industry structure and has strictly adhered to the bottom line of no systemic risks. In the first half of 2022, the operations and financial condition of some real estate companies continued to be under pressure, liquidity risks were highlighted, and debt defaults or negative public opinion occurred in the open market. The Bank relocated the relevant several real estate project loans to non-performing loans in accordance with the principle of substantive risk judgment, and has further strengthened the risk management and recovery and disposal of related loans. At the end of the first half of 2022, the non-performing amount and non-performing ratio of the real estate industry increased compared with the beginning of the year, whereas the overall risk is controllable.

For the credit card business, the Bank has continued to optimise the customer base structure and has expanded the scale of high-quality assets. By optimising data management, model application, and risk control system, the Bank has improved customer profiling and precise policy implementation capabilities. The Bank has overcome the adverse impact of the epidemic and has focused on the recovery of substantial non-performing assets. The non-performing ratio has fallen after a shorter surge, and the asset quality was stable and controllable. At the end of the first half of 2022, the non-performing rate of credit card business was 2.66 per cent., a decrease of 0.05 percentage point from the end of the first quarter of 2022.

During the six months ended 30 June 2022, the Group has strengthened risk identification, accelerated risk disposal, and tightened asset quality classification standards. The foundation of asset quality has been continuously consolidated, and the level of asset quality has been steadily improved. As at 30 June 2022, the balance of nonperforming loans of the Group was RMB103.232 billion and the non-performing loan ratio was 1.46 per cent., representing an increase of RMB6.436 billion and a decrease of 0.02 percentage point respectively as compared with 31 December 2021. The balance of overdue loans is basically stable, and the proportion decreased compared with the beginning of the year. The Group adopted prudent classification standards for overdue loans. All the corporate loans overdue for more than 60 days were included in non-performing loans. Loans overdue for over 90 days were included in non-performing loans and accounted for 56 per cent. of non-performing loans.

***Distribution of loans by five categories of loan classification***

|  | As at 30 June 2022                                  |                | As at 31 December 2021 |                | As at 31 December 2020 |                | As at 31 December 2019 |                |
|--|---|----------------|------------------------|----------------|------------------------|----------------|------------------------|----------------|
|  | Balance   | Proportion (%) | Balance                | Proportion (%) | Balance                | Proportion (%) | Balance                | Proportion (%) |
|  | <i>(in millions of RMB unless otherwise stated)</i> |                |                        |                |                        |                |                        |                |
| <b>Categories</b>                          |   |                |                        |                |                        |                |                        |                |
| Pass loan .....                            | 6,883,398   | 97.11          | 6,374,975              | 97.17          | 5,668,199              | 96.92          | 5,111,715              | 96.37          |
| Special mention loan .....                 | 101,100   | 1.43           | 88,629                 | 1.35           | 82,527                 | 1.41           | 114,517                | 2.16           |
| <b>Total performing loan balance .....</b> | <b>6,984,498</b>                                    | <b>98.54</b>   | <b>6,463,604</b>       | <b>98.52</b>   | <b>5,750,726</b>       | <b>98.33</b>   | <b>5,226,232</b>       | <b>98.53</b>   |
| Sub-standard loan .....                    | 46,452  | 0.66           | 52,960                 | 0.81           | 52,652                 | 0.90           | 16,963                 | 0.32           |
| Doubtful loan .....                        | 33,826  | 0.48           | 25,978                 | 0.40           | 26,713                 | 0.46           | 42,508                 | 0.80           |
| Loan loss .....                            | 22,954  | 0.32           | 17,858                 | 0.27           | 18,333                 | 0.31           | 18,572                 | 0.35           |
| Total non-performing loan balance .....    | 103,232   | 1.46           | 96,796                 | 1.48           | 97,698                 | 1.67           | 78,043                 | 1.47           |
| <b>Total .....</b>                         | <b>7,087,730</b>                                    | <b>100.00</b>  | <b>6,560,400</b>       | <b>100.00</b>  | <b>5,848,424</b>       | <b>100.00</b>  | <b>5,304,275</b>       | <b>100.00</b>  |

As at 31 December 2019, 2020 and 2021 and 30 June 2022, the breakdown of the Bank's migration rate stipulated by the CBIRC is as follows:<sup>(1)</sup>

|                             | 30 June 2022 | 31 December 2021 | 31 December 2020 | 31 December 2019 |
|-----------------------------|--------------|------------------|------------------|------------------|
|                             | <i>(%)</i>   |                  |                  |                  |
| <b>Loan migration rates</b> |              |                  |                  |                  |
| Pass loan .....             | 1.11         | 1.86             | 1.84             | 1.71             |
| Special mention loan .....  | 25.30        | 45.72            | 46.59            | 29.76            |
| Sub-standard loan .....     | 41.60        | 29.61            | 25.48            | 42.76            |
| Doubtful loan .....         | 24.11        | 17.42            | 19.92            | 10.92            |

Note:

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

As at 30 June 2022, with the impact of economic downturn, the Bank is still under pressure of the risk management and control environment.



## **Market Risk Management**

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

The aim of the market risk management of the Group was to proactively identify, measure, monitor, control and report its market risks based on the risk appetite determined by the Board of Directors. By using methods and means of quota management, risk hedging and risk transfer, the Group was able to manage its market risk exposure to an acceptable level and pursued a maximisation of its risk-adjusted profits based on its controlled risks.

The exchange rate risk and general interest rate risk of trading book were assessed with the use of the internal model-based approach by the Group, while the market risk not covered by the internal model-based approach was assessed under the standardised approach. In terms of the internal model-based approach, historical simulation method was adopted to calculate value at risk (“**VaR**”) and stressed value at risk (“**SVaR**”), which had a historical observation period of one year, a holding period of 10 working days and a 99 per cent. confidence interval. Daily capital transaction positions of the Group and the most updated market data were obtained to perform position valuation and sensitivity analysis in a timely manner. In addition, using the historical simulation method, the Group measured VaR of market risks on a daily basis from different perspectives, including risk factors and investment portfolios and products and performed reverse testing to verify the accuracy of the VaR model. The results obtained using the internal model-based approach were also applied to capital measurement, quota monitoring and management, performance assessment and risk monitoring and analysis.

During the six months ended 30 June 2022, the Group kept improving the market risk management system and process, optimising the risk management system, enhancing the product management, optimising limit settings and improving the risk management of derivatives business. The Group closely observed market fluctuations, strengthened market research and judgment on the market, enhanced exposure monitoring and risk warning, improved the risk assessment and inspection, and strictly controlled various market risk exposure limits to improve the level of market risk management.

## **Liquidity Risk Management**

The governance structure of liquidity risk management of the Group consisted of a decision-making body comprised the board of directors and its special committees and senior management, a supervisory body comprised the board of supervisors and the audit supervision committee and an executive body comprised Financial Management Department, Financial Markets Department, Risk Management Department, Operations and Channel Management Department, all the branches and subsidiaries, and the Head Office’s departments in charge of each business unit.

The Group’s liquidity risk management goal was to establish and improve the liquidity risk management system, and effectively identify, measure, monitor and manage the liquidity risk at various levels and hierarchies including the legal entity and group level, subsidiaries, branches and business lines to ensure that the liquidity demands can be timely satisfied at a reasonable cost.

The Group made decisions on its liquidity risk appetite on an annual basis based on factors such as operation strategies, business characteristics, financial strength, financing abilities, overall risk appetite and market influence. According to the liquidity risk appetite, the Group formulated written liquidity risk management strategies, policies and procedures. The strategies and policies of liquidity risk management covered all on- and off-balance sheet businesses, as well as all domestic and overseas business departments, branches and subsidiaries that might have significant impacts on liquidity risks and included liquidity risk management under normal and stressful conditions.

During the six months ended 30 June 2022, the Group conscientiously implemented the regulatory requirements, continuously strengthened the on- and off-balance sheet liquidity risk management. The Group actively supported the real economy and ensured the liquidity security of the Bank at the same time, with all the liquidity monitoring indicators meeting the regulatory requirements. The Group optimised and improved the liquidity risk management indicator system to promote the coordinated development of the Bank's asset and liability business, realised the chronological and effective balance between the source of funds and the use of funds, actively promoted the stable growth of total deposits and issued long-term bonds to supplement stable funding. The Group strengthened the overall dispatch of domestic and foreign currency funds, dynamically regulated the scale, maturity, structure and the pace of operation of interbank liabilities, and flexibly adjusted the investment of noncredit business.

The Group also performed cash flow calculation and analysis to ensure the funding position security during the pandemic. The Group launched regular stress testing for liquidity risk, taking various factors that may affect the liquidity into full consideration, and setting reasonable stress scenarios. The results of stress tests showed that the liquidity risk of the Bank was in a controllable range under various stress scenarios.

### **Operational Risk Management**

The Group developed a comprehensive operational risk management system compatible to the nature, scale and product complexity of the Bank's businesses. The Group also standardised the procedures of self-assessment on operational risk controls, operational risk incident management and key risk indicator monitoring. During the six months ended 30 June 2022, the Group enhanced the management on operational risks in categories and matrix risk assessment mechanism, strengthened operational risk continuity management to the whole group, and strengthened risk monitoring assessment on key areas.

### **Legal Compliance and Anti-Money Laundering**

During the six months ended 30 June 2022, the Bank continuously promoted legal knowledge education and the construction of compliance culture to improve the legal compliance management system, strictly reviewed the legal compliance of new business, new products and rules and regulations, and strengthened the response to litigation cases and legal risk management. During the six months ended 30 June 2022, the Bank improved the anti-money laundering management system, promoted institutional money laundering risk assessment, improved the quality and efficiency of large and suspicious transaction reporting, and strengthened the construction of anti-money laundering system.

### **Reputation Risk Management**

The Group implemented the Measures on Reputation Risk Management of Banking and Insurance Institutions (Trial Implementation), continuously improved the reputation risk governance structure, established and improved the whole process management mechanism of reputation risk, including pre-assessment, risk monitoring, incident classification, early warning and reporting, corresponding strategies and measures, assessment and accountability, and review and summary, etc., consolidated the normalisation construction and properly handled various reputation incidents. During the six months ended 30 June 2022, reputation risk was well managed, reputation risk was under control and there was no occurrence of significant reputational incidents.

### **Cross-industry, Cross-Border and By-Country Risk Management**

The Group set up the risk management system across industries and borders, characterised by "centralised management, clear allocation, adequate tools, IT support, risk quantification, and consolidation of substantially controlled entities". The risk management of each subsidiary and foreign bank takes into account the unified

requirements of the Group and the special requirements of the respective regulatory authorities. During the six months ended 30 June 2022, considering the uncertainties caused by the global COVID-19 pandemic and

changes in the external environment, the Group strengthened the unified risk management of overseas institutions, revised the risk management system of overseas institutions, improved the follow-up mechanism for the rectification of risk assessment issues, and developed and rehearsed various emergency plans to ensure stable operation of business. The Group also strengthened management of key areas such as employees' awareness of pandemic prevention, liquidity, business continuity and asset quality in overseas institutions. The Group enhanced the consolidation management, refined the full lifecycle management of subsidiaries, and provided better guidance and assessment on the consolidation management of subsidiaries. The Group implemented by-country risk management, improved internal management system, regularly monitored and implemented limit management requirement, carried out by-country risk analysis and risk rating, and continuously monitored and timely responded to by-country risk incidents.

### **Management of Large Exposure Risk**

The Group thoroughly implemented the requirements of the *Administrative Measures for the Large Exposures of Commercial Banks* issued by the CBIRC, boosted the construction of management system, and optimised internal management system. The Group continuously monitored situations of large exposure risk, and strictly implement each limit management, so as to improve the Group's ability to prevent systematic and regional risk. During the six months ended 30 June 2022, the Group's large exposure risk indicators all met the regulatory requirements.

### **Climate and Environmental Risk Management**

The Group actively served the "carbon peak and carbon neutrality" national strategy, integrated climate and environmental risks into its comprehensive risk management system, included climate and environmental risk management as an important part in its medium and long-term plan, actively took measures to improve the governance structure, optimised the management and control means, and prepared to identify and respond to physical risks and transformation risks. During the six months ended 30 June 2022, the Bank integrated climate risks into its risk appetite management system, consolidated carbon data infrastructure construction, and advanced research on climate risk stress test approaches.

## DESCRIPTION OF THE BANK'S ASSETS AND LIABILITIES

*The section “Description of the Bank’s Assets and Liabilities” on pages 126 to 135 of the Original Offering Circular shall be deleted in its entirety and replaced with the following:*

### ASSETS

The Bank’s total assets as at 30 June 2022 were RMB12,580,576 million, which represents an increase of 7.84 per cent. from RMB11,665,757 million as at 31 December 2021. The four principal components of the Bank’s assets consist of loans and advances to customers (after provision), financial investments, cash and balances with central banks and due from and placements with banks and other financial institutions. As at 30 June 2022, the balance of the Bank’s loans and advances to customers (after provision), financial investments, cash and balances with central banks, due from and placements with banks and other financial institutions and others constituted 55.03 per cent., 29.35 per cent., 5.94 per cent., 6.36 per cent. and 3.32 per cent., respectively, of its total assets. The following table sets forth the balances of significant components of the Bank’s total assets as at the dates indicated:

|  | As at 31 December |                   |                   | As at 30 June     |
|--|-------------------|-------------------|-------------------|-------------------|
|  | 2019              | 2020              | 2021              | 2022              |
|  | (RMB in million)  |                   |                   |                   |
| Cash and balances with central banks .....                                   | 760,185           | 817,561           | 734,728           | 746,660           |
| Due from banks and other financial institutions .....                        | 648,488           | 571,130           | 632,708           | 799,743           |
| Derivative financial assets .....  | 20,937            | 54,212            | 39,220            | 56,150            |
| Loans and advances to customers .....  | 5,183,653         | 5,720,568         | 6,412,201         | 6,923,521         |
| Financial investments at fair value through profit or loss                   | 406,498           | 482,588           | 638,483           | 666,260           |
| Financial investments at amortised cost.....                                 | 1,929,689         | 2,019,529         | 2,203,037         | 2,375,762         |
| Financial investments at fair value through other comprehensive income ..... | 669,656           | 735,220           | 681,729           | 650,592           |
| Investments in associates and joint venture ....                             | 4,600             | 4,681             | 5,779             | 7,389             |
| Property and equipment .....   | 171,179           | 169,471           | 171,194           | 179,238           |
| Deferred income tax assets .....   | 24,065            | 27,991            | 32,061            | 38,856            |
| Other assets <sup>(1)</sup> .....  | 86,650            | 94,665            | 114,617           | 136,405           |
| <b>Total assets</b> .....  | <b>9,905,600</b>  | <b>10,697,616</b> | <b>11,665,757</b> | <b>12,580,576</b> |

Note:

- (1) Other assets consist of interest receivable, settlement accounts, other receivables and prepayments, investment properties, land use rights and others, intangible assets, long-term deferred expenses, precious metal, foreclosed assets, goodwill, refundable deposits, unsettled assets etc.

As at 30 June 2022, the Bank’s capital position is among the best in the industry, its Core Tier 1 Capital Adequacy Ratio, Tier 1 capital adequacy ratio and capital adequacy ratio being 9.99 per cent., 12.20 per cent. and 14.49 per cent., respectively.

## Loans and Advances to Customers

As at 30 June 2022, the Bank's corporate loans and personal loans represented approximately 64.25 per cent. and 33.14 per cent., respectively, of its total gross loans and advances to customers. While the Bank's corporate banking business remains its core banking business, the Bank believes that the PRC personal banking sector continues to offer significant growth opportunities. As part of the Bank's growth strategy, the Bank has taken, and will continue to take, various initiatives to enhance its personal banking business. As at 30 June 2022, the Bank's personal loans reached RMB2,348,890 million, representing an increase of RMB63,794 million or 2.79 per cent. compared to 31 December 2021.

Unless otherwise stated, all amounts of corporate loans, personal loans and discounted bills set forth in this section represent amounts before impairment allowance.

The Bank's loans and advances to customers (after impairment allowances) represent a significant portion of its assets and accounted for 55.03 per cent. of its total assets as at 30 June 2022. The balance of the Bank's loans and advances to customers net of allowance for impairment losses increased by 7.97 per cent. to RMB6,923,521 million as at 30 June 2022 from RMB6,412,201 million as at 31 December 2021.

## Corporate Loan Concentration by Industry

The Bank's corporate loan portfolio represents a broad range of industries, but is concentrated in particular in the transportation, storage and postal services, manufacturing, leasing and commercial services, water conservancy, environmental and other public services and real estate sectors. The following table sets forth the Bank's corporate loan portfolio by industry and as a percentage of its loan portfolio as at the dates indicated:

|  | 31 December 2019 |            | 31 December 2020 |            | 31 December 2021 |            | 30 June 2022 |            |
|--|------------------|------------|------------------|------------|------------------|------------|--------------|------------|
|  | Amount           | % of total | Amount           | % of total | Amount           | % of total | Amount       | % of total |
| <i>(RMB in million, except percentages)</i>                        |                  |            |                  |            |                  |            |              |            |
| <b>Corporate loans</b> .....                                       | 3,346,476        | 63.09      | 3,707,471        | 63.39      | 4,138,582        | 63.09      | 4,553,848    | 64.25      |
| Transportation, storage and postal services .....                  | 637,943          | 12.03      | 708,649          | 12.12      | 763,419          | 11.64      | 789,077      | 11.13      |
| Manufacturing .....  | 601,143          | 11.33      | 658,203          | 11.25      | 732,565          | 11.16      | 783,050      | 11.05      |
| Leasing and commercial services .....                              | 508,863          | 9.59       | 577,500          | 9.87       | 650,742          | 9.92       | 698,520      | 9.86       |
| Water conservancy, environmental and other public services .....   | 284,797          | 5.37       | 334,399          | 5.72       | 382,201          | 5.83       | 420,070      | 5.93       |
| Real estate .....  | 264,495          | 4.99       | 348,185          | 5.95       | 419,820          | 6.40       | 493,963      | 6.97       |
| Wholesale and retail .....   | 221,381          | 4.17       | 204,856          | 3.50       | 215,554          | 3.29       | 263,263      | 3.71       |
| Production and supply of electric power, heat, gas and water ..... | 215,642          | 4.07       | 221,313          | 3.78       | 268,772          | 4.10       | 297,323      | 4.19       |
| Construction .....   | 135,998          | 2.56       | 135,732          | 2.32       | 157,729          | 2.40       | 190,257      | 2.68       |
| Mining .....   | 117,555          | 2.22       | 125,367          | 2.14       | 120,216          | 1.83       | 125,254      | 1.77       |
| Finance sector .....   | 107,865          | 2.03       | 118,702          | 2.03       | 132,633          | 2.02       | 123,723      | 1.75       |
| Education, science, culture and public health ..                   | 96,875           | 1.83       | 112,961          | 1.93       | 122,196          | 1.86       | 126,047      | 1.78       |
| Others .....   | 93,314           | 1.76       | 85,570           | 1.48       | 77,884           | 1.19       | 138,590      | 1.96       |
| Accommodation and catering .....                                   | 32,259           | 0.61       | 34,886           | 0.60       | 34,133           | 0.52       | 38,778       | 0.55       |

|  | 31 December 2019 |            | 31 December 2020 |            | 31 December 2021 |            | 30 June 2022 |            |
|--|------------------|------------|------------------|------------|------------------|------------|--------------|------------|
|  | Amount           | % of total | Amount           | % of total | Amount           | % of total | Amount       | % of total |
| <i>(RMB in million, except percentages)</i>                                  |                  |            |                  |            |                  |            |              |            |
| Information transmission, software and information technology services ..... | 28,346           | 0.53       | 41,148           | 0.70       | 60,718           | 0.93       | 65,933       | 0.93       |
| <b>Personal loans</b> .....  | 1,754,765        | 33.08      | 1,980,882        | 33.87      | 2,285,096        | 34.83      | 2,348,890    | 33.14      |
| <b>Discounted bills</b> .....  | 203,034          | 3.83       | 160,071          | 2.74       | 136,722          | 2.08       | 184,992      | 2.61       |
| <b>Total</b> .....   | 5,304,275        | 100.00     | 5,848,424        | 100.00     | 6,560,400        | 100.0      | 7,087,730    | 100.0      |

In accordance with the disclosure standards in the published unaudited but reviewed consolidated financial statements as at and for the six months ended 30 June 2022, loans to the transportation, storage and postal services, manufacturing, leasing and commercial services, water conservancy, environmental and other public services and real estate generally account for a significant portion of the Bank's corporate loans. In the aggregate, they accounted for approximately 39.01 per cent. of the Bank's total loans as at 30 June 2022. As at 30 June 2022, the total amount of the Bank's outstanding corporate loans increased by RMB415,266 million or 10.03 per cent. from RMB4,138,582 million as at 31 December 2021 to RMB4,553,848 million. The Bank offers bill discounting by providing its customers with cash for their bills of exchange accepted by other financial institutions as well as corporations. Discounted bills represented 3.83 per cent., 2.74 per cent., 2.08 per cent. and 2.61 per cent. of the Bank's gross loans and advances balance as at 31 December 2019, 2020 and 2021 and 30 June 2022, respectively. Discounted bills increased by 35.31 per cent. from RMB136,722 million as at 31 December 2021 to RMB184,992 million as at 30 June 2022.

#### Personal Banking Loan Concentration by Product

The Bank's personal finance loan portfolio consists primarily of mortgage loans, credit card advances and others. The following table sets forth the Bank's personal finance loan portfolio by products and as a percentage of its personal finance loan portfolio as at the dates indicated:

|   | 31 December 2019 |            | 31 December 2020 |            | 31 December 2021 |            | 30 June 2022 |            |
|---|------------------|------------|------------------|------------|------------------|------------|--------------|------------|
|   | Amount           | % of total | Amount           | % of total | Amount           | % of total | Amount       | % of total |
| <i>(RMB in million, except percentages)</i> |                  |            |                  |            |                  |            |              |            |
| Mortgage .....                              | 1,135,428        | 64.70      | 1,293,773        | 65.31      | 1,489,517        | 65.18      | 1,528,420    | 65.07      |
| Credit card .....                           | 467,387          | 26.64      | 464,110          | 23.43      | 492,580          | 21.56      | 480,853      | 20.47      |
| Personal business loans ..                  | 55,560           | 3.17       | 120,985          | 6.11       | 188,293          | 8.24       | 214,738      | 9.14       |
| Others <sup>(1)</sup> .....                 | 96,390           | 5.49       | 102,014          | 5.15       | 114,706          | 5.02       | 124,879      | 5.32       |
| <b>Total personal loans</b> .....           | 1,754,765        | 100.00     | 1,980,882        | 100.00     | 2,285,096        | 100.00     | 2,348,890    | 100.00     |

Note:

- (1) "Others" include, among others, medium-term and long-term working capital loans, short-term working capital loans, car loans, education loans, durable consumer goods loans, refurbishing loans, pledge of certificates of deposit to small-sized loans and small-sized secured loans to the unemployed.

The total amount of the Bank's outstanding personal loans increased by RMB63,794 million or 2.79 per cent. per cent. from RMB2,285,096 million as at 31 December 2021 to RMB2,348,890 million as at 30 June 2022.

The Bank's personal loans represented 34.83 per cent. and 33.14 per cent. of its gross loans and advances as at 31 December 2021 and 30 June 2022, respectively.

Mortgage loans represented 65.18 per cent. of the Bank's personal loans as at 31 December 2021. The Bank's mortgage loans increased 2.61 per cent. to RMB1,528,420 million as at 30 June 2022 from RMB1,489,517 million as at 31 December 2021. The Bank has expanded its mortgage loan business while controlling risks by focusing on economically developed regions and well-regulated markets.

As at 31 December 2019, 2020 and 2021 and 30 June 2022, the Bank's credit card advances were RMB467,387 million, RMB464,110 million, RMB492,580 million and RMB480,853 million, respectively, which represented 26.64 per cent., 23.43 per cent., 21.56 per cent and 20.47 per cent., respectively, of its total personal loans. As at 31 December 2021, there were 74.27 million registered domestic credit cards.

### Maturity of Loans

When a short-term loan is renewed following repayment within the credit term of the loan, no re-application for a credit line is required, provided such loan is drawn in accordance with relevant rules and within the effective credit line. Upon expiration of the credit term of a loan, a borrower must re-apply for a new loan, subject to the Bank's standard credit approval procedures. The interest rates for the Bank's Renminbi-denominated loans and advances are regulated by the PBOC, and banks have discretion to determine the interest rates for Renminbi-denominated loans and advances within a permitted range. The interest rate for discounted bills is determined with reference to the PBOC market re-discount interest rate.

### Borrower Concentration

Under the current PRC banking regulations, the aggregate amount of the Bank's loan exposure to any single borrower may not exceed 10 per cent. of its net capital. The Bank is currently in compliance with this regulatory requirement.

### Loan Concentration by Geographical Location

The following table sets forth the geographic distribution of the Bank's gross loans and advances as at the dates indicated:

|                                  | As at 31 December       |           | As at 30 June |
|----------------------------------|-------------------------|-----------|---------------|
|                                  | 2020                    | 2021      | 2022          |
|                                  | <i>(RMB in million)</i> |           |               |
| Yangtze River Delta .....        | 1,576,465               | 1,780,637 | 1,947,910     |
| Pearl River Delta .....          | 701,865                 | 857,521   | 945,967       |
| Bohai Rim Economic Zone.....     | 831,454                 | 965,957   | 1,079,193     |
| Central China.....               | 958,527                 | 1,092,985 | 1,172,880     |
| Western China .....              | 680,088                 | 774,445   | 841,414       |
| North Eastern China .....        | 232,864                 | 247,023   | 254,452       |
| Overseas .....                   | 359,368                 | 348,948   | 365,089       |
| Head office <sup>(1)</sup> ..... | 507,793                 | 492,884   | 480,825       |
| Total .....                      | 5,848,424               | 6,560,400 | 7,087,730     |

Note:

(1) Head Office included the Pacific Credit Card Centre.

The Bank's business is concentrated on the economically developed areas of China. As at 30 June 2022, the Bank's loans and advances to customers from Yangtze River Delta, Pearl River Delta, Bohai Rim Economic Zone and Central China accounted for 27.48 per cent., 13.35 per cent., 15.23 per cent. and 16.55 per cent., respectively, of its total loans and advances to customers.

## **LOAN QUALITY**

The Bank measures and monitors the asset quality of the Bank's loan portfolio through its loan classification system. The Bank classifies its loans using a five-category loan classification system, which complies with the applicable regulatory guidelines.

The Bank intends to continue to improve its loan quality and to generate stable profits while maintaining its credit risk exposure within acceptable parameters through a diversified loan portfolio. The Bank has established an integrated credit risk management system with comprehensive policies and procedures to identify, measure, monitor and control credit risk across its organisation. See the section headed "Risk Management and Internal Control".

Impaired loans are a concept under IFRS, which has been adopted by the Bank in the preparation of its financial statements set forth in the Original Offering Circular. A loan is impaired if there is objective evidence that the Bank will not be able to collect all amounts due according to the original contractual terms of such loan. Non-performing loan is used to refer to a loan that is classified as "substandard", "doubtful" or "loss" under the five-category loan classification system established by the CBIRC.

Overdue loans are (1) for loans with a specific expiry date – these loans should be treated as overdue where the principal or interest is overdue and remains unpaid as at the reporting date; (2) for loans with regular instalments – these loans should be treated as overdue when an instalment payment is overdue and remains unpaid as at the reporting date.

### **Provision for Impairment Losses on Loans and Advances to Customers**

For the year ended 31 December 2017, for a financial asset that is individually significant, the Group assesses the asset individually for impairment. For a financial asset that is not individually significant, the Group assesses the asset individually for impairment or includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset (whether significant or not), it includes the asset in a group of financial assets with similar credit risk characteristics and collectively reassesses them for impairment. Assets for which an impairment loss is individually recognised are not included in a collective assessment of impairment.

If financial assets carried at amortised cost are impaired, the carrying amounts of the financial assets are reduced to the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The amount of reduction is recognised as an impairment loss in profit or loss and is recorded through the use of an allowance account. When a financial asset is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss. If, subsequent to the recognition of an impairment loss on financial assets carried at amortised cost, there is objective evidence of a recovery in value of the financial assets which can be related objectively to an event occurring after the impairment is recognised, the previously recognised impairment loss is reversed. However, the reversal is made to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.



Effective from 1 January 2018, IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (“ECL”) model, which constitutes a change from the incurred loss model in IAS 39.

Under IFRS 9, ECL is a probability-weighted estimate of credit losses. A credit loss is the difference between the total cash flows that are due to the Group in accordance with the contract and the total cash flows that the Group expects to receive discounted at the original effective interest rate, i.e. the present value of the total cash flows shortage. Purchased or originated credit-impaired financial assets shall be discounted at the credit-adjusted effective interest rate. The Group measures the ECL of financial instruments at amortised cost or debt investments at fair value through other comprehensive income. The Group divides them into 3 stages by assessing whether there has been a significant increase in credit risk since initial recognition. The Group measures the ECL of a financial instrument in a way that reflects (1) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; (2) the time value of money; and (3) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The following table sets forth certain information regarding the Bank’s individually identified impaired loans and its loans overdue by more than 90 days as at the dates indicated:

|  | 31 December<br>2019                         | 31 December<br>2020 | 31 December<br>2021 | 30 June 2022 |
|--|---|---------------------|---------------------|--------------|
|  | <i>(RMB in million, except percentages)</i> |                     |                     |              |
| Non-performing loans .....               | 78,043                                      | 97,698              | 96,796              | 103,232      |
| Loans overdue by more than 90 days ..... | 61,597                                      | 64,723              | 63,998              | 57,723       |
| Non-performing loan ratio .....          | 1.47%                                       | 1.67%               | 1.48%               | 1.46%        |

### Impaired Loans by Industry

A significant portion of the Bank’s impaired corporate loans is concentrated in the manufacturing, wholesale and retail and real estate sectors. The impaired loan concentration in the manufacturing sector is due primarily to the high proportion of corporate loans to the manufacturing sector, and to the intense competition and overcapacity exhibited by this sector. The impaired loan concentration in the wholesale and retail sector is due primarily to the intense competition and cyclicalities exhibited by this sector during the global financial crisis. The Bank has recently adopted several measures as part of its on-going efforts to manage its credit risk across its industries by, among other things, adopting an industry risk rating system and an internal risk rating system to monitor those industries which are most affected by governmental policies or overcapacity, or those which are low-growth industries, so that the Bank can adjust timely its credit standards and select customers with a lower risk profile. The impaired loan concentration in the real estate sector is due primarily to the growth of the Bank’s lending to the real estate sector. The Bank have tried to manage its credit risk in the real estate sector by paying close attention to the market environment and changes in governmental policies, by focusing its lending more heavily on large national and regional property development companies and limiting its lending to small-sized and medium-sized property development companies.

### Distribution of non-performing loans by region

The following table sets forth the geographic distribution of the Bank’s non-performing loans as at the dates indicated:

|                                  | As at 31 December 2020               |                  |                           | As at 31 December 2021 |                  |                           | 30 June 2022   |                  |                           |
|----------------------------------|--------------------------------------|------------------|---------------------------|------------------------|------------------|---------------------------|----------------|------------------|---------------------------|
|                                  | Amount                               | % of total loans | Non-performing loan ratio | Amount                 | % of total loans | Non-performing loan ratio | Amount         | % of total loans | Non-performing loan ratio |
|                                  | (RMB in million, except percentages) |                  |                           |                        |                  |                           |                |                  |                           |
| Yangtze River Delta.....         | 20,149                               | 20.79            | 1.29                      | 22,399                 | 23.14            | 1.26                      | 22,486         | 21.78            | 1.15                      |
| Pearl River Delta.....           | 7,332                                | 7.57             | 1.03                      | 5,559                  | 5.74             | 0.66                      | 8,576          | 8.31             | 0.91                      |
| Bohai Rim Economic Zone ....     | 17,058                               | 17.60            | 2.03                      | 13,893                 | 14.35            | 1.44                      | 16,357         | 15.84            | 1.52                      |
| Central China .....              | 18,005                               | 18.58            | 1.96                      | 19,224                 | 19.86            | 1.76                      | 15,673         | 15.18            | 1.34                      |
| Western China .....              | 9,220                                | 9.51             | 1.35                      | 9,661                  | 9.98             | 1.25                      | 10,197         | 9.88             | 1.21                      |
| North Eastern China .....        | 10,998                               | 11.35            | 4.72                      | 12,090                 | 12.49            | 4.89                      | 12,377         | 11.99            | 4.86                      |
| Head Office <sup>(1)</sup> ..... | 10,567                               | 10.90            | 2.08                      | 10,831                 | 11.19            | 2.20                      | 12,795         | 12.39            | 2.66                      |
| Overseas .....                   | 3,586                                | 3.70             | 1.00                      | 3,139                  | 3.24             | 0.90                      | 4,771          | 4.62             | 1.31                      |
| Total .....                      | <u>96,915</u>                        | <u>100.00</u>    | 1.67                      | <u>96,796</u>          | <u>100.00</u>    | 1.48                      | <u>103,232</u> | <u>100.00</u>    | 1.46                      |

Notes:

(1) Head Office included the Pacific Credit Card Centre.

## TRADING ASSETS

The Bank invests in and trades Renminbi-denominated and foreign currency-denominated listed and unlisted debt and equity securities for its own account to (1) maintain the stability and diversification of the Bank's assets, (2) maintain adequate sources of back-up liquidity to match the Bank's funding requirements, and (3) supplement income from the Bank's core lending activities.

The Bank's investment securities include primarily securities issued by central governments and central banks, securities issued by banks and other financial institutions, securities issued by corporate entities, as well as a small portion of investment securities issued by public sector entities.

The Bank's trading assets include primarily listed and unlisted debt and equity securities, as well as derivative financial instruments, issued by banks and financial institutions, corporate entities, governments and central banks and public sector entities. The majority of the unlisted bonds in this category are traded in the interbank market in the PRC.

The Bank recorded its investment securities and trading assets on its statement of financial position as financial assets held for trading, loans and receivables investment securities, held-to-maturity investment securities and available-for-sale investment securities as at and for the year ended 31 December 2017. Debt securities with fixed or determinable payments that are not quoted in an active market, without the intent to sell immediately or in the short term are classified as loans and receivables. Investment securities with fixed maturity where the Bank's management has the intent and the ability to hold to maturity are classified as held-to-maturity investment securities. Investment securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices are classified as available-for-sale investment securities. A trading asset is classified as financial assets held for trading if it is acquired principally for the purpose of selling in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. From 1 January 2018, the Bank applied IFRS 9 and records and reclassifies its investment securities and trading assets on its statement of financial position as financial assets by measurement of fair value through profit or loss ("FVPL"), fair value through other comprehensive income ("FVOCI") or amortised cost. Assets that are held for collection of contractual cash flows where those cash flows represent

solely payments of principal and interest, and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured from these financial assets. Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at FVOCI.

The following table sets forth a distribution of the Bank's investment securities by classification and type of issuer as at the dates indicated:

|   | 31 December 2019 |            | 31 December 2020 |            | 31 December 2021 |            | 30 June 2022 |            |
|---|------------------|------------|------------------|------------|------------------|------------|--------------|------------|
|   | Amount           | % of total | Amount           | % of total | Amount           | % of total | Amount       | % of total |
| <i>(RMB in million, except percentages)</i> |                  |            |                  |            |                  |            |              |            |
| <b>Debt investments at FVOCI</b>            |                  |            |                  |            |                  |            |              |            |
| Governments and central banks.....          | 258,959          | 10.57      | 340,723          | 12.93      | 99,079           | 4.21       | 125,543      | 4.91       |
| Public sector entities .....                | 2,108            | 0.09       | 3,376            | 0.13       | 1,302            | 0.06       | 350          | 0.01       |
| Banks and other financial institutions..... | 329,703          | 13.45      | 304,690          | 11.56      | 100,898          | 4.28       | 85,914       | 3.36       |
| Corporate entities .....                    | 69,941           | 2.85       | 75,084           | 2.85       | 46,655           | 1.98       | 54,041       | 2.11       |
| Total .....                                 | 660,711          | 26.96      | 723,873          | 27.47      | 247,934          | 10.52      | 265,848      | 10.40      |
| <b>Bond investments at amortised cost</b>   |                  |            |                  |            |                  |            |              |            |
| Governments and central banks.....          | 1,521,473        | 62.08      | 1,710,428        | 64.92      | 1,922,479        | 81.61      | 2,109,489    | 82.54      |
| Public sector entities .....                | 25,689           | 1.05       | 21,979           | 0.83       | 21,201           | 0.90       | 31,270       | 1.22       |
| Banks and other financial institutions..... | 215,817          | 8.81       | 148,404          | 5.63       | 117,156          | 4.97       | 106,258      | 4.16       |
| Corporate entities .....                    | 27,038           | 1.10       | 29,983           | 1.14       | 47,035           | 2.00       | 42,794       | 1.67       |
| Total .....                                 | 1,790,017        | 73.04      | 1,910,794        | 72.53      | 2,107,871        | 89.48      | 2,289,811    | 89.60      |

## LIABILITIES AND SOURCES OF FUNDS

The Group's total liabilities as at 30 June 2022 were RMB11,591,640 million, which represents an increase of 8.45 per cent. from RMB10,688,521 million as at 31 December 2021. The Group's deposits from customers accounted for 67.39 per cent. of its total liabilities as at 30 June 2022. The Bank obtains funding for its lending and investment activities from a variety of sources, both domestic and international. The Bank's principal sources of funding are corporate and individual deposits. The Bank's funding operations are designed to ensure both a stable source of funds and effective liquidity management. The Bank continuously adjusts its funding operations to minimise funding costs and also endeavours to match currencies and maturities with those of its loan portfolio.

The table below illustrates the balance and breakdown of the Group's due to customers as at the dates indicated:

|   | 31 December 2019 |            | 31 December 2020 |            | 31 December 2021 |            | 30 June 2022 |            |
|---|------------------|------------|------------------|------------|------------------|------------|--------------|------------|
|   | Amount           | % of total | Amount           | % of total | Amount           | % of total | Amount       | % of total |
| <i>(RMB in million, except percentages)</i> |                  |            |                  |            |                  |            |              |            |
| <b>Corporate deposits</b>                   |                  |            |                  |            |                  |            |              |            |
| Corporate demand deposits ..                | 1,835,688        | 30.57      | 2,005,934        | 30.67      | 2,061,672        | 29.29      | 2,106,968    | 26.97      |
| Corporate time deposits .....               | 2,196,096        | 36.57      | 2,335,590        | 35.72      | 2,488,348        | 35.35      | 2,875,207    | 36.81      |

|                               | 31 December 2019                            |                   | 31 December 2020 |                   | 31 December 2021 |                   | 30 June 2022  |                   |
|-------------------------------|---|-------------------|------------------|-------------------|------------------|-------------------|---------------|-------------------|
|                               | <i>Amount</i>                               | <i>% of total</i> | <i>Amount</i>    | <i>% of total</i> | <i>Amount</i>    | <i>% of total</i> | <i>Amount</i> | <i>% of total</i> |
|                               | <i>(RMB in million, except percentages)</i> |                   |                  |                   |                  |                   |               |                   |
| Sub-total .....               | 4,031,784                                   | 67.14             | 4,341,524        | 66.39             | 4,550,020        | 64.63             | 4,982,175     | 63.78             |
| <b>Personal deposits</b>      |   |                   |                  |                   |                  |                   |               |                   |
| Personal demand deposits .... | 762,669                                     | 12.70             | 812,534          | 12.42             | 850,831          | 12.09             | 826,457       | 10.58             |
| Personal time deposits .....  | 1,207,253                                   | 20.10             | 1,379,697        | 21.10             | 1,551,981        | 22.04             | 1,901,603     | 24.34             |
| Sub-total .....               | 1,969,922                                   | 32.80             | 2,192,231        | 33.52             | 2,402,812        | 34.13             | 2,728,060     | 34.92             |
| Other deposits .....          | 3,364                                       | 0.06              | 5,499            | 0.09              | 3,359            | 0.05              | 4,415         | 0.06              |
| Accrued interest .....        | -   | -                 | -                | -                 | 83,586           | 1.19              | 96,713        | 1.24              |
| Total due to customers .....  | 6,005,070                                   | 100.00            | 6,539,254        | 100.00            | 7,039,777        | 100.00            | 7,811,363     | 100.00            |

## DISTRIBUTION OF DEPOSITS BY GEOGRAPHY

The following table sets forth the distribution of the Bank's deposit balances as at the dates indicated:

|                               | 31 December 2020                            |                   | 31 December 2021 |                   | 30 June 2022  |                   |
|-------------------------------|---|-------------------|------------------|-------------------|---------------|-------------------|
|                               | <i>Amount</i>                               | <i>% of total</i> | <i>Amount</i>    | <i>% of total</i> | <i>Amount</i> | <i>% of total</i> |
|                               | <i>(RMB in million, except percentages)</i> |                   |                  |                   |               |                   |
| Yangtze River Delta .....     | 1,786,446                                   | 27.31             | 1,878,481        | 26.68             | 2,082,172     | 26.66             |
| Pearl River Delta .....       | 768,470                                     | 11.75             | 871,667          | 12.38             | 1,005,116     | 12.87             |
| Bohai Rim Economic Zone ..... | 1,348,298                                   | 20.62             | 1,491,168        | 21.18             | 1,639,760     | 20.98             |
| Central China .....           | 1,072,501                                   | 16.40             | 1,130,712        | 16.06             | 1,253,666     | 16.05             |
| Western China .....           | 734,423                                     | 11.23             | 763,629          | 10.85             | 830,309       | 10.63             |
| North Eastern China .....     | 330,087                                     | 5.05              | 360,775          | 5.12              | 376,598       | 4.82              |
| Overseas .....                | 495,356                                     | 7.58              | 456,074          | 6.48              | 523,230       | 6.70              |
| Head office .....             | 3,673                                       | 0.06              | 3,685            | 0.05              | 3,799         | 0.05              |
| Accrued interest .....        | -   | -                 | 83,586           | 1.20              | 96,713        | 1.24              |
| Total .....                   | 6,539,254                                   | 100.00            | 7,039,777        | 100.00            | 7,811,363     | 100.00            |

## SUBSTANTIAL SHAREHOLDERS

*The section “Substantial Shareholders” on page 136 of the Original Offering Circular shall be deleted in its entirety and replaced with the following:*

The table below sets forth certain information regarding ownership of outstanding shares of the Bank as at 30 June 2022 by those persons who hold or are beneficially interested in any substantial part of the share capital of the Bank.

### Particulars of shareholdings disclosed pursuant to H shares regulatory requirements

As at 30 June 2022, to the knowledge of the directors, supervisors and chief executive of the Bank, the substantial shareholders and other persons (other than directors, supervisors and chief executive of the Bank) who had interests or short positions in the shares or underlying shares of the Bank as recorded in the register required to be kept pursuant to Section 336 of the SFO were as follows:

| Name of substantial shareholders                            | Capacity         | Number of A shares            | Nature of interest <sup>(1)</sup> | Approximate percentage of total issued A shares | Approximate percentage of total issued shares |
|---|------------------|-------------------------------|-----------------------------------|---|---|
|   |                  |                               |                                   | (%)   |   |
| Ministry of Finance of the People's Republic of China ..... | Beneficial owner | 13,178,424,446 <sup>(2)</sup> | Long position                     | 33.57   | 17.75   |
| National Council for Social Security Fund.....              | Beneficial owner | 3,105,155,568 <sup>(3)</sup>  | Long position                     | 7.91  | 4.18  |

| Name of substantial shareholders                            | Capacity                            | Number of H shares            | Nature of interest <sup>(1)</sup> | Approximate percentage of total issued H shares <sup>(8)</sup> | Approximate percentage of total issued shares <sup>(8)</sup> |
|---|-------------------------------------|-------------------------------|-----------------------------------|--|--|
|   |                                     |                               |                                   | (%)  |  |
| National Council for Social Security Fund.....              | Beneficial owner                    | 9,050,433,332 <sup>(3)</sup>  | Long position                     | 25.85  | 12.19  |
| Ministry of Finance of the People's Republic of China ..... | Beneficial owner                    | 4,553,999,999 <sup>(2)</sup>  | Long position                     | 13.01  | 6.13   |
| HSBC Holding plc .....                                      | Interest of controlled corporations | 14,135,636,613 <sup>(4)</sup> | Long position                     | 40.37  | 19.03  |

Notes:

- (1) Long positions held other than through equity derivatives.
- (2) To the knowledge of the Bank, as at 30 June 2022, the Ministry of Finance of the People's Republic of China held 4,553,999,999 H shares and 13,178,424,446 A shares of the Bank, representing 6.13 per cent. and 17.75 per cent. of the total ordinary shares issued by the Bank, respectively.
- (3) To the knowledge of the Bank, as at 30 June 2022, the National Council for Social Security Fund held 9,050,433,332 H shares and 3,105,155,568 A shares of the Bank, representing 12.19 per cent. and 4.18 per cent. of the total ordinary shares issued by the Bank, respectively.
- (4) HSBC Holding plc wholly owns HSBC Asia Holdings Limited, which wholly owns HSBC. HSBC beneficially held 14,135,636,613 H shares of the Bank. Pursuant to the SFO, HSBC Holding plc was deemed to own the interests associated with the 14,135,636,613 H shares held by HSBC.

Save as disclosed above, as at 30 June 2022, no other person (excluding the Directors, Supervisors and Chief Executive of the Bank) or corporation was recorded in the register required to be kept under Section 336 of the SFO as holding any interests or short positions in the shares or underlying shares of the Bank that would fall to be disclosed to the Bank and the Hong Kong Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO.

## MANAGEMENT OF THE BANK

*The section “Management of the Bank” on pages 137 to 149 of the Original Offering Circular shall be deleted in its entirety and replaced with the following:*

### GENERAL

The Board of the Bank currently comprises 16 members being two executive directors, eight non-executive directors and six independent non-executive directors. Each director of the Bank is elected at a shareholder meeting for a term of three years, which is renewable upon re-election. The chairman and the vice chairman of the Board are elected by a simple majority of the Board.

The business address of the directors, supervisors and senior management personnel named below is No. 188 Yinchengzhong Road, Pudong District, Shanghai, PRC, 200120.

### DIRECTORS

The following table sets forth certain information concerning the directors of the Bank.

| Name                           | Position  |
|--------------------------------|---|
| Mr. REN Deqi .....             | Chairman and Executive Director                 |
| Mr. LIU Jun .....              | Vice Chairman, Executive Director and President |
| Mr. LI Longcheng .....         | Non-executive Director                          |
| Mr. WANG Linping .....         | Non-executive Director                          |
| Mr. CHANG Baosheng .....       | Non-executive Director                          |
| Mr. LIAO, Yi Chien David.....  | Non-executive Director                          |
| Mr. CHAN Siu Chung .....       | Non-executive Director                          |
| Mr. MU Guoxin.....             | Non-executive Director                          |
| Mr. CHEN Junkui .....          | Non-executive Director                          |
| Mr. LUO Xiaopeng .....         | Non-executive Director                          |
| Mr. Raymond WOO Chin Wan ..... | Independent Non-executive Director              |
| Mr. CAI Haoyi .....            | Independent Non-executive Director              |
| Mr. SHI Lei .....              | Independent Non-executive Director              |
| Mr. ZHANG Xiangdong .....      | Independent Non-executive Director              |
| Ms. LI Xiaohui.....            | Independent Non-executive Director              |
| Mr. MA Jun .....               | Independent Non-executive Director              |

### EXECUTIVE DIRECTORS

**Mr. REN Deqi**, Chairman, Executive Director and Senior Economist. Mr. Ren serves as the Chairman of the Board from 16 January 2020. He has been a Vice Chairman, Executive Director and President of the Bank since August 2018. Mr. Ren resigned as President of the Bank on 13 December 2019 and served as Acting President from 13 December 2019 to 6 July 2020. Mr. Ren worked successively in the Changling Sub-branch of Yueyang Branch, Yueyang City Central Sub-branch, Yueyang Branch, Credit Management Committee Office and Credit

Risk Management Department of China Construction Bank (“CCB”) from July 1988 to August 2003. He successively served as Deputy General Manager of Credit Approval Department, General Manager of Risk Control Department, General Manager of Credit Management Department, president of the Hubei Provincial Branch and General Manager of Risk Management Department of CCB from August 2003 to May 2014. He served as Executive Vice President of Bank of China (“BOC”) from July 2014 to November 2016, and served as Executive Director and Executive Vice President of BOC from December 2016 to June 2018; during such period, he also served as Non-executive Director of BOC Hong Kong (Holdings) Limited from October 2015 to June 2018 and President of Shanghai RMB Trading Unit of BOC from September 2016 to June 2018. Mr. Ren obtained his Master’s degree in Engineering from Tsinghua University in 1988.

**Mr. LIU Jun**, Vice Chairman and Executive Director. Mr. Liu has served as Vice Chairman of the Board and Executive Director of the Bank since 5 August 2020. Mr. Liu served as Executive Vice President of China Investment Corporation from November 2016 to May 2020, Deputy General Manager of China Everbright Group Ltd. from December 2014 to November 2016, and Executive Director and Deputy General Manager of China Everbright Group Limited from June 2014 to December 2014 (from June 2014 to November 2016, Mr. Liu successively served as Chairman of Sun Life Everbright Life Insurance Company Limited, Vice Chairman of China Everbright Holdings Company Limited., Executive Director and Vice Chairman of China Everbright Limited, Executive Director and Vice Chairman of China Everbright International Limited, and Chairman of China Everbright Industrial (Group) Co., Ltd.). He served as Assistant to the President and Executive Vice President of China Everbright Bank from September 2009 to June 2014 (during which he concurrently acted as president of Shanghai Branch of China Everbright Bank and General Manager of Financial Market Centre of China Everbright Bank). From July 1993 to September 2009, he successively worked at the International Business Department, Hong Kong Representative Office, the Treasury Department and the Investment Banking Department of China Everbright Bank. Mr. Liu received a Doctorate degree in business administration from Hong Kong Polytechnic University in 2003.

## **NON-EXECUTIVE DIRECTORS**

**Mr. LI Longcheng**, Non-executive Director. Mr. Li has been a Non-executive Director since June 2020. Mr. Li served as the Director of Heilongjiang Supervision Bureau of the Ministry of Finance since April 2019, the Chief Inspector of Heilongjiang Supervision & Inspection Office of the Ministry of Finance from August 2015 to April 2019, the Chief Inspector of Liaoning Supervision & Inspection Office of the Ministry of Finance from August 2012 to August 2015, the Deputy Inspector of Heilongjiang Supervision & Inspection Office of the Ministry of Finance from August 2008 to August 2012; the Deputy Inspector of Zhejiang Supervision & Inspection Office of the Ministry of Finance from January 2006 to August 2008. From January 1995 to January 2006, Mr. Li successively served as a Staff Member of the General Division, a Senior Staff Member of the General Division, the Deputy Director of the General Division, the Director of the First Division and the Assistant Commissioner of Heilongjiang Supervision & Inspection Office of the Ministry of Finance. From August 1986 to January 1995, Mr. Li worked in Beijing Forestry Management Cadres College of the Ministry of Forestry and Heilongjiang Finance Department. Mr. Li obtained a Doctorate degree in management from Northeast Forestry University in 2003.

**Mr. WANG Linping**, Mr. Wang has served as level-one inspector of the Retired Cadres Bureau of the Ministry of Finance since December 2019, chairman of China Finance and Economic Media Group from June 2018 to December 2019, department level cadre of the Ministry of Finance from March 2018 to June 2018. From May 2004 to March 2018, he successively served as chief and director-level cadre of the Financial Division and vice minister and minister of the Department of Administrative Finance of the Liaison Office of the Central People’s Government in Macao Special Administrative Region. From July 1994 to May 2004, Mr. Wang served successively as chief staff member, assistant researcher of the Management Division of Retirement Funds of

Administrative Institutions, deputy director and researcher of Pension Security Division of the Social Security Department of Ministry of Finance, and from August 1986 to July 1994, he served successively as a staff member, deputy chief staff member and chief staff member of the Party Committee of the Ministry of Finance. Mr. Wang obtained his Bachelor's degree in philosophy from Zhongnan University of Finance and Economy in 1986.

**Mr. CHANG Baosheng**, Mr. Chang has served as deputy inspector and level-two inspector of Ningxia Supervision Bureau of the Ministry of Finance since April 2019. From January 1995 to April 2019, he successively served as a staff member and deputy chief staff member of the First Business Section, the chief staff member of the General Division, the deputy director of the General Office, deputy director of the Second Business Department, deputy director of the Third Business Department, assistant commissioner and deputy inspector of Ningxia Supervision and Inspection Office of the Ministry of Finance. From July 1989 to January 1995, Mr. Chang served as a staff member of the Chinese Enterprise Division of Ningxia Finance Department of the Ministry of Finance. Mr. Chang obtained his Bachelor's degree in economics from Zhongnan University of Finance and Economy in 1989.

**Mr. LIAO, Yi Chien David**, Mr. Liao has been Non-executive Director of the Bank since May 2021, and serves as Co-Chief Executive Officer of HSBC. Prior to his current role, Mr. Liao served as group general manager at HSBC, head of Asia Pacific Global Banking Coverage of HSBC, president and chief executive officer of HSBC China, head of Global Banking and Markets at HSBC China, executive vice president of HSBC China, treasurer of HSBC China. Mr. Liao previously worked at IBI International (now Mizuho International). Mr. Liao obtained a bachelor's degree with honours from the University of London in 1995.

**Mr. CHAN Siu Chung**, Non-executive Director. Mr. Chan has been a Non-executive Director since October 2019. Mr. Chan has been serving as the Co-head of Markets for Asia-Pacific at the Hong Kong and Shanghai Banking Corporation Limited since August 2013. Mr. Chan joined the Hong Kong and Shanghai Banking Corporation Limited in 1986, and from July 1986 to July 2013, Mr. Chan successively served as the Senior Dealer, Senior Interest Rate Dealer, Head of Hong Kong Dollar Interest Rate and Derivatives Trading, Head of Trading in Hong Kong, and concurrently served as Deputy Head of Global Markets Asia Pacific and Head of Trading in Hong Kong. Mr. Chan graduated from the University of Hong Kong with a Bachelor's Degree in Electrical Engineering in 1986 and obtained his Master's degree from Macquarie University in Australia of Applied Finance in 1994.

**Mr. MU Guoxin**, Non-executive Director. Mr. Mu has been a Non-executive Director since August 2022. Mr. Mu is currently the Director of Fund Finance Department of the National Council for Social Security Fund, a substantial shareholder of the Bank. Mr. Mu served as Deputy Director of, and Chief of the Accounting Division of the Fund Finance Department of the National Council for Social Security Fund, Deputy Chief of the Accounting Division of the Finance and Accounting Department and Deputy Chief of the System Division II of the Accounting Department of the Ministry of Finance. Mr. Mu obtained a master's degree of public administration from a joint programme organised by Peking University and the National Institute of Administration in July 2008.

**Mr. CHEN Junkui**, Non-executive Director. Mr. Chen has been a Non-executive Director since June 2019. Mr. Chen has been serving as the Deputy Director-General of Financial Management and Supervision (internal audit) Department of the State Tobacco Monopoly Administration since February 2019. Mr. Chen successively served as the Deputy Head, Head of the Finance and Asset Department of China Tobacco Machinery Group Co., Ltd. from December 2005 to February 2019, the Principal Staff Member in Financial Management Department of China Tobacco Investment Management Co. from September 2005 to December 2005, a Cadre of Financial Department and the Senior Staff Member and Principal Staff Member of Financial Department of National Tobacco Commodity Company (Cigarette Filter Material Company) from September 2000 to September 2005, and worked in Beijing Bureau of Geology and Mineral from July 1997 to September 2000.



Mr. Chen obtained his Master's degree in Management Science from Capital University of Economics and Business in July 2002.

**Mr. LUO Xiaopeng**, Non-executive Director. Mr. Luo has been a Non-executive Director since August 2022. Mr. Luo is currently the General Manager of Capital Operation Department of Capital Airport Group, a substantial shareholder of the Bank (as defined in the Interim Measures for the Management of Equity in Commercial Banks). He also serves as a Supervisor of Tianjin Binhai International Airport Co., Ltd., Jilin Civil Airport Group Co., Ltd. and Jiangxi Airport Group Co., Ltd. Mr. Luo was formerly the Financial Controller of Inner Mongolia Civil Aviation Airport Group Co., Ltd., Secretary of the Board of Directors and General Manager of Finance Department of Beijing Capital International Airport Co., Ltd. Mr. Luo obtained a master's degree of Finance from Jiangxi Finance and Economics University in 2003.

## **INDEPENDENT NON-EXECUTIVE DIRECTORS**

**Mr. Raymond WOO Chin Wan**, Independent Non-executive Director, Hong Kong and Canadian Certified Public Accountant. Mr. Woo serves as an Independent Non-executive Director of the Bank from November 2017. Mr. Woo joined Ernst & Young in June 1985 and retired in June 2015. Within this period, he has been Senior Associate, Manager, Senior Manager, Partner and Managing Partner.

He served as Managing Partner of Ernst & Young Greater China from 2011 to June 2015 and served as Director and General Manager in Ernst & Young from 2007 to 2012. Mr. Woo was also the member of Ernst & Young Greater China Management Committee from 1998 to 2015. Mr. Woo is currently an Independent Non-executive Director of Dah Chong Hong Holdings Limited and Great Wall Pan Asia Holdings Limited. Mr. Woo obtained his MBA degree from York University in Canada in 1982.

**Mr. CAI Haoyi**, Independent Non-executive Director and Researcher. Mr. Cai has been Independent Non-executive Director of the Bank since August 2018. Mr. Cai currently serves as Master's Supervisor in PBC School of Finance, Tsinghua University, Doctoral Supervisor in University of International Business and Economics and Postdoctoral supervisor in Financial Research Institute of the PBOC. Mr. Cai served as Chairman of the Board of Supervisors in Everbright Bank of China from November 2012 to June 2015 and Non-executive Director in Bank of China from August 2007 to November 2012. Mr. Cai held various positions in Bank of China from July 1986 to March 2007, including Principal Staff of Graduate Department, Deputy Division Chief of Political Department, Division Chief of Political Department, Director, Deputy Director of the General Office of Financial Research Institute, Deputy Head of Financial Research Institute, Deputy Head of Research Bureau and Secretary General of Monetary Policy Committee. Mr. Cai obtained his Doctoral Degree from Financial Research Institute of the PBOC in 2001 and he obtained special government allowances from the State Council in 2003.

**Mr. SHI Lei**, Independent Non-executive Director. Mr. Shi has been Independent Non-executive Director of the Bank since December 2019. Mr. Shi currently serves as an independent director of Hangzhou Meideng Technology Co., Ltd., a Professor, a Doctoral Supervisor of Fudan University, and the Head of the Public Economic Research Centre of Fudan University. Mr. Shi joined Fudan University in 1993, since then, he subsequently served as the Head of the China Socialism Market Economy Research Centre, the Director of the Publicity Department of the Communist Party Committee of Fudan University, and the Secretary of the Communist Party Committee of Fudan University Economics College. Currently, Mr. Shi also serves as the Independent Non-executive Director of Ko Yo Chemical (Group) Limited and Sanxiang Impression Co., Ltd. Mr. Shi obtained his Doctorate degree from the Institute of Economics at Shanghai Academy of Social Sciences in 1993. Mr. Shi enjoys the special allowance of the State Council.

**Mr. ZHANG Xiangdong**, Independent Non-executive Director and Senior Economist. Mr. Zhang served as a Non-executive Director of Bank of China Limited from July 2011 to June 2018 and a Non-executive Director

of China Construction Bank Corporation from November 2004 to June 2010 (acting as Chairman of the Risk Management Committee of the Board of Directors from April 2005 to June 2010). From January 2004 to December 2008, Mr. Zhang concurrently served as Member of China International Economic and Trade Arbitration Commission. From August 2001 to November 2004, he successively served as Vice President of Haikou Branch of the PBOC and Deputy Director General of Hainan Branch of the State Administration of Foreign Exchange concurrently, Deputy Director General and Inspector of the General Affairs Department of the State Administration of Foreign Exchange. From September 1999 to September 2001, Mr. Zhang concurrently served as a Member of the Issuance Approval Committee of China Securities Regulatory Commission. Mr. Zhang graduated from Renmin University of China with a Bachelor's degree in law in 1986, graduated with a Postgraduate degree in international economic law from Renmin University of China in 1988, and obtained a Master's degree in law in 1990.

**Ms. LI Xiaohui**, Independent Non-executive Director. Ms. Li has been a Professor and Doctoral Supervisor at the School of Accounting, Central University of Finance and Economics from September 2003. From July 2001 to August 2003, she worked in the Professional Standards Department of the Chinese Institute of Certified Public Accountants. From April 1993 to August 1998, Ms. Li worked successively in Cangzhou Accounting Firm, Cangshi Accounting Firm and the State-owned Assets Administration under Hebei Province Department of Finance. Ms. Li is a national leading accountant, and a member of the Professional Technical Advisory Committee of the Chinese Institute of Certified Public Accountants, a member of the Audit Committee of the Accounting Society of China and a member of the Audit Standards Committee of the China Internal Audit Association. Ms. Li currently serves as Independent Director of Fangda Special Steel Technology Co., Ltd., State Grid Information and Communication Co., Ltd., Jizhong Energy Co., Ltd., and Camel Group Co., Ltd. Ms. Li previously served as Director of Fangda Carbon New Material Co., Ltd., Bank of Beijing Co., Ltd. and China U-Ton Holdings Limited. Ms. Li received a Doctorate degree in Economics from Central University of Finance and Economics in 2001.

**Mr. MA Jun**, Independent Non-executive Director. Mr. Ma is currently the President of the Beijing Institute of Green Finance and Sustainable Development. Mr. Ma served as a Member of the Monetary Policy Committee of the People's Bank of China; Director of the Finance and Development Research Center, Institute of International Finance, Tsinghua University and Director of the Green Finance Development Research Center; Chief Economist of the Research Bureau of the People's Bank of China. He also served as Chief Economist, Investment Strategist and Managing Director for Greater China of Deutsche Bank AG; Senior Economist and Adviser to the World Bank and Economist at the International Monetary Fund. Mr. Ma also served for the Development Research Center of the State Council. Mr. Ma currently serves as an Independent Director of China Taiping Life Insurance (Hong Kong), Independent Director of YOU+ BANK, Director of Green Finance Committee of China Institute of Finance, Co-Chairman of the G20 Working Group on Sustainable Finance, Member of the National Eco-environment Protection Expert Committee, Co-Chair of the Steering Committee for the Belt and Road Green Investment Principles, Co-Chair of the International Sustainable Finance Platform Standard Working Group, President of the Beijing Green Finance Association, Chairman of the Hong Kong Green Finance Association, Member of the Voluntary Carbon Market Council, Trustee of the China Environmental Protection Foundation, etc. Mr. Ma obtained his doctor's degree in Economics from Georgetown University, USA in 1994.

## **SENIOR MANAGEMENT**

The senior management of the Bank comprises members of the senior management and secretary of the Board, of which, members of the senior management include the president, executive vice presidents, chief business officer, chief risk officer and HSBC strategic cooperation adviser, etc. The Bank adopts the system of accountability by the president under the leadership of the Board. The president is accountable to the Board,

whereas various functional departments, branch offices and other members of senior management of the Bank are accountable to the president. The president has the right to organise, develop and operate management activities in accordance with laws, regulations, the Bank's Articles of Association and authorisation from the Board.

The following table sets forth certain information concerning members of the senior management of the Bank.

| <b>Name</b>           | <b>Position</b>  |
|-----------------------|--|
| Mr. LIU Jun.....      | President  |
| Mr. YIN Jiuyong ..... | Executive Vice President   |
| Mr. GUO Mang .....    | Executive Vice President   |
| Mr. ZHOU Wanfu .....  | Executive Vice President   |
| Mr. HAO Cheng .....   | Executive Vice President   |
| Mr. QIAN Bin .....    | Executive Vice President   |
| Mr. GU Sheng .....    | Company Secretary  |
| Mr. TU Hong.....      | Chief Business Officer (Interbank and Market Business Sector)      |
| Mr. LIN Hua.....      | Chief Risk Officer   |
| Mr. NG Siu On .....   | Senior Management Member, BoCom-HSBC Strategic Cooperation Advisor |

**Mr. LIU Jun**, please refer to details in “*EXECUTIVE DIRECTORS*”.

**Mr. YIN Jiuyong**, Executive Vice President and Senior Economist. Mr. Yin has been Executive Vice President of the Bank since September 2019. Mr. Yin served as Executive Vice President of the Agricultural Development Bank of China from May 2014 to July 2019, Director of the General Office of the Agricultural Development Bank of China from December 2013 to May 2014, General Manager of the Henan Branch of the Agricultural Development Bank of China from January 2011 to December 2013, Deputy General Manager and General Manager of the First Customer Department of the Agricultural Development Bank of China from January 2005 to January 2011 (during which he was seconded to Baoding Branch of the Agricultural Development Bank of China as Deputy Manager of the Business Department of the branch and Deputy General Manager of the branch from February 2007 to January 2008). Mr. Yin served as Division Chief of the Comprehensive Division and Deputy Director of the First Credit Department of the Agricultural Development Bank of China during April 1999 to January 2005; Principal Staff and Deputy Division Chief of the Purchasing and Marketing Department of the Industrial and Commercial Credit Department of the Agricultural Development Bank of China from July 1994 to April 1998, and Principal Staff of the Trust and Investment Company of the Agricultural Bank of China from July 1993 to July 1994. Mr. Yin obtained his Doctoral degree in Agriculture from Beijing Agricultural University in 1993.

**Mr. GUO Mang**, Executive Vice President and Senior Economist. Mr. Guo has been Executive Vice President of the Bank since July 2018. Mr. Guo served as Chief Business Officer of the Bank from February 2017 to July 2018 and served as General Manager of the Bank's Beijing Branch and Chief Executive Officer of Beijing Administrative Department (Group Customer Department) from December 2016 to June 2018. He was General Manager of the Bank's Shenzhen Branch from January 2010 to December 2016, Deputy General Manager (in charge of overall work) and General Manager of the Bank's Chongqing Branch from September 2004 to January 2010. Moreover, he served as a credit clerk in the Credit and Investment Department and Deputy Section Chief of Shenzhen Branch, Head of Shatoujiao Office, Deputy General Manager (in charge of overall work) of

Shatoujiao Subbranch, Deputy General Manager (in charge of overall work) and General Manager of Hongli Sub-branch, General Manager of the Marketing Department and Deputy General Manager of Shenzhen Branch from May 1991 to September 2004. Mr. Guo worked as Staff Member of PBOC Savings Interest Rate Department from June 1989 to May 1991. Mr. Guo also held various positions from April 1988 to June 1989, including POBC Baoan Branch, Shenzhen Branch and State Administration of Foreign Exchange Shenzhen Branch. From July 1987 to April 1988, Mr. Guo worked as Staff Member in Reform Office of Comprehensive Planning Department in the PBOC. Mr. Guo obtained his Bachelor's degree in Economics from Fudan University in 1987.

**Mr. ZHOU Wanfu**, Executive Vice President. Mr. Zhou has been Executive Vice President of the Bank since November 2020. Mr. Zhou has been the Board Secretary of the Agricultural Bank of China from April 2018 to March 2020. Before that, Mr. Zhou served as General Manager of the Strategic Planning Department, President of Tianjin Training Institute and General Manager of the Strategic Planning Department of the Agricultural Bank of China successively from September 2012 to April 2018; Vice President of Chongqing Branch of the Agricultural Bank of China from June 2009 to September 2012; Deputy General Manager of the Asset and Liability Management Department, Deputy General Manager of the Planning and Finance Department, and General Manager of the Asset and Liability Management Department of the Agricultural Bank of China successively from October 2003 to June 2009; Vice President of the Ningbo Branch of the Agricultural Bank of China from November 1999 to October 2003; and Researcher and Deputy-Division-Chief-Level Cadre of the Research Office, Deputy Division Chief of the Development and Planning Department and Division Chief of Comprehensive Planning Department of the Agricultural Bank of China successively from July 1988 to November 1999. Mr. Zhou obtained a Master's degree in Economics from the Graduate School of the PBOC in 1988 and an MBA degree from Nanyang Technological University in Singapore in 2003.

**Mr. HAO Cheng**, Executive Vice President. Mr. Hao has been Executive Vice President of the Bank since March 2021, Senior Engineer. Mr. Hao held various positions in China Development Bank, including President of the Jilin Branch, Deputy Director of the Personnel Bureau of the Head Office, Executive Vice President of the Tianjin Branch, Division Chief of the Comprehensive Division of the Personnel Bureau of the Head Office, Division Chief of the Policy Division of the Personnel Bureau of the Head Office, Division Chief of the System Personnel Division of the Personnel Bureau of the Head Office, Deputy Division Chief of Policy Division of the Personnel Bureau of the Head Office, Deputy Division Chief of the Second Credit Management Division and the Fourth Credit Management Division of the Credit Management Bureau of the Head Office. Mr. Hao obtained his Doctoral degree in Management from Beijing Jiaotong University in 2009.

**Mr. QIAN Bin**, Executive Vice President. Mr. Qian has been Executive Vice President of the Bank since July 2021, senior engineer. He successively served as General Manager and Person-In-Charge of Network Finance Department, General Manager of Data Center (Shanghai), Deputy General Manager of Private Banking Department, Deputy General Manager of Information Technology Department of Industrial and Commercial Bank of China Limited. Mr. Qian also served as General Manager (concurrently as Director of Technology Support Center), Deputy General Manager, and Assistant General Manager of Information Technology Department of Shanghai Branch of Industrial and Commercial Bank of China Limited. Mr. Qian Bin obtained his MBA degree from The University of Hong Kong – Fudan University IMBA Programme in 2004.

**Mr. GU Sheng**, Company Secretary. Mr. Gu has been Secretary of the Board of Directors of the Bank since April 2018, and has concurrently been Chief Executive Officer of Yangtze River Delta Integration Management Department of the Bank since July 2020, Senior Economist. Mr. Gu held various positions in the Bank, including General Manager of the Human Resource Department of the Head Office, President of the Jiangsu Branch, President of the Suzhou Branch, Executive Vice President of the Nanjing Branch, Executive Vice President of the Hainan Branch (in charge of overall work), Division Chief of Personnel Division of the Personnel and Education Department of the Bank, President of the Xiaguan Sub-Branch, Executive Vice

President of the Xiaguan Branch, Deputy Division Chief of the Personnel and Education Department and Assistant to the Division Chief of the Personnel and Education Department, serving the Bank for 34 years. Mr. Gu obtained his EMBA's degree from Nanjing University in 2006.

**Mr. TU Hong**, Chief Business Officer (Inter-bank and Market Business Sector). Mr. Tu has been Chief Business Officer (Interbank and Market Business Sector) of the Bank since September 2018, General Manager of Financial Institution Department of the Bank since August 2018. He also concurrently serves as President of Shanghai Branch of the Bank. Previously, he also served as the Chairman of BOCOM Wealth Management Co., Ltd. Mr. Tu served as Chief Executive Officer of Financial Market Business Center of the Bank from July 2014 to November 2018 (during which he concurrently served as Chief Executive Officer of Asset Management Business Center from February 2016 to September 2016). Mr. Tu held various positions in the Bank from November 2000 to July 2014, including Deputy General Manager of Guangzhou Branch, Deputy General Manager of International Business Department, General Manager of New York Branch, General Manager of Financial Market Department, Chief Executive Officer of Financial Market Business Center/Precious Metals Business Center. Mr. Tu also held various positions in the Bank from August 1989 to November 2000, including credit clerk of Overseas Business Department of Beijing Branch, Deputy Section Chief and Deputy Manager of Foreign Exchange and Deposit Department, Vice Chairman and Deputy General Manager of the Preparatory Committee of Sanyuan Sub-branch, Deputy Manager of the Foreign Exchange Credit Department and Division Chief of the General Administration of Foreign Exchange Business. Mr. Tu obtained his Bachelor's Degree in Economics from Renmin University of China in 1989 and Master's Degree in Economics from Fudan University in 1998.

**Mr. LIN Hua**, Chief Risk Officer. Mr. Lin has been the Chief Risk Officer of the Bank since June 2021, economist. Mr. Lin served as the President of Jiangsu Branch, President and Vice President (performing duties of the president) of Jiangxi Branch, Vice President and Senior Credit Executive of Shanghai Branch, Senior Manager of Credit Department, Division Chief of Credit Management Department, Director of the General Office, Deputy Director of the General Office (in charge of overall work), Assistant Manager of Marketing Department and Assistant Division Chief of Credit Department of Shanghai Branch. He has served the Bank for 33 years. Mr. Lin obtained a master's degree in business administration from Shanghai University of Finance and Economics in 2004.

**Mr. NG Siu On**, Senior Management Member, BoCom-HSBC Strategic Cooperation Adviser. Mr. Ng has been HSBC-BoCom Strategic Cooperation Consultant of the Bank since March 2013. Mr. Ng held various positions in HSBC including Regional Director of the New Territories of HSBC Hong Kong, Associate Vice President and General Manager of the Canadian Toronto Branch Network of HSBC Bank, Deputy General Manager and Director of Branches of HSBC's Area Office China, Senior Manager of Commercial Banking, Director of Medium-sized Enterprises, Head of Corporates of HSBC's Commercial Banking in Hong Kong and Special Consultant for HSBC's Asia-Pacific CEO on Greater China business from June 1989 to March 2013. Mr. Ng currently serves as Honorary Advisor of the Hong Kong Institute of Bankers. Mr. Ng obtained his MBA's degree from the Chinese University of Hong Kong in 1984.

## **BOARD OF SUPERVISORS**

In accordance with the requirements of the company law of the PRC and the Bank's Articles of Association, the board of supervisors of the Bank monitors the Board's execution of the resolutions approved at shareholders' meetings and decisions made within the Board's scope of power. The board of supervisors of the Bank also monitors the senior management's implementation of resolutions approved at shareholders' general meetings and Board's meetings, and the business activities that were carried out within the senior management's scope of power. The board of supervisors is also responsible for monitoring the performance of the directors and senior management, and for investigating the Bank's financial condition.

The board of supervisors of the Bank includes the following members:

**Mr. XU Jiming**, Shareholder Supervisor. Mr. Wang has been a Shareholder Supervisor of the Bank since August 2021. Mr. Xu currently serves as the Deputy Secretary of the Party Committee of the Bank. Mr. Xu served as a member of the Party Group, Chief of the Discipline Inspection and Supervision Team, Chief of the Discipline Inspection Team of the Party Group of China National Petroleum Corporation. He also served in the National Audit Office of People's Republic of China as Director-General of the General Office, Director General of Administrative Audit Department, Director-General of Foreign Capital Utilisation Audit Department, Director of the Audit Cadre Training Center, Director of the Hygiene and Medicine Audit Bureau, Deputy Director of the Hygiene and Medicine Audit Bureau, Deputy Director-General of Foreign Capital Utilisation Audit Department, Commissioner Assistant of the Kunming Special Mission Office (Division Chief Level), Chief of the First Division of Foreign Capital Utilisation Audit Department, Chief of the Comprehensive Division of Foreign Capital Utilisation Audit Department, Deputy Division Level Auditor of the Second Division of Foreign Capital Utilisation Audit Department, Cadre of the Second Division of Foreign Capital Utilisation Audit Department. Mr. Xu obtained his Doctoral degree in Economics from the School of Advanced Studies in the Social Sciences of Paris in 1995.

**Mr. WANG Xueqing**, Shareholder Supervisor. Mr. Wang has been a Shareholder Supervisor of the Bank since June 2017. Mr. Wang has been Chief Accountant of Daqing Oilfield Co., Ltd. (Daqing Petroleum Administration Bureau) and member of the Party committee of Daqing Oilfield Co. Ltd. since October 2016. Mr. Wang served as Director of Finance Department of Daqing Oilfield Company from October 2009 to February 2018. From July 2008 to October 2009, Mr. Wang was appointed as Director of Financial Assets of the First Department in Daqing Oilfield Company. He was Head of the Accounting Department (Center) of the Financial Assets Department in Daqing Oilfield Company and became Section Chief, First Deputy Director and Director from November 1999 to July 2008. At present, Mr. Wang holds difference positions including Chairman of the Board of Directors of Daqing Petroleum (Hong Kong) Co. Ltd. and Daqing Energy (Hong Kong) Co. Ltd., Director of Qingdao Qingxin Plastic Co. Ltd. and DPS Indonesia Co. Ltd., Chairman of the Board of Supervisors of Daqing Oilfield Lishen Pump Co. Ltd. and PTINDOSPECENERGY and Vice President of the Sixth Council of China Association of Plant Engineering. Mr. Wang graduated from Tianjin University of Finance and Economics with Master's degree in June 2002, majoring in Accounting. He is also a Professorate Senior Accountant.

**Mr. LI Yao**, External Supervisor. Mr. Li has been an External Supervisor of the Bank since October 2017. Mr. Li has been teaching at the School of Finance, Shanghai University of Finance and Economics since April 2000 and has been Vice Professor and Professor successively. He served as Vice President of School of Finance from December 2014 to January 2018. During the period from September 2002 to September 2003, Mr. Li served as Vice Professor in visiting scholar program for the purpose of governmental exchange between Chinese and Canadian exchange at the University of Toronto Rotman. Mr. Li was appointed as Professor in the management buyout and private equity research center of Nottingham University Business School from August 2009 to January 2010. Mr. Li has been serving as Professor in visiting Sino-US Fulbright Scholar Program at Boston College from August 2018 to July 2019. Mr. Li also served as Independent Director of Chongqing Rural Commercial Bank Co. Ltd. from October 2014 to December 2015. Mr. Li majored in International Finance and graduated from East China Normal University with the title of Ph.D. in Economics in July 1998.

**Mr. CHEN Hanwen**, External Supervisor. Mr. Chen has been an External Supervisor of the Bank since April 2019. Mr. Chen is currently an independent director of Shanghai Fuiou Payment Service Co., Ltd., a Tier 2 Professor and UIBE (Hui Yuan) distinguished Professor of the University of International Business and Economics ("UIBE"), Doctoral Supervisor, Coordinator of postdoctoral programs, Chair Professor of China Business Executives Academy, Dalian, Co-editor-in-chief of China Journal of Accounting Studies published by the Accounting Society of China, Editorial Board Member of the Audit Research published by China Audit

Society, Member of the Professional Title Assessment Committee of the National Audit Office, Member of the Professional Steering Committee of the Chinese Institute of Certified Public Accountants, Executive Director of China Audit Society and selected for Accounting Master Training Project by the Ministry of Finance. Mr. Chen worked as the Secretary General of the Academic Committee of Xiamen University from January 2014 to June 2015, the Vice President of the Graduate School from August 2012 to June 2015, the vice president of School of Management from June 2008 to August 2012, Dean of the Accounting Department of Xiamen University from May 2004 to December 2008, and received the prestigious Xiamen University Nanqiang Award for outstanding contributions. Mr. Chen currently acts as an Independent Director of Yango Group Co., Ltd (from April 2017 to April 2020), Dalian Wanda Commercial Properties (from May 2017 to March 2022), Beijing Sanyuan Gene Pharmacy Co. Ltd. (from November 2018 to November 2021), Xiamen International Bank (from May 2013 to May 2019) and Xiamen Bank (from January 2015 to January 2021). Mr. Chen acted as independent non-executive director of Industrial Securities from September 2011 to November 2017 and Minsheng Holdings from December 2015 to December 2017. Mr. Chen received his Doctoral degree in Economics from Xiamen University in 1997.

**Mr. SU Zhi**, External Supervisor. Mr. Su has been an External Supervisor of the Bank since June 2022. Mr. Su is currently the Longma Chair Professor, Professor of School of Statistics and Mathematics and School of Finance, Ph.D. Supervisor, First Dean of the Department of Financial Technology, and Executive Director of the CUFU – UESTC Joint Information Research Centre of Central University of Finance and Economics. He concurrently serves as Deputy Director of the Academic Committee of the International Institute of Technology of Development Research Center of the State Council, Fin-tech Consultant of the Government of Xicheng District, Beijing, Distinguished Expert of the “Fin-tech Expert Think Tank” of Finance Office of Haidian District, Beijing, Distinguished Researcher of the Institute of International Monetary Research of Renmin University of China, Distinguished Professor of the Business Model Innovation Center of School of Economics and Management of Tsinghua University, External Senior Expert of the Centralised Procurement Management Committee of the Head Office of Industrial and Commercial Bank of China Ltd., Post-Doctoral Advisor of the Shenzhen Stock Exchange, and JD Financial Post-Doctoral Supervisor; Supervisor of Bank of Guizhou Co., Ltd., the independent non-executive director of Shanghai Haohai Biotechnology Co., Ltd., and the independent non-executive director of Fujian Start Group Company Limited. Mr. Su obtained his Doctoral degree in Quantitative Economics from Jilin University in 2006.

**Mr. GUAN Xingshe**, Employee Supervisor. Mr. Guan has been an Employee Supervisor of the Bank since October 2018 and Director of the Office of the Board of Supervisors since August 2018. From September 2011 to August 2018, Mr. Guan served as General Manager of Department of General Affairs of the Bank. Mr. Guan held various positions from May 2003 to September 2011, including Deputy Manager of Henan Branch (Zhengzhou), Secretary of the Commission for Discipline Inspection (from September 2007 to September 2011) and Senior Credit Executive (from May 2006 to June 2008). He also held several positions from December 1994 to May 2003, including Deputy Division Chief of Finance and Accounting Department of Zhengzhou Branch, Deputy Division Chief of Internal Audit Division (in charge of overall work), Deputy Director of Finance and Accounting Department (in charge of overall work), Division Chief of Finance and Accounting Department (during which he took a temporary post in Internal Audit Division of the Head Office from April 2002 to March 2003). From April 1993 to December 1994, Mr. Guan served as Deputy Division Chief of Financial Audit Department of Zhengzhou Audit Bureau. Mr. Guan obtained his Bachelor's Degree in Economics from Zhongnan University of Economics and Law in 1988 and his Master's Degree in Economics from Xiamen University in 1999.

**Ms. LIN Zhihong**, Employee Supervisor. Ms. Lin has been Employee Supervisor of the Bank since December 2020, Intermediate Accountant. Ms. Lin serves as Director of the Audit and Supervision Bureau of the Bank, Supervisor of the BoCom Financial Asset Investment Co., Ltd. Previously, she also served as Non-executive

Director of BoCom International Holdings Company Limited. Ms. Lin obtained her Master's degree in Business Administration from Shanghai University of Finance and Economics in 2010.

**Ms. FENG Bing**, Employee Supervisor. Mr. Feng has been Employee Supervisor of the Bank since December 2020, and serves as Director of the Office of Labour Union of the Bank, Senior Economist. Ms. Feng held various positions in the Bank, including League Secretary, Deputy General Manager, Senior Manager of Structural Planning, Senior Manager of Performance Management (During the period, she served a temporary position in the Jiaxing Branch of the Bank as Executive Vice President) and Deputy Senior Manager of Performance Management of the Human Resource Department of the Bank's Head Office, and she also served as Deputy Head of Economic Research Office of the Development Research Department of the Bank's Head Office, serving the Bank for 20 years. Ms. Feng obtained her Master's degree in National Economics from University of Shanghai for Science and Technology in 2000.

**Ms. PO Ying**, Employee Supervisor. Ms. Po, is a senior accountant. Ms. Po is currently the general manager of the Equity and Investment Management Department of the Bank, the Chairman of the board of supervisors of Bank of Communications International Trust Co., Ltd., a non-executive director of Bank of Communications International Holdings Company Limited, and a non-executive director of Bank of Communications (Brazil) Co., Ltd. Previously, she served as a non-executive director of Bank of Communications Financial Leasing Co., Ltd. She was the deputy general manager of the Budget and Finance Department (Data and Information Management Center) of the head office of the Bank and concurrently served as a non-executive director of Bank of Communications International Trust Co., Ltd. Ms. Po also served as the vice president of Suzhou Branch of the Bank, senior manager of management accounting, senior manager of management accounting and pricing management, senior manager of management accounting and pricing of the Budget and Finance Department of the head office of the Bank, deputy director of the Management Accounting Division of the Financial Accounting (Budget Finance) Department of the head office of the Bank, deputy director of the Finance Division of the Financial Accounting Department of the head office of the Bank and deputy director and assistant director of the Planning Division of Nanning Branch of the Bank. Ms. Po has been serving the Bank for 25 years. She obtained a master's degree in economics from Southwestern University of Finance and Economics in 1996.

## **BOARD COMMITTEES**

The Board of Directors set up Strategy Committee (Inclusive Finance Development Committee), Audit Committee, Risk Management and Related Party Transaction Control Committee, Personnel & Remuneration Committee and Social Responsibility (Environmental, Social and Governance) and Consumer Protection Committee. Thereinto, the Strategy Committee and Inclusive Finance Development Committee implemented "one institution, two titles"; the Risk Management and Related Party Transaction Control Committee assumed the responsibilities of the US Risk Management Committee; and the Personnel & Remuneration Committee performed the functions of both nomination and remuneration.

### **The Strategy Committee (Inclusive Finance Development Commission)**

The Strategy Committee is primarily responsible for formulating the operations and management objectives as well as long-term development plans, regularly analysing and evaluating the results of capital management, conducting research and making recommendations on major equity investment plans. The committee supervises and inspects the implementation of the annual business plans, examines and assesses the implementation of corporate governance system. Furthermore, it formulates and reviews the strategic plans for the development of inclusive financial business and business operating plan, and also evaluates the achievements of inclusive finance business development. For the year ended 31 December 2021, the Committee held six meetings, reviewed and approved 22 proposals, and presented professional recommendations to the Board of Directors.



### **The Audit Committee**

The Audit Committee is mainly responsible for proposing the appointments, changes or removals of the Bank's auditors, monitoring the Bank's internal audit system and its implementation, acting as the communication channel between the Bank's internal and external auditors, reviewing the Bank's financial information and disclosure, examining the Bank's accounting policies, financial position and financial reporting procedures, and monitoring the implementation of the Bank's internal controls. As at 30 June 2022, the Audit Committee comprised seven members, including Mr. Li Longcheng, Mr. Chang Baosheng, Mr. Chen Junkui, Mr. Woo Chin Wan, Raymond, Mr. Shi Lei, Mr. Zhang Xiangdong and Ms. Li Xiaohui. Ms. Li Xiaohui, Independent Non-executive Director, served as the Chairman. The Audit Committee and the senior management have reviewed the Bank's accounting policies and practices and discussed issues relating to internal controls and financial reporting including reviewing interim financial reports.

### **The Risk Management and Related Party Transaction Control Committee**

The Committee is primarily responsible for monitoring and evaluating the risk management and controls of the Bank in areas of credit, market, operations, compliance, case prevention, money laundering and terrorism financing; periodically assessing the risks, management status and risk tolerance level; supervising and evaluating the risk management of America-related operations, reviewing significant related party transactions, asset disposals, asset pledges or external guarantees; approving policies and procedures of money laundering risk management; reviewing anti-money laundering reports regularly, keeping abreast of major money laundering risk events and their resolutions, and evaluating the status of anti-money laundering risk management. For the year ended 31 December 2021, the Committee held four meetings, reviewed and approved 25 proposals, and presented professional recommendations to the Board of Directors.

### **The Personnel and Remuneration Committee**

The Personnel & Remuneration Committee is primarily responsible for making recommendations to the Board of Directors on its scale and structure according to the operating results, the scale of assets and the structure of shareholding; approving and amending the policies on diversification of members of the Board of Directors; making recommendations to the Board of Directors on formulating the selection procedures and assessment criteria for the Bank's directors and senior management personnel and reviewing the basic systems and policies of remuneration management; proposing suggestions on the remuneration distribution plan of directors and senior management and submitting them to the Board of Directors for approval. The Personnel & Remuneration Committee performed the functions both as a Nomination Committee and a Remuneration Committee.

The Personnel & Remuneration Committee's nomination procedures for the directors and senior management of the Bank are as follows: Firstly, understand the Bank's demands for directors and senior management in time. Secondly, extensively search for candidates of directors and senior management. Thirdly, determine the initial candidates and obtain their agreements. Fourthly, convene the meetings of the Personnel & Remuneration Committee to conduct examinations for the qualification of the initial candidates. Fifthly, propose to the Board of Directors about the election of new directors and the appointment of new senior management. Sixthly, implement other following duties based on decisions and feedbacks of the Board of Directors.

For the year ended 31 December 2021, the Committee held five meetings and reviewed and approved 17 proposals, and presented professional recommendations to the Board of Directors.

### **The Social Responsibility (Environmental, Social and Governance) and Consumer Protection Committee**

The Committee is primarily responsible for formulating the Bank's social responsibility strategies and policies, reviewing the achievements of the social responsibility targets and submitting the Annual Social Responsibility Report to the Board of Directors; researching and assessing the measures of the ESG performance and

promoting ESG information disclosure; reviewing the strategies, policies and goals on protecting the consumers' rights, studying key issues and significant policies on consumer's rights protection, approving external donations; reviewing credit policies concerning environmental and sustainable development. For the year ended 31 December 2021, the Committee held four meetings and reviewed and approved 14 proposals and reports, and presented professional recommendations to the Board of Directors.

## SUBSCRIPTION AND SALE

*The section entitled “Subscription and Sale” of the Original Offering Circular shall be supplemented with the following:*

**Notice to capital market intermediaries and prospective investors pursuant to paragraph 21 of the Hong Kong SFC Code of Conduct – Important Notice to CMIs (including private banks):** This notice to CMIs (including private banks) is a summary of certain obligations the Code imposes on CMIs, which require the attention and cooperation of other CMIs (including private banks). Certain CMIs may also be acting as OCs for the offering of each Series of Notes and are subject to additional requirements under the Code.

Prospective investors who are the directors, employees or major shareholders of the Issuer, the Bank, a CMI or its group companies would be considered under the Code as having an Association with the Issuer, the Bank, the CMI or the relevant group company. CMIs should specifically disclose whether their investor clients have any Association when submitting orders for the relevant Series of Notes. In addition, private banks should take all reasonable steps to identify whether their investor clients may have any Associations with the Issuer, the Bank or any CMI (including its group companies) and inform the Joint Lead Managers accordingly.

CMIs are informed that, the marketing and investor targeting strategy for the offering of each Series of Notes includes institutional investors, sovereign wealth funds, pension funds, hedge funds, family offices and high net worth individuals, in each case, subject to the selling restrictions and any MiFID II product governance language set out in the Original Offering Circular.

CMIs should ensure that orders placed are bona fide, are not inflated and do not constitute duplicated orders (i.e. two or more corresponding or identical orders placed via two or more CMIs). CMIs should enquire with their investor clients regarding any orders which appear unusual or irregular. CMIs should disclose the identities of all investors when submitting orders for the relevant Series of Notes (except for omnibus orders where underlying investor information should be provided to the OCs when submitting orders). Failure to provide underlying investor information for omnibus orders, where required to do so, may result in that order being rejected. CMIs should not place “X-orders” into the order book.

CMIs should segregate and clearly identify their own proprietary orders (and those of their group companies, including private banks as the case may be) in the order book and book messages.

CMIs (including private banks) should not offer any rebates to prospective investors or pass on any rebates provided by the Issuer or the Bank. In addition, CMIs (including private banks) should not enter into arrangements which may result in prospective investors paying different prices for the any Series of Notes.

The Code requires that a CMI disclose complete and accurate information in a timely manner on the status of the order book and other relevant information it receives to targeted investors for them to make an informed decision. In order to do this, those Joint Lead Managers in control of the order book should consider disclosing order book updates to all CMIs.

When placing an order for any Series of Notes, private banks should disclose, at the same time, if such order is placed other than on a “principal” basis (whereby it is deploying its own balance sheet for onward selling to investors). Private banks who do not provide such disclosure are hereby deemed to be placing their order on such a “principal” basis. Otherwise, such order may be considered to be an omnibus order pursuant to the Code. Private banks should be aware that placing an order on a “principal” basis may require the Joint Lead Managers to apply the “proprietary orders” requirements of the Code to such order and will require the Joint Lead Managers to apply the “rebates” requirements of the Code (if applicable) to such order.

In relation to omnibus orders, when submitting such orders, CMIs (including private banks) are requested to provide the following underlying investor information, preferably in Excel Workbook format, in respect of each

order constituting the relevant omnibus order (failure to provide such information may result in that order being rejected).

Underlying investor information in relation to omnibus orders should consist of:

- The name of each underlying investor;
- A unique identification number for each investor;
- Whether an underlying investor has any “Associations” (as used in the Code);
- Whether any underlying investor order is a “Proprietary Order” (as used in the Code); and
- Whether any underlying investor order is a duplicate order.

To the extent information being disclosed by CMIs and investors is personal and/or confidential in nature, CMIs (including private banks) agree and warrant: (A) to take appropriate steps to safeguard the transmission of such information to the OCs; and (B) that they have obtained the necessary consents from the underlying investors to disclose such information to the OCs. By submitting an order and providing such information to the OCs, each CMI (including private banks) further warrants that each of them and the underlying investors have understood and consented to the collection, disclosure, use and transfer of such information by the OCs and/or any other third parties as may be required by the Code, including to the Issuer, the Bank, relevant regulators and/or any other third parties as may be required by the Code, for the purpose of complying with the Code, during the bookbuilding process for the offering of each Series of Notes. CMIs that receive such underlying investor information are reminded that such information should be used only for submitting orders in the relevant offering. The Joint Lead Managers may be asked to demonstrate compliance with their obligations under the Code, and may request other CMIs (including private banks) to provide evidence showing compliance with the obligations above (in particular, that the necessary consents have been obtained). In such event, other CMIs (including private banks) are required to provide the relevant Joint Lead Manager with such evidence within the timeline requested.

## GENERAL INFORMATION

*The sub-sections entitled “Listing”, “Authorisations”, “No Material Adverse Change” and “Auditor” in “General Information” on pages 174 to 175 of the Original Offering Circular shall be deemed to be deleted in its entirety and replaced with the following:*

1. **Listing:** Application has been made to the HKSE for listing of the Programme by way of debt issues to Professional Investors only during the 12-month period after the date of the Original Offering Circular on the Hong Kong Stock Exchange. Application will be made to the Hong Kong Stock Exchange for listing of, and permission to deal in, the Notes by way of debt issues to Professional Investors only. The issue price of each Series of Notes listed on the Hong Kong Stock Exchange will be expressed as a percentage of the nominal amount of such Series of Notes. It is expected that dealings will, if permission is granted to deal in and for the listing of the Notes, commence on or about the date of listing of the Notes.
2. **Authorisations:** The Issuer has obtained all necessary consents, approvals and authorisations as may be required in connection with the establishment of the Programme and the issue of this Offering Circular. The establishment of the Programme have been duly authorised by a resolution of the Board of the Bank dated 27 October 2017. The issue of each Series of Notes described in this Offering Circular have been duly authorised the Bank’s internal resolution. The Issuer has obtained and has agreed to obtain from time to time all necessary internal consents, approvals and authorisations for the issues of each Series of Notes.
3. **No Material Adverse Change:** Except as disclosed in this Offering Circular, there has been no significant change in the financial or trading position of the Issuer or of the Group since 30 June 2022 and no material adverse change in the financial position or prospects of the Issuer or of the Group since 31 December 2021.
4. **Auditors:** PricewaterhouseCoopers, the Bank’s independent auditor for the years ended 31 December 2020 and 2021, has audited, and rendered unqualified audit reports on, the consolidated financial statements of the Bank for the years ended 31 December 2020 and 2021.

KPMG, the Bank’s independent auditor for the year ending 31 December 2022, has reviewed, and rendered unqualified review report on, the interim condensed consolidated financial statements of the Bank for the six months ended 30 June 2022 in accordance with International Standard on Review Engagements 2410, “*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*”.

## INDEX TO FINANCIAL STATEMENTS

*For the consolidated financial statements of the Bank as at and for the years ended 31 December 2019 and 2020, which have been audited by PricewaterhouseCoopers in accordance with IFRS, please refer to the Original Offering Circular.*

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#### Notes:

- (1) The independent auditor's report on the Group's consolidated financial information for the year ended 31 December 2021 set out herein is reproduced from the Group's annual reports for the year ended 31 December 2021. Page references referred to in the abovenamed reports refer to pages set out in such annual report.
- (2) The report on review of interim financial information on the Group's unaudited interim condensed consolidated financial statements for the six months ended 30 June 2022 set out herein is reproduced from the Group's interim report for the six months ended 30 June 2022. Page references referred to in the above-named report refer to pages set out in such interim report.

# INDEPENDENT AUDITOR'S REPORT

## To the Shareholders of Bank of Communications Co., Ltd.

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

## OPINION

### What we have audited

The consolidated financial statements of Bank of Communications Co., Ltd. (the "Bank") and its subsidiaries (the "Group") set out on pages 170 to 311, which comprise:

- the consolidated statement of financial position as at 31 December 2021;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

### Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

### KEY AUDIT MATTERS *(Continued)*

Key audit matters identified in our audit are summarised as follows:

1. Expected credit impairment allowance of loans and advances to customers, financial investments at amortised cost, credit related commitments and financial guarantees
2. Consolidation assessment of structured entities
3. Valuation of financial assets measured at fair value classified as level 3

#### Key Audit Matter

#### How our audit addressed the Key Audit Matter

##### ***Expected credit impairment allowance of loans and advances to customers, financial investments at amortised cost, credit related commitments and financial guarantees***

Refer to Notes 2.3, 2.29(a), 3.1.1(a), 3.1.1(b), 3.1.1(c), 3.1.1(d), 3.1.2, 3.1.3.1, 22.3, 23, 34 and 40 to the Group's consolidated financial statements.

As at 31 December 2021, the Group's gross loans and advances to customers amounted to RMB6,574,385 million, and an expected credit loss ("ECL") allowance of RMB162,184 million was recognised in the Group's consolidated statement of financial position; the gross amount of financial investments at amortised cost was RMB2,205,995 million and an ECL allowance of RMB2,958 million was recognised; the exposure of credit related commitments and financial guarantees was RMB1,906,425 million, for which a provision of RMB9,242 million was recognised.

The ECL on loans and advances to customers, financial investments at amortised cost and credit related commitments and financial guarantees recognised in the Group's consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2021 amounted to RMB65,371 million.

We understood, evaluated and tested the internal controls relating to ECL for loans and advances to customers, financial investments at amortised cost and credit related commitments and financial guarantees, primarily comprising:

- (1) Governance over ECL models, including the selection, approval and application of the accounting policies and ECL modelling methodology; and the internal controls relating to the ongoing monitoring and optimization of the models;
- (2) Internal controls relating to significant management judgments and assumptions, including the assessment and approval of portfolio segmentation, model selections, parameters estimation, the judgement of significant increase in credit risk, or of defaults or credit-impaired, forward-looking and management overlay adjustments;
- (3) Internal controls over the accuracy and completeness of key inputs used by the models;
- (4) Internal controls relating to estimation of future cash flows and calculations of present values of such cash flows for loans and advances to customers and financial investments at amortised cost using DCF to calculate loss allowances;
- (5) Internal controls over the information systems for ECL measurement.



## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

KEY AUDIT MATTERS *(Continued)*

## Key Audit Matter

## How our audit addressed the Key Audit Matter

***Expected credit impairment allowance of loans and advances to customers, financial investments at amortised cost, credit related commitments and financial guarantees (Continued)***

The Group assesses whether or not loans and advances to customers, financial investments at amortised cost and credit related commitments and financial guarantees have a significant increase in credit risk, or a default was incurred, and applies a three-stage impairment model and discounted cash flow model ("DCF") to calculate their ECL. For loans and advances to customers, financial investments at amortised cost and credit related commitments and financial guarantees using the three-stage impairment model, the management assesses loss allowance using the risk parameter modelling approach that incorporates key parameters, including probability of default, loss given default and exposure at default. For loans and advances to customers and financial investments at amortised cost using DCF to calculate ECL, the management assesses loss allowance by estimating the cash flows from the business.

The models of ECL involves significant management judgments and assumptions, primarily including:

- (1) Segmentation of business operations sharing similar credit risk characteristics, selection of appropriate models and determination of relevant key measurement parameters;

The substantive procedures we performed primarily comprised:

Based on the risk profile of the asset portfolio, we evaluated the reasonableness of the portfolio segmentation. By comparing with regulatory guidance and industry practice, we assessed the reasonableness of modelling methodologies for ECL measurement of different portfolios. We examined the calculation for the model measurement on selected samples, to test whether or not the models reflect the modelling methodologies documented by management. We also performed back-testing of the actual defaults against expected defaults generated from the model as at the end of previous year on sample basis to assess the reasonableness of the model.

We examined key data inputs to the ECL models on selected samples, including historical data and data at the measurement date, to assess their accuracy and completeness.

## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

### KEY AUDIT MATTERS *(Continued)*

| Key Audit Matter  | How our audit addressed the Key Audit Matter  |
|---|---|
| <b><i>Expected credit impairment allowance of loans and advances to customers, financial investments at amortised cost, credit related commitments and financial guarantees (Continued)</i></b>   |   |
| (2) Criteria for determining whether or not there was a significant increase in credit risk, or a default or impairment loss was incurred;  | We selected samples, in consideration of the financial information and non-financial information of the borrowers, relevant external evidence and other factors, to assess the appropriateness of the management's criteria of significant increase in credit risk, defaults and credit-impaired loans.   |
| (3) Economic indicators for forward-looking measurement, and the application of economic scenarios and weightings;  | For forward-looking measurements, we applied statistical methods to assess management's selection of economic indicators and their analysis of co-relations with credit risk portfolios. We further tested the reasonableness of the prediction of economic indicators by comparing with available external expert estimates. In addition, we performed sensitivity test of economic indicators and weightings of economic scenarios. |
| (4) Management overlay adjustments due to significant uncertain factors not covered in the models; and  |   |
| (5) The estimated future cash flows for loans and advances to customers and financial investments at amortised cost for which DCF model was used to calculate ECL.  |   |
| The Group established governance processes and controls for the measurement of ECL.   | For loans and advances to customers and financial investments at amortised cost that DCF model used to calculate ECL, we examined, on a sample basis, forecasted future cash flows prepared by the Group based on financial information of borrowers and guarantors, latest collateral valuations and other available information together with discount rates in supporting the computation of ECL.                                  |
| For measuring ECL, the Group adopted complex models, employed numerous parameters and data inputs, and applied significant management judgments and assumptions. In addition, the loans and advances to customers, financial investments at amortised cost, exposures of credit related commitments and financial guarantees and the related ECL allowance and provision involve significant amounts. In view of these reasons, we identified this as a key audit matter. | Based on our procedures performed, we considered that the models, key parameters, significant judgements and assumptions adopted in the ECL measurement together with the measurement results were considered acceptable.   |

## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

KEY AUDIT MATTERS *(Continued)*

## Key Audit Matter

## How our audit addressed the Key Audit Matter

**Consolidation assessment of structured entities**

Refer to Notes 2.2, 2.29(d), 44 and 45 to the Group's consolidated financial statements.

The Group has managed or invested in a number of structured entities. As at 31 December 2021, the carrying amount of unconsolidated structured entities invested by the Group amounted to RMB245,245 million. In addition, as at 31 December 2021, the balances of the non-principal guaranteed wealth management products, funds, trust and asset management plans and others originated and managed by the Group amounted to RMB1,426,253 million, RMB547,188 million, and RMB721,946 million respectively.

The management performed assessment on each of the three elements of control (power to direct relevant activities of structured entities, exposure to variable returns and the Group's ability to use its power to affect its variable returns from the structured entities) in determining whether structured entities managed or invested in by the Group should be consolidated or not. In performing the assessment, significant judgment was involved to determine the role of the Group in the arrangement as either a principal or an agent. If the Group acts as a principal, the structured entities should be consolidated.

We focused on this area because the amount of the Group's structured entities was significant and the consolidation assessment of these structured entities involved significant judgments.

We understood, evaluated and validated the design and operating effectiveness of relevant controls over management's assessment of consolidation of structured entities.

In addition, we selected samples of the structured entities that the Group invested in or managed, and performed the following procedures on the management's assessment of consolidation of structured entities:

- (1) Analysed the transaction structures, inspected related contract terms, and evaluated whether the Group had the power to direct the relevant activities of these structured entities;
- (2) Inspected contract terms related to the Group's variable returns from these selected structured entities, including management fee, expected investment returns and returns from liquidity support, and agreed these information to the corresponding inputs used in the management's assessment;
- (3) Recalculated the magnitude and variability of the variable returns to the Group from these structured entities based on contract terms;
- (4) Assessed the Group's role in these structured entities as a principal or an agent through analysis of the scope of its decision-making authority over the structured entities, the remuneration to which the Group was entitled for its management services provided to the structured entities, its exposure to variability of returns from other interests that it held in them, and the rights held by other parties, and compared our assessment results with the management's assessment outcomes.

Based on the work undertaken above, we found the overall consolidation assessment of structured entities performed by the management acceptable.

## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

### KEY AUDIT MATTERS *(Continued)*

#### Key Audit Matter

#### How our audit addressed the Key Audit Matter

##### **Valuation of financial assets measured at fair value classified as level 3**

Refer to Notes 2.3, 2.29(b) and 3.4 to the Group's consolidated financial statements.

Convertible bonds, unlisted equities, unlisted funds, certain trusts and asset management plans, equity derivatives and certain loans and advances to customers held by the Group, whose fair value are determined based on certain unobservable inputs, were classified by the Group as level 3 in fair value measurement. The management determines the fair value of these financial assets using a variety of techniques. The valuation methods mainly include discounted cash flow and comparable values, involving various unobservable inputs such as cash flow, risk-adjusted discount rate, price to book value ratio, price to earning ratio and liquidity discounts, etc.

As at 31 December 2021, financial assets measured at fair value classified as level 3 amounted to RMB78,951 million.

Financial assets measured at fair value classified as level 3 involve significant amounts, and unobservable inputs adopted by the Group involve significant judgement. In view of these, valuation of these financial assets is identified as a key audit matter.

We understood, evaluated and validated the internal controls established by management over valuation on financial assets measured at fair valued classified as level 3, mainly comprising:

- (1) Internal controls relating to selection, approval and application of valuation methods;
- (2) Internal controls relating to the determination of the valuation inputs.

The substantive procedures we performed, primarily included:

- (1) Assessed on sample basis the appropriateness of valuation methods adopted in the valuation of level 3 financial assets based on industry practice;
- (2) Leveraging our internal valuation specialists, evaluated the appropriateness and accuracy of various unobservable inputs involved in measuring financial assets measured at fair value classified as level 3, such as cash flow, risk-adjusted discount rate, price to book value ratio, price to earning ratio and liquidity discounts on sample basis;
- (3) Tested the mathematical accuracy of the calculation of fair value of financial assets measured at fair value classified as level 3 on sample basis.

Based on the work undertaken above, we found that the overall valuation of financial assets measured at fair value classified as level 3 performed by the management was acceptable.

## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

### OTHER INFORMATION

The directors of the Bank are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Bank are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

### AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- 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.

## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

### AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Ling Tung Man, Tom.

**PricewaterhouseCoopers**  
*Certified Public Accountants*

Hong Kong, 25 March 2022

# CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(All amounts expressed in millions of RMB unless otherwise stated)

|   | Note | Year ended 31 December |           |
|---|------|------------------------|-----------|
|   |      | 2021                   | 2020      |
| Interest income   |      | 377,646                | 369,101   |
| Interest expense  |      | (215,953)              | (215,765) |
| <b>Net interest income</b>  | 4    | <b>161,693</b>         | 153,336   |
| Fee and commission income   | 5    | 52,285                 | 49,298    |
| Fee and commission expense  | 6    | (4,712)                | (4,212)   |
| <b>Net fee and commission income</b>  |      | <b>47,573</b>          | 45,086    |
| Net gains arising from trading activities   | 7    | 23,344                 | 13,844    |
| Net gains arising from financial investments  |      | 1,311                  | 1,177     |
| <i>Including: Net gains on derecognition of financial assets measured at amortised cost</i> |      | <b>46</b>              | 27        |
| Share of profits of associates and joint ventures   |      | 277                    | 222       |
| Insurance business income   | 8    | 16,515                 | 15,170    |
| Other operating income  | 9    | 19,035                 | 17,889    |
| <b>Net operating income</b>   |      | <b>269,748</b>         | 246,724   |
| Credit impairment losses  | 10   | (66,371)               | (62,059)  |
| Other assets impairment losses  | 11   | (2,320)                | (484)     |
| Insurance business expense  | 12   | (17,054)               | (15,729)  |
| Other operating expenses  | 13   | (90,044)               | (82,027)  |
| <b>Profit before tax</b>  |      | <b>93,959</b>          | 86,425    |
| Income tax  | 16   | (5,020)                | (6,855)   |
| <b>Net profit for the year</b>  |      | <b>88,939</b>          | 79,570    |

## CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(Continued)

(All amounts expressed in millions of RMB unless otherwise stated)

|   | Notes | Year ended 31 December |               |
|---|-------|------------------------|---------------|
|   |       | 2021                   | 2020          |
| <b>Other comprehensive income, net of tax</b>   |       |                        |               |
| <b>Items that may be reclassified subsequently to profit or loss:</b>   |       |                        |               |
| Loans and advances to customers at fair value through other comprehensive income  |       |                        |               |
| Amount recognised in equity   |       | 459                    | 19            |
| Amount reclassified to profit or loss   |       | (428)                  | (183)         |
| Debt investments at fair value through other comprehensive income   |       |                        |               |
| Amount recognised in equity   |       | 2,796                  | (920)         |
| Amount reclassified to profit or loss   |       | (442)                  | (825)         |
| Effective portion of gains or losses on hedging instruments in cash flow hedges   |       |                        |               |
| Amount recognised in equity   |       | 891                    | (1,362)       |
| Amount reclassified to profit or loss   |       | (463)                  | 815           |
| Translation difference on foreign operations  |       | (3,450)                | (4,776)       |
| Others  |       | 14                     | (8)           |
| Subtotal  |       | (623)                  | (7,240)       |
| <b>Items that will not be reclassified subsequently to profit or loss:</b>  |       |                        |               |
| Changes in fair value of equity investments designated at fair value through other comprehensive income                                 |       | (1,555)                | (1,204)       |
| Actuarial losses on pension benefits  |       | 55                     | (132)         |
| Changes in fair value attributable to changes in the credit risk of financial liability designated at fair value through profit or loss |       | (36)                   | 7             |
| Others  |       | 2                      | 20            |
| Subtotal  |       | (1,534)                | (1,309)       |
| Other comprehensive income, net of tax  | 42    | (2,157)                | (8,549)       |
| <b>Total comprehensive income for the year</b>  |       | <b>86,782</b>          | <b>71,021</b> |
| <b>Net profit attributable to:</b>  |       |                        |               |
| Shareholders of the Bank  |       | 87,581                 | 78,274        |
| Non-controlling interests   |       | 1,358                  | 1,296         |
|   |       | <b>88,939</b>          | <b>79,570</b> |
| <b>Total comprehensive income attributable to:</b>  |       |                        |               |
| Shareholders of the Bank  |       | 85,696                 | 69,960        |
| Non-controlling interests   |       | 1,086                  | 1,061         |
|   |       | <b>86,782</b>          | <b>71,021</b> |
| <b>Basic and diluted earnings per share for profit attributable to the shareholders of the Bank (in RMB yuan)</b>                       | 17    | <b>1.10</b>            | <b>0.99</b>   |

The accompanying notes form a part of these consolidated financial statements.



## CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(All amounts expressed in millions of RMB unless otherwise stated)

|  | Notes | As at<br>31 December 2021 | As at<br>31 December 2020 |
|--|-------|---------------------------|---------------------------|
| <b>ASSETS</b>  |       |                           |                           |
| Cash and balances with central banks   | 18    | 734,728                   | 817,561                   |
| Due from and placements with banks and other financial institutions          | 19    | 632,708                   | 571,130                   |
| Derivative financial assets  | 21    | 39,220                    | 54,212                    |
| Loans and advances to customers  | 22    | 6,412,201                 | 5,720,568                 |
| Financial investments at fair value through profit or loss                   | 20    | 638,483                   | 482,588                   |
| Financial investments at amortised cost                                      | 23    | 2,203,037                 | 2,019,529                 |
| Financial investments at fair value through other comprehensive income       | 23    | 681,729                   | 735,220                   |
| Investments in associates and joint ventures                                 | 25    | 5,779                     | 4,681                     |
| Property and equipment   | 26    | 171,194                   | 169,471                   |
| Deferred income tax assets   | 27    | 32,061                    | 27,991                    |
| Other assets   | 28    | 114,617                   | 94,665                    |
| <b>Total assets</b>  |       | <b>11,665,757</b>         | <b>10,697,616</b>         |
| <b>LIABILITIES</b>   |       |                           |                           |
| Due to and placements from banks and other financial institutions            | 29    | 1,947,768                 | 1,787,491                 |
| Financial liabilities at fair value through profit or loss                   | 30    | 50,048                    | 29,279                    |
| Derivative financial liabilities   | 21    | 36,074                    | 55,942                    |
| Due to customers   | 31    | 7,039,777                 | 6,607,330                 |
| Certificates of deposits issued  | 32    | 892,020                   | 634,297                   |
| Current income tax liabilities   |       | 4,725                     | 3,786                     |
| Deferred income tax liabilities  | 27    | 1,889                     | 1,286                     |
| Debt securities issued   | 33    | 503,525                   | 497,755                   |
| Other liabilities  | 34    | 212,695                   | 201,822                   |
| <b>Total liabilities</b>   |       | <b>10,688,521</b>         | <b>9,818,988</b>          |
| <b>EQUITY</b>  |       |                           |                           |
| Share capital  | 35    | 74,263                    | 74,263                    |
| Other equity instruments   | 36    | 174,790                   | 133,292                   |
| <i>Including: Preference shares</i>  |       | <i>44,952</i>             | <i>44,952</i>             |
| <i>Perpetual bonds</i>   |       | <i>129,838</i>            | <i>88,340</i>             |
| Capital surplus  | 35    | 111,428                   | 111,428                   |
| Other reserves   |       | 346,092                   | 333,176                   |
| Retained earnings  |       | 258,074                   | 214,448                   |
| <b>Equity attributable to shareholders of the Bank</b>                       |       | <b>964,647</b>            | <b>866,607</b>            |
| Equity attributable to non-controlling interests of ordinary shares          |       | 9,424                     | 8,763                     |
| Equity attributable to non-controlling interests of other equity instruments | 39    | 3,165                     | 3,258                     |
| <b>Non-controlling interests</b>   |       | <b>12,589</b>             | <b>12,021</b>             |
| <b>Total equity</b>  |       | <b>977,236</b>            | <b>878,628</b>            |
| <b>Total equity and liabilities</b>  |       | <b>11,665,757</b>         | <b>10,697,616</b>         |

The consolidated financial statements were approved and authorised for issuance by the Board of Directors on 25 March 2022 and signed on its behalf by:

**Chairman and Executive Director: Ren Deqi**

**Vice Chairman, Executive Director and President: Liu Jun**

The accompanying notes form a part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(All amounts expressed in millions of RMB unless otherwise stated)

|   | Other equity instruments |                              |                            | Other reserves             |                              |                                  |                                      |  |   |   |   |                           |        | Non-controlling interests       |                                       |   |                  |          |
|---|--------------------------|------------------------------|----------------------------|----------------------------|------------------------------|----------------------------------|--------------------------------------|--|---|---|---|---------------------------|--------|---------------------------------|---------------------------------------|---|------------------|----------|
|   | Share capital<br>Note 35 | Preference Shares<br>Note 36 | Perpetual bonds<br>Note 36 | Capital surplus<br>Note 35 | Statutory reserve<br>Note 37 | Discretionary reserve<br>Note 37 | Statutory general reserve<br>Note 37 | Revaluation reserve for financial assets at fair value through other comprehensive income<br>Note 37 | Revaluation reserve for the changes in credit risk of the financial liabilities designated at fair value through profit or loss | Effective portion of gains or losses on hedging instruments in cash flow hedges | Translation reserve on foreign operations | Actuarial changes reserve | Others | Retained earnings<br>Note 37,38 | Attributable to the Bank shareholders | Attributable to non-controlling interests of other equity instruments | Total<br>Note 36 |          |
|   |                          |                              |                            |                            |                              |                                  |                                      |  |   |   |   |                           |        |                                 |                                       |   |                  |          |
| As at 1 January 2021  | 74,263                   | 44,952                       | 88,340                     | 111,428                    | 72,431                       | 139,930                          | 123,163                              | 456  | 12  | (532)   | (3,517)                                   | (142)                     | 1,375  | 214,448                         | 866,607                               | 8,763   | 3,258            | 878,628  |
| Net profit for the year   | -                        | -                            | -                          | -                          | -                            | -                                | -                                    | -  | -   | -   | -   | -                         | -      | 87,581                          | 87,581                                | 1,236   | 122              | 88,939   |
| Other comprehensive income  | -                        | -                            | -                          | -                          | -                            | -                                | -                                    | 1,019  | (36)  | 428   | (3,367)                                   | 55                        | 16     | -                               | (1,885)                               | (179)   | (93)             | (2,157)  |
| Total comprehensive income  | -                        | -                            | -                          | -                          | -                            | -                                | -                                    | 1,019  | (36)  | 428   | (3,367)                                   | 55                        | 16     | 87,581                          | 85,696                                | 1,057   | 29               | 86,782   |
| Capital contribution by other equity instruments holders                                  | -                        | -                            | 41,498                     | -                          | -                            | -                                | -                                    | -  | -   | -   | -   | -                         | -      | -                               | 41,498                                | -   | -                | 41,498   |
| Dividends paid to ordinary shares   | -                        | -                            | -                          | -                          | -                            | -                                | -                                    | -  | -   | -   | -   | -                         | -      | (23,541)                        | (23,541)                              | (396)   | -                | (23,937) |
| Dividends paid to preference shares   | -                        | -                            | -                          | -                          | -                            | -                                | -                                    | -  | -   | -   | -   | -                         | -      | (1,755)                         | (1,755)                               | -   | -                | (1,755)  |
| Interest paid to perpetual bond holders   | -                        | -                            | -                          | -                          | -                            | -                                | -                                    | -  | -   | -   | -   | -                         | -      | (3,858)                         | (3,858)                               | -   | -                | (3,858)  |
| Interest paid to non-cumulative subordinated additional tier-1 capital securities holders | -                        | -                            | -                          | -                          | -                            | -                                | -                                    | -  | -   | -   | -   | -                         | -      | -                               | -                                     | -   | (122)            | (122)    |
| Transfer to reserves  | -                        | -                            | -                          | -                          | 7,536                        | 92                               | 7,117                                | -  | -   | -   | -   | -                         | -      | (14,745)                        | -                                     | -   | -                | -        |
| Transferred from other comprehensive income   | -                        | -                            | -                          | -                          | -                            | -                                | -                                    | 56   | -   | -   | -   | -                         | -      | (56)                            | -                                     | -   | -                | -        |
| As at 31 December 2021  | 74,263                   | 44,952                       | 129,838                    | 111,428                    | 79,967                       | 140,022                          | 130,280                              | 1,531  | (24)  | (104)   | (6,884)                                   | (87)                      | 1,391  | 258,074                         | 964,647                               | 9,424   | 3,165            | 977,236  |

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## CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

(All amounts expressed in millions of RMB unless otherwise stated)

|   | Other equity instruments |                              |                            |                            | Other reserves               |                                  |                                      |  |   |   |   |                           |        |                                  | Non-controlling interests                    |  |   |                  |
|---|--------------------------|------------------------------|----------------------------|----------------------------|------------------------------|----------------------------------|--------------------------------------|--|---|---|---|---------------------------|--------|----------------------------------|--|--|---|------------------|
|   | Share capital<br>Note 35 | Preference Shares<br>Note 36 | Perpetual bonds<br>Note 36 | Capital surplus<br>Note 35 | Statutory reserve<br>Note 37 | Discretionary reserve<br>Note 37 | Statutory general reserve<br>Note 37 | Revaluation reserve for financial assets at fair value through other comprehensive income<br>Note 37 | Revaluation reserve for the changes in credit risk of the financial liabilities designated at fair value through profit or loss | Effective portion of gains or losses on hedging instruments in cash flow hedges | Translation reserve on foreign operations | Actuarial changes reserve | Others | Retained earnings<br>Note 37, 38 | Attributable to the shareholders of the Bank | Attributable to non-controlling interests of ordinary shares | Attributable to non-controlling interests of other equity instruments | Total<br>Note 36 |
|   |                          |                              |                            |                            |                              |                                  |                                      |  |   |   |   |                           |        |                                  |  |  |   |                  |
| As at 1 January 2020  | 74,263                   | 59,976                       | 39,994                     | 113,663                    | 64,897                       | 139,853                          | 117,567                              | 3,421  | 5   | 15  | 1,199                                     | (10)                      | 1,363  | 177,141                          | 793,247                                      | 7,665  | -   | 800,912          |
| Net profit for the year   | -                        | -                            | -                          | -                          | -                            | -                                | -                                    | -  | -   | -   | -   | -                         | -      | 78,274                           | 78,274                                       | 1,231  | 65  | 79,570           |
| Other comprehensive income  | -                        | -                            | -                          | -                          | -                            | -                                | -                                    | (2,938)  | 7   | (547)   | (4,716)                                   | (132)                     | 12     | -                                | (8,314)                                      | (35)   | (200)   | (8,549)          |
| Total comprehensive income  | -                        | -                            | -                          | -                          | -                            | -                                | -                                    | (2,938)  | 7   | (547)   | (4,716)                                   | (132)                     | 12     | 78,274                           | 69,960                                       | 1,196  | (135)   | 71,021           |
| Capital contribution by other equity instruments holders                                  | -                        | (14,924)                     | 48,346                     | (2,201)                    | -                            | -                                | -                                    | -  | -   | -   | -   | -                         | -      | -                                | 31,221                                       | -  | 3,458   | 34,679           |
| Dividends paid to ordinary shares   | -                        | -                            | -                          | -                          | -                            | -                                | -                                    | -  | -   | -   | -   | -                         | -      | (23,383)                         | (23,383)                                     | (132)  | -   | (23,525)         |
| Dividends paid to preference shares   | -                        | -                            | -                          | -                          | -                            | -                                | -                                    | -  | -   | -   | -   | -                         | -      | (2,714)                          | (2,714)                                      | -  | -   | (2,714)          |
| Interest paid to perpetual bond holders   | -                        | -                            | -                          | -                          | -                            | -                                | -                                    | -  | -   | -   | -   | -                         | -      | (1,680)                          | (1,680)                                      | -  | -   | (1,680)          |
| Interest paid to non-cumulative subordinated additional tier-1 capital securities holders | -                        | -                            | -                          | -                          | -                            | -                                | -                                    | -  | -   | -   | -   | -                         | -      | -                                | -  | -  | (65)  | (65)             |
| Transfer to reserves  | -                        | -                            | -                          | -                          | 7,534                        | 77                               | 5,596                                | -  | -   | -   | -   | -                         | -      | (13,207)                         | -  | -  | -   | -                |
| Transferred from other comprehensive income   | -                        | -                            | -                          | -                          | -                            | -                                | -                                    | (27)   | -   | -   | -   | -                         | -      | 27                               | -  | -  | -   | -                |
| Others  | -                        | -                            | -                          | (34)                       | -                            | -                                | -                                    | -  | -   | -   | -   | -                         | -      | -                                | (34)   | 34   | -   | -                |
| As at 31 December 2020  | 74,263                   | 44,952                       | 88,340                     | 111,428                    | 72,431                       | 139,930                          | 123,163                              | 456  | 12  | (532)   | (3,517)                                   | (142)                     | 1,375  | 214,448                          | 866,607                                      | 8,763  | 3,258   | 878,628          |

The accompanying notes form a part of these consolidated financial statements.

# CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## CONSOLIDATED STATEMENT OF CASH FLOWS

(All amounts expressed in millions of RMB unless otherwise stated)

|  | Notes | Year ended 31 December |                |
|--|-------|------------------------|----------------|
|  |       | 2021                   | 2020           |
| <b>Cash flows from operating activities:</b>   |       |                        |                |
| Profit before tax:   |       | 93,959                 | 86,425         |
| Adjustments for:   |       |                        |                |
| Provision for impairment losses  |       | 66,371                 | 62,059         |
| Provision for other assets impairment losses   |       | 2,320                  | 484            |
| Provision for insurance contracts reserve  |       | 15,518                 | 15,495         |
| Depreciation and amortisation  |       | 14,839                 | 14,776         |
| (Reversal)/provision for outstanding litigation and unsettled obligation                       |       | (199)                  | 32             |
| Net gains on the disposal of property, equipment and other assets                              |       | (454)                  | (166)          |
| Interest income from financial investments   |       | (88,262)               | (90,683)       |
| Accreted interests on impaired financial assets  |       | (1,251)                | (1,369)        |
| Fair value gains   |       | (1,474)                | (5,951)        |
| Share of profit of associates and joint ventures   |       | (277)                  | (222)          |
| Net gains arising from financial investments   |       | (1,311)                | (1,177)        |
| Interest expense on debt securities issued   |       | 16,341                 | 14,566         |
| Operating cash flows before movements in operating assets and liabilities                      |       | 116,120                | 94,269         |
| Net decrease in balances with central banks  |       | 14,515                 | 29,357         |
| Net (increase)/decrease in due from and placements with banks and other financial institutions |       | (106,359)              | 127,404        |
| Net increase in financial assets at fair value through profit or loss                          |       | (128,020)              | (83,695)       |
| Net increase in loans and advances to customers  |       | (776,234)              | (597,926)      |
| Net (increase)/decrease in other assets  |       | (22,218)               | 7,907          |
| Net increase/(decrease) in due to and placements from banks and other financial institutions   |       | 161,477                | (113,503)      |
| Net increase in financial liabilities at fair value through profit or loss                     |       | 2,317                  | 8,899          |
| Net increase in due to customers and certificates of deposits issued                           |       | 674,635                | 669,890        |
| Net increase in other liabilities  |       | 26,622                 | 19,878         |
| Net increase/(decrease) in value-added tax and surcharge payable                               |       | 1,431                  | (328)          |
| Income tax paid  |       | 939                    | (12,754)       |
| <b>Net cash flows (used in)/generated from operating activities</b>                            |       | <b>(34,775)</b>        | <b>149,398</b> |

## CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

(All amounts expressed in millions of RMB unless otherwise stated)

|   | Notes | Year ended 31 December |                 |
|---|-------|------------------------|-----------------|
|   |       | 2021                   | 2020            |
| <b>Cash flows from investing activities:</b>                          |       |                        |                 |
| Cash payments for financial investments                               |       | (896,387)              | (838,096)       |
| Cash received on disposal or redemption of financial investments      |       | 750,323                | 671,877         |
| Dividends received  |       | 2,936                  | 1,562           |
| Interest received from financial investments                          |       | 86,558                 | 89,464          |
| Cash payments for acquisition of intangible assets and other assets   |       | (2,467)                | (2,735)         |
| Cash received on disposal of intangible assets and other assets       |       | 507                    | 372             |
| Cash payments for purchase and construction of property and equipment |       | (20,480)               | (21,414)        |
| Cash received on disposal of property and equipment                   |       | 3,462                  | 4,379           |
| <b>Net cash flows used in investing activities</b>                    |       | <b>(75,548)</b>        | <b>(94,591)</b> |
| <b>Cash flows from financing activities:</b>                          |       |                        |                 |
| Cash received from issuing other equity instruments                   |       | 41,498                 | 51,804          |
| Cash received on debt securities issued                               |       | 96,121                 | 177,486         |
| Repayment of principals and interests of lease liabilities            |       | (2,413)                | (2,415)         |
| Cash payments for distribution of dividends                           |       | (88,834)               | (27,785)        |
| Repayment of principals of debt securities issued                     |       | (15,350)               | (80,476)        |
| Cash payments for interest on debt securities                         |       | –                      | (13,050)        |
| Cash payments for redemption of other equity instruments              |       | (29,152)               | (17,125)        |
| Dividends and others paid to non-controlling interests                |       | (564)                  | (162)           |
| <b>Net cash flows generated from financing activities</b>             |       | <b>1,306</b>           | <b>88,277</b>   |
| <b>Effect of exchange rate changes on cash and cash equivalents</b>   |       | <b>(3,795)</b>         | <b>(3,699)</b>  |
| <b>Net (decrease)/increase in cash and cash equivalents</b>           |       | <b>(112,812)</b>       | <b>139,385</b>  |
| <b>Cash and cash equivalents at the beginning of the year</b>         |       | <b>307,120</b>         | <b>167,735</b>  |
| <b>Cash and cash equivalents at the end of the year</b>               | 43    | <b>194,308</b>         | <b>307,120</b>  |
| Net cash flows from operating activities include:                     |       |                        |                 |
| Interest received   |       | 291,450                | 285,937         |
| Interest paid   |       | (185,593)              | (205,169)       |

The accompanying notes form a part of these consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 1 GENERAL

Bank of Communications Co., Ltd. (the “Bank”) is a national state-owned joint-stock commercial bank headquartered in Shanghai, which was reorganised on 1 April 1987 upon the approval of Notice Guo Fa (1986) No. 81 issued by the State Council of the PRC and Notice Yin Fa (1987) No. 40 issued by the People’s Bank of China (the “PBOC”).

The Bank possesses the *Finance Permit* No. B0005H131000001 issued by the China Banking and Insurance Regulatory Commission (the “CBIRC”) of the PRC and a Business License for Enterprise Legal Person with the registration number of 9131000010000595XD. The Bank has a registered capital of RMB74.263 billion, whose legal representative is Ren Deqi.

The Bank’s A Shares are listed on the SSE and H Shares are listed on the Hong Kong Stock Exchange, with the stock codes of 601328 and 03328 respectively. The stock code of domestic preference shares listed on the SSE is 360021.

As at 31 December 2021, the Bank operates 248 branches in Mainland China and 23 branches, subsidiary banks and representative offices overseas. The Bank manages domestic branches and sub-branches by province upon the 3-level general structure of Head Office—provincial (directly managed) branches—provincially managed branches (sub-branches).

The main business scope of the Bank includes: absorbing public deposits; issuing short-term, medium-term and long-term loans; handling domestic and foreign settlements; handling bill acceptance and discounting; issuing financial bonds; agency issuance, agency redemption, and underwriting government bonds; buying and selling government bonds and financial bonds; engaging in interbank lending; buying and selling foreign exchange; engaging in bank card business; providing letter of credit services and guarantees; agent collection and payment services; providing safe deposit box services; other businesses approved by various regulatory agencies or institutions (as stated on the approval documents); operating foreign exchange settlement, foreign exchange sales and business approved by the relevant regulatory agencies where overseas institutions are located.

The principal activities of the Bank and its subsidiaries (hereinafter referred to as the “Group”) include corporate and personal banking services, interbank and financial market business, financial leasing, fund management, wealth management, trustees, insurance, overseas securities, debt-to-equity swap and other related financial services.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to the periods presented unless otherwise stated.

### 2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all the applicable International Financial Reporting Standards (“IFRSs”) and disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and the Hong Kong Companies Ordinance (Cap.622). The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments and investment property which are measured at fair value.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 2.29.

#### 2.1.1 New and amended standards adopted by the Group

The Group has adopted the following new and amendments to the International Financial Reporting Standards (“IFRSs”):

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16  
Amendments to IFRS 16

Interest Rate Benchmark Reform —Phase 2  
COVID-19-related Rent Concessions

*Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16*

The IASB has issued amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (“Interest Rate Benchmark Reform—Phase 2”). The amendments are effective for annual periods beginning on or after 1 January 2021, with early application permitted.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

## 2.1 Basis of preparation (Continued)

## 2.1.1 New and amended standards adopted by the Group (Continued)

## Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (Continued)

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 instruments (that is, financial instruments classified as amortised cost and debt instruments at FVOCI), lease receivables and lease 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.

## Amendments to IFRS 16

The International Accounting Standards Board (IASB) has published 'Covid-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16)' that extends, by one year, the May 2020 amendment that provides lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification, and the changes in Covid-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16) amend IFRS 16 to:

- permit a lessee to apply the practical expedient regarding COVID-19-related rent concessions to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022 (rather than only payments originally due on or before 30 June 2021);
- require a lessee applying the amendment to do so for annual reporting periods beginning on or after 1 April 2021;
- require a lessee applying the amendment to do so retrospectively, recognising the cumulative effect of initially applying the amendment as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of the annual reporting period in which the lessee first applies the amendment; and
- specify that, in the reporting period in which a lessee first applies the amendment, a lessee is not required to disclose the information required by paragraph 28(f) of IAS 8.

The adoption of these standards and amendments does not have a material effect on the Group's consolidated financial information.

## 2.1.2 Standards and amendments issued but not yet effective

## Effective for annual period commencing on or after

|   |   |  |
|---|---|--|
| Amendments to IFRS 10 and IAS 28                  | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | The amendments were originally intended to be effective for annual periods beginning on or after 1 January 2016. The effective date has now been deferred/removed. |
| Amendments to IAS 16                              | Property, Plant and Equipment: Proceeds before Intended Use                           | 1 January 2022   |
| Amendments to IFRS 3                              | Reference to the Conceptual Framework   | 1 January 2022   |
| Amendments to IAS 37                              | Onerous Contracts – Cost of Fulfilling a Contract                                     | 1 January 2022   |
| Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41  | Annual Improvements to IFRS Standards 2018– 2020                                      | 1 January 2022   |
| IFRS 17 and its amendments                        | Insurance Contracts   | 1 January 2023   |
| Amendments to IAS 8                               | Accounting Estimates  | 1 January 2023   |
| Amendments to IAS 1 and IFRS Practice Statement 2 | Disclosure of Accounting Policies   | 1 January 2023   |
| Amendments to IAS 12                              | Deferred Tax related to Assets and Liabilities arising from a Single Transaction      | 1 January 2023   |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.1 Basis of preparation (Continued)

#### 2.1.2 Standards and amendments issued but not yet effective (Continued)

##### *Amendments to IFRS 10 and IAS 28*

The amendments address an inconsistency between IFRS 10 and IAS 28 in the sale or contribution of assets between an investor and its associate or joint venture.

A full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary.

##### *Amendments to IAS 16*

The amendment to IAS 16 Property, Plant and Equipment (PP&E) prohibits an entity from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment.

Entities must disclose separately the amounts of proceeds and costs relating to items produced that are not an output of the entity's ordinary activities.

##### *Amendments to IFRS 3*

The amendments to IFRS 3, 'Business combinations', referred to the 2018 Conceptual Framework for Financial Reporting, are in order to determine what constitutes an asset or a liability in a business combination. In addition, the amendments add a new exception in IFRS 3 for liabilities and contingent liabilities. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37, 'Provisions, Contingent Liabilities and Contingent Assets', or IFRIC 21, 'Levies', rather than the 2018 Conceptual Framework. The amendments also clarify that the acquirer should not recognise contingent assets, as defined in IAS 37, at the acquisition date.

##### *Amendments to IAS 37*

The amendment clarifies the meaning of 'costs to fulfil a contract' and explains that the direct cost of fulfilling a contract comprises:

- The incremental costs of fulfilling that contract (for example, direct labour and materials); and
- An allocation of other costs that relate directly to fulfilling contracts (for example, an allocation of the depreciation charge for an item of PP&E used to fulfil the contract).

The amendment also clarifies that, before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract.

##### *Annual Improvements to IFRS Standards 2018 – 2020 Cycle*

The Annual Improvements to IFRSs 2018 – 2020 Cycle include a number of amendments to various IFRSs:

- IFRS 9 Financial Instruments – clarifies which fees should be included in the 10% test for derecognition of financial liabilities.
- IFRS 16 Leases – amendment of its illustrative example to remove the illustration of payments from the lessor relating to leasehold improvements, to remove any confusion about the treatment of lease incentives.
- IFRS 1 First – time Adoption of International Financial Reporting Standards – allows entities that have measured their assets and liabilities at carrying amounts recorded in their parent's books to also measure any cumulative translation differences using the amounts reported by the parent. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption.
- IAS 41 Agriculture – removal of the requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.1 Basis of preparation *(Continued)*

##### **2.1.2 Standards and amendments issued but not yet effective** *(Continued)*

###### *IFRS 17 and its amendments*

IFRS 17 Insurance Contracts was issued in May 2017 as replacement for IFRS 4. It requires a current measurement model where estimates are re-measured in each reporting period. Contracts are measured using the building blocks of discounted probability weighted cash flows, an explicit risk adjustment, and a contractual service margin ("CSM") representing the unearned profit of the contract which is recognised as revenue over the coverage period.

The standard allows a choice between recognising changes in discount rates either in the statement of profit or loss or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9.

An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.

There is a modification of the general measurement model called the "variable fee approach" for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the CSM. The results of insurers using this model are therefore likely to be less volatile than under the general model.

The IASB issued the amendments to IFRS 17 Insurance contracts, on 25 June 2020, together with an amendment to IFRS 4, so that eligible insurers can still apply IFRS 9 alongside IFRS 17. This concluded the IASB's targeted amendments to IFRS 17 which aimed to ease implementation of the standard by reducing implementation costs and making it easier for entities to explain, to investors and others, the results from applying IFRS 17. The amendments to IFRS 17 include:

- Effective date

The effective date of IFRS 17 (incorporating the amendments) has been deferred by two years to annual reporting periods beginning on or after 1 January 2023; and the fixed expiry date of the temporary exemption from applying IFRS 9 in IFRS 4 has also been deferred to annual reporting periods beginning on or after 1 January 2023.

- Expected recovery of insurance acquisition cash flows

An entity is required to allocate part of the acquisition costs to related expected contract renewals, and to recognise those costs as an asset until the entity recognises the contract renewals. Entities are required to assess the recoverability of the asset at each reporting date, and to provide specific information about the asset in the notes to the financial statements.

- Contractual service margin attributable to investment services

Coverage units should be identified, considering the quantity of benefits and expected period of both insurance coverage and investment services, for contracts under the variable fee approach and for other contracts with an 'investment-return service' under the general model. Costs related to investment activities should be included as cash flows within the boundary of an insurance contract, to the extent that the entity performs such activities to enhance benefits from insurance coverage for the policyholder.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.1 Basis of preparation (Continued)

#### 2.1.2 Standards and amendments issued but not yet effective (Continued)

IFRS 17 and its amendments (Continued)

- Reinsurance contracts held – recovery of losses

When an entity recognises a loss on initial recognition of an onerous group of underlying insurance contracts, or on addition of onerous underlying contracts to a group, an entity should adjust the contractual service margin of a related group of reinsurance contracts held and recognise a gain on the reinsurance contracts held. The amount of the loss recovered from a reinsurance contract held is determined by multiplying the loss recognised on underlying insurance contracts and the percentage of claims on underlying insurance contracts that the entity expects to recover from the reinsurance contract held. This requirement would apply only when the reinsurance contract held is recognised before or at the same time as the loss is recognised on the underlying insurance contracts.

- Other amendments to IFRS 17 include:
  - Scope exclusions for some credit card (or similar) contracts, and some loan contracts;
  - Presentation of insurance contract assets and liabilities in the statement of financial position in portfolios instead of groups;
  - Applicability of the risk mitigation option when mitigating financial risks using reinsurance contracts held and non-derivative financial instruments at fair value through profit or loss;
  - An accounting policy choice to change the estimates made in previous interim financial statements when applying IFRS 17;
  - Inclusion of income tax payments and receipts that are specifically chargeable to the policyholder under the terms of an insurance contract in the fulfilment cash flows;
  - Selected transition reliefs and other minor amendments.

The Group is assessing the impact on the Group's operating results and financial position of adopting IFRS 17.

#### Amendments to IAS 8

The changes to IAS 8 focus entirely on accounting estimates and clarify the following:

- The definition of a change in accounting estimates is replaced with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty".
- Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty.
- The Board clarifies that a change in accounting estimate that results from new information or new developments is not the correction of an error. In addition, the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors.
- A change in an accounting estimate may affect only the current period's profit or loss, or the profit or loss of both the current period and future periods. The effect of the change relating to the current period is recognised as income or expense in the current period. The effect, if any, on future periods is recognised as income or expense in those future periods.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.1 Basis of preparation *(Continued)*

##### **2.1.2 Standards and amendments issued but not yet effective** *(Continued)*

*Amendments to IAS 1 and IFRS Practice Statement 2*

Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) amends IAS 1 in the following ways:

- An entity is now required to disclose its material accounting policy information instead of its significant accounting policies;
- Several paragraphs are added to explain how an entity can identify material accounting policy information and to give examples of when accounting policy information is likely to be material;
- The amendments clarify that accounting policy information may be material because of its nature, even if the related amounts are immaterial;
- The amendments clarify that accounting policy information is material if users of an entity's financial statements would need it to understand other material information in the financial statements; and
- The amendments clarify that if an entity discloses immaterial accounting policy information, such information shall not obscure material accounting policy information.

*Amendments to IAS 12*

The main change in Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12) is an exemption from the initial recognition exemption provided in IAS 12.15(b) and IAS 12.24. Accordingly, the initial recognition exemption does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition. This is also explained in the newly inserted paragraph IAS 12.22A.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023. Early adoption is permitted.

An entity applies the amendments to transactions that occur on or after the beginning of the earliest comparative period presented. It also, at the beginning of the earliest comparative period presented, recognises deferred tax for all temporary differences related to leases and decommissioning obligations and recognises the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at that date.

Except for the above-mentioned impact of IFRS 17 and its amendments, the adoption of the above new standards and amendments issued but not yet effective is not expected to have a material effect on the Group's consolidated financial information.

#### 2.2 Consolidation

##### **2.2.1 Subsidiary undertakings**

The consolidated financial statements incorporate the financial statements of the Bank and entities (including structured entities) controlled by the Bank and its subsidiaries. Control is achieved when the Bank:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.2 Consolidation (Continued)

#### 2.2.1 Subsidiary undertakings (Continued)

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are not consolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred in a business combinations is measured at fair value, which is calculated as the sum of the acquisition date fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition related costs are recognised in the consolidated income statement as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interests in the acquiree at the non-controlling interests' proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the identifiable net assets of the acquiree in the case of a bargain purchase, the difference is recognised in profit or loss.

All intra-Group transactions, balances, income and expenses are eliminated in full on consolidation. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

#### 2.2.2 Transactions with non-controlling interests

For acquisition of additional interests in subsidiaries from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiaries is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

loses control of a subsidiary due to the disposal of a portion of an equity investment, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive are reclassified to profit or loss and retained earning.

#### 2.2.3 Structured entities

Structured entities are entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entities, for example when any voting rights relate to administrative tasks only, and key activities are directed by contractual agreement. Structured entities often have restricted activities and a narrow and well-defined objective. Examples of structured entities include investment funds, trusts, securitisation vehicles and asset backed financings. Involvement with consolidated and unconsolidated structured entities is disclosed in Note 44 and 45.

#### 2.2.4 Investment in associates and joint ventures

An associate is an entity over 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 policies.

A joint venture is an arrangement whereby the Group and other parties contractually agree to share control of the arrangement through a separate entity, and have rights to the net assets of the arrangement based on legal form, contract terms, and other facts and circumstances. Joint control is the contractually agreed sharing of control over an activity, and exists only when the decisions relating to the activity require the unanimous consent of the Group and other parties sharing the control.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.2 Consolidation *(Continued)*

##### **2.2.4 Investment in associates and joint ventures** *(Continued)*

The results of an associate or a joint venture are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or a joint venture equals or exceeds its interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate or joint venture.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate or a joint venture recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, is recognised immediately in profit or loss.

At the end of reporting period, the Group assesses whether there is an indication of possible impairment with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested as a single asset for impairment in accordance with IAS 36 "Impairment of assets" by comparing its recoverable amount (the higher of value in use and fair value less costs of sale) with its carrying amount, any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its associate or joint venture, profits and losses resulting from the transactions with the associate or joint venture are recognised only to the extent of interests in the associate or joint venture that are not related to the Group.

##### **2.2.5 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 at least once a year.

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.

#### 2.3 Financial instruments

##### **Initial recognition and measurement**

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset.

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss for the period. Immediately after initial recognition, an expected credit loss allowance is recognised for financial assets measured at amortised cost and debt investments measured at fair value through other comprehensive income, which results in an accounting loss being recognised in profit or loss for the period when an asset is newly originated.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.3 Financial instruments (Continued)

#### **Initial recognition and measurement** (Continued)

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognises the difference as follows:

- (a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.
- (b) In all other cases, the difference is deferred, and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

#### **The method of determining fair value**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction at the measurement date. For financial instruments with active markets, the Group uses quotations from active markets to determine their fair value, and for financial instruments where there is no active market, the Group uses valuation techniques to determine its fair value. Valuation techniques include references to prices used in recent market transactions by parties familiar with the situation and voluntary transactions, the current fair value of other financial instruments with reference to the same substantially, the discounted cash flow method and the option pricing model.

#### **Measurement methods**

##### *Amortised cost and effective interest rate*

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired ('POCI') financial assets – assets that are credit-impaired at initial recognition – the Group calculates the credit-adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

When the Group revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

#### **2.3.1 Financial assets**

##### *Classification and subsequent measurement*

The Group has classified its financial assets in the following measurement categories:

- Fair value through profit or loss (FVPL);
- Fair value through other comprehensive income (FVOCI); or
- Amortised cost.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.3 Financial instruments *(Continued)*

##### 2.3.1 Financial assets *(Continued)*

*Classification and subsequent measurement (Continued)*

The classification requirements for debt and equity instruments are described below:

##### Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

Classification and subsequent measurement of debt instruments depend on:

- (i) The Group's business model for managing the asset; and
- (ii) The cash flow characteristics of the asset.

Based on these factors, the Group classifies its debt instruments into one of the following three measurement categories:

**Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured from these financial assets. According to the business category, these financial assets are presented as 'Cash and balances with central banks', 'Due from banks and other financial institutions', 'Loans and advances to customers' and 'Financial investments at amortised cost' respectively. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

**Fair value through other comprehensive income (FVOCI):** Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. According to the business category, respectively, these financial assets are presented as 'Loans to customers' and 'Debt investments at fair value through other comprehensive income'. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and recognised in 'Net gains arising from financial investments'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

**Fair value through profit or loss:** Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on the debt investment, which is measured at fair value through profit or loss and is not part of a hedging relationship, is recognised in profit or loss and presented as 'Net gains arising from trading activities'.

**Business model:** the business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPL. Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.3 Financial instruments (Continued)

#### 2.3.1 Financial assets (Continued)

*Classification and subsequent measurement (Continued)*

Debt instruments (Continued)

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

When, and only when, the Group changes the business model for managing its financial assets, shall it reclassify all affected financial assets, and apply the reclassification prospectively from the reclassification date. The Group does not restate any previously recognised gains, losses (including impairment gains or losses) or interest. Reclassification date is the first day of the first reporting period following the change in business model that results in the Group reclassifying financial assets.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Group subsequently measures all equity investments at fair value through profit or loss, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income, listed as 'Financial investments at FVPL'. The Group's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to sell. When this election is used, fair value gains or losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as 'Net gains arising from financial investments' when the Group's right to receive payments is established.

Gains or losses on equity investments at FVPL are recognised as 'Net gains arising from trading activities'.

Impairment

On a forward-looking basis, the Group assesses the expected credit losses ('ECL') of debt instrument assets at amortised cost and FVOCI, exposures arising from credit related commitments and financial guarantees. The Group recognises a loss allowance accordingly at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Regarding these judgment and estimates, please refer to note 3.1.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.3 Financial instruments *(Continued)*

##### 2.3.1 Financial assets *(Continued)*

*Classification and subsequent measurement (Continued)*

##### Write-off

The book value of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. A write-off constitutes a derecognition event. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

##### *Modification of loans*

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms. The Group does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Group derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.3 Financial instruments (Continued)

#### 2.3.1 Financial assets (Continued)

##### *Derecognition other than on a modification*

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Group transfers substantially all the risks and rewards of ownership, or (ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control.

The Group enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if the Group:

- (i) Has no obligation to make payments unless it collects equivalent amounts from the assets;
- (ii) Is prohibited from selling or pledging the assets; and
- (iii) Has an obligation to remit any cash it collects from the assets without material delay.

Collateral (shares and bonds) furnished by the Group under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitisation transactions in which the Group retains a subordinated residual interest.

When the contractual rights to receive the cash flows from the assets have been transferred, and the Group neither transfers nor retains substantially all the risks and rewards of ownership, and the Group has retained control of the transferred assets, the Group applies continuing involvement approach. Under this approach, the Group continues to recognise the transferred asset to the extent of its continuing involvement and recognise the associated liability, to reflect the rights and obligations retained by the Group. The net carrying amount of the transferred asset and associated liability is: (a) the amortised cost of the rights and obligations retained by the Group, if the transferred asset is measured at amortised cost; or (b) equal to the fair value of the rights and obligations retained by the Group when measured on a stand-alone basis, if the transferred asset is measured at fair value.

##### *Asset securitisation*

As part of its operational activities, the Group securitises financial assets, generally through the sale of these assets to structured entities which then issue securities to investors. The Group holds part or all of the subordinated tranche notes, which are not transferrable before both the principals and interests of the senior tranche notes are repaid. The Group serves as the asset management supplier, providing services including loan collection for the investment pool, keeping accounting records related to the investment pool and issuing reports as the service agency. The assets under securitisation are used to repay the principals and interests of the senior tranche notes first after deducting related taxation and expenses, and the remaining assets under securitisation are repaid to the Group and subordinated tranche notes investors. The Group derecognises the transferred assets in full or in part based on the extent of the risks and rewards retained over.

The Group evaluates the extent to which it transfers the risks and rewards of ownership of the financial assets to the other party and determines whether it retains control while applying the accounting policy in respect of asset securitisation.

- (1) The financial asset is derecognised when the Group transfers substantially all the risks and rewards of ownership of the financial asset.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.3 Financial instruments *(Continued)*

##### 2.3.1 Financial assets *(Continued)*

###### *Asset securitisation (Continued)*

- (2) The financial asset continues to be recognised when the Group retains substantially all the risks and rewards of ownership of the financial asset.
- (3) When the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset and does not retain control it derecognises the financial asset and recognises separately as assets or liabilities any rights and obligations created or retained in the transfer.
- (4) When the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset and retains control, it continues to recognise the financial asset to the extent of its continuing involvement in the financial asset. The Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

##### 2.3.2 Financial liabilities

###### *Classification and subsequent measurement*

In both the current and prior period, financial liabilities are classified as liabilities measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains or losses attributable to changes in the credit risk of the liability are also presented in profit or loss;
- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition or when the continuing involvement approach applies. When the transfer of financial asset did not qualify for derecognition, a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Group recognises any expense incurred on the financial liability; when continuing involvement approach applies, see note 2.3.1; and
- Credit related commitments and financial guarantees (refer to Note 2.26)

###### *Derecognition*

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.3 Financial instruments (Continued)

#### 2.3.2 Financial liabilities (Continued)

##### *Derecognition (Continued)*

The exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is more than 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

##### *Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

A financial instrument is an equity instrument if, and only if, both conditions (i) and (ii) below are met:

- (i) The financial instrument includes no contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; and
- (ii) If the financial instrument will or may be settled in the Group's own equity instruments, it is a non-derivative instrument that includes no contractual obligations for the Group to deliver a variable number of its own equity instruments; or a derivative that will be settled only by the Group exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

Equity instruments issued by the Group are recorded at the fair value of proceeds received, net of direct issuance expenses.

#### 2.3.3 Derivative financial instruments and hedge accounting

Derivatives are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the hybrid (combined) instrument vary in a way similar to a stand-alone derivative. If the hybrid contract contains a host that is a financial asset, then the Group assesses the entire contract as described in the financial assets section above for classification and measurement purposes. Otherwise, the embedded derivatives are treated as separate derivatives when:

- (i) The economic characteristics and risks are not closely related to those of the host contract;
- (ii) A separate instrument with the same terms would meet the definition of a derivative; and
- (iii) The hybrid contract is not measured at fair value through profit or loss.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.3 Financial instruments *(Continued)*

##### **2.3.3 Derivative financial instruments and hedge accounting** *(Continued)*

These embedded derivatives are separately accounted for at fair value, with changes in fair value recognised in the statement of profit or loss unless the Group chooses to designate the hybrid contracts at fair value through profit or loss.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated and qualifies as a hedging instrument, and if so, the nature of the item being hedged. For derivatives not designated or qualified as hedging instruments, including those intended to provide effective economic hedges of specific interest rate and foreign exchange risks, but do not qualify for hedge accounting, changes in the fair value of these derivatives are recognised in “Net trading gains” in the income statement.

The Group documents, at the inception of the hedge, the relationship between hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment of hedging effectiveness both at hedge inception and on an ongoing basis, that is, the extent to which changes in the fair value or cash flow of the hedge instrument can offset the changes in fair values or cash flows of hedged items resulting from the hedge risk.

The hedging relationship should meet all of the following hedge effectiveness requirements:

- (i) There is an economic relationship between the hedged item and the hedging instrument. That means the hedging instrument and hedged item have values that generally move in the opposite direction because of the same risk, which is the hedged risk.
- (ii) The effect of credit risk does not dominate the value changes that result from that economic relationship; and
- (iii) The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of the hedged item. However, that designation shall not reflect an imbalance between the weightings of the hedged item and the hedging instrument that would create hedge ineffectiveness that could result in an accounting outcome that would be inconsistent with the purpose of hedge accounting.

Possible sources of ineffectiveness are as follows:

- (i) Increase or decrease in the amounts of hedged items or hedging instruments;
- (ii) Significant changes in counterparties' credit risk.

The Group discontinues hedge accounting prospectively when the hedging instrument expires or is sold, terminated or exercised (the replacement or rollover of a hedging instrument into another hedging instrument does not constitute an expiration or termination), or the hedging relationship ceases to meet the risk management objective, or to meet other qualifying criteria for hedging accounting.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship so that it meets the qualifying criteria again.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.3 Financial instruments (Continued)

#### 2.3.3 Derivative financial instruments and hedge accounting (Continued)

##### (a) Fair value hedge

Fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or a component of any such item, that is attributable to a particular risk and could affect profit or loss.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the statement of profit or loss, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss no later than when the hedged item ceases to be adjusted for hedging gains and losses over the period to maturity and recorded as net interest income.

##### (b) Cash flow hedge

Cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with all, or a component of, a recognised asset or liability or a highly probable forecast transaction, and could affect profit or loss.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the statement of profit or loss.

Amounts accumulated in equity are recycled to the statement of profit or loss in the periods when the hedged item affects profit or loss. They are recorded in the income or expense lines in which the revenue or expense associated with the related hedged item is reported.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised in the periods when the hedged item affects profit or loss. When a forecast transaction is no longer expected to occur (for example, the recognised hedged asset is disposed of), the cumulative gain or loss previously recognised in other comprehensive income is immediately reclassified to the statement of profit or loss.

##### (c) Impact of the Interbank Offered Rate Reform (hereinafter referred to as the "IBOR reform") on hedge accounting

In view of the potential impact of IBOR reform on financial reporting, targeted exemptions are provided for financial instruments eligible for hedge accounting until the IBOR reform is completed. The major changes are as follows:

- The specific requirements for hedge accounting have been modified so that the Group, when applying such hedge accounting requirements, can assume that the benchmark rate used in the measurement of the hedged cash flows and the cash flows from the hedging instruments will not be affected by the changes due to the IBOR reform;
- When performing forward-looking tests, the Group assumes that the benchmark applicable to the cash flows of the hedged item, hedging instrument or the hedged risk will not change along with the IBOR reform;
- Provided that the Group reasonably expects ibor to be separately identifiable within 24 months since the first designation, even if it is not separately identifiable at the date when it is designated, the Group shall designate it as a non-contractually clear risk component of hedged items or of the hedged risk.
- The nominal amount of the hedging instruments to which the above provisions apply and any significant assumptions or judgments made pursuant to the above provisions shall be disclosed. The Group's impact by the IBOR reform and its management during the transition period shall also be disclosed qualitatively.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.3 Financial instruments *(Continued)*

##### **2.3.4 Offsetting financial assets and financial liabilities**

When the Group has a currently enforceable legal right to offset recognised financial assets and financial liabilities, and intends either to settle on a net basis or to realise the financial asset and settle the financial liability at the same time, the financial assets and liabilities are offset with the net amount presented in the consolidated statement of financial position. Otherwise, financial assets and financial liabilities are presented separately. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

#### 2.4 Interest income and expense

The “Interest income” and “Interest expense” in the Group’s income statement are the interest income and expense calculated by using the effective interest method on debt investment at amortised cost, debt investment at fair value through other comprehensive income and financial liabilities at amortised cost, etc.

For those purchased or originated credit-impaired financial assets, the Group calculates the interest income by applying the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition. For those financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets, the Group calculates the interest income by applying the effective interest rate to the amortised cost of the financial asset in subsequent reporting periods.

#### 2.5 Fee and commission income

Fee and commission income is recognised when the Group fulfills its performance obligation, either over time or at a point in time when a customer obtains control of the service.

For the performance obligations satisfied at a point in time, the Group recognises revenue when control is passed to the customer at a certain point in time. For the performance obligations satisfied over time, the Group recognises revenue according to the progress toward satisfaction of the obligation over the time.

#### 2.6 Dividend income

Dividends are recognised when the right to receive the dividends is established.

#### 2.7 Assets transferred under repurchase agreements

##### *(a) Financial assets sold under repurchase agreements*

Financial assets sold subject to agreements with a commitment to repurchase at a specific future date at a fixed or determinable price are not derecognised in the statement of financial position. The proceeds from selling such assets are presented under “due to banks and other financial institutions” in the statement of financial position. The difference between the selling price and repurchasing price is recognised as interest expense during the term of the agreement using the effective interest method.

##### *(b) Financial assets purchased under repurchase agreements*

Financial assets that have been purchased under agreements with a commitment to resell at a specific future date are not recognised in the statement of financial position. The cost of purchasing such assets is presented under “due from banks and other financial institutions” in the statement of financial position. The difference between the purchasing price and reselling price is recognised as interest income during the term of the agreement using the effective interest method.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 2.8 Precious metals

Precious metals that are not related to the Group's trading activities are initially measured at acquisition cost and subsequently measured at the lower of cost and net realisable value. Precious metals that are related to the Group's trading activities are initially and subsequently recognised at fair value, with changes in fair value arising from re-measurement recognised directly in profit or loss in the period in which they arise.

#### 2.9 Property and equipment

The Group's property and equipment mainly comprise buildings, construction in progress, equipment, transportation equipment and property improvement.

The assets purchased or constructed are initially measured at acquisition cost.

Subsequent expenditures incurred for the property and equipment are included in the cost of the property and equipment if it is probable that economic benefits associated with the asset will flow to the Group and the subsequent expenditures can be measured reliably. Meanwhile the carrying amount of the replaced part is derecognised. Other subsequent expenditures are recognised in profit or loss in the period in which they are incurred.

Depreciation is calculated on a straight-line basis to write down the cost of such assets to their residual values over their estimated useful lives. The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each financial reporting date.

Buildings comprise primarily office premises. The estimated useful lives, depreciation rate and estimated residual value rate of buildings, equipment, transportation equipment and property improvement are as follows:

| Type of assets  | Estimated useful lives         | Estimated residual value rate | Depreciation rate |
|---|--------------------------------|-------------------------------|-------------------|
| Buildings   | 25 years – 50 years            | 3%                            | 1.94% – 3.88%     |
| Equipment   | 3 years – 11 years             | 3%                            | 8.82% – 32.33%    |
| Transportation equipment (excluding equipment under operating leases) | 4 years – 8 years              | 3%                            | 12.13% – 24.25%   |
| Property improvement  | Over the economic useful lives |                               |                   |

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Construction in progress is measured at its actual costs. The actual costs include various construction expenditures during the construction period and other relevant costs. Construction in progress is not depreciated. Construction in progress is transferred to a property and equipment when it is ready for intended use.

Equipment under operating leases where the Group is the lessor is aircraft or vessel. The estimated useful lives and depreciation rate of the aircraft or vessel are determined considering their conditions and the estimated residual values are determined by external appraiser using historical data on an item-by-item basis. The estimated useful lives range from 5 to 25 years.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.10 Foreclosed assets

Foreclosed financial assets are initially recognised at fair value, and foreclosed non-financial assets are initially recognised at cost. At the end of each reporting period, foreclosed non-financial assets are measured at the lower of the carrying amount and the net realisable value. When the net realisable value is lower than the carrying amount, an impairment allowance is recognised.

When a foreclosed asset is disposed, the difference between the disposal proceeds and the carrying amount is recognised in profit or loss.

The Group disposes of foreclosed assets through various means. In principle, foreclosed assets should not be transferred for own use, but, in the event that they are needed for the Group's own business or management purposes, they are transferred at their net carrying amounts and managed as newly acquired property and equipment.

When a foreclosed asset needs to be transferred for own use, it is transferred at its carrying amount including the impairment allowance at the transition day.

Foreclosed assets of the Group mainly include buildings and land use rights.

#### 2.11 Land use rights

Land use rights are classified as other assets and amortised using the straight-line method over the lease term.

#### 2.12 Intangible assets

An intangible asset is measured initially at cost. When an intangible asset with a finite useful life is available for use, its original cost is amortised over its estimated useful life using the straight-line method. An intangible asset with an indefinite useful life is not amortised.

For an intangible asset with a finite useful life, the Group reviews the useful life and amortisation method at the end of each reporting period, and makes adjustments when necessary.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

#### 2.13 Investment property

Investment property is a property held to earn rentals or for capital appreciation or both and initially measured at cost.

As there is an active property market in the location in which the Group's investment property is situated, and the Group can obtain the market price and other relevant information regarding the same or similar type of property from the property market so as to reasonably estimate the fair value of the investment property; therefore, the Group uses the fair value model for subsequent measurement of the investment property, with changes in the fair value included in profit or loss for the period in which they arise.

When an investment property is sold, transferred, retired or damaged, the Group recognises the amount of any proceeds on disposal net of the carrying amount and related taxes in profit or loss for the period.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.14 Impairment of assets

The Group determines the impairment of assets, other than the impairment of deferred tax assets and financial assets, with the following methods:

The Group assesses at the balance sheet date whether there is any indication that assets may be impaired. If any indication that an asset may be impaired exists, 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 based on the CGU to which the asset belongs.

CGU is the smallest identifiable group of assets, and the cash inflows generated by a CGU are largely independent 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 at least 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. Under 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. Under such circumstances, the Group 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.14 Impairment of assets *(Continued)*

##### *(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.

#### 2.15 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.

##### *(a) The Group as Lessee*

The Group recognises the right-of-use asset on the start date of the lease term and recognises the lease liability at the present value of the remaining lease payments. The lease payments include fixed payments and payments to be made when it is reasonably determined to exercise purchase option or terminate lease option. Variable rent determined based on a certain proportion of sales is not included in the lease payments and is recognised in profit or loss when incurred.

The Group's right-of-use assets include leased properties, venues, parking lots, advertising spaces, vehicles and equipment etc. The right-of-use asset is initially measured at cost, which includes the initial measurement of the lease liability, the lease payments already paid on or before the lease start date, the initial direct costs etc., and deducts any lease incentives received. The leased asset is depreciated on a straight-line basis over its remaining useful life if the Group could reasonably determine to obtain the ownership at the expiration of the lease term; if it is unsure whether the ownership of the leased asset can be obtained at the expiration of the lease term, the right-of-use asset is depreciated over the shorter of its remaining useful life and the lease term on a straight-line basis. When the recoverable value is lower than the book value of the right-of-use asset, the Group reduces the book value to the recoverable value.

For short-term leases with a lease term shorter than 12 months and leases of asset with low value when it is new, the Group recognises relevant rental expenses on a straight-line basis in profit or loss or in the related asset costs in each lease period rather than recognising the right-of-use assets or lease liabilities.

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 lease modification that is not accounted for as a separate lease, in the case where the COVID-19 directly caused contract changes, a simplified method is adopted; otherwise, at the effective date of the lease modification, the Group remeasures the lease term and the lease liability by discounting the revised lease payments using a revised discount rate. The Group decreases the carrying amount of the right-of-use asset for lease modifications that decrease the scope or term of the lease, and recognised the gain or loss relating to the partial or full termination of the lease in profit or loss. The Group makes a corresponding adjustment to the right-of-use asset for all other lease modifications.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.15 Leases (Continued)

#### (a) The Group as Lessee (Continued)

For rent concessions that are directly related to COVID-19 and applicable only before 30 June 2022, the Group uses a expedient, with the undiscounted concessions recognised in profit or loss and lease liabilities adjusted accordingly when original payments are exempted upon agreement.

#### (b) The Group as Lessor

##### Operating Lease

When the Group leases out its own buildings and properties, equipment and transportation vehicles, the rental income arising from operating leases is recognised on a straight-line basis over the lease term. Variable rent gained by the Group is recognised in rental income when incurred.

##### Finance Lease

As lessor of the finance lease, the Group recognises the finance lease receivables for the finance lease on the commencement date of the lease period and derecognises the related assets. Finance lease receivables are recognised at the net lease investment to “Loans and advances to customers” for the initial measurement. The net lease investment is the sum of the unsecured residual value and the present value of the lease payments unreceived at the commencement date of the lease period discounted at the interest rate implicit in lease.

Finance lease receivables are derecognised when the contractual rights of receiving cash from the finance lease receivables have expired or have been transferred and all substantial risks and rewards regarding the lease have been transferred.

During the lease period, the lessor applies the fixed periodic interest rate to calculate the interest income for each period. Contingent rentals are recognised in profit or loss when incurred.

### 2.16 Cash and cash equivalents

Cash and cash equivalents are short-term and highly liquid assets, which are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value. Cash and cash equivalents include cash and assets with maturities of three months or less from the date of purchase under balances with central banks, due from banks and other financial institutions.

### 2.17 Provisions

Provisions are recognised when the Group has a present obligation related to a contingency, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account factors pertaining to a contingency such as the risks, uncertainties and time value of money. Where the effect of the time value of money is material, the amount of the provision is determined by discounting the related future cash outflows.

Where all or some of the expenditure required to settle a provision is expected to be reimbursed by a third party, the reimbursement is recognised as a separate asset only when it is virtually certain that reimbursement will be received, and the amount of reimbursement recognised does not exceed the carrying amount of the provision.

### 2.18 Income taxes

Income tax represents the sum of the tax currently payable and deferred tax.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.18 Income taxes *(Continued)*

##### **(a) Current income tax**

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

##### **(b) Deferred income tax**

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income, in which case the current and deferred tax are also recognised in other comprehensive income.

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.19 Share capital

#### **(a) Share capital**

Share capital comprises ordinary shares issued.

#### **(b) Share issue costs**

External costs directly attributable to the issuance of new shares are shown in equity as a deduction from the proceeds.

### 2.20 Dividend distribution

#### **(a) Dividends on ordinary shares**

Dividends on ordinary shares are recognised in the period in which they are declared and approved by the Bank's shareholders.

#### **(b) Dividends on preference shares**

Preference share dividend distribution is recognised as a liability in the Group's and the Bank's financial statements in the period in which the dividends are approved by the Board of Directors of the Bank.

#### **(c) Distribution on perpetual bonds**

Perpetual bond interest distribution is recognised as a liability in the Group's and the Bank's financial statements in the period in which the interest distribution approved by the Board of Directors of the Bank.

### 2.21 Acceptances

Acceptances comprise the Group's commitments on payment for bills that are issued to customers. Acceptances are accounted for as credit related commitments and financial guarantees and are disclosed as contingent liabilities and commitments.

### 2.22 Staff costs and benefits

#### **(a) Staff costs**

Staff costs include salaries, bonuses, allowance and subsidies, staff welfare, medical insurance, employment injury insurance, maternity insurance, housing funds, labor union fees as well as staff education expenses and housing allowance. During the reporting period in which employees have rendered services, the Group recognises the staff costs payable as a liability with a corresponding charge to profit or loss or the cost of assets where appropriate.

The Group participates in the employee social security systems established by the government, including medical insurance, housing funds and other social securities, in accordance with relevant requirements. Related expenses are recognised in profit or loss when incurred.

#### **(b) 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 fund and will have no obligation to pay further contributions. Defined benefit plans are post-employment benefit plans other than defined contribution plans. During the reporting period, post-employment benefits for the employees of the Group mainly include payment to basic retirement insurance, unemployment insurance, annuity plan and supplementary retirement benefits.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.22 Staff costs and benefits *(Continued)*

##### **(b) Post-employment benefits *(Continued)***

###### *Basic retirement insurance*

Employees of the Group have joined basic retirement insurance arranged by local ministry of labour and social security. The Group makes monthly contributions to the retirement insurance according to the base and proportion set by local government. When employees retire, local ministry of labour and social security is responsible for the payment of the basic pension to the retired employees. Such basic retirement insurance is a defined contribution plan. During the reporting period in which employees have rendered services, the Group recognises the amounts payable as a liability with a corresponding charge to profit or loss or the cost of assets where appropriate.

###### *Annuity plan*

Employees of domestic branches who retire at or after 1 January 2009 participate in the annuity plan established by the Group. The Group contributes a certain portion of employees' gross salaries to the annuity plan. Such annuity plan is a defined benefit plan. Related expenses are recognised in profit or loss when incurred.

###### *Supplementary retirement benefits*

The Group pays supplementary retirement benefits to employees of domestic branches who retired at or before 31 December 2008. Such supplementary retirement benefits are defined benefit plans. The Group accrues a liability based on actuarial techniques and recognises all actuarial gains or losses in other comprehensive income. Such actuarial gains or losses will not be reversed to profit or loss subsequently. Past service costs are recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability and recognised in profit or loss when incurred.

##### **(c) Early retirement expenses**

The Group pays the welfare benefits for employees, who have not yet reached the statutory retirement age limit and are approved by the Group to voluntarily retire from their employment, from the early retirement date to the statutory retirement age limit. These welfare benefits are recognised in profit or loss based on the discounted cash flow calculation over the implementation period. The Group reviews present value of the welfare benefits on each reporting date, with any changes recognised in profit or loss.

#### 2.23 Foreign currency translation

Renminbi ("RMB") is the currency of the primary economic environment in which the Bank and the Group's domestic subsidiaries operate. Therefore, the Bank and the Group's domestic subsidiaries choose RMB as their functional currency. The Bank and the Group's foreign subsidiaries choose their respective functional currencies on the basis of the primary economic environment in which they operate. The Group adopts RMB to prepare its consolidated financial statements.

In preparing the financial statements of each individual Group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.23 Foreign currency translation *(Continued)*

At the reporting date, foreign currency monetary items are translated into functional currency using the spot exchange rates at the reporting date. Exchange differences arising from the differences between the spot exchange rates prevailing at the reporting date and those on initial recognition or at the previous reporting date are recognised in profit or loss for the period, except that (1) exchange differences related to hedging instruments for the purpose of hedging against foreign exchange risks are accounted for using hedge accounting; (2) exchange differences arising from non-monetary items at fair value through other comprehensive income (such as shares) denominated in foreign currencies and changes in the carrying amounts (other than the amortised cost) of monetary items at fair value through other comprehensive income are recognised as other comprehensive income; and (3) exchange differences arising on a foreign currency monetary item that forms part of the Bank's net investment in a foreign operation.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the spot exchange rates at the date of the transactions or a rate that approximates the spot exchange rates of the date of the transaction. Exchange differences arising, if any, are recognised in other comprehensive income.

On disposal of the Group's entire interest in a foreign operation, or upon a loss of control over a foreign operation due to disposal of certain interest in it or other reasons, the Group transfers the accumulated exchange differences arising on translation of financial statements of this foreign operation and foreign currency monetary items that form part of the net investment in such foreign operation attributable to the owners' equity of the Group and presented under shareholder's equity in the statement of financial position, to profit or loss in the period in which the disposal occurs.

In case of a disposal or other reason that does not result in the Group losing control over a foreign operation, the proportionate share of accumulated exchange differences arising on translation of financial statements are re-attributed to non-controlling interests and are not recognised in profit and loss. For partial disposals of equity interests in foreign operations which are associates and joint ventures, the proportionate share of the accumulated exchange differences arising on translation of financial statements of foreign operations is reclassified to profit or loss.

### 2.24 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably. Contingent liabilities are disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable and can be reliably estimated, it will then be recognised as a provision.

### 2.25 Insurance contracts

#### **(a) Insurance contracts classification and division**

Insurance contracts are those contracts under which the Group has undertaken significant insurance risk, relative to an insured event or occurrence. The Group issues primarily life insurance contracts, which insure events associated with mortality over a long duration. The Group also issues non-life insurance contracts, which cover short-term casualty and health insurance risk. When necessary, the Group enters into reinsurance contracts to transfer insurance risks to a reinsurer. A significant insurance risk test is performed at inception of the insurance contracts.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.25 Insurance contracts *(Continued)*

##### **(a) Insurance contracts classification and division** *(Continued)*

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.

##### **(b) Insurance income recognition**

Insurance premium income is recognised when all of the following criteria are met:

- (i) The insurance contract is issued, and related insurance risk is undertaken by the Group;
- (ii) The related economic benefits are likely to flow to the Group; and
- (iii) Related income can be reliably measured.

Premiums from long-term life insurance contracts are recognised as revenue when due from policyholders. Premiums related to short-term non-life insurance contracts are recognised when received at the inception of the policy, as unearned insurance premiums in the consolidated statement of financial position, and are amortised on a straight-line basis into the consolidated income statement over the term of the policy. When the Group has transferred insurance risk through reinsurance contracts, the Group calculates the amount of premium ceded and the reinsurers' share of expenses and recognises them through the consolidated income statement in accordance with the terms of the reinsurance contracts.

##### **(c) Insurance contract reserves**

Insurance contract liabilities are measured based on a reasonable estimate of the amount of payments that the Group will be required to make to fulfil its obligations under the insurance contracts, which represents the difference between expected future cash outflows and inflows related to such contracts. A reasonable estimate of expected future net cash flows is determined based on information currently available as at the end of the reporting period. The Group has considered the impact of time value in the liability calculation for long-term life insurance.

The Group performs liability adequacy tests based on information currently available, as at the reporting date. Additional insurance contract liabilities should be recorded if any deficiency exists.

#### 2.26 Credit related commitments and financial guarantees

Financial guarantees are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument.

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.26 Credit related commitments and financial guarantees (Continued)

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 credit related commitments and financial guarantees, the loss allowance is recognised as an 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.

### 2.27 Fiduciary activities

In activities where the Group acts in a fiduciary capacity such as trustee, custodian or agent, the assets and income arising from the transaction together with the related undertakings to return the assets to customers are excluded from the Group's consolidated financial statements.

The Group conducts entrusted lending for the third-party lenders. The Group grants loans to borrowers, as trustee, according to the instruction of the third-party lenders who fund these loans. The Group is responsible for the arrangement and collection of the entrusted loans and receives a commission for the services rendered. As the Group does not assume the risks and rewards of the entrusted loans and does not provide funding for the corresponding entrusted funds, the entrusted loans are not recognised as assets and liabilities of the Group.

### 2.28 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the person or Group that allocates resources to and assesses the performance of the operating segments of an entity. The Group has determined the Board of Directors and the senior management team represented by the governor as its chief operating decision maker.

An operating segment is a component of the Group with all of the following conditions are satisfied: (1) that component can earn revenues and incur expenses from ordinary activities; (2) the component's operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and (3) discrete financial information for the component is available to the Group. If two or more operating segments have similar economic characteristics, and certain conditions are satisfied, they may be aggregated into a single operating segment. Intra-segment income and expenses are eliminated. Income and expenses directly associated with each segment are considered in determining segment performance.

The Group has the following segments: Yangtze River Delta, Pearl River Delta, Bohai Rim Economic Zone, Central China, Western China, Northeastern China, Overseas and Head Office.

### 2.29 Critical accounting estimates and judgments in applying accounting policies

The preparation of financial statements in conformity with IFRSs and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and of the Hong Kong Companies Ordinance require the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.29 Critical accounting estimates and judgments in applying accounting policies *(Continued)*

##### **(a) Measurement of the expected credit loss allowance**

The measurement of the expected credit loss allowance for financial assets measured at amortised cost, debt investment measured at fair value through other comprehensive income and credit related commitments and financial guarantees, is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (e.g. the likelihood of customers defaulting and the resulting losses). Note 3.1 specifies the parameters, assumptions and estimation techniques used in the measurement of expected credit loss and also discloses the sensitivity of expected credit losses to changes in these factors.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Segmentation of business operations sharing similar credit risk characteristics, selection of appropriate models and determination of relevant key measurement parameters;
- Criteria for determining whether or not there was a significant increase in credit risk, or a default or impairment loss was incurred;
- Economic indicators for forward-looking measurement, and the application of economic scenarios and weightings;
- Management overlay adjustments due to significant uncertain factors not covered in the models; and
- The estimated future cash flows for loans and advances to customers and financial investments at amortised cost for which DCF model was used to calculate ECL.

Detailed information about the judgements and estimates made by the Group in the above areas is set out in Note 3.1.

##### **(b) Fair value of financial instruments**

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. These valuation techniques include the use of recent arm's length transactions, observable prices for similar instruments, discounted cash flow analysis using risk-adjusted interest rates, and commonly used market pricing models. To the extent practical, models use observable data such as interest rate yield curves, foreign currency rates and implied option volatilities, however areas such as credit risk (both own and counterparty's), volatilities and correlations require management to make estimates. Where market observable inputs are not available, they are estimated using assumptions that are calibrated as closely as possible to market observable data. Changes in assumptions about these factors could affect reported fair value of financial instruments.

The Group assesses assumptions and estimates used in valuation techniques including review of valuation model assumptions and characteristics, changes to model assumptions, the quality of market data, whether markets are active or inactive, other fair value adjustments not specifically captured by models and consistency of application of techniques between reporting periods as part of its normal review and approval processes. Valuation techniques are validated and periodically reviewed and, where appropriate, have been updated to reflect market conditions at the financial reporting date.

Detailed information about the judgements and estimates made by the Group in the above areas is set out in Note 3.4.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.29 Critical accounting estimates and judgments in applying accounting policies *(Continued)*

#### **(c) Income taxes**

The Group is subject to income tax various jurisdictions; principally, in Mainland China and Hong Kong Special Administrative Region of the PRC. There are certain transactions and activities for which the ultimate tax determination is uncertain during the ordinary course of business. The Group has made estimates for application of tax legislation and items of uncertainty taking into account existing tax legislation and past practice. Where the final tax outcome of these matters is different from the amounts that were initially estimated, such differences will impact the current income tax and deferred income tax in the period during which such a determination is made.

#### **(d) Consolidation of structured entities**

Where the Group acts as asset manager of or investor in structured entities, the Group makes significant judgement on whether the Group controls and should consolidate these structured entities. When performing this assessment, the Group assesses the Group's contractual rights and obligations in light of the transaction structures, and evaluates the Group's power over the structured entities, performs analysis and tests on the variable returns from the structured entities, including but not limited to commission income and asset management fees earned as the asset manager, the retention of residual income, and, if any, the liquidity and other support provided to the structured entities. The Group also assesses whether it acts as a principal or an agent through analysis of the scope of its decision-making authority over the structured entities, the remuneration to which it is entitled for asset management services, the Group's exposure to variability of returns from its other interests in the structured entities, and the rights held by other parties in the structured entities.

#### **(e) Derecognition of financial assets**

In judging whether the transaction in which a loan transfer through packaging and asset securitisation is consistent with the termination confirmation of a financial asset, the Group needs to assess whether the Group meets the criteria for the transfer of financial assets and whether almost all risks and rewards in the ownership of the loan are transferred. If there is neither a transfer nor a retention of almost all the risks and rewards on the ownership of the transferred loan, the Group will further assess whether control over the transferred loan has been retained. In assessing and judging, the Group has taken into account a wide range of factors, such as whether trading arrangements are accompanied by repurchase clauses. The Group sets situational assumptions and uses the future cash flow discount model for risk and compensation transfer testing. The Group derecognised the loan only if the loan has been transferred and almost all risks and benefits in ownership have been transferred to another subject. If the Group retains almost all the risks and rewards associated with the ownership of the transferred loan, it shall continue to confirm the loan and at the same time recognise the proceeds received as a financial liability. If the Group has neither transferred nor retained almost all of the risks and rewards in the ownership of the loan and has not waived its control over the loan, the financial assets concerned are recognised to the extent that the loan continues to be involved and the relevant liability is recognised accordingly.

#### **(f) Impairment of non-financial assets**

Non-financial assets are periodically reviewed for impairment and where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and the present value of the asset's expected future cash flow.

Fair value is usually based on market prices, and the management obtains it from professional appraisal agencies. Disposal costs include legal fees and taxes related to the asset disposal. When estimating the present value of the expected future cash flow of fixed assets leased out by the subsidiary, the management takes the rents agreed in the leasing contracts and the asset value at the end of the lease term as the basis of estimation and uses appropriate discount rates to determine the present value of future cash flows. Since the outbreak of the pandemic influenced the liquidity of some lessees, the Group considers various scenarios of these lessees under the circumstances of the pandemic and makes estimations of future cash flows under different scenarios. The asset value at the end of the lease term is obtained from professional appraisal agencies. Due to the uncertainty over the development and prevention of the pandemic, there remains uncertainty over the future cash flows and pre-tax discount rates of the rents in the calculation of the present value of future cash flow.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

### 3 FINANCIAL RISK MANAGEMENT

#### Overview

The Group's activities expose it to a variety of financial risks and those activities involve analysis, evaluation, acceptance and management of a certain degree of risks or a portfolio of risks. The Group's aim is to achieve an appropriate balance between risks and returns and minimise potential adverse effects on the Group's financial performance. The main types of financial risks are credit risk, liquidity risk, market risk, operational risk, etc.

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, monitor the risks and to control the risk limits through reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets and products and the latest best practice.

#### Risk management framework

The Board of Directors sets out risk management strategies, overall risk preference and risk tolerance level. The senior management establishes risk management policies and procedures according to the strategies set by the Board of Directors. The Risk Management Department/Internal Control and Crime Prevention Office at Head Office serves as the chief department for the Group's risk management and leads the overall risk management duties, of which the crucial ones would be further designated to specific leading departments. The risk management division in each operation department at Head Office, in each domestic and overseas branch and in each subsidiary undertakes specific risk management function. Internal Audit Department is responsible for independent review of risk management and control environment.

#### 3.1 Credit risk

Credit risk is the risk of loss that a borrower or counterparty fails to or is unwilling to meet its obligations. Credit risk arises principally from loans and advances to customers, financial investments, derivative instruments and due from and placements with banks and other financial institutions. There is also credit risk in off-balance sheet items such as loan commitments, financial guarantees, acceptances and letters of credit. Credit risk is a major risk to which the Bank is exposed. Therefore, the Group manages and controls the overall credit risk, integrated into the comprehensive risk management, in a prudent manner, and reports regularly to the Senior Management and the Board of Directors of the Group.

##### 3.1.1 Credit risk management

The Group's credit risk management is assumed by major functions such as Retail Credit Department, Corporate Business Department, Inclusive Finance Department, Personal Finance Business Department, Pacific Credit Card Centre, Credit Management Department, Credit Authorisation Department, Risk Management Department/Internal Control and Crime Prevention Office, Asset Preservation Department, Financial institution Department and Financial Market Department. They are responsible for the standardised management of corporate and retail credit businesses in terms of guidance on credit investment, credit investigation and report, credit approval, loan granting, post-loan management and non-performing loan management.

##### (a) Loans and advances to customers and off-balance sheet commitments

As for corporate loans, the Group's relationship managers are responsible for receiving application files submitted by the applicants, conducting pre-loan investigation, assessing the credit risk, and raising the proposed rating. The Group adopts the hierarchical approval system at the branch and Head Office level based on the credit approval authority. Credit line is determined by taking into account the credit record, financial position, collaterals and guarantees of the applicant, overall credit risk of the credit portfolio, macroeconomic regulation and control policies and relevant laws and regulations. The Group keeps a close eye on the economic and financial trend and credit risk profile in the industry, provides more guidance on credit investment, formulate guidance for different industries, strengthens daily risk pre-warning, monitoring and specific risk investigation, identify customers under major risks and material potential risk points, enhances the refinement of post-loan management and centers on customer credit risk management to carry out post-loan management. The independent loan granting centre shall review the compliance, completeness and effectiveness of relevant credit files before loan granting according to the applications for drawdown of credit line. The Group's relationship managers are primarily responsible for post-loan management. The Group adopts a series of tools and approaches, such as risk filtering, list management, risk warning and risk investigation, in daily risk monitoring of corporate loans. The Group manages non-performing loans mainly through (1) collection; (2) restructuring; (3) disposal of collaterals or recourse to the guarantors; (4) litigation or arbitration; (5) disposal.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### 3.1 Credit risk (Continued)

#### 3.1.1 Credit risk management (Continued)

##### (a) Loans and advances to customers and off-balance sheet commitments (Continued)

For retail credit assets, the Group manages the overall risk profile of retail credit business through on-site review and adoption of reporting system on material matters, strengthens daily risk monitoring and pre-warning through optimising management system, standardises operation process of retail credit business through formulating manuals for personal loans and small-enterprise loans, identifies and reveals material potential risks on a timely manner through strengthening risk monitoring and early-warning, and understands and forecasts the quality trends so as to adopt targeted risk control measures in advance by using stress testing and quality migration analysis. In addition, the Group continues to carry out fast response mechanism to address emergencies properly and maintains a list to manage those key risk projects through risk monitoring, guidance, collection and mitigation.

The Group adopts categorised management for retail credit assets on the basis of overdue ageing and guarantee type. With regard to retail credit customers with overdue loans, different approaches are adopted to collect such loans based on their overdue days.

Credit Card Centre of the Group is in charge of the operation and management of credit card business. Credit Card Centre of the Group adopts various supervisory and preventive measures. It reinforces data cross-validation to enhance risk prevention in the approval process, reduces risk exposure to high risk customers through subsequent credit investigation and enters into the intervention process earlier than scheduled, effectively improves collection result through reasonable allocation of available resources, and optimises data analytic system to further enhance the management of credit card business.

##### (b) Treasury business

For treasury business (including debt investments), the Group chooses banks and other financial institutions prudently and balances the credit risk and return rate of investments. By making reference to internal and external credit rating information, the Group approves credits of different levels and uses an appropriate credit limit management system to review and adjust credit lines, aiming to manage the credit risk exposed to the treasury business.

For debt securities, internal and external ratings (such as Standard and Poor's) are used by the Group when available for managing the credit risk exposed to debt securities and bills. The investment in those debts and bills is to have better credit quality assets while maintaining readily available liquidity resource. The bond issuers involved with the Group are subject to the credit granting review and approval of the Head Office and credit limits are placed on such issuers.

Debt investments other than debt securities include investments in fund trust schemes, asset management plans and wealth management products set up by banking financial institutions. Fund trust schemes and asset management plans, the funds of which ultimately go to trust loans, are mainly managed and operated by third-party trustees and asset managers. The Group implements a rating system for accepting trust companies, securities companies and fund companies, sets credit limits for repurchase parties of trust beneficiary right, ultimate borrowers of targeted asset management plans, and issuers of inter-bank wealth management products, and carries out follow-up risk management on a regular basis.

As for derivative instruments, the Group maintains strict limits on net open derivative investment positions (i.e., the difference between long and short contracts), by both amount and maturity. At any time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e., assets where their fair value is positive), which, in relation to derivative instruments, is only a fraction of the contract's notional amount used to express the amount outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market fluctuations. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except when the Group requires margin deposits from counterparties. The management has set limits of these contracts according to counterparty, and regularly monitor and control the actual credit risk when the Group concludes foreign exchange and interest rate contracts with other financial institutions and clients.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

### 3 FINANCIAL RISK MANAGEMENT *(Continued)*

#### 3.1 Credit risk *(Continued)*

##### 3.1.1 Credit risk management *(Continued)*

###### (b) Treasury business *(Continued)*

The Group manages the credit quality of due from and placements with banks and other financial institutions, and balances arising from transactions for precious metals, by considering the size, financial position, the internal and external credit rating of the banks and other financial institutions. The Head Office monitors and reviews the credit risk of due from and placements with banks and other financial institutions by counterparties regularly. Limits are placed on different counterparties.

###### (c) Credit-related commitments

Credit risk exposures to financial guarantees are the same as that of loans. However, commercial letters of credit are usually pledged by the relevant shipped goods, and therefore are subject to lower risk compared with direct loans. Credit-related commitments are included in the management of overall credit line granted to the applicant. For customers with transactions beyond the credit limit or infrequent transactions, the applicant shall be requested to provide relevant margin deposits in order to reduce credit risk exposures.

###### (d) Credit risk quality

In accordance with the *Guideline for Loan Credit Risk Classification* issued by the CBIRC, the Group measures and manages the quality of corporate and personal loans and advances by classifying loans into the following five categories: normal, special-mention, substandard, doubtful and loss, of which substandard, doubtful and loss loans are regarded as non-performing loans.

The five categories of loan classification into which the Group classifies its loans and advances to customers are set out below:

|                  |  |
|------------------|--|
| Normal:          | Borrowers can honour the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.  |
| Special-mention: | Borrowers are able to service their loans currently, although repayment may be adversely affected by specific factors.   |
| Substandard:     | Borrowers' ability to service their loans is in question and they cannot rely entirely on normal operating revenues to repay principal and interest. Losses may ensue even when collaterals or guarantees are invoked. |
| Doubtful:        | Borrowers cannot repay principal and interest in full and significant losses will need to be recognised even when collaterals or guarantees are invoked.   |
| Loss:            | Only a small portion or none of the principal and interest can be recovered after taking all possible measures and exhausting all legal remedies.  |

##### 3.1.2 Expected credit loss ("ECL")

The Group measures the ECL of financial instruments at amortised cost or debt investments at fair value through other comprehensive income ("FVOCI"). The Group divides them into 3 stages by assessing whether there has been a significant increase in credit risk since initial recognition to recognise ECL.

The Group measures the ECL of a financial instrument in a way that reflects:

- (1) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- (2) the time value of money;
- (3) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### 3.1 Credit risk (Continued)

#### 3.1.2 Expected credit loss ("ECL") (Continued)

##### *Stage classification*

The Group divides them into 3 stages. Stage 1 is "financial assets without significant increase in credit risk since initial recognition", at which the Group only needs to measure ECL in the next 12 months. Stage 2 is "financial assets with significant increase in credit risk" and stage 3 is "credit-impaired financial assets", at both of which the Group needs to measure lifetime ECL.

##### *Definition of credit-impaired and default*

The criteria adopted by the Group to determine whether a credit impairment occurs under IFRS 9 is consistent with the internal credit risk management objectives for relevant financial instrument, in addition to consideration of quantitative and qualitative indicators.

In general, the Group considers a financial instrument to be credit-impaired or otherwise in default when one or more of the following criteria have been met:

- (1) Principal (including advances, applies to below) or interest of the asset is more than 90 days past due;
- (2) The issuer or obligor is in significant financial difficulty, or has already become insolvent;
- (3) It is becoming probable that the obligor will enter bankruptcy;
- (4) An active market for that financial asset has disappeared because of financial difficulties of issuers;
- (5) Other objective evidence indicating impairment of the financial asset.

##### A significant increase in credit risk

The Group assesses quarterly whether the credit risk on a financial instrument has increased significantly since initial recognition. In determining the stage classification of a financial asset, the Group considers all reasonable and supportable information which reflects whether there have been significant changes in credit risk, including that which is forward-looking. Based on an individual financial instrument or a portfolio of financial instruments with similar credit risk characteristics, the Group compares risk of default occurring at reporting date as with initial recognition, in order to determine possible changes in risk of default occurring during the expected life of the financial instrument. The Group considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following criteria have been met:

- (1) Principal or interest of the instrument is more than 30 days past due;
- (2) Credit rating of obligor changes significantly. Credit rating is based on both internal and external rating results, and the criteria are as follow: (a) a significant increase in credit risk is determined when internal and external rating during the reporting period is below the Group's credit acceptance standards; (b) The non-retail assets' internal ratings are downgraded by 3 ranks or above upon initial recognition;
- (3) Significant adverse issues have negative impacts on obligator's repayment ability;
- (4) Other circumstances of significant increase in credit risk. For example, appearance of other risk alarm indicators which imply growing potential risk and could cause losses of financial assets to the Group.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

### 3 FINANCIAL RISK MANAGEMENT *(Continued)*

#### 3.1 Credit risk *(Continued)*

##### **3.1.2 Expected credit loss (“ECL”) *(Continued)***

*Definition of credit-impaired and default (Continued)*

A significant increase in credit risk *(Continued)*

The financial assets are moveable between stages. For instance, financial instruments originally classified at stage 1 should be downgraded to stage 2 if events occur such as a significant increase in credit risk. Financial instruments at stage 2 could be upgraded to stage 1 if credit risk decreases and the criteria for the determination of “a significant increase in credit risk” are no longer met.

After the outbreak of the pandemic of COVID-19, the Group strictly followed the regulatory policies and requirements and prudently evaluates the repayment ability of the clients who apply for payment holiday. On the premise that the subsequent risks will not be enlarged and subsequent settlement will not be affected, the Group provided relief measures to those clients meeting specific criteria by extending the maturity and so on. The Group has assessed whether the relief measures would cause a significant increase in credit risks and has adjusted the stage classification as appropriate.

*Description of parameters, assumptions and estimation techniques*

The Group recognises a loss allowance to different financial instruments at an amount equal to 12-month or lifetime expected credit loss based on whether there has been a significant increase in credit risk and whether the financial instrument is credit-impaired. ECL is the result of discounted product of the weighted average of “probability of default (PD)”, “loss given default (LGD)”, “exposure at default (EAD)” under the three scenarios, which are defined as follows:

Probability of default (PD) is the probability of default occurring of a client and its assets in a given period of time in the future.

Exposure at default (EAD) represents the total amount of on-balance sheet and off-balance sheet exposure at the time of default by debtor, reflecting the total amount of possible losses likely to be incurred. In general, this includes the utilised credit limit, interest receivable, the anticipated usage of unused credit facilities as well as the related expenses to be incurred.

Loss given default (LGD) represents the percentage of amount of loss to be incurred in the event of default to the total risk exposure. It typically varies by nature of debtor, type and seniority of claim and the availability of collaterals or other credit risk mitigation.

Definition of default has been consistently applied to model establishment of probability of default (PD), exposure at default (EAD), loss given default (LGD) in ECL calculation throughout the Group.

Estimation of ECL: the impairment models

The impairment models adopt a top down approach. Through grouping, the models cover the risk exposures of financial institutions, corporates and retailers. The Group has established a macro-economic forecast model driven by the year-on-year Gross Domestic Product (GDP) growth rate to forecast values of macro-economic indicators in multiple categories, including national accounts, price index, foreign trades, fixed asset investments, currency and interest rates, under three scenarios, namely “Basic Scenario”, “Optimistic Scenario” and “Pessimistic Scenario”. The forecasts, after evaluation and confirmation by economic experts and senior management of the Bank, are used in asset impairment model. The macro scenario settings and the rationality of the weightings are reviewed and adjusted quarterly, based on changes in the internal and external economic environment.

In 2021, The Group forecasts the 2022 year-on-year growth rate of GDP to be 5.0% in the Basic Scenario, 7.0% in the Optimistic Scenario and 4.3% in the Pessimistic Scenario. The Group fully considered the macroeconomic forecast for 2022 when evaluating the forecast information used in the impairment models, and made prudential adjustments to the macro scenario settings.

Where impairment models could not be established due to lack of data support, the Group endeavoured to select appropriate methods in order to make prospective estimation. The Group made prospective adjustments to impairment calculation of overseas branches and subsidiaries regularly based on macro-forecast data from authoritative institutions (such as IMF and the World Bank). For asset portfolios not covered by impairment models, expected loss rate was set by referring to that of similar asset portfolios with impairment models available. **F-52**

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### 3.1 Credit risk (Continued)

#### 3.1.2 Expected credit loss ("ECL") (Continued)

Description of parameters, assumptions and estimation techniques (Continued)

##### Grouping of instruments with similar credit risk characteristics

To calculate the relevance between ECL allowance and macro-economic indicators, a grouping of exposure is performed for assets with similar credit risk characteristics. In performing this grouping, the Group has obtained sufficient information to ensure the data reliability for statistical purposes. Where sufficient information is not available internally, the Group has leveraged supplementary data from both internal and external environments to help establish impairment model. Non-retail assets of the Group are mainly grouped according to industries, while retail assets are mainly grouped based on product types, repayment methods and so on.

##### Sensitivity analysis

As at the balance sheet date, the basic scenario weighting is higher than the non-basic scenario weighting. The probability-weighted impairment allowance under three scenarios is higher than the basic scenario impairment allowance by the following amounts:

|  | As at<br>31 December 2021 | As at<br>31 December 2020 |
|--|---------------------------|---------------------------|
| Corporate loans  | (167)                     | 337                       |
| Personal loans   | 203                       | 96                        |
| Debt investments at amortised cost and fair value through other comprehensive income | 1                         | 10                        |

If the optimistic scenario weighting increases by 10%, and the basic scenario weighting decreases by 10%, the impairment allowance of loans and advances will decrease by RMB813 million (31 December 2020: RMB484 million), and the impairment allowance of debt investments at amortised cost and fair value through other comprehensive income will decrease by RMB6 million (31 December 2020: RMB6 million). If the Pessimistic scenario weighting increases by 10%, and the Basic scenario weighting decreases by 10%, the impairment allowance of loans and advances will increase by RMB849 million (31 December 2020: RMB1,402 million), and the impairment allowance of debt investments at amortised cost and fair value through other comprehensive income will increase by RMB7 million (31 December 2020: RMB23 million).

#### 3.1.3 Maximum exposure to credit risk

##### 3.1.3.1 Maximum exposure to credit risk – financial instruments included in impairment assessment

The Group categorises asset risk characteristics based on the quality of the assets, differentiating financial instruments that are likely to incur expected credit losses as "Low risk", "Medium risk", "High risk" and "Impaired". "Low risk" refers to counterparty with strong repayment ability, low probability of impairment in the future, and minor effect of adverse external factors. "Medium risk" refers to counterparty with certain repayment ability, but business, finance, and economic conditions that are continuously unstable and worsening will potentially cause its repayment ability to descend. "High risk" refers to counterparty with adverse factors that are likely to impact its repayment ability significantly or with high probability of impairment in the future. And "Impaired" refers to the assets met the Group's definition of credit-impaired.

The table below analyses exposure to credit risk of financial instruments included in expected credit losses assessment. The balance of financial instruments below is the maximum exposure to credit risk of these instruments in the Group.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

## 3.1 Credit risk (Continued)

## 3.1.3 Maximum exposure to credit risk (Continued)

## 3.1.3.1 Maximum exposure to credit risk – financial instruments included in impairment assessment (Continued)

| As at 31 December 2021   | Low risk         | Medium risk      | High risk      | Impaired      | Domestic branches | Overseas and subsidiaries | Group total       | Allowance for impairment losses | Group carrying amount |
|--|------------------|------------------|----------------|---------------|-------------------|---------------------------|-------------------|---------------------------------|-----------------------|
| <b>On-balance sheet item</b>   |                  |                  |                |               |                   |                           |                   |                                 |                       |
| <b>Cash and balances with central banks (Stage 1)</b>                      | 667,440          | -                | -              | -             | 667,440           | 53,990                    | 721,430           | -                               | 721,430               |
| <b>Loans and advances to customers (Corporate)</b>                         |                  |                  |                |               |                   |                           |                   |                                 |                       |
| - at amortised cost  | 2,066,574        | 1,376,123        | 73,821         | 69,992        | 3,586,510         | 504,061                   | 4,090,571         | (121,252)                       | 3,969,319             |
| Stage 1  | 2,064,723        | 1,291,448        | 8,132          | -             | 3,364,303         | 479,277                   | 3,843,580         | (37,786)                        | 3,805,794             |
| Stage 2  | 1,851            | 84,675           | 65,689         | -             | 152,215           | 17,158                    | 169,373           | (34,382)                        | 134,991               |
| Stage 3  | -                | -                | -              | 69,992        | 69,992            | 7,626                     | 77,618            | (49,084)                        | 28,534                |
| - at FVOCI   | 137,735          | 39,981           | 4,466          | 10            | 182,192           | 2,514                     | 184,706           | -                               | 184,706               |
| Stage 1  | 137,735          | 38,773           | 2,003          | -             | 178,511           | 2,514                     | 181,025           | -                               | 181,025               |
| Stage 2  | -                | 1,208            | 2,463          | -             | 3,671             | -                         | 3,671             | -                               | 3,671                 |
| Stage 3  | -                | -                | -              | 10            | 10                | -                         | 10                | -                               | 10                    |
| <b>Loans and advances to customers (Personal)</b>                          |                  |                  |                |               |                   |                           |                   |                                 |                       |
| - at amortised cost  | 1,555,659        | 613,486          | 44,146         | 18,932        | 2,232,223         | 52,873                    | 2,285,096         | (38,837)                        | 2,246,259             |
| Stage 1  | 1,555,409        | 612,762          | 33,941         | -             | 2,202,112         | 52,329                    | 2,254,441         | (19,617)                        | 2,234,824             |
| Stage 2  | 250              | 724              | 10,205         | -             | 11,179            | 308                       | 11,487            | (4,510)                         | 6,977                 |
| Stage 3  | -                | -                | -              | 18,932        | 18,932            | 236                       | 19,168            | (14,710)                        | 4,458                 |
| <b>Due from and placements with banks and other financial institutions</b> | 411,544          | 419              | -              | -             | 411,963           | 223,051                   | 635,014           | (2,306)                         | 632,708               |
| Stage 1  | 411,544          | 419              | -              | -             | 411,963           | 219,552                   | 631,515           | (2,304)                         | 629,211               |
| Stage 2  | -                | -                | -              | -             | -                 | 3,499                     | 3,499             | (2)                             | 3,497                 |
| <b>Financial investments at amortised cost</b>                             | 2,097,849        | 26,999           | -              | 1,088         | 2,125,936         | 80,059                    | 2,205,995         | (2,958)                         | 2,203,037             |
| Stage 1  | 2,097,849        | 23,277           | -              | -             | 2,121,126         | 77,343                    | 2,198,469         | (1,695)                         | 2,196,774             |
| Stage 2  | -                | 3,722            | -              | -             | 3,722             | 515                       | 4,237             | (371)                           | 3,866                 |
| Stage 3  | -                | -                | -              | 1,088         | 1,088             | 2,201                     | 3,289             | (892)                           | 2,397                 |
| <b>Debt investments at FVOCI</b>   | 247,469          | 3,497            | -              | -             | 250,966           | 414,501                   | 665,467           | -                               | 665,467               |
| Stage 1  | 247,469          | 3,497            | -              | -             | 250,966           | 410,700                   | 661,666           | -                               | 661,666               |
| Stage 2  | -                | -                | -              | -             | -                 | 3,772                     | 3,772             | -                               | 3,772                 |
| Stage 3  | -                | -                | -              | -             | -                 | 29                        | 29                | -                               | 29                    |
| <b>Other financial assets at amortised cost</b>                            | 40,235           | 10,683           | 144            | 2,901         | 53,963            | 14,148                    | 68,111            | (3,460)                         | 64,651                |
| Stage 1  | 40,060           | 10,475           | -              | -             | 50,535            | 14,106                    | 64,641            | (182)                           | 64,459                |
| Stage 2  | 54               | 95               | 38             | -             | 187               | -                         | 187               | (119)                           | 68                    |
| Stage 3  | 121              | 113              | 106            | 2,901         | 3,241             | 42                        | 3,283             | (3,159)                         | 124                   |
| <b>On-balance sheet total</b>  | <b>7,224,505</b> | <b>2,071,188</b> | <b>122,577</b> | <b>92,923</b> | <b>9,511,193</b>  | <b>1,345,197</b>          | <b>10,856,390</b> | <b>(168,813)</b>                | <b>10,687,577</b>     |
| <b>Credit related commitments and financial guarantees</b>                 |                  |                  |                |               |                   |                           |                   |                                 |                       |
| Stage 1  | 1,470,719        | 379,185          | 3,058          | -             | 1,852,962         | 45,815                    | 1,898,777         | (8,736)                         | 1,890,041             |
| Stage 2  | -                | 2,943            | 3,973          | -             | 6,916             | 732                       | 7,648             | (506)                           | 7,142                 |
| <b>Off-balance sheet total</b>   | <b>1,470,719</b> | <b>382,128</b>   | <b>7,031</b>   | <b>-</b>      | <b>1,859,878</b>  | <b>46,547</b>             | <b>1,906,425</b>  | <b>(9,242)</b>                  | <b>1,897,183</b>      |
| <b>Total</b>   | <b>8,695,224</b> | <b>2,453,316</b> | <b>129,608</b> | <b>92,923</b> | <b>11,371,071</b> | <b>1,391,744</b>          | <b>12,762,815</b> | <b>(178,055)</b>                | <b>12,584,760</b>     |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021  
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## 3 FINANCIAL RISK MANAGEMENT (Continued)

### 3.1 Credit risk (Continued)

#### 3.1.3 Maximum exposure to credit risk (Continued)

##### 3.1.3.1 Maximum exposure to credit risk – financial instruments included in impairment assessment (Continued)

| As at 31 December 2020  | Low risk         | Medium risk      | High risk      | Impaired      | Domestic branches | Overseas and subsidiaries | Group total       | Allowance for impairment losses | Group carrying amount |
|---|------------------|------------------|----------------|---------------|-------------------|---------------------------|-------------------|---------------------------------|-----------------------|
| <b>On-balance sheet item</b>  |                  |                  |                |               |                   |                           |                   |                                 |                       |
| Cash and balances with central banks (Stage 1)                                | 731,772          | -                | -              | -             | 731,772           | 70,436                    | 802,208           | -                               | 802,208               |
| Loans and advances to customers (Corporate)                                   |                  |                  |                |               |                   |                           |                   |                                 |                       |
| – at amortised cost   | 1,862,280        | 1,155,378        | 70,714         | 72,874        | 3,161,246         | 495,804                   | 3,657,050         | (104,425)                       | 3,552,625             |
| Stage 1   | 1,860,944        | 1,077,691        | 5,140          | -             | 2,943,775         | 475,755                   | 3,419,530         | (27,418)                        | 3,392,112             |
| Stage 2   | 1,336            | 77,687           | 65,574         | -             | 144,597           | 14,093                    | 158,690           | (29,034)                        | 129,656               |
| Stage 3   | -                | -                | -              | 72,874        | 72,874            | 5,956                     | 78,830            | (47,973)                        | 30,857                |
| – at FVOCI  | 94,543           | 106,440          | 9,335          | 95            | 210,413           | 79                        | 210,492           | -                               | 210,492               |
| Stage 1   | 94,542           | 105,458          | 3,627          | -             | 203,627           | 79                        | 203,706           | -                               | 203,706               |
| Stage 2   | 1                | 982              | 5,708          | -             | 6,691             | -                         | 6,691             | -                               | 6,691                 |
| Stage 3   | -                | -                | -              | 95            | 95                | -                         | 95                | -                               | 95                    |
| Loans and advances to customers (Personal)                                    |                  |                  |                |               |                   |                           |                   |                                 |                       |
| – at amortised cost   | 1,341,584        | 542,393          | 31,885         | 18,610        | 1,934,472         | 46,410                    | 1,980,882         | (34,849)                        | 1,946,033             |
| Stage 1   | 1,341,429        | 541,708          | 24,607         | -             | 1,907,744         | 46,020                    | 1,953,764         | (16,008)                        | 1,937,756             |
| Stage 2   | 155              | 685              | 7,278          | -             | 8,118             | 227                       | 8,345             | (3,836)                         | 4,509                 |
| Stage 3   | -                | -                | -              | 18,610        | 18,610            | 163                       | 18,773            | (15,005)                        | 3,768                 |
| Due from and placements with banks and other financial institutions (Stage 1) | 370,162          | 259              | -              | -             | 370,421           | 201,957                   | 572,378           | (1,248)                         | 571,130               |
| Financial investments at amortised cost                                       | 1,936,199        | 26,277           | 793            | 465           | 1,963,734         | 58,845                    | 2,022,579         | (3,050)                         | 2,019,529             |
| Stage 1   | 1,936,199        | 20,930           | -              | -             | 1,957,129         | 56,207                    | 2,013,336         | (1,844)                         | 2,011,492             |
| Stage 2   | -                | 5,347            | 793            | -             | 6,140             | 2,309                     | 8,449             | (682)                           | 7,767                 |
| Stage 3   | -                | -                | -              | 465           | 465               | 329                       | 794               | (524)                           | 270                   |
| Debt investments at FVOCI   | 291,786          | 2,515            | -              | -             | 294,301           | 429,572                   | 723,873           | -                               | 723,873               |
| Stage 1   | 291,786          | 2,515            | -              | -             | 294,301           | 429,222                   | 723,523           | -                               | 723,523               |
| Stage 2   | -                | -                | -              | -             | -                 | 278                       | 278               | -                               | 278                   |
| Stage 3   | -                | -                | -              | -             | -                 | 72                        | 72                | -                               | 72                    |
| Other financial assets at amortised cost                                      | 14,624           | 8,560            | 127            | 3,842         | 27,153            | 13,908                    | 41,061            | (4,088)                         | 36,973                |
| Stage 1   | 14,455           | 8,353            | -              | -             | 22,808            | 13,838                    | 36,646            | (166)                           | 36,480                |
| Stage 2   | 45               | 83               | 28             | 10            | 166               | -                         | 166               | (115)                           | 51                    |
| Stage 3   | 124              | 124              | 99             | 3,832         | 4,179             | 70                        | 4,249             | (3,807)                         | 442                   |
| <b>On-balance sheet total</b>   | <b>6,642,950</b> | <b>1,841,822</b> | <b>112,854</b> | <b>95,886</b> | <b>8,693,512</b>  | <b>1,317,011</b>          | <b>10,010,523</b> | <b>(147,660)</b>                | <b>9,862,863</b>      |
| Credit related commitments and financial guarantees                           |                  |                  |                |               |                   |                           |                   |                                 |                       |
| Stage 1   | 1,283,391        | 319,352          | 2,499          | -             | 1,605,242         | 61,620                    | 1,666,862         | (6,858)                         | 1,660,004             |
| Stage 2   | -                | 4,422            | 5,031          | -             | 9,453             | 397                       | 9,850             | (3,642)                         | 6,208                 |
| <b>Off-balance sheet total</b>  | <b>1,283,391</b> | <b>323,774</b>   | <b>7,530</b>   | <b>-</b>      | <b>1,614,695</b>  | <b>62,017</b>             | <b>1,676,712</b>  | <b>(10,500)</b>                 | <b>1,666,212</b>      |
| <b>Total</b>  | <b>7,926,341</b> | <b>2,165,596</b> | <b>120,384</b> | <b>95,886</b> | <b>10,308,207</b> | <b>1,379,028</b>          | <b>11,687,235</b> | <b>(158,160)</b>                | <b>11,529,075</b>     |

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### 3 FINANCIAL RISK MANAGEMENT (Continued)

#### 3.1 Credit risk (Continued)

##### 3.1.3 Maximum exposure to credit risk (Continued)

##### 3.1.3.2 Maximum exposure to credit risk – financial instruments not included in impairment assessment

The analysis of credit risk exposure of those financial assets which are not included in the impairment assessment are as follows:

|   | Maximum exposure to credit risk |                  |
|---|---------------------------------|------------------|
|   | 31 December 2021                | 31 December 2020 |
| Financial assets at fair value through profit or loss |                                 |                  |
| Derivative financial instruments                      | 39,220                          | 54,212           |
| Loans and advances to customers                       | 27                              | –                |
| Debt securities                                       | 247,934                         | 153,034          |
| Fund investments and other asset management products  | 305,176                         | 252,098          |
| Precious metal contracts                              | 21,924                          | 19,975           |
| Total   | 614,281                         | 479,319          |

##### 3.1.3.3 Collaterals and other credit enhancements

The Group manages, limits and controls concentrations of credit risk wherever they are identified, in particular, to individual counterparty, groups, industry segments and geographical regions.

The Group optimises its credit risk structure by placing limits in relation to one borrower, or group of borrowers. Such risks are monitored by the Group on a regular basis and subject to annual or more frequent review, whenever necessary.

The exposure to any single borrower including banks and brokers is further restricted by sub-limits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. The Group monitors the actual credit risk exposure and credit limits on a daily basis.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet principal and interest repayment obligations. The Group will change their lending limits when appropriate based on the analysis.

Some other specific control and risk mitigation measures are outlined below.

#### (a) Collaterals

The Group employs a range of policies and practices to mitigate credit risk. The most common practice is to accept collaterals or pledges. The Group implements guidelines on the acceptability of specific classes of collaterals and pledges. The principal types of collaterals and pledges for loans and advances to customers are:

- Residential properties;
- Business assets such as premises, inventory and receivables;
- Financial instruments such as debt securities and stocks.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### 3.1 Credit risk (Continued)

#### 3.1.3 Maximum exposure to credit risk (Continued)

##### (a) Collaterals (Continued)

The value of collaterals at the time of loan origination is subject to loan-to-value ratio limits based on collateral types. The principal types of collaterals for corporate loans and personal loans are as follows:

| Collaterals                                   | Maximum loan-to-value ratio |
|---|-----------------------------|
| Cash deposits with the Group                  | 90%                         |
| PRC treasury bonds                            | 90%                         |
| Financial institution bonds                   | 90%                         |
| Publicly traded stocks                        | 60%                         |
| Rights to collect fees or right of management | 65%                         |
| Properties                                    | 70%                         |
| Land use rights                               | 70%                         |
| Vehicles                                      | 50%                         |

Long-term loans and advances to corporate and personal customers are generally secured, while revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss the Group will seek additional collaterals and pledges from the counterparties as soon as impairment indicators are noted for the personal loans and advances.

For loans guaranteed by a third-party guarantor, the Group will assess the financial condition, credit history and ability to meet obligations of the guarantor.

Collaterals and pledges held as security for financial assets other than loans and advances to customers are determined by the nature of the instrument. Debt securities, PRC treasury bonds and the PBOC bills are generally unsecured, with the exception of asset-backed securities, which are secured by portfolios of financial instruments.

The Group closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Group will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

|  | Gross exposure | Impairment allowance | Carrying amount | Fair value of collateral held |
|--|----------------|----------------------|-----------------|-------------------------------|
| <b>As at 31 December 2021</b>  |                |                      |                 |                               |
| Credit-impaired assets   |                |                      |                 |                               |
| Loans and advances to customers  |                |                      |                 |                               |
| Loans and advances to customers at amortised cost                                | 96,786         | (63,794)             | 32,992          | 46,184                        |
| Loans and advances to customers at fair value through other comprehensive income | 10             | –                    | 10              | 10                            |
| Financial investments  |                |                      |                 |                               |
| Financial investments at amortised cost  | 3,289          | (892)                | 2,397           | 4,876                         |
| Debt investments at fair value through other comprehensive income                | 29             | –                    | 29              | –                             |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

**3 FINANCIAL RISK MANAGEMENT** (Continued)**3.1 Credit risk** (Continued)**3.1.3 Maximum exposure to credit risk** (Continued)**(a) Collaterals** (Continued)

|  | Gross exposure | Impairment allowance | Carrying amount | Fair value of collateral held |
|--|----------------|----------------------|-----------------|-------------------------------|
| As at 31 December 2020   |                |                      |                 |                               |
| Credit-impaired assets   |                |                      |                 |                               |
| Loans and advances to customers  |                |                      |                 |                               |
| Loans and advances to customers at amortised cost                                | 97,603         | (62,978)             | 34,625          | 46,264                        |
| Loans and advances to customers at fair value through other comprehensive income | 95             | –                    | 95              | 95                            |
| Financial investments  |                |                      |                 |                               |
| Financial investments at amortised cost  | 794            | (524)                | 270             | 2                             |
| Debt investments at fair value through other comprehensive income                | 72             | –                    | 72              | –                             |

**(b) Master netting arrangements**

The Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of assets and liabilities in the statement of financial position, as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Group's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as each transaction subject to the arrangement affects credit risk.

**3.1.4 Derivative instruments**

The Group undertakes its transactions in foreign exchange, commodity, interest rate and other derivative contracts with other financial institutions and customers. The management has established limits for these contracts based on counterparties, industry sectors and countries. Actual credit risk exposures are regularly monitored and controlled by the management.

*Credit risk-weighted amounts*

|  | As at<br>31 December 2021 | As at<br>31 December 2020 |
|--|---------------------------|---------------------------|
| Counterparty credit risk-weighted amount | 53,789                    | 50,052                    |

The credit risk-weighted amounts are the amounts calculated with reference to the guidelines issued by the CBIRC and are dependent on, amongst other factors, the creditworthiness of the counterparty and the maturity of each type of contract.

The credit risk-weighted amounts stated above have not taken the effects of netting arrangements into account.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

### 3 FINANCIAL RISK MANAGEMENT (Continued)

#### 3.1 Credit risk (Continued)

##### 3.1.5 Foreclosed assets

|                             | As at<br>31 December 2021 | As at<br>31 December 2020 |
|-----------------------------|---------------------------|---------------------------|
| Buildings                   | 1,424                     | 1,085                     |
| Land use rights             | 8                         | 10                        |
| Others                      | 5                         | 14                        |
| Gross                       | 1,437                     | 1,109                     |
| Less: Impairment allowances | (407)                     | (142)                     |
| Net                         | 1,030                     | 967                       |

Foreclosed assets are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness. The Group does not generally occupy foreclosed assets for its own business use. Foreclosed assets are classified as other assets in the statement of financial position.

##### 3.1.6 Concentration risk analysis for financial assets with credit risk exposure

The Group mainly manages concentration risk for loans and advances to customers by industry sectors and also manages concentration risk for financial assets by geographical sectors.

##### Concentration risk for geographical sectors

|   | Mainland China | Hong Kong | Others  | Total      |
|---|----------------|-----------|---------|------------|
| <b>As at 31 December 2021</b>                                       |                |           |         |            |
| Financial assets  |                |           |         |            |
| Balances with central banks   | 670,925        | 28,814    | 21,387  | 721,126    |
| Due from and placements with banks and other financial institutions | 463,774        | 68,572    | 100,362 | 632,708    |
| Derivative financial assets   | 26,989         | 9,284     | 2,947   | 39,220     |
| Financial investments at FVPL                                       | 511,854        | 6,511     | 56,669  | 575,034    |
| Loans and advances to customers                                     | 6,065,792      | 206,433   | 139,976 | 6,412,201  |
| Debt investments at FVOCI   | 394,613        | 58,562    | 212,292 | 665,467    |
| Financial investments at amortised cost                             | 2,161,046      | 6,621     | 35,370  | 2,203,037  |
| Other financial assets  | 52,737         | 11,201    | 3,567   | 67,505     |
|   | 10,347,730     | 395,998   | 572,570 | 11,316,298 |
| Off-balance sheet exposures   |                |           |         |            |
| Guarantees, acceptances and letters of credit                       | 917,943        | 6,458     | 12,073  | 936,474    |
| Loan commitments and other credit related commitments               | 943,804        | 23,598    | 2,549   | 969,951    |
|   | 1,861,747      | 30,056    | 14,622  | 1,906,425  |



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

## 3.1 Credit risk (Continued)

## 3.1.6 Concentration risk analysis for financial assets with credit risk exposure (Continued)

Concentration risk for geographical sectors (Continued)

|   | Mainland China | Hong Kong | Others  | Total      |
|---|----------------|-----------|---------|------------|
| As at 31 December 2020  |                |           |         |            |
| Financial assets  |                |           |         |            |
| Balances with central banks   | 733,895        | 33,431    | 34,562  | 801,888    |
| Due from and placements with banks and other financial institutions | 365,731        | 113,071   | 92,328  | 571,130    |
| Derivative financial assets   | 42,150         | 9,617     | 2,445   | 54,212     |
| Financial investments at FVPL                                       | 375,565        | 7,813     | 41,729  | 425,107    |
| Loans and advances to customers                                     | 5,362,745      | 194,300   | 163,523 | 5,720,568  |
| Debt investments at FVOCI   | 373,966        | 120,315   | 229,592 | 723,873    |
| Financial investments at amortised cost                             | 1,967,344      | 6,195     | 45,990  | 2,019,529  |
| Other financial assets  | 28,229         | 15,436    | 2,772   | 46,437     |
|   | 9,249,625      | 500,178   | 612,941 | 10,362,744 |
| Off-balance sheet exposures   |                |           |         |            |
| Guarantees, acceptances and letters of credit                       | 796,707        | 9,979     | 9,151   | 815,837    |
| Loan commitments and other credit related commitments               | 825,973        | 25,552    | 9,350   | 860,875    |
|   | 1,622,680      | 35,531    | 18,501  | 1,676,712  |

## (a) Geographical risk concentration for loans and advances to customers

|   | As at 31 December 2021 |        | As at 31 December 2020 |        |
|---|------------------------|--------|------------------------|--------|
|   |                        | %      |                        | %      |
| Yangtze River Delta                             | 1,780,637              | 27.14  | 1,556,325              | 26.61  |
| Pearl River Delta                               | 857,521                | 13.07  | 711,150                | 12.16  |
| Bohai Rim Economic Zone                         | 965,957                | 14.72  | 838,415                | 14.34  |
| Central China                                   | 1,092,985              | 16.66  | 960,512                | 16.42  |
| Western China                                   | 774,445                | 11.80  | 681,997                | 11.66  |
| North Eastern China                             | 247,023                | 3.77   | 232,864                | 3.98   |
| Overseas  | 348,948                | 5.32   | 359,368                | 6.14   |
| Head Office                                     | 492,884                | 7.52   | 507,793                | 8.69   |
| Gross amount of loans and advances to customers | 6,560,400              | 100.00 | 5,848,424              | 100.00 |

Note: The definitions of geographical operating segments are set out in Note 48.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

### 3 FINANCIAL RISK MANAGEMENT (Continued)

#### 3.1 Credit risk (Continued)

##### 3.1.6 Concentration risk analysis for financial assets with credit risk exposure (Continued)

###### (b) Industry analysis for loans and advances to customers

|   | As at 31 December 2021 |        | As at 31 December 2020 |        |
|---|------------------------|--------|------------------------|--------|
|   |                        | %      |                        | %      |
| Corporate loans   |                        |        |                        |        |
| Mining  | 120,216                | 1.83   | 125,367                | 2.14   |
| Manufacturing   | 732,565                | 11.16  | 658,203                | 11.25  |
| – Petroleum and chemical  | 126,354                | 1.93   | 118,387                | 2.02   |
| – Electronics   | 168,825                | 2.57   | 130,836                | 2.24   |
| – Steel   | 40,781                 | 0.62   | 41,680                 | 0.71   |
| – Machinery   | 102,338                | 1.56   | 100,571                | 1.72   |
| – Textile and clothing  | 26,817                 | 0.41   | 27,057                 | 0.46   |
| – Other manufacturing   | 267,450                | 4.07   | 239,672                | 4.10   |
| Production and supply of power, heat, gas and water             | 268,772                | 4.10   | 221,313                | 3.78   |
| Construction  | 157,729                | 2.40   | 135,732                | 2.32   |
| Transportation, storage and postal service                      | 763,419                | 11.64  | 708,649                | 12.12  |
| Information transmission, software and IT services              | 60,718                 | 0.93   | 41,148                 | 0.70   |
| Wholesale and retail  | 215,554                | 3.29   | 204,856                | 3.50   |
| Accommodation and catering                                      | 34,133                 | 0.52   | 34,886                 | 0.60   |
| Finance   | 132,633                | 2.02   | 118,702                | 2.03   |
| Real estate   | 419,820                | 6.40   | 348,185                | 5.95   |
| Leasing and commercial services                                 | 650,742                | 9.92   | 577,500                | 9.87   |
| Water conservancy, environmental and other public services      | 382,201                | 5.83   | 334,399                | 5.72   |
| Education, science, culture and public health                   | 122,196                | 1.86   | 112,961                | 1.93   |
| Others  | 77,884                 | 1.19   | 85,570                 | 1.48   |
| Discounted bills  | 136,722                | 2.08   | 160,071                | 2.74   |
| Total corporate loans   | 4,275,304              | 65.17  | 3,867,542              | 66.13  |
| Personal loans  |                        |        |                        |        |
| Mortgages   | 1,489,517              | 22.70  | 1,293,773              | 22.12  |
| Credit cards  | 492,580                | 7.51   | 464,110                | 7.94   |
| Others  | 302,999                | 4.62   | 222,999                | 3.81   |
| Total personal loans  | 2,285,096              | 34.83  | 1,980,882              | 33.87  |
| Gross amount of loans and advances before impairment allowances | 6,560,400              | 100.00 | 5,848,424              | 100.00 |

Note: The classification of industries is consistent with the latest national standards for industry classification (Industrial classification for national economic activities (GB/T 4754-2017) issued by SAC and AQSIQ in 2017).

The industry risk concentration analysis for loans and advances to customers is based on the type of industry of the borrowers.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

### 3 FINANCIAL RISK MANAGEMENT *(Continued)*

#### 3.2 Market risk

##### 3.2.1 Overview

Market risk is risk of loss on the Group's on balance sheet and off balance sheet businesses, which is originated from the unfavourable changes and fluctuations in interest rates, foreign exchange rates, commodity price and equity product price. Market risk consists of interest rate risk, foreign exchange rate risk, equity product price risk and commodity price risk. The market risk of the Group mainly comprises interest rate risk and foreign exchange rate risk.

The Group established an integrated market risk management system, formed a market risk management structure with the separation of front and middle-end platforms and specified the responsibilities, the division of labor and the reporting route of the Board of Directors, Board of Supervisors, Senior Management, Special Committees and other relevant departments to ensure the compliance and effectiveness of market risk management.

In accordance with the requirements of the CBIRC, the Group's financial instrument positions are divided into trading book and banking book. The trading book consists of financial instruments held either for trading intent or economic hedging against risks of the trading book. The banking book consists of all financial instruments other than those included in trading book. The Group recognises, measures, monitors and controls the market risks in trading book and banking book according to their nature and characteristics.

With regard to the exchange rate risk and the interest rate risk of trading book, the Group established an effective limit management system by implementing Net Position, Risk Sensitivity, Value at Risk ("VaR") and other indicators. Meanwhile, with regard to the interest risk of banking book, net interest income simulation and gap analysis are the major tools used by the Group to monitor the interest risk of its overall businesses. In addition, through adequate repricing management and structure adjustment of assets and liabilities, the Group strives to maximise its rate of return while keeping its risks under control.

The Group has continuously improved the management system of market risk. The Group conducted stress tests on historical scenarios and hypothetical scenarios in the consideration of the Group's major market risk factors. The Group has realised daily automatic collection of trading data and market data in the system. The Group conducted the management of risk capital and VaR quota, and formulated the quota allocation plans.

The Group also applies sensitivity analysis to assess and measure the market risk of trading book and banking book. Sensitivity analysis indicates the impact on the relevant market risk assuming that only a single variable changes. As any risk variable rarely changes isolatedly, and the correlation between variables will have a significant effect on the final impact amount of the change of a risk variable, the results of sensitivity analysis can only provide limited market risk information.

The major measurement techniques used to measure and control market risk are outlined below:

##### 3.2.2 VaR

VaR refers to the maximum loss that an investment portfolio may incur at a given confidence level and holding period caused by the changes in market price factors such as interest rates and exchange rates etc. The Group adopted the historical simulation method to calculate daily VaR (99% confidence interval, the holding period of one day).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

### 3 FINANCIAL RISK MANAGEMENT (Continued)

#### 3.2 Market risk (Continued)

##### 3.2.2 VaR (Continued)

A summary of VaR by risk type including foreign exchange rate risk and interest rate risk of the trading book of the Group's portfolios is as follows:

| Items                         | Year ended 31 December 2021 |         |         |         |
|-------------------------------|-----------------------------|---------|---------|---------|
|                               | 31 December<br>2021         | Average | Maximum | Minimum |
| VaR                           | 261                         | 381     | 746     | 256     |
| Including: Interest rate risk | 269                         | 306     | 453     | 197     |
| Foreign exchange risk         | 133                         | 209     | 743     | 100     |

| Items                         | Year ended 31 December 2020 |         |         |         |
|-------------------------------|-----------------------------|---------|---------|---------|
|                               | 31 December<br>2020         | Average | Maximum | Minimum |
| VaR                           | 594                         | 501     | 617     | 423     |
| Including: Interest rate risk | 268                         | 296     | 472     | 127     |
| Foreign exchange risk         | 464                         | 485     | 555     | 417     |

##### 3.2.3 Sensitivity analysis

###### Interest rate sensitivity analysis

The table below illustrates the impact on net profit of the Group for the following year based on the structure of financial assets and liabilities as at the date of statement of financial position, resulting from a parallel upward or downward shift of 100 basis points in related yield curves.

|   | Changes in net profit     |                           |
|---|---------------------------|---------------------------|
|   | As at<br>31 December 2021 | As at<br>31 December 2020 |
| +100 basis points parallel shift in yield curves  | 10,562                    | 13,551                    |
| - 100 basis points parallel shift in yield curves | (10,562)                  | (13,551)                  |

The table below illustrates the impact on other comprehensive income of the Group for the following year based on the structure of financial assets and liabilities as at the date of statement of financial position, resulting from a parallel upward or downward shift of 100 basis points in related yield curves.

|   | Changes in other comprehensive income |                           |
|---|---------------------------------------|---------------------------|
|   | As at<br>31 December 2021             | As at<br>31 December 2020 |
| +100 basis points parallel shift in yield curves  | (12,995)                              | (11,882)                  |
| - 100 basis points parallel shift in yield curves | 14,012                                | 12,363                    |

The above-mentioned impact on other comprehensive income arises from the changes in the fair value of fixed-interest-rate bonds at fair value through other comprehensive income, and loans and advances to customers at fair value through other comprehensive income.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

## 3.2 Market risk (Continued)

## 3.2.3 Sensitivity analysis (Continued)

## Interest rate sensitivity analysis (Continued)

The results of the interest rate sensitivity analysis set out in the table above are illustrative only and are based on simplified scenarios. The figures represent the projected impact to the net profit and other comprehensive income caused by the projected movement of current interest risk structure yield curves. This effect, however, does not take into account actions that would be taken by the Group to mitigate the impact of interest rate changes. The projections above also assume that interest rates of all maturities excluding demand deposits move by the same amount and, therefore, do not reflect the potential impact on net profit due to changes in certain rates while others remain unchanged. The projections are based on other simplified assumptions as well, including that all positions are to be held to maturity. There will be changes to the projection if positions are not held to maturity but it is not expected that the changes would be material.

The Group believes the assumption does not represent the Group's policy on use of funds and interest rate risk management. As a result, the above impact may differ from the actual situation.

## Foreign exchange sensitivity analysis

The table below illustrates the impact of a concurrent appreciation or depreciation of RMB spot and forward rates against HKD and USD by 5% on the Group's net profit:

|                        | Changes in net profit     |                           |
|------------------------|---------------------------|---------------------------|
|                        | As at<br>31 December 2021 | As at<br>31 December 2020 |
| 5% appreciation of RMB | (1,803)                   | (1,662)                   |
| 5% depreciation of RMB | 1,803                     | 1,662                     |

The table below illustrates the impact of a concurrent appreciation or depreciation of RMB spot and forward rates against HKD and USD by 5% on the Group's other comprehensive income:

|                        | Changes in other comprehensive income |                           |
|------------------------|---------------------------------------|---------------------------|
|                        | As at<br>31 December 2021             | As at<br>31 December 2020 |
| 5% appreciation of RMB | (1,403)                               | (1,397)                   |
| 5% depreciation of RMB | 1,403                                 | 1,397                     |

The impact on net profit arises from the influences of RMB exchange rate fluctuation on the net position of monetary assets (excluding other book value other than amortised cost of monetary assets at fair value through other comprehensive income) and liabilities denominated in foreign currencies, the net position of non-monetary financial assets (excluding non-monetary items denominated in foreign currencies measured at fair value through other comprehensive income) and liabilities denominated in foreign currencies measured at fair value, and the fair value of currency derivatives denominated in RMB.

The impact on other comprehensive income arises from the influences of RMB exchange rate fluctuation on the differences on translation of foreign currency financial statements of foreign operators, the overseas investment portion of monetary assets denominated in foreign currencies, other book value other than amortised cost of the non-monetary items denominated in foreign currencies measured at fair value through other comprehensive income (such as stock) and monetary items at fair value through other comprehensive income.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### 3.2 Market risk (Continued)

#### 3.2.3 Sensitivity analysis (Continued)

##### *Foreign exchange sensitivity analysis (Continued)*

The above impact on net profit is based on the assumption that the sensitive position of the Group's year-end exchange rate and currency derivatives denominated in RMB remain unchanged around the year. While in practice, the Group will, based on its judgement on the trend of exchange rate, actively adjust the foreign currency position and use appropriate derivative instruments to mitigate the impact of the foreign currency risk. Therefore, the above impact might differ from the actual situation.

#### 3.2.4 Interest rate risk

The Group's interest rate risk mainly arises from interest rate repricing and maturity mismatching of assets and liabilities, and the fluctuation of market interest rates, as well as from the adjustments in the interest rate policies made by the People's Bank of China (the "PBOC"). On 20 July 2013, the PBOC cancelled the lower limit of benchmark interest rates of loans dominated in RMB, allowing financial institutions to determine the loan interest rates independently based on commercial principles. The PBOC cancelled the upper limit of the benchmark interest rates for deposits on 24 October 2015 and established RMB Loan Prime Rate (LPR) as a new pricing benchmark of new loans in 2019. The Group conducts most of its domestic deposit businesses at benchmark interest rates for deposits and conducts most of its domestic loan businesses at LPR published by the PBOC.

The Group pays high attention to the transition of interest rate benchmark and has established a task force to speed up the launch and implementation of this LIBOR reform project. At the current stage, the progress of this reform is basically on schedule. According to the overall timetable of the LIBOR reform, libors in sterling, euro, Swiss franc and Japanese yen, as well as one week and 2-month libors in US dollars, have exited the market on 1 January 2022. The business scale of the Group's contracts in reference to LIBOR with the above currencies and maturities is relatively small, ready for orderly transition according to repricing periods of each business, and the impact of the methods of benchmark transition on interest rate risk is generally under control, which has a relatively limited substantial impact on the operations.

The Group has initially established a relatively complete interest rate risk monitoring system. By using the gap analysis system, the Group regularly monitors the repricing maturity gap of interest rate-sensitive assets and liabilities throughout the Group, takes the initiative to adjust the proportion of interest-bearing assets at floating interest rates and fixed interest rates, and adjusts the repricing term structure of interest rate and manages interest rate risk by applying appropriate derivatives such as interest rate swaps based on allocation strategy of assets and liabilities. Consequently, the Group is less vulnerable to interest rate risk.

During the reporting period, the Group closely monitored the interest rate trend for RMB and foreign currencies, conducted specific management of risk limits, and strengthened comprehensive operations and limit monitoring. In addition, the Group, by rationally adjusting the loan repricing strategies, reinforced the specific management of price negotiation to maximise its rate of return while keeping its risks under control.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

## 3.2 Market risk (Continued)

## 3.2.4 Interest rate risk (Continued)

At the date of statement of financial position, the Group's assets and liabilities categorised by the repricing date or maturity date (whichever is earlier) are as follows:

|   | Up to 1 month      | 1 – 3 months     | 3 – 12 months      | 1 – 5 years        | Over 5 years     | Non-interest bearing | Total               |
|---|--------------------|------------------|--------------------|--------------------|------------------|----------------------|---------------------|
| <b>As at 31 December 2021</b>                                       |                    |                  |                    |                    |                  |                      |                     |
| <b>Assets</b>   |                    |                  |                    |                    |                  |                      |                     |
| Cash and balances with central banks                                | 714,689            | –                | –                  | –                  | –                | 20,039               | 734,728             |
| Due from and placements with banks and other financial institutions | 274,884            | 105,476          | 212,107            | 28,423             | 7,950            | 3,868                | 632,708             |
| Derivative financial assets   | –                  | –                | –                  | –                  | –                | 39,220               | 39,220              |
| Financial investments at FVPL                                       | 32,659             | 52,942           | 90,657             | 35,428             | 45,306           | 381,491              | 638,483             |
| Loans and advances to customers                                     | 1,752,819          | 740,873          | 2,904,431          | 442,783            | 259,155          | 312,140              | 6,412,201           |
| Financial investments at FVOCI                                      | 49,415             | 109,842          | 91,364             | 227,236            | 181,312          | 22,560               | 681,729             |
| Financial investments at amortised cost                             | 18,908             | 35,803           | 262,899            | 1,009,017          | 846,114          | 30,296               | 2,203,037           |
| Other assets  | 458                | –                | –                  | –                  | –                | 323,193              | 323,651             |
| <b>Total assets</b>   | <b>2,843,832</b>   | <b>1,044,936</b> | <b>3,561,458</b>   | <b>1,742,887</b>   | <b>1,339,837</b> | <b>1,132,807</b>     | <b>11,665,757</b>   |
| <b>Liabilities</b>  |                    |                  |                    |                    |                  |                      |                     |
| Due to and placements from banks and other financial institutions   | (1,167,169)        | (261,570)        | (486,143)          | (20,848)           | (2,889)          | (9,149)              | (1,947,768)         |
| Financial liabilities at FVPL                                       | (24,954)           | (1,995)          | (10,196)           | (1,266)            | –                | (11,637)             | (50,048)            |
| Derivative financial liabilities                                    | –                  | –                | –                  | –                  | –                | (36,074)             | (36,074)            |
| Due to customers  | (3,787,796)        | (534,784)        | (1,020,946)        | (1,607,059)        | (39)             | (89,153)             | (7,039,777)         |
| Other liabilities   | (125,188)          | (183,613)        | (722,988)          | (224,408)          | (216,154)        | (142,503)            | (1,614,854)         |
| <b>Total liabilities</b>  | <b>(5,105,107)</b> | <b>(981,962)</b> | <b>(2,240,273)</b> | <b>(1,853,581)</b> | <b>(219,082)</b> | <b>(288,516)</b>     | <b>(10,688,521)</b> |
| <b>Total interest sensitivity gap</b>                               | <b>(2,261,275)</b> | <b>62,974</b>    | <b>1,321,185</b>   | <b>(110,694)</b>   | <b>1,120,755</b> | <b>844,291</b>       | <b>977,236</b>      |

|   | Up to 1 month      | 1 – 3 months       | 3 – 12 months      | 1 – 5 years        | Over 5 years     | Non-interest bearing | Total              |
|---|--------------------|--------------------|--------------------|--------------------|------------------|----------------------|--------------------|
| <b>As at 31 December 2020</b>                                       |                    |                    |                    |                    |                  |                      |                    |
| <b>Assets</b>   |                    |                    |                    |                    |                  |                      |                    |
| Cash and balances with central banks                                | 795,102            | –                  | –                  | –                  | –                | 22,459               | 817,561            |
| Due from and placements with banks and other financial institutions | 291,121            | 97,782             | 162,611            | 13,718             | 2,792            | 3,106                | 571,130            |
| Derivative financial assets   | –                  | –                  | –                  | –                  | –                | 54,212               | 54,212             |
| Financial investments at FVPL                                       | 22,761             | 21,369             | 34,378             | 31,955             | 51,251           | 320,874              | 482,588            |
| Loans and advances to customers                                     | 1,661,920          | 749,592            | 2,420,672          | 334,404            | 260,828          | 293,152              | 5,720,568          |
| Financial investments at FVOCI                                      | 82,187             | 134,536            | 83,786             | 237,760            | 179,006          | 17,945               | 735,220            |
| Financial investments at amortised cost                             | 41,734             | 49,906             | 258,697            | 962,447            | 678,347          | 28,398               | 2,019,529          |
| Other assets  | 466                | –                  | –                  | –                  | –                | 296,342              | 296,808            |
| <b>Total assets</b>   | <b>2,895,291</b>   | <b>1,053,185</b>   | <b>2,960,144</b>   | <b>1,580,284</b>   | <b>1,172,224</b> | <b>1,036,488</b>     | <b>10,697,616</b>  |
| <b>Liabilities</b>  |                    |                    |                    |                    |                  |                      |                    |
| Due to and placements from banks and other financial institutions   | (913,880)          | (265,073)          | (537,732)          | (47,277)           | (13,181)         | (10,348)             | (1,787,491)        |
| Financial liabilities at FVPL                                       | (6,291)            | (8,254)            | (7,384)            | (134)              | –                | (7,216)              | (29,279)           |
| Derivative financial liabilities                                    | –                  | –                  | –                  | –                  | –                | (55,942)             | (55,942)           |
| Due to customers  | (3,515,457)        | (552,070)          | (924,291)          | (1,529,725)        | (2)              | (85,785)             | (6,607,330)        |
| Other liabilities   | (90,687)           | (214,973)          | (366,449)          | (329,911)          | (192,715)        | (144,211)            | (1,338,946)        |
| <b>Total liabilities</b>  | <b>(4,526,315)</b> | <b>(1,040,370)</b> | <b>(1,835,856)</b> | <b>(1,907,047)</b> | <b>(205,898)</b> | <b>(303,502)</b>     | <b>(9,818,988)</b> |
| <b>Total interest sensitivity gap</b>                               | <b>(1,631,024)</b> | <b>12,815</b>      | <b>1,124,288</b>   | <b>(326,763)</b>   | <b>966,326</b>   | <b>732,986</b>       | <b>878,628</b>     |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### 3.2 Market risk (Continued)

#### 3.2.5 Foreign exchange risk

The Group conducts the majority of its businesses in RMB, and the recording currency is RMB. Certain foreign transactions are conducted in USD, HKD and other currencies. The exchange rate of RMB to USD, HKD or other currencies is subject to the trading rules of China Foreign Exchange Trade System. Exchange rate risk mainly results from currency mismatch between foreign currency assets and liabilities and between off balance sheet currency exposure. The Group has formulated management measures for exchange rate risks, defining the functional division and scope of work of the exchange rate risk management department, risk identification, measurement, monitoring and control methods, and specific measures. Moreover, the Group controls exchange rate risk by setting relevant limits, taking the initiative to adjust the structure of foreign currency assets for a proper matching of currency structure of assets and liabilities, and applying appropriate exchange rate financial derivatives for transfers and hedging based on its own risk tolerance and operating level.

As at 31 December 2021, the exchange rates for US dollar and HK dollar are 1 US dollar to RMB6.3757 (31 December 2020: RMB6.5249) and 1 HK dollar to RMB0.8176 (31 December 2020: RMB0.8416), respectively.

Carrying amounts of the Group's total assets and liabilities categorised by the original currency as at the date of statement of financial position are as follows:

|  | RMB                | USD (RMB<br>Equivalent) | HKD (RMB<br>Equivalent) | Others (RMB<br>Equivalent) | Total               |
|--|--------------------|-------------------------|-------------------------|----------------------------|---------------------|
| <b>As at 31 December 2021</b>  |                    |                         |                         |                            |                     |
| <b>Assets</b>  |                    |                         |                         |                            |                     |
| Cash and balances with central banks                                   | 659,377            | 32,034                  | 30,113                  | 13,204                     | 734,728             |
| Due from and placements with banks<br>and other financial institutions | 316,755            | 276,807                 | 19,944                  | 19,202                     | 632,708             |
| Derivative financial assets  | 32,268             | 5,982                   | 482                     | 488                        | 39,220              |
| Financial investments at FVPL  | 539,513            | 79,414                  | 727                     | 18,829                     | 638,483             |
| Loans and advances to customers  | 5,882,592          | 294,495                 | 164,923                 | 70,191                     | 6,412,201           |
| Financial investments at FVOCI   | 309,518            | 283,663                 | 37,699                  | 50,849                     | 681,729             |
| Financial investments at amortised cost                                | 2,169,831          | 29,760                  | 812                     | 2,634                      | 2,203,037           |
| Other assets   | 173,258            | 137,483                 | 7,292                   | 5,618                      | 323,651             |
| <b>Total assets</b>  | <b>10,083,112</b>  | <b>1,139,638</b>        | <b>261,992</b>          | <b>181,015</b>             | <b>11,665,757</b>   |
| <b>Liabilities</b>   |                    |                         |                         |                            |                     |
| Due to and placements from banks and<br>other financial institutions   | (1,496,464)        | (389,507)               | (22,857)                | (38,940)                   | (1,947,768)         |
| Financial liabilities at FVPL  | (34,217)           | (3,196)                 | (41)                    | (12,594)                   | (50,048)            |
| Derivative financial liabilities                                       | (27,910)           | (7,021)                 | (614)                   | (529)                      | (36,074)            |
| Due to customers   | (6,341,729)        | (387,816)               | (262,148)               | (48,084)                   | (7,039,777)         |
| Other liabilities  | (1,392,157)        | (176,573)               | (20,418)                | (25,706)                   | (1,614,854)         |
| <b>Total liabilities</b>   | <b>(9,292,477)</b> | <b>(964,113)</b>        | <b>(306,078)</b>        | <b>(125,853)</b>           | <b>(10,688,521)</b> |
| <b>Net position</b>  | <b>790,635</b>     | <b>175,525</b>          | <b>(44,086)</b>         | <b>55,162</b>              | <b>977,236</b>      |
| <b>Credit related commitments and<br/>financial guarantees</b>         | <b>1,721,510</b>   | <b>137,769</b>          | <b>19,797</b>           | <b>27,349</b>              | <b>1,906,425</b>    |



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

## 3.2 Market risk (Continued)

## 3.2.5 Foreign exchange risk (Continued)

|  | RMB                | USD (RMB<br>Equivalent) | HKD (RMB<br>Equivalent) | Others (RMB<br>Equivalent) | Total              |
|--|--------------------|-------------------------|-------------------------|----------------------------|--------------------|
| As at 31 December 2020   |                    |                         |                         |                            |                    |
| <b>Assets</b>  |                    |                         |                         |                            |                    |
| Cash and balances with central banks                                   | 729,631            | 31,298                  | 35,151                  | 21,481                     | 817,561            |
| Due from and placements with banks<br>and other financial institutions | 218,074            | 319,227                 | 16,750                  | 17,079                     | 571,130            |
| Derivative financial assets  | 46,761             | 4,082                   | 2,669                   | 700                        | 54,212             |
| Financial investments at FVPL  | 407,126            | 41,616                  | 2,484                   | 31,362                     | 482,588            |
| Loans and advances to customers  | 5,248,201          | 240,514                 | 149,366                 | 82,487                     | 5,720,568          |
| Financial investments at FVOCI   | 329,481            | 305,772                 | 49,133                  | 50,834                     | 735,220            |
| Financial investments at amortised cost                                | 2,000,225          | 15,357                  | 50                      | 3,897                      | 2,019,529          |
| Other assets   | 153,647            | 130,805                 | 8,453                   | 3,903                      | 296,808            |
| <b>Total assets</b>  | <b>9,133,146</b>   | <b>1,088,671</b>        | <b>264,056</b>          | <b>211,743</b>             | <b>10,697,616</b>  |
| <b>Liabilities</b>   |                    |                         |                         |                            |                    |
| Due to and placements from banks and<br>other financial institutions   | (1,421,873)        | (299,201)               | (7,899)                 | (58,518)                   | (1,787,491)        |
| Financial liabilities at FVPL  | (7,703)            | (1,251)                 | (6,419)                 | (13,906)                   | (29,279)           |
| Derivative financial liabilities                                       | (41,556)           | (10,217)                | (2,360)                 | (1,809)                    | (55,942)           |
| Due to customers   | (5,894,179)        | (378,083)               | (301,781)               | (33,287)                   | (6,607,330)        |
| Other liabilities  | (1,101,641)        | (188,070)               | (23,211)                | (26,024)                   | (1,338,946)        |
| <b>Total liabilities</b>   | <b>(8,466,952)</b> | <b>(876,822)</b>        | <b>(341,670)</b>        | <b>(133,544)</b>           | <b>(9,818,988)</b> |
| <b>Net position</b>  | <b>666,194</b>     | <b>211,849</b>          | <b>(77,614)</b>         | <b>78,199</b>              | <b>878,628</b>     |
| <b>Credit related commitments and<br/>financial guarantees</b>         |                    |                         |                         |                            |                    |
|  | 1,534,447          | 106,293                 | 20,787                  | 15,185                     | 1,676,712          |

## 3.2.6 Other price risk

The Group is exposed to other price risk arising from financial assets such as equity investments and derivatives linked to commodity price. The equity investments arise from the proprietary trading of the Group's subsidiaries which hold the qualification of securities dealing and brokerage as well. As for the proprietary trading exposure, the Group enforces strict management of the risk exposure limit and the balance is insignificant to the Group's financial assets. The Group considers the exposure to the other price risk to be insignificant.

## 3.3 Liquidity risk

## 3.3.1 Overview

Liquidity risk is the risk that occurs when the Group cannot obtain sufficient funds in time and at a reasonable cost to repay debts when they are due, fulfill other payment obligations, or meet other funding needs in the normal course of business. The Group's liquidity risk mainly comes from depositors' early or centralised withdrawals, borrowers' deferred repayment of loans, the amount of assets and liabilities and maturity mismatches.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### 3.3 Liquidity risk (Continued)

#### 3.3.2 Liquidity risk management process

The Group implements centralised management of liquidity risk and, on the basis of forecasting liquidity requirements, formulates corresponding liquidity management plans and actively manages the liquidity of the Bank. The specific measures mainly include:

- Pay close attention to changes in the macroeconomic situation, central bank monetary policy, capital market dynamics, etc.
- Enhance weighting of core deposits as a percentage of liabilities, so as to improve the stability of liabilities;
- Monitor and manage liquidity position bank-wide by implementing a series of indicators and restrictions;
- Liquidity position management and cash utilisation functions are centralised by the Head offices;
- Maintain an appropriate level of central bank reserves, overnight inter-bank transactions, highly liquid debt investment, actively involve in capital management through open market, monetary market and bond market in order to ensure optimal financing capability at market places;
- Minimise liquidity risk by proper management of asset maturity structures and multi-level liquidity portfolios.

#### 3.3.3 Non-derivative financial instruments cash flows

The table below presents the structural analysis by contracted maturities on non-derivative financial assets and liabilities of the Group at the balance sheet date. The amount of financial assets and liabilities for each period is the amount of undiscounted cash flows. The Group's expected cash flows on these financial instruments may vary significantly from the following analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance although they have been classified as repayable on demand in the following tables.

|   | Overdue | Undated   | On Demand   | Up to 1 month | 1 - 3 months | 3 - 12 months | 1 - 5 years | Over 5 years | Total        |
|---|---------|-----------|-------------|---------------|--------------|---------------|-------------|--------------|--------------|
| <b>As at 31 December 2021</b>   |         |           |             |               |              |               |             |              |              |
| <b>Liabilities</b>  |         |           |             |               |              |               |             |              |              |
| Due to and placements from banks and other financial institutions           | -       | -         | (816,423)   | (339,984)     | (249,157)    | (500,344)     | (47,994)    | (8,049)      | (1,961,951)  |
| Financial liabilities at FVPL   | -       | -         | (11,631)    | (24,958)      | (1,999)      | (10,248)      | (1,287)     | -            | (50,123)     |
| Due to customers  | -       | -         | (2,917,674) | (896,297)     | (548,993)    | (1,062,886)   | (1,719,819) | (40)         | (7,145,709)  |
| Certificates of deposit issued  | -       | -         | -           | (102,215)     | (159,431)    | (627,356)     | (15,167)    | (29)         | (904,198)    |
| Debt securities issued  | -       | -         | -           | (8,495)       | (12,810)     | (125,943)     | (243,207)   | (177,668)    | (568,123)    |
| Other financial liabilities   | -       | -         | (47,545)    | (157)         | (719)        | (1,547)       | (27,187)    | (64,710)     | (141,865)    |
| <b>Total liabilities (contractual maturity dates)</b>                       | -       | -         | (3,793,273) | (1,372,106)   | (973,109)    | (2,328,324)   | (2,054,661) | (250,496)    | (10,771,969) |
| <b>Assets</b>   |         |           |             |               |              |               |             |              |              |
| Cash and balances with central banks  | -       | 630,776   | 103,648     | -             | 304          | -             | -           | -            | 734,728      |
| Due from and placements with banks and other financial institutions         | -       | -         | 88,993      | 171,571       | 89,939       | 229,521       | 47,273      | 11,908       | 639,205      |
| Financial investments at FVPL   | -       | 376,060   | 2,697       | 25,865        | 47,830       | 96,235        | 53,221      | 56,240       | 658,148      |
| Loans and advances to customers   | 50,266  | -         | -           | 526,302       | 331,408      | 1,600,584     | 1,962,475   | 4,708,281    | 9,179,316    |
| Financial investments at FVOCI  | 29      | 16,262    | -           | 17,767        | 57,326       | 129,941       | 327,239     | 205,699      | 754,263      |
| Financial investments at amortised cost                                     | 2,397   | -         | -           | 18,705        | 41,124       | 328,799       | 1,216,983   | 983,448      | 2,591,456    |
| Other financial assets  | 4,198   | -         | 63,307      | -             | -            | -             | -           | -            | 67,505       |
| <b>Assets held for managing liquidity risk (contractual maturity dates)</b> | 56,890  | 1,023,098 | 258,645     | 760,210       | 567,931      | 2,385,080     | 3,607,191   | 5,965,576    | 14,624,621   |
| <b>Net position</b>   | 56,890  | 1,023,098 | (3,534,628) | (611,896)     | (405,178)    | 56,756        | 1,552,530   | 5,715,080    | 3,852,652    |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

## 3.3 Liquidity risk (Continued)

## 3.3.3 Non-derivative financial instruments cash flows (Continued)

|   | Overdue | Undated | On Demand   | Up to 1 month | 1 – 3 months | 3 – 12 months | 1 – 5 years | Over 5 years | Total       |
|---|---------|---------|-------------|---------------|--------------|---------------|-------------|--------------|-------------|
| As at 31 December 2020  |         |         |             |               |              |               |             |              |             |
| <b>Liabilities</b>  |         |         |             |               |              |               |             |              |             |
| Due to and placements from banks and other financial institutions           | -       | -       | (664,483)   | (249,435)     | (272,305)    | (555,383)     | (51,554)    | (13,537)     | (1,806,697) |
| Financial liabilities at FVPL   | -       | -       | (7,107)     | (6,323)       | (7,692)      | (8,131)       | (137)       | -            | (29,390)    |
| Due to customers  | -       | -       | (2,826,645) | (720,090)     | (564,855)    | (961,376)     | (1,633,891) | (2)          | (6,706,859) |
| Certificates of deposit issued  | -       | -       | -           | (88,752)      | (209,113)    | (315,930)     | (27,036)    | (42)         | (640,873)   |
| Debt securities issued  | -       | -       | -           | (2,459)       | (7,700)      | (65,629)      | (327,846)   | (165,290)    | (568,924)   |
| Other financial liabilities   | -       | -       | (50,017)    | (173)         | (783)        | (1,675)       | (20,363)    | (55,710)     | (128,721)   |
| <b>Total liabilities (contractual maturity dates)</b>                       | -       | -       | (3,548,252) | (1,067,232)   | (1,062,448)  | (1,908,124)   | (2,060,827) | (234,581)    | (9,881,464) |
| <b>Assets</b>   |         |         |             |               |              |               |             |              |             |
| Cash and balances with central banks  | -       | 641,025 | 176,216     | -             | 320          | -             | -           | -            | 817,561     |
| Due from and placements with banks and other financial institutions         | -       | -       | 111,953     | 175,013       | 92,064       | 158,106       | 39,227      | 7,165        | 583,528     |
| Financial investments at FVPL   | 314     | 316,982 | 2,100       | 9,963         | 13,373       | 39,918        | 49,113      | 65,737       | 497,500     |
| Loans and advances to customers   | 44,408  | -       | -           | 503,713       | 357,214      | 1,451,002     | 1,677,966   | 4,134,699    | 8,169,002   |
| Financial investments at FVOCI  | 72      | 11,347  | -           | 29,004        | 47,520       | 136,836       | 368,919     | 204,359      | 798,057     |
| Financial investments at amortised cost                                     | 270     | -       | -           | 41,759        | 52,029       | 315,772       | 1,148,818   | 799,669      | 2,358,317   |
| Other financial assets  | 4,432   | -       | 42,005      | -             | -            | -             | -           | -            | 46,437      |
| <b>Assets held for managing liquidity risk (contractual maturity dates)</b> | 49,496  | 969,354 | 332,274     | 759,452       | 562,520      | 2,101,634     | 3,284,043   | 5,211,629    | 13,270,402  |
| <b>Net position</b>   | 49,496  | 969,354 | (3,215,978) | (307,780)     | (499,928)    | 193,510       | 1,223,216   | 4,977,048    | 3,388,938   |

Assets available to repay all of the liabilities and fulfill loan commitments include cash, balances with central banks, due from and placements with banks and other financial institutions, financial investment at fair value through profit or loss, etc. In the normal course of business, a majority of matured deposits will not be withdrew immediately on the maturity date but will continue to be kept by the Group. In addition, financial investments at fair value through other comprehensive income can also be disposed of when necessary to obtain funds for repayment of matured debts.

## 3.3.4 Derivative financial instruments cash flows

The Group's derivative financial instruments are either settled on a net basis or a gross basis.

## (a) Derivative settled on a net basis

The Group's derivative financial instruments that will be settled on a net basis include foreign exchange contracts, commodity contracts, interest rate contracts and others.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### 3.3 Liquidity risk (Continued)

#### 3.3.4 Derivative financial instruments cash flows (Continued)

##### (a) Derivative settled on a net basis (Continued)

The table below analyses the undiscounted cash flows of the Group's derivative financial instruments which will be settled on a net basis and are classified based on the remaining contractual period from the balance sheet date to maturity date.

|  | Up to 1 month | 1 – 3 months | 3 – 12 months  | 1 – 5 years    | Over 5 years | Total           |
|--|---------------|--------------|----------------|----------------|--------------|-----------------|
| <b>As at 31 December 2021</b>              |               |              |                |                |              |                 |
| <b>Assets</b>                              |               |              |                |                |              |                 |
| Derivative financial instruments           |               |              |                |                |              |                 |
| – Foreign exchange and commodity contracts | 10            | 1            | 23             | –              | –            | 34              |
| – Interest rate contracts and others       | 416           | 823          | 2,880          | 7,044          | 647          | 11,810          |
| <b>Total</b>                               | <b>426</b>    | <b>824</b>   | <b>2,903</b>   | <b>7,044</b>   | <b>647</b>   | <b>11,844</b>   |
| <b>Liabilities</b>                         |               |              |                |                |              |                 |
| Derivative financial instruments           |               |              |                |                |              |                 |
| – Foreign exchange and commodity contracts | –             | (34)         | (27)           | –              | –            | (61)            |
| – Interest rate contracts and others       | (408)         | (900)        | (3,096)        | (6,989)        | (381)        | (11,774)        |
| <b>Total</b>                               | <b>(408)</b>  | <b>(934)</b> | <b>(3,123)</b> | <b>(6,989)</b> | <b>(381)</b> | <b>(11,835)</b> |

|  | Up to 1 month | 1 – 3 months | 3 – 12 months  | 1 – 5 years     | Over 5 years   | Total           |
|--|---------------|--------------|----------------|-----------------|----------------|-----------------|
| <b>As at 31 December 2020</b>              |               |              |                |                 |                |                 |
| <b>Assets</b>                              |               |              |                |                 |                |                 |
| Derivative financial instruments           |               |              |                |                 |                |                 |
| – Foreign exchange and commodity contracts | 3             | 2            | 54             | –               | –              | 59              |
| – Interest rate contracts and others       | 215           | 590          | 2,730          | 5,990           | 247            | 9,772           |
| <b>Total</b>                               | <b>218</b>    | <b>592</b>   | <b>2,784</b>   | <b>5,990</b>    | <b>247</b>     | <b>9,831</b>    |
| <b>Liabilities</b>                         |               |              |                |                 |                |                 |
| Derivative financial instruments           |               |              |                |                 |                |                 |
| – Foreign exchange and commodity contracts | (44)          | (51)         | (29)           | –               | –              | (124)           |
| – Interest rate contracts and others       | (291)         | (751)        | (3,825)        | (10,349)        | (1,173)        | (16,389)        |
| <b>Total</b>                               | <b>(335)</b>  | <b>(802)</b> | <b>(3,854)</b> | <b>(10,349)</b> | <b>(1,173)</b> | <b>(16,513)</b> |

##### (b) Derivative settled on a gross basis

The Group's derivative financial instruments that will be settled on a gross basis mainly include foreign exchange and commodity derivatives. The table below analyses the undiscounted cash flows of the Group's derivative financial instruments which will be settled on a gross basis and are classified based on the remaining contractual period from the balance sheet date to maturity date.

|   | Up to 1 month | 1 – 3 months | 3 – 12 months | 1 – 5 years  | Over 5 years | Total        |
|---|---------------|--------------|---------------|--------------|--------------|--------------|
| <b>As at 31 December 2021</b>                             |               |              |               |              |              |              |
| Derivative financial instruments settled on a gross basis |               |              |               |              |              |              |
| – Cash outflow  | (1,094,721)   | (879,191)    | (1,402,398)   | (109,071)    | (15,480)     | (3,500,861)  |
| – Cash inflow   | 1,095,392     | 879,647      | 1,404,576     | 111,697      | 14,918       | 3,506,230    |
| <b>Total</b>  | <b>671</b>    | <b>456</b>   | <b>2,178</b>  | <b>2,626</b> | <b>(562)</b> | <b>5,369</b> |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

## 3.3 Liquidity risk (Continued)

## 3.3.4 Derivative financial instruments cash flows (Continued)

## (b) Derivative settled on a gross basis (Continued)

|   | Up to 1 month | 1 – 3 months | 3 – 12 months | 1 – 5 years | Over 5 years | Total       |
|---|---------------|--------------|---------------|-------------|--------------|-------------|
| As at 31 December 2020                      |               |              |               |             |              |             |
| Derivative financial instruments settled on |               |              |               |             |              |             |
| a gross basis                               |               |              |               |             |              |             |
| – Cash outflow                              | (775,033)     | (567,895)    | (979,175)     | (86,979)    | (5,464)      | (2,414,546) |
| – Cash inflow                               | 776,108       | 567,520      | 981,843       | 88,209      | 7,732        | 2,421,412   |
| Total                                       | 1,075         | (375)        | 2,668         | 1,230       | 2,268        | 6,866       |

## 3.3.5 Maturity analysis

The table below analyses the Group's assets and liabilities into relevant maturity groupings based on the remaining period at the end of reporting date to the contractual maturity date.

|   | On demand          | Up to 1 month      | 1 – 3 months     | 3 – 12 months      | 1 – 5 years        | Over 5 years     | Overdue       | Undated          | Total               |
|---|--------------------|--------------------|------------------|--------------------|--------------------|------------------|---------------|------------------|---------------------|
| As at 31 December 2021  |                    |                    |                  |                    |                    |                  |               |                  |                     |
| <b>Assets</b>   |                    |                    |                  |                    |                    |                  |               |                  |                     |
| Cash and balances with central banks                                | 103,648            | –                  | 304              | –                  | –                  | –                | –             | 630,776          | 734,728             |
| Due from and placements with banks and other financial institutions | 88,993             | 171,428            | 89,547           | 225,329            | 45,687             | 11,724           | –             | –                | 632,708             |
| Derivative financial assets   | –                  | 6,099              | 7,172            | 13,032             | 11,052             | 1,865            | –             | –                | 39,220              |
| Financial investments at FVPL                                       | 2,697              | 25,684             | 47,293           | 92,313             | 43,656             | 50,780           | –             | 376,060          | 638,483             |
| Loans and advances to customers                                     | –                  | 504,850            | 289,612          | 1,435,771          | 1,309,429          | 2,837,626        | 34,913        | –                | 6,412,201           |
| Financial investments at FVOCI                                      | –                  | 17,504             | 56,506           | 120,183            | 289,879            | 181,366          | 29            | 16,262           | 681,729             |
| Financial investments at amortised cost                             | –                  | 18,227             | 37,752           | 284,065            | 1,014,207          | 846,389          | 2,397         | –                | 2,203,037           |
| Other assets  | 93,428             | 150                | 18               | 505                | 35,656             | 2,509            | 4,198         | 187,187          | 323,651             |
| <b>Total assets</b>   | <b>288,766</b>     | <b>743,942</b>     | <b>528,204</b>   | <b>2,171,198</b>   | <b>2,749,566</b>   | <b>3,932,259</b> | <b>41,537</b> | <b>1,210,285</b> | <b>11,665,757</b>   |
| <b>Liabilities</b>  |                    |                    |                  |                    |                    |                  |               |                  |                     |
| Due to and placements from banks and other financial institutions   | (816,423)          | (339,771)          | (247,890)        | (491,785)          | (44,522)           | (7,377)          | –             | –                | (1,947,768)         |
| Financial liabilities at FVPL                                       | (11,631)           | (24,954)           | (1,995)          | (10,202)           | (1,266)            | –                | –             | –                | (50,048)            |
| Derivative financial liabilities                                    | –                  | (5,493)            | (6,739)          | (11,698)           | (10,266)           | (1,878)          | –             | –                | (36,074)            |
| Due to customers  | (2,917,672)        | (892,406)          | (544,620)        | (1,043,211)        | (1,641,829)        | (39)             | –             | –                | (7,039,777)         |
| Other liabilities   | (59,181)           | (113,511)          | (198,029)        | (739,771)          | (285,206)          | (219,156)        | –             | –                | (1,614,854)         |
| <b>Total liabilities</b>  | <b>(3,804,907)</b> | <b>(1,376,135)</b> | <b>(999,273)</b> | <b>(2,296,667)</b> | <b>(1,983,089)</b> | <b>(228,450)</b> | <b>–</b>      | <b>–</b>         | <b>(10,688,521)</b> |
| Net amount on liquidity gap   | (3,516,141)        | (632,193)          | (471,069)        | (125,469)          | 766,477            | 3,703,809        | 41,537        | 1,210,285        | 977,236             |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### 3.3 Liquidity risk (Continued)

#### 3.3.5 Maturity analysis (Continued)

|   | On demand          | Up to 1 month      | 1 – 3 months       | 3 – 12 months      | 1 – 5 years        | Over 5 years     | Overdue       | Undated          | Total              |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|------------------|---------------|------------------|--------------------|
| As at 31 December 2020  |                    |                    |                    |                    |                    |                  |               |                  |                    |
| <b>Assets</b>   |                    |                    |                    |                    |                    |                  |               |                  |                    |
| Cash and balances with central banks                                | 176,216            | –                  | 320                | –                  | –                  | –                | –             | 641,025          | 817,561            |
| Due from and placements with banks and other financial institutions | 111,953            | 174,623            | 91,078             | 153,121            | 33,242             | 7,113            | –             | –                | 571,130            |
| Derivative financial assets   | –                  | 9,718              | 11,570             | 22,283             | 9,068              | 1,573            | –             | –                | 54,212             |
| Financial investments at FVPL                                       | 2,100              | 9,722              | 12,857             | 37,651             | 44,167             | 58,795           | 314           | 316,982          | 482,588            |
| Loans and advances to customers                                     | –                  | 484,371            | 319,698            | 1,305,770          | 1,103,053          | 2,476,035        | 31,641        | –                | 5,720,568          |
| Financial investments at FVOCI                                      | –                  | 28,930             | 46,507             | 126,501            | 339,517            | 182,346          | 72            | 11,347           | 735,220            |
| Financial investments at amortised cost                             | –                  | 41,210             | 49,086             | 278,043            | 972,565            | 678,355          | 270           | –                | 2,019,529          |
| Other assets  | 61,973             | 286                | 19                 | 15,410             | 16,448             | 4,047            | 4,432         | 194,193          | 296,808            |
| <b>Total assets</b>   | <b>352,242</b>     | <b>748,860</b>     | <b>531,135</b>     | <b>1,938,779</b>   | <b>2,518,060</b>   | <b>3,408,264</b> | <b>36,729</b> | <b>1,163,547</b> | <b>10,697,616</b>  |
| <b>Liabilities</b>  |                    |                    |                    |                    |                    |                  |               |                  |                    |
| Due to and placements from banks and other financial institutions   | (664,483)          | (247,467)          | (268,704)          | (544,824)          | (48,745)           | (13,268)         | –             | –                | (1,787,491)        |
| Financial liabilities at FVPL                                       | (7,107)            | (6,291)            | (7,636)            | (8,111)            | (134)              | –                | –             | –                | (29,279)           |
| Derivative financial liabilities                                    | –                  | (8,357)            | (10,798)           | (20,858)           | (12,210)           | (3,719)          | –             | –                | (55,942)           |
| Due to customers  | (2,826,643)        | (716,981)          | (560,281)          | (942,581)          | (1,560,842)        | (2)              | –             | –                | (6,607,330)        |
| Other liabilities   | (68,467)           | (94,306)           | (235,723)          | (374,652)          | (367,189)          | (198,609)        | –             | –                | (1,338,946)        |
| <b>Total liabilities</b>  | <b>(3,566,700)</b> | <b>(1,073,402)</b> | <b>(1,083,142)</b> | <b>(1,891,026)</b> | <b>(1,989,120)</b> | <b>(215,598)</b> | <b>–</b>      | <b>–</b>         | <b>(9,818,988)</b> |
| <b>Net amount on liquidity gap</b>                                  | <b>(3,214,458)</b> | <b>(324,542)</b>   | <b>(552,007)</b>   | <b>47,753</b>      | <b>528,940</b>     | <b>3,192,666</b> | <b>36,729</b> | <b>1,163,547</b> | <b>878,628</b>     |

#### 3.3.6 Off-balance sheet items

The off-balance sheet items of the Group primarily comprise loan commitments, credit card commitments, letter of credit commitments, guarantee and letters of guarantee issued, acceptance notes, etc. The table below lists the liquidity analysis of the off-balance sheet items of the Group, and financial guarantees are included at notional amounts and based on the earliest contractual maturity date.

|   | Up to 1 year     | 1 – 5 years    | Over 5 years  | Total            |
|---|------------------|----------------|---------------|------------------|
| <b>As at 31 December 2021</b>                         |                  |                |               |                  |
| Loan commitments and other credit related commitments | <b>924,244</b>   | <b>30,785</b>  | <b>14,922</b> | <b>969,951</b>   |
| Guarantees, acceptances and letters of credit         | <b>796,027</b>   | <b>138,818</b> | <b>1,629</b>  | <b>936,474</b>   |
| <b>Total</b>  | <b>1,720,271</b> | <b>169,603</b> | <b>16,551</b> | <b>1,906,425</b> |
| <b>As at 31 December 2020</b>                         |                  |                |               |                  |
| Loan commitments and other credit related commitments | 813,687          | 26,668         | 20,520        | 860,875          |
| Guarantees, acceptances and letters of credit         | 682,540          | 126,206        | 7,091         | 815,837          |
| <b>Total</b>  | <b>1,496,227</b> | <b>152,874</b> | <b>27,611</b> | <b>1,676,712</b> |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

### 3 FINANCIAL RISK MANAGEMENT *(Continued)*

#### 3.4 Fair value of financial assets and liabilities

##### *(a) Determination of fair value and valuation techniques*

Certain financial assets and liabilities of the Group are measured at fair value or with fair value disclosed for financial reporting purposes. The fair value has been determined using appropriate valuation techniques and inputs for fair value measurements. The appropriateness of the valuation techniques and the inputs to the fair value measurements are reviewed by the Board of Directors periodically.

Fair value measurements are categorised into level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- (1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- (2) Level 2 inputs are inputs, other than quoted prices included within level 1, that are observable for the asset or liability, either directly or indirectly; and
- (3) Level 3 inputs are unobservable inputs for the asset or liability.

The fair value of financial instruments with unadjusted quoted prices for identical instruments in active markets is determined by the open market quotations. These instruments are classified as level 1.

The Group uses valuation techniques to determine the fair value of financial instruments when an open market quotation in active markets is not obtainable.

If the key parameters used in valuation techniques for financial instruments are substantially observable and obtainable from active open market, the instruments are classified as level 2. The second hierarchy of financial instruments held by the Group mainly includes derivatives, debt securities, certificates of deposit without quotations from active market, loans and advances to customers carried at FVOCI, precious metals, debt securities issued and restricted shares. The fair value of RMB denominated bonds is mainly valued based on the yield curves of the bonds from China Central Depository & Clearing Co., Ltd., while the fair value of the foreign currency denominated bonds is determined based on the valuation results published by Bloomberg. The fair value of foreign currency forwards, swaps, interest rate swaps, foreign currency options is estimated by the discounted cash flow method and Black-Scholes model; the fair value of precious metal contract is mainly determined in accordance with the closing prices of the Shanghai Gold Exchange or the settlement prices of the Shanghai Futures Exchange. The main parameters used in discounted cash flow model include recent market prices, the relevant yield curve, exchange rates and counterparty's credit spread. Main parameters used in Black-Scholes model include the relevant yield curve, exchange rate, level of volatilities and counterparty's credit spread, etc. All parameters used in valuation techniques are substantially observable and obtainable from active open market.

For loans and advances to customers at fair value through other comprehensive income, trust and asset management plan at fair value through profit or loss, the fair value is determined based on discounted cash flow model using unobservable discount rates that reflect credit risk. These financial instruments are classified as level 3.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### 3.4 Fair value of financial assets and liabilities (Continued)

#### (a) Determination of fair value and valuation techniques (Continued)

For convertible bonds, unlisted equities, unlisted funds and equity derivatives held by the Group, the fair value of these financial instruments are determined with reference to certain unobservable inputs, and therefore the instruments have been classified by the Group as level 3. The management determines the fair value of these financial instruments using a variety of techniques, including using valuation models that incorporate and take into account unobservable inputs such as Discount for Lack of Marketability (DLOM). The Group has established internal control procedures to monitor the Group's exposure to such financial instruments.

#### (b) Financial instruments not measured at fair value

The table below summarises the carrying amount and fair value of those financial assets and liabilities that are not presented at fair value as at the date of statement of financial position. Financial assets and liabilities with carrying amount approximate to fair value, such as cash and balances with central banks, due from and placements with banks and other financial institutions, loans and advances to customers at amortised cost, due to and placements from banks and other financial institutions, and due to customers, are not included in the table below.

|   | As at 31 December 2021 |            | As at 31 December 2020 |            |
|---|------------------------|------------|------------------------|------------|
|   | Carrying amount        | Fair value | Carrying amount        | Fair value |
| <b>Financial assets</b>                 |                        |            |                        |            |
| Financial investments at amortised cost | 2,203,037              | 2,234,814  | 2,019,529              | 2,031,222  |
| <b>Financial liabilities</b>            |                        |            |                        |            |
| Debt securities issued                  | (491,372)              | (496,082)  | (484,382)              | (485,175)  |

#### Fair value hierarchy of financial instruments not measured at fair value

| As at 31 December 2021                  | Level 1        | Level 2        | Level 3        | Total        |
|---|----------------|----------------|----------------|--------------|
| <b>Financial assets</b>                 |                |                |                |              |
| Financial investments at amortised cost | 7,757          | 2,138,742      | 88,315         | 2,234,814    |
| <b>Financial liabilities</b>            |                |                |                |              |
| Debt securities issued                  | –              | (496,082)      | –              | (496,082)    |
| <b>As at 31 December 2020</b>           | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b> |
| <b>Financial assets</b>                 |                |                |                |              |
| Financial investments at amortised cost | 2,530          | 1,920,866      | 107,826        | 2,031,222    |
| <b>Financial liabilities</b>            |                |                |                |              |
| Debt securities issued                  | –              | (485,175)      | –              | (485,175)    |

The carrying amounts and fair values of other financial assets and liabilities (including loans and advances to customers at amortised cost, due from and placements with banks and other financial institutions, due to and placements from banks and other financial institutions) are approximately the same, because the interest rates of most of these assets and liabilities are adjusted following the changes in interest rates determined by the PBOC, other regulatory bodies or market.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

## 3.4 Fair value of financial assets and liabilities (Continued)

(c) Financial assets and financial liabilities measured at fair value on a recurring basis

The financial assets and liabilities measured at fair value on a recurring basis by the three levels are analysed below:

| As at 31 December 2021                                      | Level 1 | Level 2   | Level 3 | Total     |
|---|---------|-----------|---------|-----------|
| <b>At fair value through profit or loss</b>                 |         |           |         |           |
| Debt securities   |         |           |         |           |
| – Governments and central banks                             | 2,719   | 96,360    | –       | 99,079    |
| – Public sector entities                                    | –       | 1,302     | –       | 1,302     |
| – Banks and other financial institutions                    | 7,272   | 93,464    | 162     | 100,898   |
| – Corporate entities  | 3,317   | 40,347    | 2,991   | 46,655    |
| Fund investments and other asset management products        | 685     | 287,847   | 16,644  | 305,176   |
| Equity securities and others                                | 7,826   | 5,081     | 50,542  | 63,449    |
| Precious metal contracts                                    | –       | 21,924    | –       | 21,924    |
| Derivative financial instruments                            |         |           |         |           |
| – Foreign exchange and commodity contracts                  | –       | 27,196    | –       | 27,196    |
| – Interest rate contracts and others                        | –       | 10,987    | 1,037   | 12,024    |
| Loans and advances to customers                             | –       | 27        | –       | 27        |
|   | 21,819  | 584,535   | 71,376  | 677,730   |
| <b>At fair value through other comprehensive income</b>     |         |           |         |           |
| Debt Investments at FVOCI                                   |         |           |         |           |
| – Governments and central banks                             | 50,353  | 254,012   | –       | 304,365   |
| – Public sector entities                                    | 1,422   | 3,148     | –       | 4,570     |
| – Banks and other financial institutions                    | 114,620 | 139,981   | –       | 254,601   |
| – Corporate entities  | 72,810  | 28,825    | 296     | 101,931   |
| Investments in equity instruments designated at FVOCI       | 7,357   | 1,636     | 7,269   | 16,262    |
| Loans and advances to customers at FVOCI                    | –       | 184,696   | 10      | 184,706   |
|   | 246,562 | 612,298   | 7,575   | 866,435   |
| <b>Total assets</b>   | 268,381 | 1,196,833 | 78,951  | 1,544,165 |
| Financial liabilities at FVPL                               |         |           |         |           |
| – Certificates of deposits issued                           | –       | (1,400)   | –       | (1,400)   |
| – Financial liabilities related to precious metal contracts | –       | (15,247)  | –       | (15,247)  |
| – Short position of securities held for trading             | –       | (134)     | –       | (134)     |
| – Notes issued  | –       | (1,385)   | –       | (1,385)   |
| – Others  | –       | (31,882)  | –       | (31,882)  |
| Derivative financial instruments                            |         |           |         |           |
| – Foreign exchange and commodity contracts                  | –       | (24,898)  | –       | (24,898)  |
| – Interest rate contracts and others                        | –       | (11,176)  | –       | (11,176)  |
| Debt securities issued                                      | –       | (12,153)  | –       | (12,153)  |
| <b>Total liabilities</b>                                    | –       | (98,275)  | –       | (98,275)  |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### 3.4 Fair value of financial assets and liabilities (Continued)

#### (c) Financial assets and financial liabilities measured at fair value on a recurring basis (Continued)

| As at 31 December 2020                                      | Level 1 | Level 2   | Level 3 | Total     |
|---|---------|-----------|---------|-----------|
| <b>At fair value through profit or loss</b>                 |         |           |         |           |
| Debt securities   |         |           |         |           |
| – Governments and central banks                             | 3,191   | 3,343     | –       | 6,534     |
| – Public sector entities                                    | –       | 1,585     | –       | 1,585     |
| – Banks and other financial institutions                    | 7,673   | 91,904    | 94      | 99,671    |
| – Corporate entities  | 2,312   | 39,642    | 3,290   | 45,244    |
| Fund investments and other asset management products        | 370     | 238,963   | 12,765  | 252,098   |
| Equity securities and others                                | 6,270   | 3,233     | 47,978  | 57,481    |
| Precious metal contracts                                    | –       | 19,975    | –       | 19,975    |
| Derivative financial instruments                            |         |           |         |           |
| – Foreign exchange and commodity contracts                  | –       | 44,435    | –       | 44,435    |
| – Interest rate contracts and others                        | –       | 8,880     | 897     | 9,777     |
|   | 19,816  | 451,960   | 65,024  | 536,800   |
| <b>At fair value through other comprehensive income</b>     |         |           |         |           |
| Debt Investments at FVOCI                                   |         |           |         |           |
| – Governments and central banks                             | 72,209  | 268,514   | –       | 340,723   |
| – Public sector entities                                    | 1,273   | 2,103     | –       | 3,376     |
| – Banks and other financial institutions                    | 123,223 | 181,467   | –       | 304,690   |
| – Corporate entities  | 49,033  | 25,687    | 364     | 75,084    |
| Investments in equity instruments designated at FVOCI       | 1,798   | 1,842     | 7,707   | 11,347    |
| Loans and advances to customers at FVOCI                    | –       | 210,397   | 95      | 210,492   |
|   | 247,536 | 690,010   | 8,166   | 945,712   |
| <b>Total assets</b>   | 267,352 | 1,141,970 | 73,190  | 1,482,512 |
| Financial liabilities at FVPL                               |         |           |         |           |
| – Certificates of deposits issued                           | –       | (7,868)   | –       | (7,868)   |
| – Financial liabilities related to precious metal contracts | –       | (16,104)  | –       | (16,104)  |
| – Notes issued  | –       | (417)     | –       | (417)     |
| – Others  | –       | (4,890)   | –       | (4,890)   |
| Derivative financial instruments                            |         |           |         |           |
| – Foreign exchange and commodity contracts                  | –       | (40,914)  | –       | (40,914)  |
| – Interest rate contracts and others                        | –       | (15,028)  | –       | (15,028)  |
| Debt securities issued                                      | –       | (13,373)  | –       | (13,373)  |
| <b>Total liabilities</b>                                    | –       | (98,594)  | –       | (98,594)  |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

## 3.4 Fair value of financial assets and liabilities (Continued)

## Reconciliation of Level 3 items

|  | Financial assets at<br>FVPL | Financial assets at<br>FVOCI |
|--|-----------------------------|------------------------------|
| Balance at 1 January 2021  | 65,024                      | 8,166                        |
| Total gains or losses  |                             |                              |
| – Net gains/(losses) arising from trading activities   | 4,951                       | 48                           |
| – Other comprehensive income   | –                           | (1,233)                      |
| Additions  | 10,723                      | 975                          |
| Disposals and settlement   | (9,286)                     | (381)                        |
| Transfer to other levels   | (36)                        | –                            |
| Balance at 31 December 2021  | 71,376                      | 7,575                        |
| Total gains/(losses) generated by financial assets and liabilities held by the Group as at<br>31 December 2021 |                             |                              |
| – Realised gains   | 1,998                       | 46                           |
| – Unrealised losses  | 2,000                       | (1,231)                      |

|  | Financial assets at<br>FVPL | Financial assets at<br>FVOCI |
|--|-----------------------------|------------------------------|
| Balance at 1 January 2020  | 63,696                      | 7,520                        |
| Total gains or losses  |                             |                              |
| – Net gains/(losses) arising from trading activities   | 1,291                       | (40)                         |
| – Other comprehensive income   | –                           | (1,696)                      |
| Additions  | 11,587                      | 2,932                        |
| Disposals and settlement   | (11,550)                    | (550)                        |
| Balance at 31 December 2020  | 65,024                      | 8,166                        |
| Total gains/(losses) generated by financial assets and liabilities held by the Group as at<br>31 December 2020 |                             |                              |
| – Realised gains   | 2,218                       | 2                            |
| – Unrealised losses  | (975)                       | (1,738)                      |

These financial instruments with fair values determined based on unobservable inputs are primarily convertible bonds, unlisted equities, unlisted funds, part of the trust and asset management plan, equity derivatives and part of loans and advances to customers. The fair value of these financial instruments is determined primarily using discounted cash flow method and market comparison method. These valuation methods involve inputs from various unobservable assumptions such as cash flow, risk-adjusted discount rate, price to book value ratio, price to earnings ratio and liquidity discounts.

## 3.5 Offsetting financial assets and financial liabilities

Certain financial assets and financial liabilities of the Group are subject to enforceable master netting arrangements or similar agreements. The agreement between the Group and the counterparty generally allows for net settlement of the relevant financial assets and financial liabilities when both elect to settle on a net basis. In the absence of such a mutual consent, financial assets and financial liabilities will be settled on a gross basis. However, each party to the master netting arrangements or similar agreements will have the option to settle all such amounts on a net basis in the event of default of the other party. These financial assets and financial liabilities of the Group are not offset in accordance with IFRSs.

As at 31 December 2021, the amount of the financial assets and financial liabilities subject to enforceable master netting arrangements or similar agreements is not material to the Group.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

### 3 FINANCIAL RISK MANAGEMENT (Continued)

#### 3.6 Capital management

The “capital” in capital management is a broader concept than “shareholders’ equity” on the statement of financial position. The Group’s objectives in capital management are:

- To comply with the capital requirements set by the regulators of the markets where the Group operates;
- To ensure the Group’s ability to maintain a stable operation so as to continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

The Group management adopts administrative measures issued by the CBIRC, which was developed based on guideline issued by the Basel Committee, in monitoring its capital adequacy ratio and the usage of regulatory capital on a quarterly basis. The quarterly monitored information is then submitted to CBIRC.

The *Administrative Measures for the Capital of Commercial Banks (Provisional)* specified the regulatory requirements for minimum capital, capital conservation buffer, additional capital surcharge for systemically important banks, countercyclical buffer and Pillar II capital as follows:

- Minimum regulatory requirements for core tier-1 capital adequacy ratio, tier-1 capital adequacy ratio and capital adequacy ratio are 5%, 6% and 8%, respectively;
- Capital conservation buffer requires additional 2.5% on core tier-1 capital adequacy ratio;
- Additional capital surcharge for systemically important banks requires additional 0.75% on core tier-1 capital adequacy ratio;
- Should the regulators require countercyclical buffer under particular circumstances or regulators impose additional Pillar II capital requirements for specific banks, these requirements shall be met within the specified time limits.

The Group’s capital as monitored by its Planning and Finance Department consists of the following:

- Core tier-1 capital, including ordinary shares, eligible portion of capital surplus, statutory reserve, statutory general reserve, retained earnings, eligible portion of non-controlling interests and translation reserve on foreign operations;
- Additional tier-1 capital, including Additional tier-1 capital instruments issued and related premium and eligible portion of non-controlling interests;
- Tier-2 capital, including tier-2 capital instruments issued and related premium, excess loan loss provisions and eligible portion of non-controlling interests.

The Group’s deductible items from core tier-1 capital include: Goodwill, other intangible assets (except land use rights), investments in core tier-1 capital of financial institutions with controlling interests but outside the scope of regulatory consolidation.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

## 3.6 Capital management (Continued)

In April 2014, the CBIRC officially approved the implementation of the advanced approach of capital management adopted by the Group. In this approach, the Group elected to use elementary internal rating based (“IRB”) approach for corporate risk exposure, IRB approach for retail risk exposure, internal model approach for market risk and standardised approach for operational risk exposure which is compliant with regulatory requirements. For risk exposures not covered by the advanced approaches, the corresponding portion shall be calculated by adopting non-advanced approaches. The capital ratios calculated based on *Administrative Measures for the Capital of Commercial Banks (Provisional)* are as follows:

| Item                                   | As at<br>31 December 2021 | As at<br>31 December 2020 |
|--|---------------------------|---------------------------|
| Core tier-1 capital adequacy ratio (%) | 10.62                     | 10.87                     |
| Tier-1 capital adequacy ratio (%)      | 13.01                     | 12.88                     |
| Capital adequacy ratio (%)             | 15.45                     | 15.25                     |
| Core tier-1 capital                    | 789,887                   | 732,863                   |
| Core tier-1 capital deductions         | (6,010)                   | (5,252)                   |
| Net core tier-1 capital                | 783,877                   | 727,611                   |
| Additional tier-1 capital              | 176,348                   | 134,610                   |
| Net tier-1 capital                     | 960,225                   | 862,221                   |
| Tier-2 capital                         | 179,732                   | 159,025                   |
| Net capital                            | 1,139,957                 | 1,021,246                 |
| Risk-weighted assets                   | 7,379,912                 | 6,695,462                 |

## 4 NET INTEREST INCOME

|   | Year ended 31 December |           |
|---|------------------------|-----------|
|   | 2021                   | 2020      |
| Interest income   |                        |           |
| Loans and advances to customers                                     | 266,419                | 251,468   |
| Financial investments   | 88,262                 | 90,683    |
| Due from and placements with banks and other financial institutions | 12,266                 | 16,180    |
| Balances with central banks   | 10,699                 | 10,770    |
|   | 377,646                | 369,101   |
| Interest expense  |                        |           |
| Due to customers  | (140,982)              | (139,142) |
| Due to and placements from banks and other financial institutions   | (38,581)               | (46,653)  |
| Certificates of deposit issued                                      | (20,049)               | (15,404)  |
| Debt securities issued  | (16,341)               | (14,566)  |
|   | (215,953)              | (215,765) |
| Net interest income   | 161,693                | 153,336   |
| Including:  |                        |           |
| Interest income on impaired financial assets                        | 1,251                  | 1,369     |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

### 5 FEE AND COMMISSION INCOME

|                                      | Year ended 31 December |        |
|--------------------------------------|------------------------|--------|
|                                      | 2021                   | 2020   |
| Bank cards                           | 20,136                 | 20,107 |
| Wealth management business           | 11,775                 | 9,856  |
| Custody and other fiduciary business | 7,484                  | 7,033  |
| Agency services                      | 5,664                  | 4,200  |
| Investment banking                   | 3,120                  | 3,706  |
| Guarantee and commitment             | 2,527                  | 2,617  |
| Settlement services                  | 1,296                  | 1,531  |
| Others                               | 283                    | 248    |
|                                      | 52,285                 | 49,298 |

|  | Year ended 31 December |       |
|--|------------------------|-------|
|  | 2021                   | 2020  |
| Fee income, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading or designated at FVPL | 1,576                  | 1,342 |
| Fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers   | 3,758                  | 3,458 |

### 6 FEE AND COMMISSION EXPENSE

|                                | Year ended 31 December |       |
|--------------------------------|------------------------|-------|
|                                | 2021                   | 2020  |
| Bank card business             | 2,560                  | 2,473 |
| Settlement and agency services | 1,744                  | 1,321 |
| Others                         | 408                    | 418   |
|                                | 4,712                  | 4,212 |

|   | Year ended 31 December |      |
|---|------------------------|------|
|   | 2021                   | 2020 |
| Fee expense, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading or designated at FVPL | –                      | –    |

### 7 NET GAINS ARISING FROM TRADING ACTIVITIES

|                                      | Year ended 31 December |         |
|--------------------------------------|------------------------|---------|
|                                      | 2021                   | 2020    |
| Financial instruments at FVPL        | 20,621                 | 14,277  |
| Foreign exchange                     | 2,539                  | 1,100   |
| Interest rate instruments and others | 184                    | (1,533) |
|                                      | 23,344                 | 13,844  |

Net gains or losses on foreign exchange include trading gains or losses and fair value changes of derivative instruments such as spot and forward contracts, currency swaps, cross currency interest rate swaps, currency options and the translation of foreign currency monetary assets and liabilities into RMB.

Net gains or losses on interest rate instruments and others include trading gains or losses and fair value changes of interest rate swaps, interest rate options, commodity and other derivatives.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

7 NET GAINS ARISING FROM TRADING ACTIVITIES *(Continued)*

Net gains arising from trading activities for the year ended 31 December 2021 included a gain of RMB227 million (for the year ended 31 December 2020: a loss of RMB184 million) in relation to changes in the fair value of financial liabilities designated at fair value through profit or loss.

## 8 INSURANCE BUSINESS INCOME

|                      | Year ended 31 December |        |
|----------------------|------------------------|--------|
|                      | 2021                   | 2020   |
| Premiums earned      | 17,141                 | 15,731 |
| Less: Premiums ceded | (626)                  | (561)  |
|                      | 16,515                 | 15,170 |

## 9 OTHER OPERATING INCOME

|   | Year ended 31 December |        |
|---|------------------------|--------|
|   | 2021                   | 2020   |
| Leasing income  | 13,843                 | 13,436 |
| Income from sales of precious metal merchandise         | 2,020                  | 1,848  |
| Revaluation of investment properties                    | 183                    | 180    |
| Net gain on the disposal of fixed and foreclosed assets | 454                    | 166    |
| Other miscellaneous income                              | 2,535                  | 2,259  |
|   | 19,035                 | 17,889 |

Other miscellaneous income mainly includes income arising from miscellaneous banking services provided to the Group's customers.

## 10 CREDIT IMPAIRMENT LOSSES

|   | Year ended 31 December |        |
|---|------------------------|--------|
|   | 2021                   | 2020   |
| Due from and placements with banks and other financial institutions | 1,085                  | 225    |
| Loans and advances to customers at amortised cost                   | 63,339                 | 55,303 |
| Loans and advances to customers at FVOCI                            | 158                    | (12)   |
| Credit related commitments and financial guarantees                 | 1,998                  | 4,874  |
| Financial investments at amortised cost                             | (124)                  | (129)  |
| Debt investments at FVOCI   | (87)                   | 316    |
| Others  | 2                      | 1,482  |
|   | 66,371                 | 62,059 |

## 11 OTHER ASSETS IMPAIRMENT LOSSES

|   | Year ended 31 December |      |
|---|------------------------|------|
|   | 2021                   | 2020 |
| Impairment losses on operating lease assets | 1,981                  | 485  |
| Impairment losses on precious metal         | 55                     | –    |
| Impairment losses on foreclosed assets      | 284                    | (1)  |
|   | 2,320                  | 484  |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

### 12 INSURANCE BUSINESS EXPENSE

|  | Year ended 31 December |        |
|--|------------------------|--------|
|  | 2021                   | 2020   |
| Change in insurance reserves                                 | 15,643                 | 13,282 |
| Less: Change in insurance reserves recovered from reinsurers | 958                    | (401)  |
| Surrenders   | 1,084                  | 2,288  |
| Others   | (631)                  | 560    |
|  | 17,054                 | 15,729 |

### 13 OTHER OPERATING EXPENSES

|  | Year ended 31 December |        |
|--|------------------------|--------|
|  | 2021                   | 2020   |
| Staff costs and benefits (Note 14)               | 36,825                 | 32,749 |
| General operating and administrative expenses    | 29,621                 | 25,367 |
| Depreciation and amortisation                    | 8,099                  | 7,888  |
| Costs of operating lease business                | 9,108                  | 9,518  |
| Tax and surcharges                               | 3,001                  | 2,823  |
| (Reversal)/provision for outstanding litigations | (199)                  | 32     |
| Others   | 3,589                  | 3,650  |
|  | 90,044                 | 82,027 |

Since the presentation of “Staff costs and benefits” and “General operating and administrative expenses” has been changed, we have restated the comparative information of the year before

### 14 STAFF COSTS AND BENEFITS

|   | Year ended 31 December |        |
|---|------------------------|--------|
|   | 2021                   | 2020   |
| Salaries, bonuses, allowances and subsidies | 25,383                 | 22,920 |
| Post-employment benefit (a)                 | 4,093                  | 3,062  |
| Other social security and benefit costs     | 7,349                  | 6,767  |
|   | 36,825                 | 32,749 |

#### (a) Post-employment benefit

##### **Defined contribution plans**

The Group participates in various defined contribution retirement benefit plans organised by municipal and provincial governments in Mainland China, under which it is required to make monthly contributions to these plans at rates ranging from 10% to 27% of the employees' basic salary for the year. The Group's contributions to these pension plans are charged to profit or loss and other comprehensive income in the year to which they relate.

Employees who retire at or after 1 January 2009 can voluntarily participate in an Annuity Plan. The Bank contributes to the Annuity Plan based on certain percentage of the employees' gross salary which is recognised in profit or loss as incurred.

As at 31 December 2021, there are no forfeited contributions under the Group's retirement benefit plans which can be used to deduct contributions payable for future years.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 14 STAFF COSTS AND BENEFITS (Continued)

## (a) Post-employment benefit (Continued)

**Defined contribution plans** (Continued)

The amount recognised in profit or loss is as follows:

|   | Year ended 31 December |       |
|---|------------------------|-------|
|   | 2021                   | 2020  |
| Expenses incurred for retirement benefit plans and unemployment insurance | 2,494                  | 1,577 |
| Expenses incurred for annuity plan  | 1,575                  | 1,468 |
| Total   | 4,069                  | 3,045 |

The amount payable at the end of the year is as follows:

|   | As at<br>31 December 2021 | As at<br>31 December 2020 |
|---|---------------------------|---------------------------|
|   |                           |                           |
| Expenses incurred for retirement benefit plans and unemployment insurance | 105                       | 69                        |
| Expenses incurred for annuity plan  | 50                        | 73                        |
| Total   | 155                       | 142                       |

**Defined benefit plans**

The Group pays supplementary retirement benefits to employees in Mainland China, who retired at or before 31 December 2008. The Group's obligations in respect of supplementary retirement benefits are calculated by estimating the amount of future benefits that the Group is committed to pay to the employees after their retirement using actuarial techniques. Such benefits, which are estimated by using key parameters such as inflation rate and mortality ratio, are discounted to their present values. The discount rate is the yield on government bonds at the end of reporting date, the maturity dates of which approximate to the terms of the Group's obligations. Actuarial gains or losses and changes in actuarial assumptions are recognised in other comprehensive income, and amendments to pension plan are recognised in profit or loss in the period of a plan amendment. The amounts recognised in the statement of financial position represent the present value of unfunded obligations.

The Group's retirement benefit obligations in locations other than Mainland China are immaterial and are made in accordance with the relevant local policies and regulations.

|                                    | As at<br>31 December 2021 | As at<br>31 December 2020 |
|------------------------------------|---------------------------|---------------------------|
|                                    |                           |                           |
| Statement of financial position    |                           |                           |
| – Obligations for pension benefits | 385                       | 467                       |

Amounts recognised in comprehensive income in respect of the supplementary retirement benefits are as follows:

|  | Year ended 31 December |      |
|--|------------------------|------|
|  | 2021                   | 2020 |
| Components of defined benefit costs recognised in profit or loss             | 24                     | 17   |
| Components of defined benefit costs recognised in other comprehensive income | (55)                   | 132  |
| Total  | (31)                   | 149  |

Past service cost and interest expense are recognised in other operating expenses in the income statement.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

## 14 STAFF COSTS AND BENEFITS (Continued)

### (a) Post-employment benefit (Continued)

#### Defined benefit plans (Continued)

Movements in the unfunded obligations over the year are as follows:

|  | Year ended 31 December |      |
|--|------------------------|------|
|  | 2021                   | 2020 |
| Present value of unfunded obligations at the beginning of the year | 467                    | 399  |
| Retirement benefits paid during the year                           | (51)                   | (81) |
| Interest expense   | 21                     | 14   |
| Past service cost  | 3                      | 3    |
| Net actuarial losses recognised in the current year                | (55)                   | 132  |
| Present value of unfunded obligations at the end of the year       | 385                    | 467  |

The average duration of the supplementary retirement benefits plan at 31 December 2021 is 12.31 years (31 December 2020: 13.20 years).

The Group expects to make a contribution of RMB39 million (2020: RMB40 million) to the defined benefit plan during the next financial year.

The supplementary retirement benefits plan exposes the Group to actuarial risks such as interest risk, longevity risk and inflation risk. A decrease in the government bond yield will increase the present value of unfunded obligations. The present value of unfunded obligations is calculated by reference to the best estimate of the mortality of plan participants. An increase in the life expectancy of the plan participants will increase the plan's liability. The present value of unfunded obligations is also measured by future payment standards, which are determined by inflation rate. Hence, an increase in inflation rate will increase the present value of the unfunded obligations.

The principal actuarial assumptions regarding interest risk and inflation risk used by the Group are discount rate and inflation rate, which were 3.07% (31 December 2020: 3.51%) and 0.81% (31 December 2020: 2.87%) respectively as at 31 December 2021. In the meantime, assumptions regarding future mortality rate are set based on published statistics by the CBIRC. As at 31 December 2021, an average longevity of a pensioner after retirement at age 60 for male is 23.13 years (31 December 2020: 23.13 years) while a pensioner after retirement at age 55 for female is 33.13 years (31 December 2020: 33.13 years).

Significant actuarial assumptions for the determination of the unfunded obligation are discount rate, inflation rate and mortality. The sensitivity analysis below is based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

- (1) If the discount rate is 100 basis points higher (lower), the defined benefit obligation would decrease by RMB35 million (increase by RMB40 million).
- (2) If the expected inflation rate increases (decreases) by 1%, the defined benefit obligation would increase by RMB39 million (decrease by RMB35 million).
- (3) If the life expectancy increases (decreases) by one year for men and women, the defined benefit obligation would increase by RMB29 million (decrease by RMB30 million).

The sensitivity analysis above may not be representative of the actual change in the unfunded obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

In presenting the above sensitivity analysis, the present value at the end of the reporting period of the unfunded obligation has been calculated in the same method as that applied in calculating the unfunded obligation liability recognised in the statement of financial position.

There was no change in the methods and assumptions used in preparing the sensitivity analysis in prior years.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 15 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

## (a) Directors', supervisors' and senior management's emoluments before taxation

| (in thousands of RMB)                      |            | Year ended 31 December 2021 |                |       |
|--|------------|-----------------------------|----------------|-------|
| Name                                       | Emoluments | Remuneration                | Other benefits | Total |
| <b>Executive directors</b>                 |            |                             |                |       |
| Mr. Ren, Deqi                              | –          | 619                         | 210            | 829   |
| Mr. Liu, Jun                               | –          | 619                         | 206            | 825   |
| <b>Non-executive directors</b>             |            |                             |                |       |
| Mr. Chan Siu Chung                         | –          | –                           | –              | –     |
| Mr. Song, Hongjun                          | –          | –                           | –              | –     |
| Mr. Chen, Junkui                           | –          | –                           | –              | –     |
| Mr. Liu, Haoyang                           | –          | –                           | –              | –     |
| Mr. Li, Longcheng                          | –          | –                           | –              | –     |
| <b>Independent non-executive directors</b> |            |                             |                |       |
| Jason Yeung Chi Wai                        | 310        | –                           | –              | 310   |
| Raymond Woo Chin Wan                       | 310        | –                           | –              | 310   |
| Mr. Cai, Haoyi                             | –          | –                           | –              | –     |
| Mr. Shi, Lei                               | 310        | –                           | –              | 310   |
| Mr. Zhang, Xiangdong                       | –          | –                           | –              | –     |
| Ms. Li, Xiaohui                            | 330        | –                           | –              | 330   |
| <b>Supervisors</b>                         |            |                             |                |       |
| Mr. Zhang, Minsheng                        | –          | –                           | –              | –     |
| Mr. Wang, Xueqing                          | –          | –                           | –              | –     |
| Ms. Xia, Zhihua                            | –          | –                           | –              | –     |
| Mr. Li, Yao                                | –          | 280                         | –              | 280   |
| Mr. Chen, Hanwen                           | –          | 260                         | –              | 260   |
| Mr. Ju, Jiandong                           | –          | 260                         | –              | 260   |
| Mr. Guan, Xingshe                          | –          | 956                         | 211            | 1,167 |
| Ms. Lin, Zhihong                           | –          | 962                         | 211            | 1,173 |
| Ms. Po, Ying                               | –          | 79                          | 18             | 97    |
| Mr. Xu, Jiming                             | –          | 258                         | 87             | 345   |
| Ms. Feng, Bing                             | –          | 819                         | 211            | 1,030 |
| Total                                      | 1,260      | 5,112                       | 1,154          | 7,526 |

| (in thousands of RMB)                   |            | Year ended 31 December 2021 |                |       |
|---|------------|-----------------------------|----------------|-------|
| Name                                    | Emoluments | Remuneration                | Other benefits | Total |
| <b>Former directors and supervisors</b> |            |                             |                |       |
| Mr. Du, Yarong                          | –          | 416                         | 84             | 500   |
| Mr. Cai, Yunge                          | –          | 103                         | 34             | 137   |
| Mr. He, Zhaobin                         | –          | 73                          | 22             | 95    |
| Total                                   | –          | 592                         | 140            | 732   |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

## 15 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

### (a) Directors', supervisors' and senior management's emoluments before taxation (Continued)

| (in thousands of RMB)                      |            | Year ended 31 December 2020 |                |       |
|--|------------|-----------------------------|----------------|-------|
| Name                                       | Emoluments | Remuneration                | Other benefits | Total |
| <b>Executive directors</b>                 |            |                             |                |       |
| Mr. Ren, Deqi                              | –          | 783                         | 161            | 944   |
| Mr. Liu, Jun                               | –          | 457                         | 93             | 550   |
| <b>Non-executive directors</b>             |            |                             |                |       |
| Mr. He, Zhaobin                            | –          | 866                         | 161            | 1,027 |
| Mr. Chan Siu Chung                         | –          | –                           | –              | –     |
| Mr. Song, Hongjun                          | –          | –                           | –              | –     |
| Mr. Chen, Junkui                           | –          | –                           | –              | –     |
| Mr. Liu, Haoyang                           | –          | –                           | –              | –     |
| Mr. Li, Longcheng                          | –          | –                           | –              | –     |
| Mr. Wang, Linping                          | –          | –                           | –              | –     |
| Mr. Chang, Baosheng                        | –          | –                           | –              | –     |
| <b>Independent non-executive directors</b> |            |                             |                |       |
| Jason Yeung Chi Wai                        | 310        | –                           | –              | 310   |
| Raymond Woo Chin Wan                       | 310        | –                           | –              | 310   |
| Mr. Cai, Haoyi                             | –          | –                           | –              | –     |
| Mr. Shi, Lei                               | 310        | –                           | –              | 310   |
| Mr. Zhang, Xiangdong                       | –          | –                           | –              | –     |
| Ms. Li, Xiaohui                            | 39         | –                           | –              | 39    |
| <b>Supervisors</b>                         |            |                             |                |       |
| Mr. Cai, Yunge                             | –          | 155                         | 41             | 196   |
| Mr. Zhang, Minsheng                        | –          | –                           | –              | –     |
| Mr. Wang, Xueqing                          | –          | –                           | –              | –     |
| Ms. Xia, Zhihua                            | –          | –                           | –              | –     |
| Mr. Li, Yao                                | –          | 270                         | –              | 270   |
| Mr. Chen, Hanwen                           | –          | 260                         | –              | 260   |
| Mr. Ju, Jiandong                           | –          | 130                         | –              | 130   |
| Mr. Du, Yarong                             | –          | 946                         | 167            | 1,113 |
| Mr. Guan, Xingshe                          | –          | 905                         | 167            | 1,072 |
| Ms. Lin, Zhihong                           | –          | –                           | –              | –     |
| Ms. Feng, Bing                             | –          | –                           | –              | –     |
| Total                                      | 969        | 4,772                       | 790            | 6,531 |

| (in thousands of RMB)                   |            | Year ended 31 December 2020 |                |       |
|---|------------|-----------------------------|----------------|-------|
| Name                                    | Emoluments | Remuneration                | Other benefits | Total |
| <b>Former directors and supervisors</b> |            |                             |                |       |
| Mr. Hou, Weidong                        | –          | 235                         | 52             | 287   |
| Mr. Wang, Taiyin                        | –          | 444                         | 75             | 519   |
| Mr. Song, Guobin                        | –          | 574                         | 101            | 675   |
| Ms. Li, Jian                            | –          | 211                         | –              | 211   |
| Mr. Liu, Li                             | –          | 291                         | –              | 291   |
| Ms. Tang, Xinyu                         | –          | –                           | –              | –     |
| Ms. Chen, Qing                          | –          | 569                         | 91             | 660   |
| Mr. Wang, Xuewu                         | –          | 921                         | 167            | 1,088 |
| Total                                   | –          | 3,245                       | 486            | 3,731 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 15 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

## (a) Directors', supervisors' and senior management's emoluments before taxation (Continued)

- (1) The total compensation package for directors and supervisors for the year ended 31 December 2021 has not yet been finalised in accordance with regulations of the PRC relevant authorities. The amount of the compensation not provided for is not expected to have significant impact to the Group's financial statements for the year ended 31 December 2021. The final compensation will be disclosed in a separate announcement when determined. The final total compensation for the year ended 31 December 2020 was disclosed in the Information on the Second Extraordinary General Meeting of Shareholders in 2021 issued on 10 September 2021.
- (2) Employee supervisors Mr. Du Yarong, Mr. Guan Xingshe, Ms. Lin Zhihong and Ms. Feng Bing received compensation according to their positions as employees of the Bank and did not receive additional compensation as employee supervisors.
- (3) During 2021 and 2020, there was no arrangement under which a director or a supervisor waived or agreed to waive any remuneration.
- (4) Other benefits include social insurance, housing allowances, enterprise annuity paid by the Bank.
- (5) Mr. Wang Linping and Mr. Chang Baosheng begin to assume office on the 8 January 2021.

## (b) Five highest paid individuals

The five highest paid individuals in the Group for the related years are as follows:

|  | Year ended 31 December |      |
|--|------------------------|------|
|  | 2021                   | 2020 |
| Salary   | 15                     | 14   |
| Discretionary bonuses  | 13                     | 15   |
| Employer's contribution to pension scheme and other benefits | 2                      | 2    |
| Total  | 30                     | 31   |

Emoluments of the above five highest paid individuals in the Group are within the following bands:

|                            | Number of individuals As at 31 December |      |
|----------------------------|---|------|
|                            | 2021                                    | 2020 |
| HKD4,500,001 – 5,000,000   | 1                                       | 2    |
| HKD5,000,001 – 5,500,000   | 3                                       | 2    |
| HKD5,500,001 – 6,000,000   | –                                       | –    |
| HKD6,000,001 – 6,500,000   | –                                       | –    |
| HKD6,500,001 – 7,000,000   | –                                       | –    |
| HKD7,000,001 – 7,500,000   | –                                       | –    |
| HKD7,500,001 – 8,000,000   | –                                       | –    |
| HKD8,000,001 – 8,500,000   | –                                       | –    |
| HKD8,500,001 – 9,000,000   | –                                       | –    |
| HKD9,000,001 – 9,500,000   | –                                       | –    |
| HKD9,500,001 – 10,000,000  | –                                       | –    |
| HKD10,000,001 – 10,500,000 | 1                                       | –    |
| HKD10,500,001 – 11,000,000 | –                                       | –    |
| HKD11,000,001 – 11,500,000 | –                                       | 1    |
|                            | 5                                       | 5    |

During 2021 and 2020, no emolument was paid by the Group to any of the directors, supervisors and the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

### 16 INCOME TAX

|  | Year ended 31 December |         |
|--|------------------------|---------|
|  | 2021                   | 2020    |
| Current income tax   |                        |         |
| – Mainland China enterprise income tax                               | 7,522                  | 8,247   |
| – Hong Kong profits tax  | 608                    | 630     |
| – Income tax arising in Macao, Taiwan and other countries or regions | 753                    | 577     |
| Subtotal   | 8,883                  | 9,454   |
| Deferred income tax (Note 27)  | (3,863)                | (2,599) |
| Total  | 5,020                  | 6,855   |

The provision for enterprise income tax in Mainland China is calculated based on the statutory rate of 25% (2020: 25%) of the assessable income of the Bank and each of the subsidiary established in Mainland China. Taxation arising in other jurisdictions (including Hong Kong) is calculated at the rates prevailing in the relevant jurisdictions, the shortfall arising from the difference between tax paid by overseas branches and the accrued tax under the regulation of Mainland China shall be compensated by the head office.

The actual taxation on the Group differs from the theoretical amount calculated using the Group's profit before tax at the tax rate of 25% (2020: 25%). The major reconciliation items are as follows:

|  | Year ended 31 December |          |
|--|------------------------|----------|
|  | 2021                   | 2020     |
| Profit before tax  | 93,959                 | 86,425   |
| Tax calculated at statutory rate of 25%  | 23,490                 | 21,606   |
| Effects of different tax rates prevailing in Hong Kong, Macao, Taiwan and other countries or regions | (207)                  | (152)    |
| Effects of non-deductible expenses (1)   | 2,445                  | 3,644    |
| Effects of non-taxable income (2)  | (19,663)               | (17,393) |
| Others   | (934)                  | (420)    |
| Adjustments for income tax filing of prior years   | (111)                  | (430)    |
| Income tax   | 5,020                  | 6,855    |

- (1) Non-deductible expenses primarily represent non-deductible write-offs.
- (2) Non-taxable income primarily represents interest income from PRC treasury bonds and municipal government bonds and fund investment income gained in Mainland China.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 17 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit attributable to shareholders of the Bank by the weighted average number of ordinary shares in issue during the period.

|  | Year ended 31 December |         |
|--|------------------------|---------|
|  | 2021                   | 2020    |
| Net profit attributable to shareholders of the Bank  | 87,581                 | 78,274  |
| Less: Dividends paid to preference shareholders  | (1,755)                | (2,714) |
| Interest paid to perpetual bond holders  | (3,858)                | (1,680) |
| Net profit attributable to ordinary shareholders of the Bank                                       | 81,968                 | 73,880  |
| Weighted average number of ordinary shares in issue (expressed in millions) at the end of the year | 74,263                 | 74,263  |
| Basic and diluted earnings per share (expressed in RMB per share)                                  | 1.10                   | 0.99    |

For the purpose of calculating basic earnings per share, a cash dividend of RMB1,755 million on non-cumulative preference shares declared for the period was deducted from the amounts attributable to shareholders of the Bank. The conversion feature of preference shares may lead to the possible existence of contingently issuable ordinary shares. The triggering events of conversion did not occur for the year ended 31 December 2021, and therefore the conversion feature of preference shares has no effect on the calculation of the basic and diluted earnings per share.

For the calculation of basic earnings per share, distributions on non-cumulative perpetual bonds declared for the period was deducted from the amounts attributable to shareholders of the Bank. The Bank has declared an interest of RMB3,858 million on perpetual bonds during the year ended 31 December 2021.

## 18 CASH AND BALANCES WITH CENTRAL BANKS

|                            | As at<br>31 December 2021 | As at<br>31 December 2020 |
|----------------------------|---------------------------|---------------------------|
| Cash                       | 13,298                    | 15,353                    |
| Mandatory reserve deposits | 624,340                   | 634,239                   |
| Excess reserve deposits    | 90,350                    | 160,863                   |
| Fiscal deposits and others | 6,436                     | 6,786                     |
| Accrued interest           | 304                       | 320                       |
|                            | 734,728                   | 817,561                   |

The Group places mandatory reserves with the PBOC and several other central banks of overseas countries and regions. Such mandatory reserves are not available for use by the Group in its day-to-day operations.

The Bank's domestic mandatory deposit reserve rates as at the balance sheet date are as follows:

|  | As at<br>31 December 2021<br>% | As at<br>31 December 2020<br>% |
|--|--------------------------------|--------------------------------|
| Domestic mandatory reserve rate for deposits denominated in RMB                | 10.00                          | 11.00                          |
| Domestic mandatory reserve rate for deposits denominated in foreign currencies | 9.00                           | 5.00                           |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

### 18 CASH AND BALANCES WITH CENTRAL BANKS *(Continued)*

Reserve rate for deposits denominated in RMB of the Group's subsidiaries in Mainland China is subject to relevant regulations of the PBOC.

Mandatory reserve rate for deposits with central banks of overseas countries and regions is subject to regulations of local regulatory bodies.

Excess reserve deposits with central banks are mainly used for capital settlement, financial institution transfer, etc.

### 19 DUE FROM AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

|  | As at<br>31 December 2021 | As at<br>31 December 2020 |
|--|---------------------------|---------------------------|
| Due from banks and other financial institutions                                    |                           |                           |
| – Banks and other financial institutions operating in Mainland China               | 83,372                    | 90,965                    |
| – Banks and other financial institutions operating outside Mainland China          | 36,422                    | 68,274                    |
| Accrued interest   | 298                       | 196                       |
| Less: Allowance for impairment losses  | (202)                     | (265)                     |
| Financial assets purchased under repurchase agreements                             |                           |                           |
| Securities   |                           |                           |
| – Governments  | 15,410                    | 6,332                     |
| – Policy banks   | 13,040                    | 3,657                     |
| – Financial institutions   | 31,498                    | 27,905                    |
| – Corporates   | 16                        | –                         |
| Bills  | 13,512                    | 3,670                     |
| Accrued interest   | 33                        | 26                        |
| Less: Allowance for impairment losses  | (141)                     | (34)                      |
| Placements with and loans to banks   |                           |                           |
| – Banks operating in Mainland China  | 111,677                   | 113,890                   |
| – Banks operating outside Mainland China   | 77,490                    | 95,886                    |
| Placements with and loans to other financial institutions                          |                           |                           |
| – Placements with and loans to other financial institutions in Mainland China      | 194,502                   | 118,172                   |
| – Placements with and loans to other financial institutions outside Mainland China | 54,176                    | 40,515                    |
| Accrued interest   | 3,568                     | 2,890                     |
| Less: Allowance for impairment losses  | (1,963)                   | (949)                     |
|  | 632,708                   | 571,130                   |



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 20 FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

|  | As at<br>31 December 2021 | As at<br>31 December 2020 |
|--|---------------------------|---------------------------|
| Government bonds                                     |                           |                           |
| – Listed in Hong Kong                                | 1,246                     | 2,370                     |
| – Listed outside Hong Kong (a)                       | 97,132                    | 3,043                     |
| – Unlisted   | 701                       | 1,121                     |
| Other debt securities                                |                           |                           |
| – Listed in Hong Kong                                | 42,371                    | 23,853                    |
| – Listed outside Hong Kong (a)                       | 90,909                    | 109,422                   |
| – Unlisted – corporate entities                      | 3,002                     | 4,445                     |
| – Unlisted – banks                                   | 12,573                    | 8,780                     |
| Equity securities and others                         |                           |                           |
| – Listed in Hong Kong                                | 1,823                     | 1,419                     |
| – Listed outside Hong Kong                           | 11,493                    | 7,956                     |
| – Unlisted   | 50,133                    | 48,106                    |
| Fund investments and other asset management products |                           |                           |
| – Listed in Hong Kong                                | 42                        | –                         |
| – Listed outside Hong Kong                           | 663                       | 474                       |
| – Unlisted   | 304,471                   | 251,624                   |
| Precious metal contracts                             | 21,924                    | 19,975                    |
| Total  | 638,483                   | 482,588                   |

(a) Debt securities traded in the China domestic inter-bank bond market are included in “Listed outside Hong Kong”.

Debt securities at fair value through profit or loss are analysed by issuer as follows:

|  | As at<br>31 December 2021 | As at<br>31 December 2020 |
|--|---------------------------|---------------------------|
| – Banks and other financial institutions | 100,898                   | 99,671                    |
| – Corporate entities                     | 46,655                    | 45,244                    |
| – Governments and central banks          | 99,079                    | 6,534                     |
| – Public sector entities                 | 1,302                     | 1,585                     |
|  | 247,934                   | 153,034                   |

The financial investments at fair value through profit or loss include financial assets held for trading and financial assets that cannot pass the Solely Payments of Principal and Interest Test (“SPPI test”).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

### 21 DERIVATIVE FINANCIAL INSTRUMENTS

The following derivative financial instruments are utilised by the Group for trading or hedging purposes:

Currency and commodity forwards are contracts between two parties to buy or sell certain currencies or commodities at a specified future date at a predetermined price. The party agreeing to buy the underlying currency or commodities in the future assumes a long position, and the party agreeing to sell the currency or commodities in the future assumes a short position. The price agreed upon is called the delivery price, which is equal to the forward price at the time the contract is entered into.

Currency, commodity and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies, commodities or interest rates (i.e. fixed-for-floating swaps) or a combination of these (i.e. cross-currency interest rate swaps). The Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

Currency, commodity and interest rate options are contractual agreements under which the seller (writer) grants the buyer (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) on or before a set date or during a set period, a specific amount of a currency or commodity at a predetermined price or to receive an interest payment based on a variable interest rate and pay at a fixed interest rate or vice versa. The seller receives a premium from the buyer in consideration for assuming foreign exchange, interest rate risk or commodity price fluctuations. Options may be either exchange-traded or negotiated between the Group and a customer (over the counter market).

The notional amounts of certain types of financial instruments provide a reference of the amounts recognised in the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative financial instruments may become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates, foreign exchange rates or commodity price relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The fair values of derivative financial instruments held are set out in the following tables.

| As at 31 December 2021                                      | Contractual/<br>Notional<br>Amount | Fair values |             |
|---|------------------------------------|-------------|-------------|
|   |                                    | Assets      | Liabilities |
| Foreign exchange and commodity contracts                    | 3,501,041                          | 27,195      | (24,899)    |
| Interest rate contracts and others                          | 3,626,588                          | 12,025      | (11,175)    |
| Total amount of derivative financial instruments recognised | 7,127,629                          | 39,220      | (36,074)    |

| As at 31 December 2020                                      | Contractual/<br>Notional<br>Amount | Fair values |             |
|---|------------------------------------|-------------|-------------|
|   |                                    | Assets      | Liabilities |
| Foreign exchange and commodity contracts                    | 2,435,423                          | 44,435      | (40,914)    |
| Interest rate contracts and others                          | 3,101,818                          | 9,777       | (15,028)    |
| Total amount of derivative financial instruments recognised | 5,537,241                          | 54,212      | (55,942)    |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

21 DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

The tables above provide a breakdown of the contractual or notional amounts and the fair values of the Group's derivative financial instruments outstanding at year end. These instruments, comprising foreign exchange, interest rate and commodity derivatives allow the Group and its customers to transfer, mitigate or reduce their foreign exchange, interest rate and commodity price fluctuation risks.

The Group undertakes its transactions in foreign exchange, interest rates and commodity contracts with other financial institutions and customers. Management has established limits for these contracts based on counterparty types, industry sectors and countries. Related risks are regularly monitored and controlled by management.

Notional amounts of derivative financial instruments by original currency:

|        | As at<br>31 December 2021 | As at<br>31 December 2020 |
|--------|---------------------------|---------------------------|
| RMB    | 4,686,806                 | 3,772,066                 |
| USD    | 1,981,299                 | 1,387,805                 |
| HKD    | 231,035                   | 247,659                   |
| Others | 228,489                   | 129,711                   |
| Total  | 7,127,629                 | 5,537,241                 |

## Hedge accounting

The above derivative financial instruments including those designated as hedging instruments by the Group are as follows:

| As at 31 December 2021  | Contractual/<br>Notional<br>Amount | Fair values<br>Assets | Liabilities |
|---|------------------------------------|-----------------------|-------------|
| Derivative financial instruments designated as hedging instruments in fair value hedges | 141,731                            | 1,871                 | (1,274)     |
| Derivative financial instruments designated as hedging instruments in cash flow hedges  | 71,805                             | 519                   | (973)       |
| Total   | 213,536                            | 2,390                 | (2,247)     |

| As at 31 December 2020  | Contractual/<br>Notional<br>Amount | Fair values<br>Assets | Liabilities |
|---|------------------------------------|-----------------------|-------------|
| Derivative financial instruments designated as hedging instruments in fair value hedges | 139,555                            | 184                   | (4,689)     |
| Derivative financial instruments designated as hedging instruments in cash flow hedges  | 58,382                             | 268                   | (1,901)     |
| Total   | 197,937                            | 452                   | (6,590)     |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021  
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## 21 DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

### Hedge accounting (Continued)

#### (a) Fair value hedge

The Group uses interest rate swaps to hedge against changes in fair value arising from changes in interest rates. Some purchased interest rate swap contracts are designated as hedging instruments, whose terms are identical with those of the corresponding hedged items regarding interest rate, maturity and currency. The Group uses regression analysis to evaluate the effectiveness of hedging. With the support of testing results, the Group's management considers the hedging relationship to be highly effective. The hedged items include due from and placements with banks and other financial institutions, debt investments at FVOCI, due to and placements from banks and other financial institutions, loans and advances to customers and certificates of deposits issued.

The following table shows the profit or loss effects of the fair value hedges:

|  | Year ended 31 December |         |
|--|------------------------|---------|
|  | 2021                   | 2020    |
| Net gains/(losses) from fair value hedges:   |                        |         |
| Hedging instruments                          | 4,405                  | (4,314) |
| Hedged items attributable to the hedged risk | (4,386)                | 4,462   |
| Total  | 19                     | 148     |

#### (b) Cash flow hedge

The Group uses foreign exchange contracts to hedge against exposures to cash flow variability primarily resulting from foreign exchange risks, and uses interest rate swaps to hedge against exposures to cash flow variability primarily resulting from interest rate risks. The hedged items include debt investments at FVOCI, due from and placements with banks and other financial institutions, debt securities issued, loans and advances to customers, due to and placements from banks and other financial institutions and certificates of deposits issued. The Group mainly uses regression analysis to evaluate the effectiveness of hedging. With the supporting of testing results, the Group's management considers the hedging relationship to be highly effective.

For the year ended 31 December 2021, the Group recognised a profit of RMB1,133 million (31 December 2020: a loss of RMB1,761 million) from effective portion of cash flow hedge in other comprehensive income. The Group reclassifies a loss of RMB617 million from other comprehensive income to profit or loss (31 December 2020: a profit of RMB1,085 million). Gains or losses arising from ineffective portion of cash flow hedge were immaterial. There were no transactions for which cash flow hedge accounting had to be ceased as a result of the highly probable cash flows no longer being expected to occur.

## 22 LOANS AND ADVANCES TO CUSTOMERS

### 22.1 Loans and advances to customers

|   | As at<br>31 December 2021 | As at<br>31 December 2020 |
|---|---------------------------|---------------------------|
| Loans and advances to customers                           |                           |                           |
| – Carried at amortised cost                               | 6,375,667                 | 5,637,932                 |
| – Carried at FVOCI  | 184,706                   | 210,492                   |
| – Carried at FVPL   | 27                        | –                         |
| Less: Allowance for impairment losses                     | (160,089)                 | (139,274)                 |
|   | –                         | –                         |
| Accrued interest  | 13,985                    | 12,980                    |
| Less: Allowance for impairment losses of accrued interest | (2,095)                   | (1,562)                   |
|   | 6,412,201                 | 5,720,568                 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

22 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

## 22.2 Loans and advances to customers analysed by security type

|   | As at<br>31 December 2021 | As at<br>31 December 2020 |
|---|---------------------------|---------------------------|
| Unsecured loans                               | 2,085,835                 | 1,812,785                 |
| Guaranteed loans                              | 1,056,138                 | 990,248                   |
| Collateralised and other secured loans        | 3,418,427                 | 3,045,391                 |
| <i>Including: Loans secured by collateral</i> | <i>2,488,276</i>          | <i>2,191,847</i>          |
| <i>Pledged loans</i>                          | <i>930,151</i>            | <i>853,544</i>            |
| Total   | 6,560,400                 | 5,848,424                 |

## 22.3 Movements of gross carrying amount and ECL allowance

Movements of gross carrying amount – Corporate loan at amortised cost:

|  | Stage 1          | Stage 2         | Stage 3       | Total            |
|--|------------------|-----------------|---------------|------------------|
| <b>As at 1 January 2021</b>                      | <b>3,419,530</b> | <b>158,690</b>  | <b>78,830</b> | <b>3,657,050</b> |
| Addition, net                                    | 563,949          | (76,364)        | (13,664)      | 473,921          |
| Written-offs and disposals                       | –                | –               | (32,518)      | (32,518)         |
| Transfers:                                       | (132,463)        | 87,398          | 45,065        | –                |
| <i>Transfer between Stage 1 and Stage 2, net</i> | <i>(111,830)</i> | <i>111,830</i>  | <i>–</i>      | <i>–</i>         |
| <i>Transfer between Stage 1 and Stage 3, net</i> | <i>(20,633)</i>  | <i>–</i>        | <i>20,633</i> | <i>–</i>         |
| <i>Transfer between Stage 2 and Stage 3, net</i> | <i>–</i>         | <i>(24,432)</i> | <i>24,432</i> | <i>–</i>         |
| Exchange differences                             | (7,436)          | (351)           | (95)          | (7,882)          |
| <b>As at 31 December 2021</b>                    | <b>3,843,580</b> | <b>169,373</b>  | <b>77,618</b> | <b>4,090,571</b> |

|  | Stage 1          | Stage 2         | Stage 3       | Total            |
|--|------------------|-----------------|---------------|------------------|
| As at 1 January 2020                             | 3,114,979        | 139,701         | 59,416        | 3,314,096        |
| Addition, net                                    | 466,884          | (70,303)        | (11,437)      | 385,144          |
| Written-offs and disposals                       | –                | –               | (33,214)      | (33,214)         |
| Transfers:                                       | (153,797)        | 89,415          | 64,382        | –                |
| <i>Transfer between Stage 1 and Stage 2, net</i> | <i>(131,542)</i> | <i>131,542</i>  | <i>–</i>      | <i>–</i>         |
| <i>Transfer between Stage 1 and Stage 3, net</i> | <i>(22,255)</i>  | <i>–</i>        | <i>22,255</i> | <i>–</i>         |
| <i>Transfer between Stage 2 and Stage 3, net</i> | <i>–</i>         | <i>(42,127)</i> | <i>42,127</i> | <i>–</i>         |
| Exchange differences                             | (8,536)          | (123)           | (317)         | (8,976)          |
| <b>As at 31 December 2020</b>                    | <b>3,419,530</b> | <b>158,690</b>  | <b>78,830</b> | <b>3,657,050</b> |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

### 22 LOANS AND ADVANCES TO CUSTOMERS (Continued)

#### 22.3 Movements of gross carrying amount and ECL allowance (Continued)

Movements of ECL allowance – Corporate loan at amortised cost:

|  | Stage 1<br>12-month ECL | Stage 2<br>Lifetime ECL | Stage 3<br>Lifetime ECL | Total          |
|--|-------------------------|-------------------------|-------------------------|----------------|
| <b>As at 1 January 2021</b>                      | <b>27,418</b>           | <b>29,034</b>           | <b>47,973</b>           | <b>104,425</b> |
| Addition/(Reversal), net                         | 7,072                   | (12,343)                | (3,338)                 | (8,609)        |
| Written-offs and disposals                       | –                       | –                       | (32,518)                | (32,518)       |
| Transfers:                                       | (823)                   | (6,046)                 | 6,869                   | –              |
| <i>Transfer between Stage 1 and Stage 2, net</i> | <i>(708)</i>            | <i>708</i>              | <i>–</i>                | <i>–</i>       |
| <i>Transfer between Stage 1 and Stage 3, net</i> | <i>(115)</i>            | <i>–</i>                | <i>115</i>              | <i>–</i>       |
| <i>Transfer between Stage 2 and Stage 3, net</i> | <i>–</i>                | <i>(6,754)</i>          | <i>6,754</i>            | <i>–</i>       |
| Remeasurement                                    | 4,198                   | 23,500                  | 26,739                  | 54,437         |
| Exchange and other differences                   | (79)                    | 237                     | 3,359                   | 3,517          |
| <b>As at 31 December 2021</b>                    | <b>37,786</b>           | <b>34,382</b>           | <b>49,084</b>           | <b>121,252</b> |

|  | Stage 1<br>12-month ECL | Stage 2<br>Lifetime ECL | Stage 3<br>Lifetime ECL | Total          |
|--|-------------------------|-------------------------|-------------------------|----------------|
| <b>As at 1 January 2020</b>                      | <b>23,125</b>           | <b>39,960</b>           | <b>42,085</b>           | <b>105,170</b> |
| Addition/(Reversal), net                         | 2,477                   | (7,358)                 | (7,717)                 | (12,598)       |
| Written-offs and disposals                       | –                       | –                       | (33,214)                | (33,214)       |
| Transfers:                                       | (838)                   | (15,668)                | 16,506                  | –              |
| <i>Transfer between Stage 1 and Stage 2, net</i> | <i>(762)</i>            | <i>762</i>              | <i>–</i>                | <i>–</i>       |
| <i>Transfer between Stage 1 and Stage 3, net</i> | <i>(76)</i>             | <i>–</i>                | <i>76</i>               | <i>–</i>       |
| <i>Transfer between Stage 2 and Stage 3, net</i> | <i>–</i>                | <i>(16,430)</i>         | <i>16,430</i>           | <i>–</i>       |
| Remeasurement                                    | 2,805                   | 11,452                  | 28,208                  | 42,465         |
| Exchange and other differences                   | (151)                   | 648                     | 2,105                   | 2,602          |
| <b>As at 31 December 2020</b>                    | <b>27,418</b>           | <b>29,034</b>           | <b>47,973</b>           | <b>104,425</b> |

Movements of principal gross carrying amount – Personal loan at amortised cost:

|  | Stage 1          | Stage 2        | Stage 3       | Total            |
|--|------------------|----------------|---------------|------------------|
| <b>As at 1 January 2021</b>                      | <b>1,953,764</b> | <b>8,345</b>   | <b>18,773</b> | <b>1,980,882</b> |
| Addition, net                                    | 323,943          | (1,673)        | (2,411)       | 319,859          |
| Written-offs and disposals                       | –                | –              | (14,633)      | (14,633)         |
| Transfers:                                       | (22,259)         | 4,814          | 17,445        | –                |
| <i>Transfer between Stage 1 and Stage 2, net</i> | <i>(8,772)</i>   | <i>8,772</i>   | <i>–</i>      | <i>–</i>         |
| <i>Transfer between Stage 1 and Stage 3, net</i> | <i>(13,487)</i>  | <i>–</i>       | <i>13,487</i> | <i>–</i>         |
| <i>Transfer between Stage 2 and Stage 3, net</i> | <i>–</i>         | <i>(3,958)</i> | <i>3,958</i>  | <i>–</i>         |
| Exchange differences                             | (1,007)          | 1              | (6)           | (1,012)          |
| <b>As at 31 December 2021</b>                    | <b>2,254,441</b> | <b>11,487</b>  | <b>19,168</b> | <b>2,285,096</b> |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 22 LOANS AND ADVANCES TO CUSTOMERS (Continued)

## 22.3 Movements of gross carrying amount and ECL allowance (Continued)

|  | Stage 1   | Stage 2 | Stage 3  | Total     |
|--|-----------|---------|----------|-----------|
| As at 1 January 2020                             | 1,727,106 | 9,085   | 18,574   | 1,754,765 |
| Addition, net                                    | 254,353   | (2,056) | (2,943)  | 249,354   |
| Written-offs and disposals                       | –         | –       | (20,580) | (20,580)  |
| Transfers:                                       | (25,057)  | 1,328   | 23,729   | –         |
| <i>Transfer between Stage 1 and Stage 2, net</i> | (6,125)   | 6,125   | –        | –         |
| <i>Transfer between Stage 1 and Stage 3, net</i> | (18,932)  | –       | 18,932   | –         |
| <i>Transfer between Stage 2 and Stage 3, net</i> | –         | (4,797) | 4,797    | –         |
| Exchange differences                             | (2,638)   | (12)    | (7)      | (2,657)   |
| As at 31 December 2020                           | 1,953,764 | 8,345   | 18,773   | 1,980,882 |

Movements of ECL allowance – Personal loan at amortised cost:

|  | Stage 1<br>12-month ECL | Stage 2<br>Lifetime ECL | Stage 3<br>Lifetime ECL | Total    |
|--|-------------------------|-------------------------|-------------------------|----------|
| As at 1 January 2021                             | 16,008                  | 3,836                   | 15,005                  | 34,849   |
| Addition/(Reversal), net                         | 1,854                   | (93)                    | (1,379)                 | 382      |
| Written-offs and disposals                       | –                       | –                       | (14,633)                | (14,633) |
| Transfers:                                       | 290                     | (1,410)                 | 1,120                   | –        |
| <i>Transfer between Stage 1 and Stage 2, net</i> | 566                     | (566)                   | –                       | –        |
| <i>Transfer between Stage 1 and Stage 3, net</i> | (276)                   | –                       | 276                     | –        |
| <i>Transfer between Stage 2 and Stage 3, net</i> | –                       | (844)                   | 844                     | –        |
| Remeasurement                                    | 1,469                   | 2,179                   | 12,929                  | 16,577   |
| Exchange and other differences                   | (4)                     | (2)                     | 1,668                   | 1,662    |
| As at 31 December 2021                           | 19,617                  | 4,510                   | 14,710                  | 38,837   |

|  | Stage 1<br>12-month ECL | Stage 2<br>Lifetime ECL | Stage 3<br>Lifetime ECL | Total    |
|--|-------------------------|-------------------------|-------------------------|----------|
| As at 1 January 2020                             | 8,394                   | 3,193                   | 15,962                  | 27,549   |
| Addition/(Reversal), net                         | 2,001                   | (100)                   | (1,102)                 | 799      |
| Written-offs and disposals                       | –                       | –                       | (20,580)                | (20,580) |
| Transfers:                                       | 270                     | (1,078)                 | 808                     | –        |
| <i>Transfer between Stage 1 and Stage 2, net</i> | 378                     | (378)                   | –                       | –        |
| <i>Transfer between Stage 1 and Stage 3, net</i> | (108)                   | –                       | 108                     | –        |
| <i>Transfer between Stage 2 and Stage 3, net</i> | –                       | (700)                   | 700                     | –        |
| Remeasurement                                    | 5,349                   | 1,823                   | 18,443                  | 25,615   |
| Exchange and other differences                   | (6)                     | (2)                     | 1,474                   | 1,466    |
| As at 31 December 2020                           | 16,008                  | 3,836                   | 15,005                  | 34,849   |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

### 22 LOANS AND ADVANCES TO CUSTOMERS (Continued)

#### 22.3 Movements of gross carrying amount and ECL allowance (Continued)

Movements of gross carrying amount – Loans and advances to customers at fair value through other comprehensive income

|  | Stage 1        | Stage 2      | Stage 3   | Total          |
|--|----------------|--------------|-----------|----------------|
| <b>As at 1 January 2021</b>                      | <b>203,706</b> | <b>6,691</b> | <b>95</b> | <b>210,492</b> |
| Addition, net                                    | (22,530)       | (3,020)      | 303       | (25,247)       |
| Written-offs and disposals                       | –              | –            | (368)     | (368)          |
| Transfers:                                       | (1)            | –            | 1         | –              |
| <i>Transfer between Stage 1 and Stage 2, net</i> | –              | –            | –         | –              |
| <i>Transfer between Stage 1 and Stage 3, net</i> | (1)            | –            | 1         | –              |
| <i>Transfer between Stage 2 and Stage 3, net</i> | –              | –            | –         | –              |
| Changes in the fair value                        | (150)          | –            | (21)      | (171)          |
| <b>As at 31 December 2021</b>                    | <b>181,025</b> | <b>3,671</b> | <b>10</b> | <b>184,706</b> |

|  | Stage 1        | Stage 2      | Stage 3   | Total          |
|--|----------------|--------------|-----------|----------------|
| <b>As at 1 January 2020</b>                      | <b>228,957</b> | <b>6,404</b> | <b>53</b> | <b>235,414</b> |
| Addition, net                                    | (18,373)       | (6,209)      | (134)     | (24,716)       |
| Written-offs and disposals                       | –              | –            | (34)      | (34)           |
| Transfers:                                       | (6,833)        | 6,603        | 230       | –              |
| <i>Transfer between Stage 1 and Stage 2, net</i> | (6,763)        | 6,763        | –         | –              |
| <i>Transfer between Stage 1 and Stage 3, net</i> | (70)           | –            | 70        | –              |
| <i>Transfer between Stage 2 and Stage 3, net</i> | –              | (160)        | 160       | –              |
| Changes in the fair value                        | (45)           | (107)        | (20)      | (172)          |
| <b>As at 31 December 2020</b>                    | <b>203,706</b> | <b>6,691</b> | <b>95</b> | <b>210,492</b> |

Movements of ECL allowance – Loans and advances to customers at fair value through other comprehensive income:

|  | Stage 1<br>12-month ECL | Stage 2<br>Lifetime ECL | Stage 3<br>Lifetime ECL | Total        |
|--|-------------------------|-------------------------|-------------------------|--------------|
| <b>As at 1 January 2021</b>                      | <b>878</b>              | <b>47</b>               | <b>362</b>              | <b>1,287</b> |
| Addition/(Reversal), net                         | 34                      | (47)                    | (2)                     | (15)         |
| Written-offs and disposals                       | –                       | –                       | (368)                   | (368)        |
| Transfers:                                       | (84)                    | 64                      | 20                      | –            |
| <i>Transfer between Stage 1 and Stage 2, net</i> | (64)                    | 64                      | –                       | –            |
| <i>Transfer between Stage 1 and Stage 3, net</i> | (20)                    | –                       | 20                      | –            |
| <i>Transfer between Stage 2 and Stage 3, net</i> | –                       | –                       | –                       | –            |
| Remeasurement                                    | 109                     | (16)                    | 80                      | 173          |
| Exchange and other differences                   | –                       | –                       | (4)                     | (4)          |
| <b>As at 31 December 2021</b>                    | <b>937</b>              | <b>48</b>               | <b>88</b>               | <b>1,073</b> |



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 22 LOANS AND ADVANCES TO CUSTOMERS (Continued)

## 22.3 Movements of gross carrying amount and ECL allowance (Continued)

|   | Stage 1<br>12-month ECL | Stage 2<br>Lifetime ECL | Stage 3<br>Lifetime ECL | Total |
|---|-------------------------|-------------------------|-------------------------|-------|
| As at 1 January 2020                      | 839                     | 205                     | 289                     | 1,333 |
| Addition/(Reversal), net                  | (10)                    | (121)                   | (32)                    | (163) |
| Written-offs and disposals                | –                       | –                       | (34)                    | (34)  |
| Transfers:                                | (114)                   | (42)                    | 156                     | –     |
| Transfer between Stage 1 and Stage 2, net | (75)                    | 75                      | –                       | –     |
| Transfer between Stage 1 and Stage 3, net | (39)                    | –                       | 39                      | –     |
| Transfer between Stage 2 and Stage 3, net | –                       | (117)                   | 117                     | –     |
| Remeasurement                             | 163                     | 5                       | (17)                    | 151   |
| As at 31 December 2020                    | 878                     | 47                      | 362                     | 1,287 |

## 22.4 Overdue loans analysed by security type

|  | As at 31 December 2021         |   |  |                             | Total  |
|--|--------------------------------|---|--|-----------------------------|--------|
|  | Overdue within<br>three months | Overdue between<br>three months and<br>one year | Overdue between<br>one year and<br>three years | Overdue over<br>three years |        |
| Unsecured loans                        | 10,351                         | 10,096  | 5,215  | 1,035                       | 26,697 |
| Guaranteed loans                       | 3,315                          | 7,693   | 6,853  | 2,364                       | 20,225 |
| Collateralised and other secured loans | 9,498                          | 11,644  | 15,096   | 4,002                       | 40,240 |
| Including: Loans secured by collateral | 7,729                          | 8,925   | 12,324   | 3,419                       | 32,397 |
| Pledged loans                          | 1,769                          | 2,719   | 2,772  | 583                         | 7,843  |
| Total                                  | 23,164                         | 29,433  | 27,164   | 7,401                       | 87,162 |

|  | As at 31 December 2020         |   |  |                             | Total  |
|--|--------------------------------|---|--|-----------------------------|--------|
|  | Overdue within<br>three months | Overdue between<br>three months and<br>one year | Overdue between<br>one year and three<br>years | Overdue over three<br>years |        |
| Unsecured loans                        | 8,850                          | 13,686  | 694  | 217                         | 23,447 |
| Guaranteed loans                       | 5,867                          | 8,904   | 12,222   | 1,415                       | 28,408 |
| Collateralised and other secured loans | 10,763                         | 11,555  | 13,000   | 3,030                       | 38,348 |
| Including: Loans secured by collateral | 8,640                          | 9,825   | 10,661   | 2,856                       | 31,982 |
| Pledged loans                          | 2,123                          | 1,730   | 2,339  | 174                         | 6,366  |
| Total                                  | 25,480                         | 34,145  | 25,916   | 4,662                       | 90,203 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

### 23 FINANCIAL INVESTMENTS

|   | As at<br>31 December 2021 | As at<br>31 December 2020 |
|---|---------------------------|---------------------------|
| Financial investments at amortised cost |                           |                           |
| – Listed in Hong Kong                   | 13,474                    | 7,743                     |
| – Listed outside Hong Kong              | 2,044,176                 | 1,864,919                 |
| – Unlisted                              | 120,387                   | 121,740                   |
| Accrued interest                        | 27,958                    | 28,177                    |
| Less: Allowance for impairment losses   | (2,958)                   | (3,050)                   |
| Total                                   | 2,203,037                 | 2,019,529                 |
| Financial investments at FVOCI          |                           |                           |
| Debt investments at FVOCI               |                           |                           |
| – Listed in Hong Kong                   | 168,690                   | 161,286                   |
| – Listed outside Hong Kong              | 417,119                   | 435,675                   |
| – Unlisted                              | 73,382                    | 120,306                   |
| Accrued interest                        | 6,276                     | 6,606                     |
| Subtotal                                | 665,467                   | 723,873                   |
| Equity investments at FVOCI             |                           |                           |
| – Listed in Hong Kong                   | 3,238                     | 158                       |
| – Listed outside Hong Kong              | 5,755                     | 3,473                     |
| – Unlisted                              | 7,269                     | 7,716                     |
| Subtotal                                | 16,262                    | 11,347                    |
| Total                                   | 681,729                   | 735,220                   |

The Group designates part of non-trading equity investments as financial investments measured at FVOCI.

For the year ended 31 December 2021, the Group's cash dividends received from equity investments at FVOCI was RMB615 million (for the year ended 31 December 2020: RMB49 million).

Debt securities analysed by issuer are as follows:

|  | As at<br>31 December 2021 | As at<br>31 December 2020 |
|--|---------------------------|---------------------------|
| Bond investments at amortised cost       |                           |                           |
| – Governments and central banks          | 1,922,479                 | 1,710,428                 |
| – Banks and other financial institutions | 117,156                   | 148,404                   |
| – Corporate entities                     | 47,035                    | 29,983                    |
| – Public sector entities                 | 21,201                    | 21,979                    |
| Total                                    | 2,107,871                 | 1,910,794                 |
| Debt investments at FVOCI                |                           |                           |
| – Governments and central banks          | 304,365                   | 340,723                   |
| – Banks and other financial institutions | 254,601                   | 304,690                   |
| – Corporate entities                     | 101,931                   | 75,084                    |
| – Public sector entities                 | 4,570                     | 3,376                     |
| Total                                    | 665,467                   | 723,873                   |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 23 FINANCIAL INVESTMENTS (Continued)

The movements in the gross carrying amount of financial investments at amortised cost are summarised as follows:

|  | Stage 1          | Stage 2        | Stage 3      | Total            |
|--|------------------|----------------|--------------|------------------|
| <b>As at 1 January 2021</b>                      | <b>2,013,336</b> | <b>8,449</b>   | <b>794</b>   | <b>2,022,579</b> |
| New financial assets originated or purchased     | 529,086          | 1,219          | 2,481        | 532,786          |
| Financial assets derecognised during the year    | (344,577)        | (1,844)        | (2,025)      | (348,446)        |
| Transfers:                                       | 1,550            | (3,575)        | 2,025        | -                |
| <i>Transfer between Stage 1 and Stage 2, net</i> | <i>1,550</i>     | <i>(1,550)</i> | -            | -                |
| <i>Transfer between Stage 1 and Stage 3, net</i> | -                | -              | -            | -                |
| <i>Transfer between Stage 2 and Stage 3, net</i> | -                | <i>(2,025)</i> | <i>2,025</i> | -                |
| Changes in accrual interest                      | (222)            | (12)           | 14           | (220)            |
| Exchange differences                             | (704)            | -              | -            | (704)            |
| <b>As at 31 December 2021</b>                    | <b>2,198,469</b> | <b>4,237</b>   | <b>3,289</b> | <b>2,205,995</b> |

|  | Stage 1        | Stage 2      | Stage 3 | Total     |
|--|----------------|--------------|---------|-----------|
| As at 1 January 2020                             | 1,930,072      | 1,497        | 1,383   | 1,932,952 |
| New financial assets originated or purchased     | 408,635        | -            | -       | 408,635   |
| Financial assets derecognised during the year    | (317,005)      | (5)          | (615)   | (317,625) |
| Transfers:                                       | (6,956)        | 6,956        | -       | -         |
| <i>Transfer between Stage 1 and Stage 2, net</i> | <i>(6,956)</i> | <i>6,956</i> | -       | -         |
| <i>Transfer between Stage 1 and Stage 3, net</i> | -              | -            | -       | -         |
| <i>Transfer between Stage 2 and Stage 3, net</i> | -              | -            | -       | -         |
| Changes in accrual interest                      | (414)          | 1            | 26      | (387)     |
| Exchange differences                             | (996)          | -            | -       | (996)     |
| As at 31 December 2020                           | 2,013,336      | 8,449        | 794     | 2,022,579 |

The movements in the gross carrying amount of debt investments at FVOCI are summarised as follows:

|  | Stage 1        | Stage 2      | Stage 3   | Total          |
|--|----------------|--------------|-----------|----------------|
| <b>As at 1 January 2021</b>                      | <b>723,523</b> | <b>278</b>   | <b>72</b> | <b>723,873</b> |
| New financial assets originated or purchased     | 362,679        | -            | -         | 362,679        |
| Financial assets derecognised during the year    | (411,717)      | (553)        | (39)      | (412,309)      |
| Transfers:                                       | (4,006)        | 4,006        | -         | -              |
| <i>Transfer between Stage 1 and Stage 2, net</i> | <i>(4,006)</i> | <i>4,006</i> | -         | -              |
| <i>Transfer between Stage 1 and Stage 3, net</i> | -              | -            | -         | -              |
| <i>Transfer between Stage 2 and Stage 3, net</i> | -              | -            | -         | -              |
| Changes in accrual interest                      | (368)          | 41           | (4)       | (331)          |
| Exchange differences                             | (6,694)        | -            | -         | (6,694)        |
| Changes in fair value                            | (1,751)        | -            | -         | (1,751)        |
| <b>As at 31 December 2021</b>                    | <b>661,666</b> | <b>3,772</b> | <b>29</b> | <b>665,467</b> |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

## 23 FINANCIAL INVESTMENTS (Continued)

|  | Stage 1   | Stage 2 | Stage 3 | Total     |
|--|-----------|---------|---------|-----------|
| As at 1 January 2020                             | 660,711   | –       | –       | 660,711   |
| New financial assets originated or purchased     | 429,354   | –       | –       | 429,354   |
| Financial assets derecognised during the year    | (356,820) | –       | –       | (356,820) |
| Transfers:                                       | (350)     | 278     | 72      | –         |
| <i>Transfer between Stage 1 and Stage 2, net</i> | (278)     | 278     | –       | –         |
| <i>Transfer between Stage 1 and Stage 3, net</i> | (72)      | –       | 72      | –         |
| <i>Transfer between Stage 2 and Stage 3, net</i> | –         | –       | –       | –         |
| Changes in accrual interest                      | 147       | –       | –       | 147       |
| Exchange differences                             | (10,513)  | –       | –       | (10,513)  |
| Changes in fair value                            | 994       | –       | –       | 994       |
| As at 31 December 2020                           | 723,523   | 278     | 72      | 723,873   |

The movements in allowance for impairment losses of financial investments at amortised cost are summarised as follows:

|  | Stage 1<br>12-month ECL | Stage 2<br>Lifetime ECL | Stage 3<br>Lifetime ECL | Total        |
|--|-------------------------|-------------------------|-------------------------|--------------|
| <b>As at 1 January 2021</b>                      | <b>1,844</b>            | <b>682</b>              | <b>524</b>              | <b>3,050</b> |
| Addition/(Reversal), net                         | 45                      | 19                      | 91                      | 155          |
| Transfer out                                     | –                       | 258                     | (223)                   | 35           |
| Written-offs                                     | –                       | –                       | –                       | –            |
| Recovery after written-offs                      | –                       | –                       | –                       | –            |
| Transfers:                                       | 274                     | (673)                   | 399                     | –            |
| <i>Transfer between Stage 1 and Stage 2, net</i> | 274                     | (274)                   | –                       | –            |
| <i>Transfer between Stage 1 and Stage 3, net</i> | –                       | –                       | –                       | –            |
| <i>Transfer between Stage 2 and Stage 3, net</i> | –                       | (399)                   | 399                     | –            |
| Remeasurement                                    | (465)                   | 85                      | 101                     | (279)        |
| Exchange differences                             | (3)                     | –                       | –                       | (3)          |
| <b>As at 31 December 2021</b>                    | <b>1,695</b>            | <b>371</b>              | <b>892</b>              | <b>2,958</b> |

|  | Stage 1<br>12-month ECL | Stage 2<br>Lifetime ECL | Stage 3<br>Lifetime ECL | Total |
|--|-------------------------|-------------------------|-------------------------|-------|
| As at 1 January 2020                             | 2,455                   | 178                     | 630                     | 3,263 |
| Addition/(Reversal), net                         | (602)                   | –                       | (26)                    | (628) |
| Transfer out                                     | –                       | –                       | (83)                    | (83)  |
| Written-offs                                     | –                       | –                       | –                       | –     |
| Recovery after written-offs                      | –                       | –                       | –                       | –     |
| Transfers:                                       | (191)                   | 191                     | –                       | –     |
| <i>Transfer between Stage 1 and Stage 2, net</i> | (191)                   | 191                     | –                       | –     |
| <i>Transfer between Stage 1 and Stage 3, net</i> | –                       | –                       | –                       | –     |
| <i>Transfer between Stage 2 and Stage 3, net</i> | –                       | –                       | –                       | –     |
| Remeasurement                                    | 183                     | 313                     | 3                       | 499   |
| Exchange differences                             | (1)                     | –                       | –                       | (1)   |
| As at 31 December 2020                           | 1,844                   | 682                     | 524                     | 3,050 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 23 FINANCIAL INVESTMENTS (Continued)

The movements in allowance for impairment losses of debt investments at FVOCI are summarised as follows:

|  | Stage 1<br>12-month ECL | Stage 2<br>Lifetime ECL | Stage 3<br>Lifetime ECL | Total        |
|--|-------------------------|-------------------------|-------------------------|--------------|
| <b>As at 1 January 2021</b>                      | <b>670</b>              | <b>11</b>               | <b>563</b>              | <b>1,244</b> |
| Addition/(Reversal), net                         | (4)                     | –                       | –                       | (4)          |
| Transfer out                                     | –                       | (11)                    | (116)                   | (127)        |
| Written-offs                                     | –                       | –                       | –                       | –            |
| Recovery after written-offs                      | –                       | –                       | –                       | –            |
| Transfers:                                       | (9)                     | 9                       | –                       | –            |
| <i>Transfer between Stage 1 and Stage 2, net</i> | (9)                     | 9                       | –                       | –            |
| <i>Transfer between Stage 1 and Stage 3, net</i> | –                       | –                       | –                       | –            |
| <i>Transfer between Stage 2 and Stage 3, net</i> | –                       | –                       | –                       | –            |
| Remeasurement                                    | (111)                   | 1                       | 27                      | (83)         |
| Exchange differences                             | 9                       | –                       | (18)                    | (9)          |
| <b>As at 31 December 2021</b>                    | <b>555</b>              | <b>10</b>               | <b>456</b>              | <b>1,021</b> |

|  | Stage 1<br>12-month ECL | Stage 2<br>Lifetime ECL | Stage 3<br>Lifetime ECL | Total |
|--|-------------------------|-------------------------|-------------------------|-------|
| As at 1 January 2020                             | 660                     | –                       | 393                     | 1,053 |
| Addition/(Reversal), net                         | 84                      | –                       | –                       | 84    |
| Transfer out                                     | –                       | –                       | (27)                    | (27)  |
| Written-offs                                     | –                       | –                       | –                       | –     |
| Recovery after written-offs                      | –                       | –                       | –                       | –     |
| Transfers:                                       | (28)                    | 3                       | 25                      | –     |
| <i>Transfer between Stage 1 and Stage 2, net</i> | (3)                     | 3                       | –                       | –     |
| <i>Transfer between Stage 1 and Stage 3, net</i> | (25)                    | –                       | 25                      | –     |
| <i>Transfer between Stage 2 and Stage 3, net</i> | –                       | –                       | –                       | –     |
| Remeasurement                                    | 31                      | 8                       | 193                     | 232   |
| Exchange differences                             | (77)                    | –                       | (21)                    | (98)  |
| As at 31 December 2020                           | 670                     | 11                      | 563                     | 1,244 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

## 24 PRINCIPAL SUBSIDIARIES

### 24.1 Details of the principal subsidiaries

| Name of subsidiaries   | Legal representative/<br>Principal | Registered capital | Nature of entity          | Place of operation   | Place of registration | Nature of business | Principal business                | Proportion of shares held |          | Means of acquisition |
|--|------------------------------------|--------------------|---------------------------|--|-----------------------|--------------------|-----------------------------------|---------------------------|----------|----------------------|
|  |                                    |                    |                           |  |                       |                    |                                   | Direct                    | Indirect |                      |
| Bank of Communications Financial Leasing Co., Ltd.   | Zhao Jiong                         | RMB14,000,000,000  | Limited liability company | No. 333 Lujiazui Ring Road, Pudong New District, Shanghai                                | Mainland China        | Financial industry | Financial leasing                 | 100.00                    | -        | Establishment        |
| Bank of Communications International Trust Co., Ltd.   | Tong Xuewei                        | RMB5,764,705,882   | Limited liability company | No. 333 Lujiazui Ring Road, Pudong New District, Shanghai                                | Mainland China        | Financial industry | Trust investment                  | 85.00                     | -        | Investment           |
| Bank of Communications Schroder Fund Management Co., Ltd.  | Ruan Hong                          | RMB200,000,000     | Limited liability company | No. 8 Century Avenue, Pudong New District, Shanghai                                      | Mainland China        | Financial industry | Fund management                   | 65.00                     | -        | Establishment        |
| BOCOM MSIG Life Insurance Company Limited  | Zhang Hongliang                    | RMB5,100,000,000   | Limited liability company | No. 333 Lujiazui Ring Road, Pudong New District, Shanghai                                | Mainland China        | Financial industry | Life Insurance                    | 62.50                     | -        | Investment           |
| BoCom International Holdings Company Limited (formerly known as BoCom Securities Company Limited)  | Tan Yueheng                        | HKD2,734,392,000   | Foreign legal entity      | No. 68 Des Voeux Road Central, Central, Hong Kong  | Hong Kong China       | Financial industry | Securities dealing and brokerage  | 73.14                     | -        | Establishment        |
| China BoCom Insurance Co., Ltd. (formerly known as China Communications Insurance Company Limited) | FENG WANG                          | HKD400,000,000     | Foreign legal entity      | No. 8 Cotton Tree Drive, Central, Hong Kong  | Hong Kong China       | Financial industry | General insurance and reinsurance | 100.00                    | -        | Establishment        |
| Dayi BoCom Xingmin Rural Bank Ltd.   | Sun Jian                           | RMB230,000,000     | Limited liability company | No. 168-170 Central Fumin Road, Dayi County, Chengdu City, Sichuan Province              | Mainland China        | Financial industry | Commercial banking                | 97.29                     | -        | Establishment        |
| Zhejiang Anji BoCom Rural Bank Ltd.  | Xu Tong                            | RMB180,000,000     | Joint stock company       | Tower 1, Changshuo Square, Changshuo Street, Anji County, Huzhou City, Zhejiang Province | Mainland China        | Financial industry | Commercial banking                | 51.00                     | -        | Establishment        |
| Xinjiang Shihezi BoCom Rural Bank Company Ltd.   | Yang Xiaohui                       | RMB150,000,000     | Joint stock company       | No. 127 Dongyi Road, Shihezi, Xinjiang Uygur Autonomous Region                           | Mainland China        | Financial industry | Commercial banking                | 51.00                     | -        | Establishment        |
| Qingdao Laoshan BoCom Rural Bank Company Ltd.  | Sheng Liang                        | RMB150,000,000     | Joint stock company       | Room 101, Building 1, No. 156 Shenzhen Road, Laoshan District, Qingdao, Shandong         | Mainland China        | Financial industry | Commercial banking                | 51.00                     | -        | Establishment        |
| Bank of Communications (Luxemburg) Limited   | Zhang Shuren                       | EUR350,000,000     | Foreign legal entity      | 7 Rue de la Chapelle, L-1325 Luxembourg, Luxembourg                                      | Luxembourg            | Financial industry | Commercial banking                | 100.00                    | -        | Establishment        |
| Bank of Communications Financial Assets Investment Co., Ltd.                                       | Zheng Zhiyang                      | RMB10,000,000,000  | Limited liability company | No. 333 Lujiazui Ring Road, Pudong New District, Shanghai                                | Mainland China        | Financial industry | Debt-to-equity swaps              | 100.00                    | -        | Establishment        |
| Bank of Communications (Hong Kong) Limited   | Wu Ye                              | HKD37,900,000,000  | Foreign legal entity      | 20 Pedder Street, Central, Hong Kong   | Hong Kong China       | Financial industry | Commercial banking                | 100.00                    | -        | Establishment        |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 24 PRINCIPAL SUBSIDIARIES (Continued)

## 24.1 Details of the principal subsidiaries (Continued)

| Name of subsidiaries              | Legal representative/<br>Principal | Registered capital | Nature of entity          | Place of operation  | Place of registration | Nature of business     | Principal business                                  | Proportion of shares held |          | Means of acquisition |
|-----------------------------------|------------------------------------|--------------------|---------------------------|---|-----------------------|------------------------|---|---------------------------|----------|----------------------|
|                                   |                                    |                    |                           |   |                       |                        |   | Direct                    | Indirect |                      |
| BOCOM Wealth Management Co., Ltd. | Tu Hong                            | RMB8,000,000,000   | Limited liability company | No. 333 Lujiazui Ring Road, Pudong New District, Shanghai                                     | Mainland China        | Financial industry     | Financial products issuing and financial consulting | 100.00                    | -        | Establishment        |
| Bocom Brazil Holding Company Ltda | Sun Xu                             | BRL533,377,877     | Foreign legal entity      | Rua Voluntários daPátria, 89 - 1st floor - room 103 and 104, Botafogo, Rio de Janeiro, Brazil | Brazil                | Non-financial industry | Investment  | 100.00                    | -        | Establishment        |
| BANCO BoCom BBM S.A.              | Alexandre Lowenkron                | BRL313,686,111     | Foreign legal entity      | Av Barão de Tefé, 34-20th, Rio de Janeiro, Brazil, 20220-460                                  | Brazil                | Financial industry     | Commercial banking                                  | -                         | 80.00    | Investment           |

As at 31 December 2021, the amount of non-controlling interests of these subsidiaries is insignificant to the Group.

## 24.2 Auditors of subsidiaries

For the year ended 31 December 2021, PricewaterhouseCoopers Limited was the auditor of all principal subsidiaries incorporated in Hong Kong (for the year ended 31 December 2020: PricewaterhouseCoopers).

For the year ended 31 December 2021, PricewaterhouseCoopers ZhongTian LLP was the auditor of all principal subsidiaries incorporated in PRC (for the year ended 31 December 2020: PricewaterhouseCoopers ZhongTian Certified Public Accountants LLP).

For the year ended 31 December 2021, Bank of Communications (Luxemburg) Limited was audited by PricewaterhouseCoopers, Société coopérative (for the year ended 31 December 2020: PricewaterhouseCoopers, Société coopérative).

For the year ended 31 December 2021, BoCom Brazil Holding Company Ltda and BANCO Bocom BBM S.A. were audited by PricewaterhouseCoopers LLP (for the year ended 31 December 2020: PricewaterhouseCoopers LLP).

## 25 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

|  | As at<br>31 December 2021 | As at<br>31 December 2020 |
|--|---------------------------|---------------------------|
| Investments in associates                                |                           |                           |
| Investment cost  | 4,062                     | 3,312                     |
| Share of net profit of associates for the year           | 1,599                     | 1,328                     |
| Share of other equity changes of associates for the year | 93                        | 77                        |
| Dividend income  | (204)                     | (147)                     |
| Subtotal   | 5,550                     | 4,570                     |
| Investments in joint ventures                            | 229                       | 111                       |
| Total  | 5,779                     | 4,681                     |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

### 25 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (Continued)

The Group's investments in associates mainly include the investments in Jiangsu Changshu Rural Commercial Bank Co., Ltd. and Bank of Tibet Co., Ltd.

Jiangsu Changshu Rural Commercial Bank Co., Ltd. was incorporated in Changshu City, Jiangsu Province on 3 December 2001. The registered capital of the entity is RMB2,741 million, and the principal activities of the entity are banking activities. The Group held 9.01% of equity interest in this associate as at 31 December 2021 (31 December 2020: 9.01%).

There are 14 directors at the Board of Directors of Jiangsu Changshu Rural Commercial Bank Co., Ltd., of which 3 directors were nominated by the Group. Accordingly, the Group is able to exert significant influence on such company, so such company is accounted for as an associate.

Bank of Tibet Co., Ltd. was incorporated in Tibet Autonomous Region, PRC on 30 December 2011. The registered capital of the entity is RMB3,320 million, and the principal activities of the entity are banking activities. The Group held 10.60% of equity interest in this associate as at 31 December 2021 (31 December 2020: 10.60%).

There are 11 directors at the Board of Directors of Bank of Tibet Co., Ltd., of which 3 directors were nominated by the Group. Accordingly, the Group is able to exert significant influence on such company, so such company is accounted for as an associate.

### 26 PROPERTY AND EQUIPMENT

|  | Buildings | Construction in progress | Equipment And Transportation equipment | Aircraft and vessels | Property improvement | Total    |
|--|-----------|--------------------------|--|----------------------|----------------------|----------|
| Cost                                       |           |                          |  |                      |                      |          |
| As at 1 January 2021                       | 62,743    | 3,369                    | 26,655                                 | 136,705              | 9,654                | 239,126  |
| Additions                                  | 36        | 1,351                    | 3,486                                  | 16,758               | 200                  | 21,831   |
| Disposals                                  | (422)     | -                        | (2,687)                                | (9,596)              | (150)                | (12,855) |
| Construction in progress transfer in/(out) | 1,334     | (1,727)                  | -                                      | -                    | 393                  | -        |
| Transfer in from investment properties     | 899       | -                        | -                                      | -                    | -                    | 899      |
| Transfer into investment properties        | -         | -                        | -                                      | -                    | -                    | -        |
| Other transfers out                        | -         | (30)                     | -                                      | -                    | -                    | (30)     |
| As at 31 December 2021                     | 64,590    | 2,963                    | 27,454                                 | 143,867              | 10,097               | 248,971  |
| Accumulated depreciation                   |           |                          |  |                      |                      |          |
| As at 1 January 2021                       | (20,459)  | -                        | (20,679)                               | (21,241)             | (6,485)              | (68,864) |
| Charge for the year                        | (2,007)   | -                        | (2,242)                                | (6,738)              | (731)                | (11,718) |
| Disposals                                  | 183       | -                        | 2,592                                  | 2,430                | 104                  | 5,309    |
| Transfer into investment properties        | -         | -                        | -                                      | -                    | -                    | -        |
| As at 31 December 2021                     | (22,283)  | -                        | (20,329)                               | (25,549)             | (7,112)              | (75,273) |
| Allowance for impairment losses            |           |                          |  |                      |                      |          |
| As at 1 January 2021                       | -         | (16)                     | -                                      | (775)                | -                    | (791)    |
| Provision for impairment                   | -         | -                        | -                                      | (1,981)              | -                    | (1,981)  |
| Decrease                                   | -         | -                        | -                                      | 268                  | -                    | 268      |
| As at 31 December 2021                     | -         | (16)                     | -                                      | (2,488)              | -                    | (2,504)  |
| Net book value                             |           |                          |  |                      |                      |          |
| As at 31 December 2021                     | 42,307    | 2,947                    | 7,125                                  | 115,830              | 2,985                | 171,194  |



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

26 PROPERTY AND EQUIPMENT *(Continued)*

As at 31 December 2021, the net book value of the aircrafts and vessels used as collateral for borrowings was RMB57,988 million (31 December 2020: RMB58,496 million).

As at 31 December 2021, the property and equipment with re-registration procedure not completed amounted to RMB198 million (31 December 2020: RMB198 million). However, this registration process does not affect the rights of the Bank to these assets.

|  | Buildings | Construction in progress | Equipment And Transportation equipment | Aircraft and vessels | Property improvement | Total    |
|--|-----------|--------------------------|--|----------------------|----------------------|----------|
| Cost                                       |           |                          |  |                      |                      |          |
| As at 1 January 2020                       | 61,764    | 2,625                    | 26,034                                 | 133,756              | 9,378                | 233,557  |
| Additions                                  | 70        | 1,870                    | 2,822                                  | 18,424               | 98                   | 23,284   |
| Disposals                                  | (293)     | –                        | (2,201)                                | (15,475)             | (156)                | (18,125) |
| Construction in progress transfer in/(out) | 616       | (950)                    | –                                      | –                    | 334                  | –        |
| Transfer in from investment properties     | 589       | –                        | –                                      | –                    | –                    | 589      |
| Transfer into investment properties        | (3)       | –                        | –                                      | –                    | –                    | (3)      |
| Other transfers out                        | –         | (176)                    | –                                      | –                    | –                    | (176)    |
| As at 31 December 2020                     | 62,743    | 3,369                    | 26,655                                 | 136,705              | 9,654                | 239,126  |
| Accumulated depreciation                   |           |                          |  |                      |                      |          |
| As at 1 January 2020                       | (18,678)  | –                        | (20,644)                               | (16,876)             | (5,824)              | (62,022) |
| Charge for the year                        | (1,982)   | –                        | (2,027)                                | (6,882)              | (783)                | (11,674) |
| Disposals                                  | 200       | –                        | 1,992                                  | 2,517                | 122                  | 4,831    |
| Transfer into investment properties        | 1         | –                        | –                                      | –                    | –                    | 1        |
| As at 31 December 2020                     | (20,459)  | –                        | (20,679)                               | (21,241)             | (6,485)              | (68,864) |
| Allowance for impairment losses            |           |                          |  |                      |                      |          |
| As at 1 January 2020                       | –         | (16)                     | –                                      | (340)                | –                    | (356)    |
| Provision for impairment                   | –         | –                        | –                                      | (485)                | –                    | (485)    |
| Decrease                                   | –         | –                        | –                                      | 50                   | –                    | 50       |
| As at 31 December 2020                     | –         | (16)                     | –                                      | (775)                | –                    | (791)    |
| Net book value                             |           |                          |  |                      |                      |          |
| As at 31 December 2020                     | 42,284    | 3,353                    | 5,976                                  | 114,689              | 3,169                | 169,471  |

## 27 DEFERRED INCOME TAX

Deferred income taxes for transactions in PRC are calculated on all temporary differences using an effective tax rate of 25% for the year ended 31 December 2021 (for the year ended 31 December 2020: 25%). Deferred income taxes for transactions in Hong Kong are calculated on all temporary differences using an effective tax rate of 16.5% (for the year ended 31 December 2020: 16.5%).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

### 27 DEFERRED INCOME TAX (Continued)

Deferred income tax assets and liabilities are attributable to the following items:

|   | As at 31 December 2021                               |   | As at 31 December 2020                               |   |
|---|--|---|--|---|
|   | Deductible/<br>(Taxable)<br>temporary<br>differences | Deferred income<br>tax assets/<br>(liabilities) | Deductible/<br>(Taxable)<br>temporary<br>differences | Deferred income<br>tax assets/<br>(liabilities) |
| <b>Deferred income tax liabilities</b>                            |  |   |  |   |
| Changes in fair value of financial assets at FVOCI                | (6,240)  | (1,560)   | (6,272)  | (1,568)   |
| Changes in fair value of financial assets and liabilities at FVPL | (3,464)  | (866)   | (3,724)  | (931)   |
| Changes in fair value of derivative instruments                   | (39,220)   | (9,667)   | (54,212)   | (13,648)  |
| Changes in fair value of investment properties                    | (3,020)  | (755)   | (2,836)  | (709)   |
| Others  | (6,764)  | (1,691)   | (3,014)  | (754)   |
|   | (58,708)   | (14,539)  | (70,058)   | (17,610)  |
| <b>Deferred income tax assets</b>                                 |  |   |  |   |
| Allowance for impairment of assets                                | 119,972  | 29,993  | 101,480  | 25,370  |
| Provisions  | 9,672  | 2,418   | 8,672  | 2,168   |
| Changes in fair value of financial assets at FVOCI                | 5,132  | 1,283   | 4,292  | 1,073   |
| Changes in fair value of derivative instruments                   | 36,074   | 9,250   | 55,942   | 13,740  |
| Others  | 7,067  | 1,767   | 7,885  | 1,964   |
|   | 177,917  | 44,711  | 178,271  | 44,315  |
| Net deferred income tax assets                                    | 119,209  | 30,172  | 108,213  | 26,705  |

The above net deferred income tax assets are disclosed separately on the statements of financial position based on different taxation authorities and entities:

|  | As at<br>31 December 2021 | As at<br>31 December 2020 |
|--|---------------------------|---------------------------|
| Deferred income tax assets   | 32,061                    | 27,991                    |
| Deferred income tax liabilities  | (1,889)                   | (1,286)                   |
|  |                           |                           |
|  | As at<br>31 December 2021 | As at<br>31 December 2020 |
| Net opening balance  | 26,705                    | 23,147                    |
| Including: Deferred income tax assets  | 44,315                    | 33,452                    |
| Deferred income tax liabilities  | (17,610)                  | (10,305)                  |
| Net change in deferred income tax recognised in income tax expense in the current period/ year         | 3,863                     | 2,599                     |
| Net changes in deferred income tax recognised in other comprehensive income in the current period/year | (396)                     | 959                       |
| Net ending balance   | 30,172                    | 26,705                    |
| Including: Deferred income tax assets  | 44,711                    | 44,315                    |
| Deferred income tax liabilities  | (14,539)                  | (17,610)                  |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 28 OTHER ASSETS

|  | As at<br>31 December 2021 | As at<br>31 December 2020 |
|--|---------------------------|---------------------------|
| Accounts receivable and temporary payments | 66,062                    | 44,950                    |
| Less: Allowance for impairment losses (a)  | (3,265)                   | (2,764)                   |
| Advance payments                           | 16,328                    | 11,865                    |
| Investment properties (b)                  | 6,340                     | 7,353                     |
| Right-of-use assets (c)                    | 6,777                     | 6,669                     |
| Precious metal                             | 4,878                     | 10,631                    |
| Interest receivable <sup>(1)</sup>         | 4,250                     | 3,784                     |
| Land use rights and others                 | 2,077                     | 2,057                     |
| Intangible assets (d)                      | 1,797                     | 1,550                     |
| Long-term deferred expenses                | 721                       | 599                       |
| Foreclosed assets                          | 1,030                     | 967                       |
| Goodwill (e)                               | 395                       | 401                       |
| Refundable deposits                        | 458                       | 466                       |
| Unsettled assets                           | 31                        | 33                        |
| Others                                     | 6,738                     | 6,104                     |
|  | <b>114,617</b>            | <b>94,665</b>             |

Note 1: The interest receivable account only reflects the interest for relevant financial instruments which is due but not received on balance sheet date.

## (a) Allowance for impairment losses

|                                   | As at<br>1 January<br>2021 | Amounts<br>accrued | Reversal | Written-offs | Transfers (in)/<br>out | Recoveries<br>after written-<br>offs | Exchange<br>differences | As at<br>31 December<br>2021 |
|-----------------------------------|----------------------------|--------------------|----------|--------------|------------------------|--------------------------------------|-------------------------|------------------------------|
| Other receivables and prepayments | (2,764)                    | (2,137)            | 1,020    | 1,111        | (356)                  | (140)                                | 1                       | (3,265)                      |

|                                   | As at<br>1 January<br>2020 | Amounts<br>accrued | Reversal | Written-offs | Transfers (in)/<br>out | Recoveries<br>after written-<br>offs | Exchange<br>differences | As at<br>31 December<br>2020 |
|-----------------------------------|----------------------------|--------------------|----------|--------------|------------------------|--------------------------------------|-------------------------|------------------------------|
| Other receivables and prepayments | (2,717)                    | (1,972)            | 1,117    | 929          | -                      | (107)                                | (14)                    | (2,764)                      |

## (b) Investment properties

|                       | As at<br>1 January 2021 | Increases/<br>(Decreases) of the<br>year | Gains on property<br>revaluation | Exchange<br>differences | As at<br>31 December 2021 |
|-----------------------|-------------------------|--|----------------------------------|-------------------------|---------------------------|
| Investment properties | 7,353                   | (899)                                    | 183                              | (297)                   | 6,340                     |

|                       | As at<br>1 January 2020 | Increases/<br>(Decreases) of the<br>year | Gains on property<br>revaluation | Exchange<br>differences | As at<br>31 December 2020 |
|-----------------------|-------------------------|--|----------------------------------|-------------------------|---------------------------|
| Investment properties | 7,894                   | (577)                                    | 180                              | (144)                   | 7,353                     |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021  
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### 28 OTHER ASSETS (Continued)

#### (b) Investment properties (Continued)

The Group's investment properties are located in active real estate markets. The external appraisers make reasonable estimation of fair value using market prices of the similar properties.

As at 31 December 2021, fair value hierarchies of the investment properties of the Group are as follows:

|   | Level 1 | Level 2 | Level 3 | As at<br>31 December<br>2021 |
|---|---------|---------|---------|------------------------------|
| Commercial property units located in Hong Kong      | –       | –       | 770     | 770                          |
| Commercial property units located outside Hong Kong | –       | –       | 5,570   | 5,570                        |

The valuation of investment properties was performed by independent qualified professional valuers not connected to the Group. Valuation methodologies include "Rental Income Approach" and "Direct Comparison Approach". The inputs to these models mainly include growth rate of rental, capitalisation rate and unit price.

#### (c) Right-of-use assets

|                           | As at<br>31 December 2021 | As at<br>31 December 2020 |
|---------------------------|---------------------------|---------------------------|
| Cost                      |                           |                           |
| Opening balance           | 13,693                    | 13,513                    |
| Additions                 | 2,946                     | 3,030                     |
| Decreases                 | (2,659)                   | (2,850)                   |
| As at the end of the year | 13,980                    | 13,693                    |
| Accumulated depreciation: |                           |                           |
| Opening balance           | (7,024)                   | (6,992)                   |
| Additions                 | (2,416)                   | (2,445)                   |
| Decreases                 | 2,237                     | 2,413                     |
| As at the end of the year | (7,203)                   | (7,024)                   |
| Net book value            | 6,777                     | 6,669                     |
| Lease liabilities         | 6,640                     | 6,532                     |

As at 31 December 2021, committed by leases but not yet commenced amount to RMB158 million (as at 31 December 2020: RMB136 million).

The Group's right-of-use assets include the above assets and land use rights.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

28 OTHER ASSETS *(Continued)*

## (d) Intangible assets

|                          | Software |
|--------------------------|----------|
| Cost                     |          |
| As at 1 January 2021     | 3,888    |
| Additions                | 633      |
| Transfers in             | –        |
| Disposals                | (17)     |
| As at 31 December 2021   | 4,504    |
| Accumulated amortisation |          |
| As at 1 January 2021     | (2,338)  |
| Amortisation expense     | (376)    |
| Transfers in             | –        |
| Disposals                | 7        |
| As at 31 December 2021   | (2,707)  |
| Net book value           | 1,797    |

|                          | Software |
|--------------------------|----------|
| Cost                     |          |
| As at 1 January 2020     | 3,386    |
| Additions                | 522      |
| Transfers in             | –        |
| Disposals                | (20)     |
| As at 31 December 2020   | 3,888    |
| Accumulated amortisation |          |
| As at 1 January 2020     | (2,018)  |
| Amortisation expense     | (326)    |
| Transfers in             | –        |
| Disposals                | 6        |
| As at 31 December 2020   | (2,338)  |
| Net book value           | 1,550    |

## (e) Goodwill

|   | As at<br>1 January 2021 | Addition during the<br>year | Decrease during<br>the year | Exchange<br>differences | As at<br>31 December 2021 |
|---|-------------------------|-----------------------------|-----------------------------|-------------------------|---------------------------|
| Bank of Communications International<br>Trust Co., Ltd. | 200                     | –                           | –                           | –                       | 200                       |
| BOCOM MSIG Life Insurance Company<br>Limited            | 122                     | –                           | –                           | –                       | 122                       |
| BANCO Bocom BBM S.A.                                    | 79                      | –                           | –                           | (6)                     | 73                        |
| Total   | 401                     | –                           | –                           | (6)                     | 395                       |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

### 28 OTHER ASSETS (Continued)

#### (e) Goodwill (Continued)

|   | As at<br>1 January 2020 | Addition during the<br>year | Decrease during<br>the year | Exchange<br>differences | As at<br>31 December 2020 |
|---|-------------------------|-----------------------------|-----------------------------|-------------------------|---------------------------|
| Bank of Communications International<br>Trust Co., Ltd. | 200                     | –                           | –                           | –                       | 200                       |
| BOCOM MSIG Life Insurance Company<br>Limited            | 122                     | –                           | –                           | –                       | 122                       |
| BANCO Bocom BBM S.A.                                    | 108                     | –                           | –                           | (29)                    | 79                        |
| Total   | 430                     | –                           | –                           | (29)                    | 401                       |

At each end of year, the Group performed impairment tests on goodwill. In the test, the Group compares the book value of cash-generating unit (CGU) or CGUs (including goodwill) with the recoverable amount. If the recoverable amount is less than the book value, the related difference is recognised in profit or loss.

The Group calculates the recoverable amount of CGU and CGUs using cash flow models based on the management's approved financial forecasts and fixed growth rates afterwards.

As indicated by the impairment tests, goodwill arising from business combinations is not impaired and therefore, no impairment loss is recognised.

### 29 DUE TO AND PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

|   | As at<br>31 December 2021 | As at<br>31 December 2020 |
|---|---------------------------|---------------------------|
| Borrowing from central banks                                    | 334,794                   | 472,460                   |
| Accrued interest  | 4,564                     | 6,285                     |
| Due to banks  |                           |                           |
| – Banks operating in Mainland China                             | 242,492                   | 200,025                   |
| – Banks operating outside Mainland China                        | 11,871                    | 28,084                    |
| Due to other financial institutions                             |                           |                           |
| – Other financial institutions operating in Mainland China      | 831,784                   | 664,299                   |
| – Other financial institutions operating outside Mainland China | 6,810                     | 9,548                     |
| Accrued interest  | 3,683                     | 3,002                     |
| Placements from banks   |                           |                           |
| – Banks operating in Mainland China                             | 284,232                   | 164,583                   |
| – Banks operating outside Mainland China                        | 170,980                   | 153,341                   |
| Placements from other financial institutions                    |                           |                           |
| – Other financial institutions operating in Mainland China      | 2,364                     | 2,500                     |
| – Other financial institutions operating outside Mainland China | 8,583                     | 9,124                     |
| Accrued interest  | 860                       | 1,019                     |
| Financial assets sold under repurchase agreements               |                           |                           |
| Securities  |                           |                           |
| – Governments   | 9,782                     | 9,706                     |
| – Policy banks  | 801                       | 3,283                     |
| – Financial institutions  | 32,411                    | 25,515                    |
| – Corporates  | 1,716                     | 9,312                     |
| Bills   | –                         | 25,363                    |
| Accrued interest  | 41                        | 42                        |
| Total   | 1,947,768                 | 1,787,491                 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 30 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

|   | As at<br>31 December 2021 | As at<br>31 December 2020 |
|---|---------------------------|---------------------------|
| Short position of securities held for trading             | 134                       | –                         |
| Certificates of deposit issued                            | 1,400                     | 7,868                     |
| Financial liabilities related to precious metal contracts | 15,247                    | 16,104                    |
| Notes issued  | 1,385                     | 417                       |
| Others(a)   | 31,882                    | 4,890                     |
| Total   | 50,048                    | 29,279                    |

(a) As at 31 December 2021, others mainly are liabilities of consolidated structured entities and shares held by other parties rather than the Group.

Except for certificates of deposit issued by branch in Hong Kong, notes issued by BoCom International Holdings Company Limited, and shares of consolidated structured entities held by other parties rather than the Group which are designated at fair value through profit or loss, financial liabilities at fair value through profit or loss are financial liabilities held for trading.

## Financial liabilities designated at fair value through profit or loss

|  | As at<br>31 December 2021 | As at<br>31 December 2020 |
|--|---------------------------|---------------------------|
| Difference between carrying amount and maturity amount |                           |                           |
| Fair values  | 34,667                    | 13,175                    |
| Amount payable at maturity                             | 34,709                    | 12,962                    |
|  | (42)                      | 213                       |

For the year ended 31 December 2021 and the year ended 31 December 2020, there were no significant changes in the fair value of the Group's financial liabilities designated at fair value through profit or loss that were attributable to the changes in credit risk.

## 31 DUE TO CUSTOMERS

|                                | As at<br>31 December 2021 | As at<br>31 December 2020 |
|--------------------------------|---------------------------|---------------------------|
| Corporate demand deposits      | 2,061,672                 | 2,005,934                 |
| Corporate time deposits        | 2,488,348                 | 2,335,590                 |
| Personal demand deposits       | 850,831                   | 812,534                   |
| Personal time deposits         | 1,551,981                 | 1,379,697                 |
| Other deposits                 | 3,359                     | 5,499                     |
| Due to customers               | 6,956,191                 | 6,539,254                 |
| Accrued interest               | 83,586                    | 68,076                    |
| Total                          | 7,039,777                 | 6,607,330                 |
| Including:                     |                           |                           |
| Deposits pledged as collateral | 220,878                   | 229,546                   |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

### 32 CERTIFICATES OF DEPOSITS ISSUED

Certificates of deposits at year end were issued by the Bank's domestic branches, branches in Macau, Hong Kong, New York, Tokyo, Singapore, Seoul, Sydney, London and Luxembourg, Bank of Communications (Luxemburg) Limited, Bank of Communications (Hong Kong) Limited and BANCO Bocom BBM S.A., which were measured at amortised cost.

### 33 DEBT SECURITIES ISSUED

|                            |      | As at<br>31 December 2021 | As at<br>31 December 2020 |
|----------------------------|------|---------------------------|---------------------------|
| Carried at amortised cost: |      |                           |                           |
| Subordinated bonds         |      |                           |                           |
| The Bank                   | 33.1 | –                         | 25,950                    |
| Subsidiaries               | 33.1 | 4,800                     | –                         |
| Tier-2 capital bonds       |      |                           |                           |
| The Bank                   | 33.2 | 139,971                   | 113,945                   |
| Subsidiaries               | 33.2 | 8,371                     | 1,995                     |
| Bonds                      |      |                           |                           |
| The Bank                   | 33.3 | 256,571                   | 251,580                   |
| Subsidiaries               | 33.3 | 75,501                    | 85,767                    |
| Accrued interest           |      | 6,158                     | 5,145                     |
| Subtotal                   |      | 491,372                   | 484,382                   |
| Carried at fair value:     |      |                           |                           |
| Bonds                      |      |                           |                           |
| The Bank                   | 33.3 | 12,153                    | 13,373                    |
| Total                      |      | 503,525                   | 497,755                   |

Note: Debt securities issued are designated as fair value through profit or loss upon initiation as the Hong Kong branch of the Bank considers such designation could eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise result from measuring the corresponding derivative assets or recognising the gains or losses on them on different basis. Accordingly, the debts are designated as fair value through profit or loss with changes in fair values charged to profit and loss account. For the year ended 31 December 2021 and the year ended 31 December 2020, there were no significant changes that were attributable to the Group's changes in credit risks.

#### 33.1 Subordinated bonds

Detailed information of subordinated bonds is disclosed as follows:

|                 | Currency | Issue place    | Coupon rate % | Par value<br>(CCY) | Issue date | Maturity | Note | Ending balance | Opening<br>balance |
|-----------------|----------|----------------|---------------|--------------------|------------|----------|------|----------------|--------------------|
| 11 BoComm 01    | RMB      | Mainland China | 5.75          | 26,000             | 2011/10/21 | 15 years | (a)  | –              | 25,950             |
| Subtotal        |          |                |               |                    |            |          |      | –              | 25,950             |
| Subsidiary      |          |                |               |                    |            |          |      |                |                    |
| 21 Insurance 01 | RMB      | Mainland China | 4.30          | 3,000              | 2021/03/25 | 10 years | (b)  | 3,000          | –                  |
| 21 Insurance 02 | RMB      | Mainland China | 3.93          | 1,800              | 2021/07/27 | 10 years | (c)  | 1,800          | –                  |
| Subtotal        |          |                |               |                    |            |          |      | 4,800          | –                  |
| Total           |          |                |               |                    |            |          |      | 4,800          | 25,950             |



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 33 DEBT SECURITIES ISSUED (Continued)

## 33.1 Subordinated bonds (Continued)

- (a) The Group has redeemed full face value of 11 BoComm 01 by exercising redemption option on 24 October 2021.
- (b) BOCOM MSIG Life Insurance Company Limited has an option to redeem 21 Insurance 01 at the par value partially or as a whole on the last day of the fifth interest-bearing year, provided that the permission of PBOC and CBIRC is acquired in advance and the BOCOM MSIG Life Insurance Company Limited's solvency ratio is not less than 100% if the redemption is exercised.
- (c) BOCOM MSIG Life Insurance Company Limited has an option to redeem 21 Insurance 02 at the par value partially or as a whole on the last day of the fifth interest-bearing year, provided that the permission of PBOC and CBIRC is acquired in advance and the BOCOM MSIG Life Insurance Company Limited's solvency ratio is not less than 100% if the redemption is exercised.

## 33.2 Tier 2 capital bonds

Detailed information of Tier 2 capital bonds is disclosed as follows:

|                     | Currency | Issue place     | Coupon rate % | Par value<br>(CCY) | Issue date | Maturity | Note | Ending balance | Opening<br>balance |
|---------------------|----------|-----------------|---------------|--------------------|------------|----------|------|----------------|--------------------|
| The Bank            |          |                 |               |                    |            |          |      |                |                    |
| 14 BoComm 01-Euro   | EUR      | Hong Kong China | 3.625         | 500                | 2014/10/03 | 12 years | (a)  | –              | 3,984              |
| 17 BoComm           | RMB      | Mainland China  | 4.50          | 30,000             | 2017/04/11 | 10 years | (b)  | 29,978         | 29,973             |
| 19 BoComm 01        | RMB      | Mainland China  | 4.10          | 30,000             | 2019/08/14 | 10 years | (c)  | 29,998         | 29,993             |
| 19 BoComm 02        | RMB      | Mainland China  | 4.49          | 10,000             | 2019/08/14 | 15 years | (d)  | 9,999          | 9,999              |
| 20 BoComm           | RMB      | Mainland China  | 3.24          | 40,000             | 2020/05/19 | 10 years | (e)  | 39,996         | 39,996             |
| 21 BoComm           | RMB      | Mainland China  | 3.65          | 30,000             | 2021/09/23 | 10 years | (f)  | 30,000         | –                  |
| Subtotal            |          |                 |               |                    |            |          |      | 139,971        | 113,945            |
| Subsidiaries        |          |                 |               |                    |            |          |      |                |                    |
| 18 Leasing 02       | RMB      | Mainland China  | 5.15          | 2,000              | 2018/09/18 | 10 years | (g)  | 1,996          | 1,995              |
| 21 BoComm Hong Kong | USD      | Hong Kong China | 2.304         | 1,000              | 2021/07/08 | 10 years | (h)  | 6,375          | –                  |
| Subtotal            |          |                 |               |                    |            |          |      | 8,371          | 1,995              |
| Total               |          |                 |               |                    |            |          |      | 148,342        | 115,940            |

- (a) The Group has redeemed full face value of 14 BoComm 01-Euro by exercising redemption option on 3 October 2021.
- (b) The Group has an option to redeem 17 BoComm at the par value partially or as a whole on 13 April 2022, the first day upon the end of the fifth interest-bearing year, provided that the CBIRC's permission is acquired in advance and the Group's capital structure fulfills the CBIRC requirements on capital if the redemption is exercised.
- (c) The Group has an option to redeem 19 BoComm 01 at the par value partially or as a whole on 16 August 2024, the last day of the interest-bearing year with early redemption option embedded, provided that the CBIRC's permission is acquired in advance and the Group's capital structure fulfills the CBIRC requirements on capital if the redemption is exercised.
- (d) The Group has an option to redeem 19 BoComm 02 at the par value partially or as a whole on 16 August 2029, the last day of the interest-bearing year with early redemption option embedded, provided that the CBIRC's permission is acquired in advance and the Group's capital structure fulfills the CBIRC requirements on capital if the redemption is exercised.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

### 33 DEBT SECURITIES ISSUED (Continued)

#### 33.2 Tier 2 capital bonds (Continued)

- (e) The Group has an option to redeem 20 BoComm at the par value partially or as a whole on 21 May 2025, the last day of the interest-bearing year with early redemption option embedded, provided that the CBIRC's permission is acquired in advance and the Group's capital structure fulfills the CBIRC requirements on capital if the redemption is exercised.
- (f) The Group has an option to redeem 20 BoComm at the par value partially or as a whole on 27 September 2026, the last day of the interest-bearing year with early redemption option embedded, provided that the CBIRC's permission is acquired in advance and the Group's capital structure fulfills the CBIRC requirements on capital if the redemption is exercised.
- (g) The Group has an option to redeem 18 Leasing 02 at the par value partially or as a whole on 20 September 2023, the first day upon the end of the fifth interest-bearing year, provided that the CBIRC's permission is acquired in advance and the Group's capital structure fulfills the CBIRC requirements on capital if the redemption is exercised.
- (h) The Group has an option to redeem 21 BoComm Hong Kong as a whole on 8 July 2026. If the issuer does not exercise the redemption right by 8 July 2026, the interest rate will be readjusted based on the 5-year U.S. Treasury rate plus 140 basis points initial rate differential.

These tier-2 capital bonds have the write-down feature, which allows the Group to write down the entire principals of the bonds when regulatory triggering events as stipulated in the offering documents occur and any accumulated unpaid interest would become not payable. These bonds are regarded as tier-2 capital without any guarantees provided and the proceeds of the debts cannot be used for compensating daily operating loss of the Group.

#### 33.3 Bonds

Detailed information of bonds held at amortised cost is as follows:

|                                       | Currency | Issue place     | Coupon<br>rate % | Par value<br>(CCY) | Issue date | Maturity | Ending<br>balance | Opening<br>balance |
|---------------------------------------|----------|-----------------|------------------|--------------------|------------|----------|-------------------|--------------------|
| The Bank                              |          |                 |                  |                    |            |          |                   |                    |
| 16 BoComm Green Financial bond 02     | RMB      | Mainland China  | 3.25             | 20,000             | 2016/11/18 | 5 years  | –                 | 20,000             |
| 18 Bocom Micro Small Enterprises Bond | RMB      | Mainland China  | 3.79             | 10,000             | 2018/11/28 | 3 years  | –                 | 10,000             |
| 19 Bocomm 01                          | RMB      | Mainland China  | 3.35             | 50,000             | 2019/11/25 | 3 years  | 50,000            | 50,000             |
| 19 Bocomm 02                          | RMB      | Mainland China  | 3.35             | 40,000             | 2019/12/11 | 3 years  | 40,000            | 40,000             |
| 20 Bocomm 01                          | RMB      | Mainland China  | 3.18             | 50,000             | 2020/08/05 | 3 years  | 50,000            | 50,000             |
| 20 Bocomm 02                          | RMB      | Mainland China  | 3.50             | 40,000             | 2020/11/11 | 3 years  | 40,000            | 40,000             |
| 21 Bocom Micro Small Enterprises Bond | RMB      | Mainland China  | 3.40             | 40,000             | 2021/04/06 | 3 years  | 40,000            | –                  |
| 14 Formosa Bond C                     | RMB      | Taiwan China    | 4.15             | 500                | 2014/06/23 | 7 years  | –                 | 500                |
| 17 medium-term notes 02               | USD      | Hong Kong China | 3MLibor+0.88     | 300                | 2017/05/15 | 5 years  | 1,912             | 1,957              |
| 17 medium-term notes 04               | USD      | Hong Kong China | 3MLibor+0.90     | 600                | 2017/12/04 | 5 years  | 3,825             | 3,915              |
| 18 medium-term notes 01               | USD      | Hong Kong China | 3MLibor+0.75     | 600                | 2018/05/17 | 3 years  | –                 | 3,915              |
| 18 medium-term notes 02               | USD      | Hong Kong China | 3MLibor+0.85     | 700                | 2018/05/17 | 5 years  | 4,462             | 4,567              |
| 20 Hong Kong medium-term notes 01     | HKD      | Hong Kong China | 2.25             | 2,800              | 2020/01/22 | 2 years  | 2,289             | 2,357              |
| 20 Hong Kong medium-term notes 02     | USD      | Hong Kong China | 3MLibor+0.58     | 1,300              | 2020/01/22 | 3 years  | 8,287             | 8,482              |
| 20 Hong Kong medium-term notes 04     | USD      | Hong Kong China | 3MLibor+0.75     | 100                | 2020/06/05 | 3 years  | 637               | 651                |
| 20 Hong Kong medium-term notes 05     | USD      | Hong Kong China | 3MLibor+0.8      | 650                | 2020/07/20 | 3 years  | 4,143             | 4,241              |
| 20 Hong Kong medium-term notes 06     | USD      | Hong Kong China | 3MLibor+0.9      | 400                | 2020/07/20 | 5 years  | 2,550             | 2,610              |
| 20 Hong Kong medium-term notes 07     | USD      | Hong Kong China | 1.20             | 800                | 2020/09/10 | 5 years  | 5,084             | 5,199              |
| 20 Hong Kong medium-term notes 08     | USD      | Hong Kong China | 3MLibor+0.8      | 350                | 2020/09/10 | 3 years  | 2,231             | 2,284              |
| 21 Macau PA-medium-term notes         | MOP      | Macau China     | 0.85             | 1,200              | 2021/12/15 | 2 years  | 951               | –                  |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 33 DEBT SECURITIES ISSUED (Continued)

## 33.3 Bonds (Continued)

Detailed information of bonds held at amortised cost is as follows: (Continued)

|                             | Currency | Issue place     | Coupon rate % | Par value (CCY) | Issue date | Maturity | Ending balance | Opening balance |
|-----------------------------|----------|-----------------|---------------|-----------------|------------|----------|----------------|-----------------|
| P14JHTP1C                   | RMB      | Taiwan China    | 3.90          | 700             | 2014/12/04 | 7 years  | –              | 702             |
| P14JHTP1D                   | RMB      | Taiwan China    | 4.00          | 200             | 2014/12/04 | 10 years | 200            | 200             |
| Subtotal                    |          |                 |               |                 |            |          | 256,571        | 251,580         |
| Subsidiaries                |          |                 |               |                 |            |          |                |                 |
| 13 Azure Orbit              | USD      | Hong Kong China | 3.75          | 500             | 2013/03/06 | 10 years | 3,187          | 3,260           |
| 5 Year USD bond             | USD      | Hong Kong China | 2.625         | 600             | 2016/03/15 | 5 years  | –              | 3,914           |
| 3 Year USD bond             | USD      | Hong Kong China | 3.50          | 300             | 2018/01/25 | 3 years  | –              | 1,957           |
| 5 Year USD bond             | USD      | Hong Kong China | 3.75          | 950             | 2018/01/25 | 5 years  | 6,047          | 6,179           |
| 10 Year USD bond            | USD      | Hong Kong China | 4.00          | 250             | 2018/01/25 | 10 years | 1,580          | 1,614           |
| 19 Brazil bonds             | BRL      | Brazil          | 110%SELIC     | 200             | 2019/01/30 | 5 years  | 46             | 48              |
| 16 Leasing 03               | RMB      | Mainland China  | 3.25          | 500             | 2016/09/07 | 5 years  | –              | 449             |
| 18 Leasing 01               | RMB      | Mainland China  | 4.53          | 4,000           | 2018/07/05 | 3 years  | –              | 3,998           |
| 18 Leasing 02               | RMB      | Mainland China  | 4.14          | 4,000           | 2018/10/22 | 3 years  | –              | 3,997           |
| 19 Leasing 01               | RMB      | Mainland China  | 3.68          | 5,000           | 2019/05/20 | 3 years  | 4,998          | 4,994           |
| 19 Leasing 02               | RMB      | Mainland China  | 3.65          | 5,000           | 2019/07/08 | 3 years  | 4,998          | 4,994           |
| 19 Leasing 03               | RMB      | Mainland China  | 3.49          | 3,500           | 2019/10/22 | 3 years  | 3,498          | 3,495           |
| 20 Leasing 01               | RMB      | Mainland China  | 3.65          | 3,000           | 2020/11/05 | 3 years  | 2,996          | 2,915           |
| 21 Leasing 01               | RMB      | Mainland China  | 3.62          | 4,000           | 2021/03/01 | 3 years  | 3,993          | –               |
| 21 Leasing 02               | RMB      | Mainland China  | 3.45          | 3,000           | 2021/04/22 | 3 years  | 2,625          | –               |
| Azure Nova                  | USD      | Hong Kong China | 2.625         | 1,000           | 2016/10/25 | 5 years  | –              | 6,514           |
| Azure Nova                  | USD      | Hong Kong China | 3.50          | 1,050           | 2017/03/21 | 5 years  | 6,692          | 6,843           |
| Azure Nova                  | USD      | Hong Kong China | 4.25          | 250             | 2017/03/21 | 10 years | 1,589          | 1,626           |
| 19 USD medium-term notes 01 | USD      | Hong Kong China | 4.00          | 800             | 2019/01/22 | 3 years  | 3,693          | 3,726           |
| 19 USD medium-term notes 02 | USD      | Hong Kong China | 4.375         | 700             | 2019/01/22 | 5 years  | 2,766          | 2,713           |
| 19 USD medium-term notes 03 | USD      | Hong Kong China | 3MLibor+1.20  | 120             | 2019/04/12 | 3 years  | 765            | 783             |
| 19 USD medium-term notes 04 | USD      | Hong Kong China | 3MLibor+1.175 | 400             | 2019/09/05 | 5 years  | 1,129          | 1,319           |
| 19 USD medium-term notes 05 | USD      | Hong Kong China | 2.625         | 200             | 2019/09/05 | 5 years  | 723            | 767             |
| 19 USD medium-term notes 06 | USD      | Hong Kong China | 3MLibor+1.05  | 180             | 2019/10/25 | 3 years  | 1,148          | 1,174           |
| 19 USD medium-term notes 07 | USD      | Hong Kong China | 3MLibor+1.075 | 600             | 2019/12/10 | 5 years  | 1,585          | 1,773           |
| 20 USD medium-term notes 01 | USD      | Hong Kong China | 3MLibor+0.95  | 500             | 2020/03/02 | 5 years  | 1,710          | 2,021           |
| 20 USD medium-term notes 02 | USD      | Hong Kong China | 3MLibor+0.83  | 300             | 2020/03/02 | 3 years  | 1,492          | 1,602           |
| 20 USD medium-term notes 03 | USD      | Hong Kong China | 1.750         | 350             | 2020/07/08 | 3 years  | 1,515          | 1,650           |
| 20 USD medium-term notes 04 | USD      | Hong Kong China | 3MLibor+1.70  | 450             | 2020/07/08 | 5 years  | 1,348          | 1,457           |
| 21 USD medium-term notes 01 | USD      | Hong Kong China | 1.125         | 500             | 2021/06/16 | 3 years  | 1,865          | –               |
| 21 USD medium-term notes 02 | USD      | Hong Kong China | 1.07          | 100             | 2021/09/27 | 3 years  | 634            | –               |
| 21 Bocomm International 01  | USD      | Hong Kong China | 1.75          | 500             | 2021/06/22 | 5 years  | 2,890          | –               |
| 20 Financial Investing 01   | RMB      | Mainland China  | 2.70          | 3,000           | 2020/03/11 | 3 years  | 2,999          | 2,997           |
| 20 Financial Investing 02   | RMB      | Mainland China  | 2.80          | 7,000           | 2020/03/11 | 5 years  | 6,990          | 6,988           |
| Subtotal                    |          |                 |               |                 |            |          | 75,501         | 85,767          |
| Total                       |          |                 |               |                 |            |          | 332,072        | 337,347         |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

### 33 DEBT SECURITIES ISSUED (Continued)

#### 33.3 Bonds (Continued)

Detailed information of bonds held at fair value is as follows:

|                                    | Currency | Issue place     | Coupon rate % | Par value (CCY) | Issue date | Maturity | Fair value at the end of the period | Fair value at the beginning of the period |
|------------------------------------|----------|-----------------|---------------|-----------------|------------|----------|-------------------------------------|---|
| 14 Hong Kong bond                  | HKD      | Hong Kong China | 4.00          | 500             | 2014/02/14 | 7 years  | –                                   | 428                                       |
| 19 Hong Kong RMB medium-term notes | RMB      | Hong Kong China | 3.40          | 2,500           | 2019/03/21 | 2 years  | –                                   | 2,526                                     |
| 19 Hong Kong medium-term notes     | HKD      | Hong Kong China | 2.85          | 3,500           | 2019/03/21 | 5 years  | 3,027                               | 3,157                                     |
| 19 Hong Kong USD medium-term notes | USD      | Hong Kong China | 3MLibor+0.78  | 800             | 2019/03/21 | 3 years  | 5,106                               | 5,226                                     |
| 20 Hong Kong medium-term notes 03  | RMB      | Hong Kong China | 3.15          | 2,000           | 2020/01/22 | 2 years  | 2,034                               | 2,036                                     |
| 21 Hong Kong medium-term notes 01  | HKD      | Hong Kong China | 0.95          | 1,200           | 2021/12/13 | 2 years  | 980                                 | –   |
| 21 Hong Kong medium-term notes 02  | RMB      | Hong Kong China | 3.15          | 1,000           | 2021/12/13 | 3 years  | 1,006                               | –   |
| Total                              |          |                 |               |                 |            |          | 12,153                              | 13,373                                    |

### 34 OTHER LIABILITIES

|   | As at 31 December 2021 | As at 31 December 2020 |
|---|------------------------|------------------------|
| Insurance liabilities   | 74,493                 | 58,842                 |
| Clearing and settlement   | 24,056                 | 31,482                 |
| Temporary receipts  | 16,015                 | 23,212                 |
| Staff compensation payable  | 14,401                 | 11,591                 |
| Deposits received for finance lease   | 6,842                  | 6,893                  |
| Lease liabilities   | 6,640                  | 6,532                  |
| Provision for outstanding litigations (a)   | 472                    | 1,032                  |
| Expected credit impairment allowance of credit related commitments and financial guarantees (b) | 9,242                  | 10,500                 |
| VAT and other taxes payable   | 5,639                  | 4,208                  |
| Special purpose funding   | 2,108                  | 2,571                  |
| Dividends payable   | 81                     | 124                    |
| Others  | 52,706                 | 44,835                 |
| Total   | 212,695                | 201,822                |

#### (a) Movements in the provision for outstanding litigations

|                                       | As at 1 January 2021 | Amounts accrued during the year | Amounts settled during the year | Amounts reversed during the year | Exchange differences | As at 31 December 2021 |
|---------------------------------------|----------------------|---------------------------------|---------------------------------|----------------------------------|----------------------|------------------------|
| Provision for outstanding litigations | 1,032                | 99                              | (361)                           | (298)                            | –                    | 472                    |

|                                       | As at 1 January 2020 | Amounts accrued during the year | Amounts settled during the year | Amounts reversed during the year | Exchange differences | As at 31 December 2020 |
|---------------------------------------|----------------------|---------------------------------|---------------------------------|----------------------------------|----------------------|------------------------|
| Provision for outstanding litigations | 1,029                | 120                             | (29)                            | (88)                             | –                    | 1,032                  |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 34 OTHER LIABILITIES (Continued)

- (b) Movements in the expected credit impairment allowance of credit related commitments and financial guarantees

|  | Stage 1<br>12-month ECL | Stage 2<br>Lifetime ECL | Stage 3<br>Lifetime ECL | Total   |
|--|-------------------------|-------------------------|-------------------------|---------|
| <b>As at 1 January 2021</b>                      | 6,858                   | 3,642                   | –                       | 10,500  |
| Addition   | 1,200                   | (65)                    | –                       | 1,135   |
| Transfer out                                     | –                       | (3,244)                 | –                       | (3,244) |
| Transfers:                                       | (37)                    | 37                      | –                       | –       |
| <i>Transfer between Stage 1 and Stage 2, net</i> | (37)                    | 37                      | –                       | –       |
| Remeasurement                                    | 725                     | 138                     | –                       | 863     |
| Exchange differences                             | (10)                    | (2)                     | –                       | (12)    |
| <b>As at 31 December 2021</b>                    | 8,736                   | 506                     | –                       | 9,242   |

|  | Stage 1<br>12-month ECL | Stage 2<br>Lifetime ECL | Stage 3<br>Lifetime ECL | Total  |
|--|-------------------------|-------------------------|-------------------------|--------|
| <b>As at 1 January 2020</b>                      | 5,358                   | 974                     | –                       | 6,332  |
| Addition   | 1,443                   | 2,261                   | –                       | 3,704  |
| Transfer out                                     | (35)                    | (651)                   | –                       | (686)  |
| Transfers:                                       | (928)                   | 928                     | –                       | –      |
| <i>Transfer between Stage 1 and Stage 2, net</i> | (928)                   | 928                     | –                       | –      |
| Remeasurement                                    | 1,037                   | 133                     | –                       | 1,170  |
| Exchange differences                             | (17)                    | (3)                     | –                       | (20)   |
| <b>As at 31 December 2020</b>                    | 6,858                   | 3,642                   | –                       | 10,500 |

## 35 SHARE CAPITAL AND CAPITAL SURPLUS

|                        | Number of shares<br>(in millions) | Ordinary shares<br>of RMB1 each | Capital surplus |
|------------------------|-----------------------------------|---------------------------------|-----------------|
| As at 1 January 2021   | 74,263                            | 74,263                          | 111,428         |
| As at 31 December 2021 | 74,263                            | 74,263                          | 111,428         |

|                        | Number of shares<br>(in millions) | Ordinary shares<br>of RMB1 each | Capital surplus |
|------------------------|-----------------------------------|---------------------------------|-----------------|
| As at 1 January 2020   | 74,263                            | 74,263                          | 113,663         |
| As at 31 December 2020 | 74,263                            | 74,263                          | 111,428         |

As at 31 December 2021 and 31 December 2020, the number of A shares of the Group was 39,251 million, and the number of H shares of the Group was 35,012 million, both with par value of RMB1 per share.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

### 35 SHARE CAPITAL AND CAPITAL SURPLUS (Continued)

As at 31 December 2021 and 31 December 2020, the Group's capital surplus is listed as follows:

|                       | As at<br>1 January 2021 | Additions | Reductions | As at<br>31 December<br>2021 |
|-----------------------|-------------------------|-----------|------------|------------------------------|
| Share premium         | 110,770                 | –         | –          | 110,770                      |
| Other capital reserve | 658                     | –         | –          | 658                          |
| Total                 | 111,428                 | –         | –          | 111,428                      |

|                       | As at<br>1 January 2020 | Additions | Reductions | As at<br>31 December<br>2020 |
|-----------------------|-------------------------|-----------|------------|------------------------------|
| Share premium         | 113,005                 | –         | (2,235)    | 110,770                      |
| Other capital reserve | 658                     | –         | –          | 658                          |
| Total                 | 113,663                 | –         | (2,235)    | 111,428                      |

### 36 OTHER EQUITY INSTRUMENTS

#### 36.1 Preference shares

##### 36.1.1 Preference shares outstanding at the end of the period

| Domestic preference<br>shares | Issue date          | Accounting<br>classification | Dividend<br>rate % | Issue price      | Amount in shares | In original<br>currency (in<br>millions) | In RMB (in<br>millions) | Maturity         | Conversion<br>condition | Conversion                            |
|-------------------------------|---------------------|------------------------------|--------------------|------------------|------------------|--|-------------------------|------------------|-------------------------|---------------------------------------|
| Preference shares in RMB      | 2 September<br>2016 | Equity                       | 4.07               | RMB100/<br>share | 450,000,000      | 45,000                                   | 45,000                  | No maturity date | Mandatory               | No conversion<br>during the<br>period |
| Total                         |                     |                              |                    |                  |                  |  | 45,000                  |                  |                         |                                       |
| Less: Issuance fees           |                     |                              |                    |                  |                  |  | (48)                    |                  |                         |                                       |
| Carrying amount               |                     |                              |                    |                  |                  |  | 44,952                  |                  |                         |                                       |

##### 36.1.2 Movements of preference shares issued

|                           | As at<br>1 January 2021 | Additions | Decreases | As at<br>31 December<br>2021 |
|---------------------------|-------------------------|-----------|-----------|------------------------------|
| Domestic reference shares |                         |           |           |                              |
| Amount (shares)           | 450,000,000             | –         | –         | 450,000,000                  |
| In RMB(millions)          | 44,952                  | –         | –         | 44,952                       |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

### 36 OTHER EQUITY INSTRUMENTS *(Continued)*

#### 36.1 Preference shares *(Continued)*

##### **36.1.3 Main clauses**

##### *Domestic preference shares*

##### (a) Dividend

The domestic preference shares will accrue dividends on their issue price at the relevant dividend rate below:

- (1) From and including the issue date to but excluding the first reset date, at the rate of 3.90% per annum; and
- (2) The dividend rate will be re-priced every five years thereafter with reference to the arithmetic average value (rounding off to 0.01%) of five-year Chinese treasury bonds yield at the date which is 20 transaction days before the reset date (excluding the date) plus a fixed premium of 1.37%. As authorised by the shareholders' annual general meeting, the Board of Directors has the sole discretion to declare and distribute dividends on domestic preference shares.

With effect from 7 September 2021, the Bank has adjusted the dividend rate for the second dividend rate adjustment period to 4.07%.

The dividend for domestic preference shares is non-cumulative. Where the Bank determines to cancel the dividend for domestic preference shares in whole or in part, the omitted dividend will not be carried forward and claimed in the future period. After receiving dividends at the agreed dividend rate, domestic preference shareholders of the Bank will not participate in the distribution of residual profits with ordinary shareholders. Domestic preference shares issued by the Bank have the same dividend distribution order as the offshore preference shares.

##### (b) Conditions to distribution of dividends

The Bank could pay dividends while the Bank still has distributable after-tax profit after making up previous years' losses, contributing to the statutory reserve and making general provisions, and the Bank's capital adequacy ratio meets regulatory requirements. Domestic preference shareholders of the Bank are senior to the ordinary shareholders on the right to dividends.

Subject to a resolution to be passed at a shareholders' general meeting of the Bank on each such occasion, the Bank may elect to cancel (in whole or in part) any preference share dividend. The Bank shall not distribute any dividends to its ordinary shareholders before it declares such dividends to preference shareholders for the relevant periods.

##### (c) Mandatory conversion trigger events

Upon occurrence of the triggering events as stipulated by the offering documents and subject to regulatory approval, domestic preference shares shall be mandatorily converted into ordinary A Shares of the Bank, partially or entirely. The initial mandatory conversion price is RMB6.25 per share. To balance the interest between preference shareholders and ordinary shareholders, the mandatory conversion price of the preference shares will be cumulatively adjusted in sequence where certain events occur including issuances of bonus shares, capitalisation of reserves, new issuances of ordinary shares at a price lower than the market price (excluding equity increased due to exercise of convertible financing instruments that can be converted into ordinary shares) and rights issues, subject to terms and formulas provided for in the offering documents. Appropriation of dividends to ordinary shareholders is not trigger event for price adjustment.

##### (d) Order of distribution and liquidation method

On winding-up of the Bank, distribution to domestic preference shareholders is made after all debts of the Bank (including subordinated debts) and obligations that are issued or guaranteed by the Bank and specifically stated to be distributed prior to the domestic preference shares; all domestic preference shareholders are ranked at the same in the distribution sequence without priority among them and have the same repayment sequence rights as holders of obligations with equivalent rights. In addition, distribution is made to domestic preference shareholders prior to ordinary shareholders.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

## 36 OTHER EQUITY INSTRUMENTS (Continued)

### 36.1 Preference shares (Continued)

#### 36.1.3 Main clauses (Continued)

##### Domestic preference shares (Continued)

##### (d) Order of distribution and liquidation method (Continued)

On winding-up of the Bank, any remaining assets of the Bank shall, after the distributions in accordance with the terms and conditions of the domestic preference shares have been made, be applied to the claims of the domestic preference shareholders equally in all respects with the claims of holders of any parity obligations (which term, for the avoidance of doubt, includes the domestic preference shares and any other preference shares of the Bank issued from time to time to investors outside the PRC) and in priority to the claims of the holders of ordinary shares.

The distribution amount obtained by the domestic preference shareholders shall be the total par value of the issued and outstanding preference shares plus dividends declared but not paid in the current period; if the distribution amount is insufficient, domestic and offshore preference shareholders will share the distribution amount on a proportional basis.

##### (e) Redemption

The domestic preference shares are perpetual and have no maturity date. The Bank may, subject to obtaining the CBIRC approval and in compliance with the redemption preconditions, redeem all or some of the domestic preference shares on 2 September 2021 and on any preference share dividend payment date thereafter. The redemption period ends at the date when shares are fully converted or redeemed.

### 36.2 Perpetual bonds

#### 36.2.1 Perpetual bonds outstanding at the end of the period

|                              | Issue date        | Accounting classification | Original interest rate % | Issue price       | Amount in shares | In original currency (in millions) | In RMB (in millions) | Maturity               |
|------------------------------|-------------------|---------------------------|--------------------------|-------------------|------------------|------------------------------------|----------------------|------------------------|
| 19 BoComm perpetual bonds(1) | 20 September 2019 | Equity                    | 4.20                     | RMB100/ bond      | 400,000,000      | 40,000                             | 40,000               | No fixed maturity date |
| 20 BoComm perpetual bonds(2) | 25 September 2020 | Equity                    | 4.59                     | RMB100/ bond      | 300,000,000      | 30,000                             | 30,000               | No fixed maturity date |
| 21 BoComm perpetual bonds(2) | 10 June 2021      | Equity                    | 4.06                     | RMB100/ bond      | 415,000,000      | 41,500                             | 41,500               | No fixed maturity date |
| Perpetual bonds in USD(3)    | 18 November 2020  | Equity                    | 3.80                     | USD 200,000/ bond | 14,000           | 2,800                              | 18,366               | No fixed maturity date |
| Total                        |                   |                           |                          |                   |                  |                                    | 129,866              |                        |
| Less: Issuance fees          |                   |                           |                          |                   |                  |                                    | (28)                 |                        |
| Carrying amount              |                   |                           |                          |                   |                  |                                    | 129,838              |                        |

#### 36.2.2 Main clauses

- With the approvals by relevant regulatory authorities, the Bank issued RMB40.0 billion undated capital bonds in China's National Inter-Bank Bond Market on 18 September 2019, and the issuance was completed on 20 September 2019. The denomination of the bonds is RMB100 each and coupon rate of 4.20%. The bonds adopt a coupon rate adjusted on a stage-by-stage basis and a coupon rate adjustment period for every five years during which interests will be paid at the agreed coupon rate.

The perpetual bonds will continue to be outstanding so long as the Bank's business continues to operate. The bonds have set forth terms regarding the Bank's redemption with pre-conditions, by which the Bank is entitled to redeem the bonds after five years since the issue date in whole or in part on the annual interest payment date (including the interest payment date of the fifth year after the issue date). If, after the issuance, the perpetual bonds no longer qualify as additional tier-1 capital as a result of an unforeseeable change or amendment to relevant provisions of supervisory regulations, the Bank may redeem the whole but not part of the perpetual bonds.

The claims in respect of the perpetual bonds are subordinated to the claims of depositors, general creditors, and subordinated indebtedness that rank senior to the perpetual bonds; and will rank in priority to all classes of equity shares held by the Bank's shareholders and rank pari passu with the claims in respect of any other additional tier-1 capital instruments of the Bank that rank pari passu with the perpetual bonds.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

### 36 OTHER EQUITY INSTRUMENTS *(Continued)*

#### 36.2 Perpetual bonds *(Continued)*

##### 36.2.2 Main clauses *(Continued)*

Upon the occurrence of Additional tier-1 capital trigger event, namely, the Bank's core tier-1 capital adequacy ratio having fallen to 5.125% (or below), the Bank has the right, subject to the approval of the CBIRC but without the need for the consent of the bondholders, to write down whole or part of the aggregate amount of the perpetual bonds then issued and outstanding, in order to restore the core tier-1 capital adequacy ratio to above 5.125%. Upon the occurrence of a Non-Viability Triggering Event, the Bank has the right to write down all the above perpetual bond issued and existing at that time in accordance with the total par value without the consent of the bondholders.

The distributions on the perpetual bonds are non-cumulative, and 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. The Bank may, at its sole discretion, use the proceeds from the cancelled distributions to meet other obligations as they fall due. Cancellation of any distributions on the bonds, no matter in whole or in part, will not impose any other restriction on the Bank, except in relation to dividend distributions to ordinary shares.

Investors have no right to redeem their subscription from the Bank. The net proceeds from the Bank's issuance of the above bonds, after deducting offering related expenses, will be used to replenish the Additional tier-1 capital of the Bank.

- (2) With the approvals by relevant regulatory authorities, the Bank issued RMB30.0 billion undated capital bonds in China's National Inter-Bank Bond Market on 23 September 2020, and the issuance was completed on 25 September 2020. The denomination of the Bonds is RMB100 each and coupon rate of 4.59%. The Bonds adopt a coupon rate adjusted on a stage-by-stage basis and a coupon rate adjustment period for every five years during which interests will be paid at the agreed coupon rate.

With the approvals by relevant regulatory authorities, the Bank issued RMB41.5 billion undated capital bonds in China's National Inter-Bank Bond Market on 8 June 2021, and the issuance was completed on 10 June 2021. The denomination of the Bonds is RMB100 each and coupon rate of 4.06%. The Bonds adopt a coupon rate adjusted on a stage-by-stage basis and a coupon rate adjustment period for every five years during which interests will be paid at the agreed coupon rate.

The perpetual bonds will continue to be outstanding so long as the Bank's business continues to operate. The bonds have set forth terms regarding the Bank's redemption with pre-conditions, by which the Bank is entitled to redeem the bonds after five years since the issue date in whole or in part on the annual interest payment date (including the interest payment date of the fifth year after the issue date). If, after the issuance, the perpetual bonds no longer qualify as additional tier-1 capital as a result of an unforeseeable change or amendment to relevant provisions of supervisory regulations, the Bank may redeem the whole but not part of the perpetual bonds.

The claims in respect of the perpetual bonds are subordinated to the claims of depositors, general creditors, and subordinated indebtedness that rank senior to the perpetual bonds; and will rank in priority to all classes of equity shares held by the Bank's shareholders and rank pari passu with the claims in respect of any other additional tier-1 capital instruments of the Bank that rank pari passu with the perpetual bonds.

Upon the occurrence of a Non-Viability Triggering Event, the Bank has the right to write down/write off in whole or in part, without the need for the consent of the holders of the bonds, the principal amount of the bonds.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

### 36 OTHER EQUITY INSTRUMENTS *(Continued)*

#### 36.2 Perpetual bonds *(Continued)*

##### **36.2.2 Main clauses** *(Continued)*

The distributions on the perpetual bonds are non-cumulative, and 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. The Bank may, at its sole discretion, use the proceeds from the cancelled distributions to meet other obligations as they fall due. Cancellation of any distributions on the bonds, no matter in whole or in part, will not impose any other restriction on the Bank, except in relation to dividend distributions to ordinary shares.

Investors have no right to redeem their subscription from the Bank. The net proceeds from the Bank's issuance of the above bonds, after deducting offering related expenses, will be used to replenish the additional tier-1 capital of the Bank.

- (3) With the approvals by relevant regulatory authorities, the Bank has completed the issuance of the USD2.8 billion undated capital bonds in the offshore market on 18 November 2020. The coupon rate of the bonds is 3.80%. The bonds adopt a coupon rate adjusted on a stage-by-stage basis and a coupon rate adjustment period for every five years during which interests will be paid at the agreed coupon rate.

The perpetual bonds will continue to be outstanding so long as the Bank's business continues to operate. The bonds have set forth terms regarding the Bank's redemption with pre-conditions. Subject to the satisfaction of the redemption conditions and having obtained the prior approval of the CBIRC, the bank is entitled to redeem the bonds after five years since the issue date in whole or in part on the annual interest payment date (including the interest payment date of the fifth year after the issue date). If, after the issuance, the perpetual bonds no longer qualify as additional tier-1 capital as a result of an unforeseeable change or amendment to relevant provisions of supervisory regulations, the Bank may redeem the whole but not part of the perpetual bonds.

The claims in respect of the perpetual bonds are subordinated to the claims of depositors, general creditors, and subordinated indebtedness that rank senior to the perpetual bonds; and will rank in priority to all classes of equity shares held by the Bank's shareholders and rank pari passu with the claims in respect of any other additional tier-1 capital instruments of the Bank that rank pari passu with the perpetual bonds.

Upon the occurrence of a Non-Viability Triggering Event, the Bank has the right to write down/write off in whole or in part, without the need for the consent of the holders of the bonds. Once the principal amount of the Bonds (in whole or in part) has been written-off, such relevant written-off portion of the bonds will not be restored or become payable again in any circumstances (including where the relevant Non-Viability Triggering Event ceases to continue), and any accrued but unpaid distribution in respect of such relevant written-off portion of the bonds shall cease to be payable. In addition, there will be no compensation in any form to remedy the loss of the bondholders.

The distributions on the perpetual bonds are non-cumulative, and 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. The Bank may, at its sole discretion, use the proceeds from the cancelled distributions to meet other obligations as they fall due. Cancellation of any distributions on the bonds, no matter in whole or in part, will not impose any other restriction on the Bank, except in relation to dividend distributions to ordinary shares.

Investors have no right to redeem their subscription from the Bank. The net proceeds from the Bank's issuance of the above bonds, after deducting offering related expenses, will be used to replenish the additional tier-1 capital of the Bank.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 36 OTHER EQUITY INSTRUMENTS (Continued)

## 36.3 Interests attributable to holders of other equity instruments

|  | As at<br>31 December 2021 | As at<br>31 December 2020 |
|--|---------------------------|---------------------------|
| Total equity attributable to equity holders of the parent company  | 964,647                   | 866,607                   |
| Equity attributable to ordinary shareholders of the parent company   | 789,857                   | 733,315                   |
| Equity attributable to preference shareholders of the parent company   | 44,952                    | 44,952                    |
| Equity attributable to perpetual bond holders of the parent company  | 129,838                   | 88,340                    |
| Total equity attributable to non-controlling interests   | 12,589                    | 12,021                    |
| Equity attributable to non-controlling interests of ordinary shares  | 9,424                     | 8,763                     |
| Equity attributable to non-controlling interests of Non-cumulative Subordinated Additional Tier-1 Capital Securities (Note 39) | 3,165                     | 3,258                     |

Dividends paid to preference shareholders and interest paid to perpetual bond holders for the year ended 31 December 2021 are disclosed in Note 38.

## 37 OTHER RESERVES AND RETAINED EARNINGS

Pursuant to the relevant PRC regulations, the appropriation of profits to the statutory general reserve, the discretionary reserve and the distribution of dividends in each year are based on the recommendations of the directors and are subject to the resolutions to be passed at the General Meeting of Shareholders.

Pursuant to relevant PRC regulations, the Bank appropriated 10% of its net profit for the year under CAS to the statutory surplus reserve until the reserve balance reaches 50% of the Bank's registered capital. The statutory surplus reserve can be used to compensate losses or to increase share capital upon approval. The Bank appropriate RMB6,897 million to the statutory surplus upon approval from the 2020 Annual General Meeting of Shareholders held on 29 June 2021.

| The Group             | As at<br>1 January 2021 | Appropriate | Decrease | As at<br>31 December<br>2021 |
|-----------------------|-------------------------|-------------|----------|------------------------------|
| Statutory reserve     | 72,431                  | 7,536       | –        | 79,967                       |
| Discretionary reserve | 139,930                 | 92          | –        | 140,022                      |
| Total                 | 212,361                 | 7,628       | –        | 219,989                      |

Pursuant to relevant PRC banking regulations, since 1 July 2012, the Bank made statutory general reserve from net profit through profit appropriation according to *Administrative Measures for the Provisioning of Financial Enterprises* (Cai Jin [2012] No. 20). The proportion is determined based on several factors including the Bank's overall exposure to risk, normally no lower than 1.5% of the ending balance of risk assets. The statutory general reserve is an integral part of shareholders' equity but not subject to dividend distribution. The Bank's subsidiaries and overseas branches, if required by local regulation requirements, also need to make such general reserve. The 2020 Annual General Meeting of Shareholders, held on 29 June 2021, considered and adopted the 2020 profit distribution scheme, which stipulates as follows:

| The Group                 | As at<br>1 January 2021 | Appropriate | Decrease | As at<br>31 December<br>2021 |
|---------------------------|-------------------------|-------------|----------|------------------------------|
| Statutory general reserve | 123,163                 | 7,117       | –        | 130,280                      |

The Bank appropriated RMB6,432 million to the statutory general reserve upon approval from the 2020 Annual General Meeting of Shareholders held on 29 June 2021, of which the overseas branches of the Bank have appropriated RMB11 million to statutory general reserve according to the requirement of local regulatory authorities in the year ended 31 December 2020.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

### 37 OTHER RESERVES AND RETAINED EARNINGS (Continued)

#### Revaluation reserve

The movements of revaluation reserve are set out below:

|   |         |
|---|---------|
| As at 31 December 2020  | 456     |
| Changes in fair value recorded in equity                          | 2,526   |
| Changes in fair value recognised in profit or loss                | (1,160) |
| Tax effects arising from components of other comprehensive income | (347)   |
| Transferred from other comprehensive income                       | 56      |
| As at 31 December 2021  | 1,531   |
| As at 31 December 2019  | 3,421   |
| Changes in fair value recorded in equity                          | (2,452) |
| Changes in fair value recognised in profit or loss                | (1,344) |
| Tax effects arising from components of other comprehensive income | 858     |
| Transferred from other comprehensive income                       | (27)    |
| As at 31 December 2020  | 456     |

#### Retained earnings

The movements of retained earnings are set out below:

|  |          |
|--|----------|
| As at 1 January 2021                           | 214,448  |
| Profit for the year                            | 87,581   |
| Appropriation to statutory reserve             | (7,536)  |
| Appropriation to general reserve               | (7,117)  |
| Appropriation to discretionary reserve         | (92)     |
| Dividends payable to ordinary shareholders     | (23,541) |
| Dividends payable to preference shareholders   | (1,755)  |
| Interest to perpetual bond holders of the Bank | (3,858)  |
| Others   | (56)     |
| As at 31 December 2021                         | 258,074  |
| As at 1 January 2020                           | 177,141  |
| Profit for the year                            | 78,274   |
| Appropriation to statutory reserve             | (7,534)  |
| Appropriation to general reserve               | (5,596)  |
| Appropriation to discretionary reserve         | (77)     |
| Dividends payable to ordinary shareholders     | (23,393) |
| Dividends payable to preference shareholders   | (2,714)  |
| Interest to perpetual bond holders of the Bank | (1,680)  |
| Others   | 27       |
| As at 31 December 2020                         | 214,448  |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 38 DIVIDENDS

|  | Year ended 31 December |        |
|--|------------------------|--------|
|  | 2021                   | 2020   |
| Dividends to ordinary shareholders of the Bank   | 23,541                 | 23,393 |
| Dividends to preference shareholders of the Bank | 1,755                  | 2,714  |
| Interest to perpetual bond holders of the Bank   | 3,858                  | 1,680  |

Under PRC Company Law and the Bank's Articles of Association, the net profit after tax as reported in the PRC statutory financial statements can only be distributed as dividends after allowances for the following:

- (1) Making up cumulative losses from prior years, if any;
- (2) Allocations to the non-distributable statutory reserve of 10% of the net profit of the Bank as determined under the relevant PRC accounting standards;
- (3) Allocations to statutory general reserve;
- (4) Allocations to the discretionary reserve upon approval by the Annual General Meeting of Shareholders. These funds form part of the shareholders' equity.

The cash dividends are recognised in the consolidated statement of financial position upon approval by the shareholders at Annual General Meeting.

Pursuant to the approval by the Board meeting on 29 April 2021, the Bank will appropriate domestic preference dividends on 7 September 2021 with a dividend yield of 3.9% (the actual dividend yield obtained by the preference shareholders), with total amount of RMB1,755 million.

Pursuant to the approval by the Annual General Meeting of Shareholders on 29 June 2021, the Bank appropriated RMB6,432 million to the statutory general reserve. It was also resolved that a cash dividend of RMB0.317 (before tax) for each ordinary share, with total amount of RMB23,541 million, calculated based on 74,263 million shares outstanding (the par value per share is RMB1) as at 31 December 2020, will be distributed to ordinary shareholders.

The Bank distributed the interest on the 2020 undated capital bonds amounting to RMB801 million on 18 November 2021.

The Bank distributed the interest on the 2019 undated capital bonds amounting to RMB1,680 million on 20 September 2021.

The Bank distributed the interest on the 2020 undated capital bonds amounting to RMB1,377 million on 25 September 2021.

On 25 March 2022, the Board of Directors of the Bank proposed to appropriate RMB7,522 million to the statutory reserve and RMB11,422 million to the statutory general reserve. A cash dividend of RMB0.355 (before tax) for each share, totalling RMB26,363 million, calculated based on the total number of shares outstanding of 74,263 million shares (RMB1 per share) as at 31 December 2021 was also proposed. The proposal will be subject to the approval by the General Meeting of Shareholders.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

### 39 NON-CONTROLLING INTERESTS

Non-controlling interests of the Group include equity attributable to non-controlling interests of ordinary shares and equity attributable to non-controlling interests of other equity instruments. As at 31 December 2021, equity attributable to other equity instruments holders was RMB3,165 million. Other equity instruments were non-cumulative subordinated additional tier-1 capital securities issued by Bank of Communications (Hong Kong) Limited on 3 March 2020.

|                                    |  |
|------------------------------------|--|
| Issue Date                         | 3 March 2020   |
| Face Value                         | USD500 million   |
| First Call Date                    | 3 March 2025   |
| Distribution Rate                  | (i) from the issue date to the first call date, 3.725% per annum<br>(ii) for every five calendar years after the first call date, the then-prevailing US Treasury Rate plus 2.525% per annum |
| Frequency of distribution payments | Semi-annually  |

Bank of Communications (Hong Kong) Limited may determine the policies of distribution payments and whether to redeem the bonds. Therefore, the Group recognised the bonds as equity instruments.

Pursuant to the terms and conditions of the Non-Cumulative Subordinated Additional Tier-1 Capital Securities, Bank of Communications (Hong Kong) Limited has paid a total distribution of RMB122 million during the year ended 31 December 2021.

### 40 CREDIT RELATED COMMITMENTS AND FINANCIAL GUARANTEES, OTHER COMMITMENTS AND CONTINGENT LIABILITIES

#### Credit related commitments and financial guarantees

The following tables provide the contractual amounts of the Group's credit related commitments and financial guarantees which the Group has committed to its customers:

|                               | As at<br>31 December 2021 | As at<br>31 December 2020 |
|-------------------------------|---------------------------|---------------------------|
| Letters of guarantee          | 373,630                   | 333,610                   |
| Letters of credit commitments | 194,724                   | 163,151                   |
| Acceptance bills              | 368,120                   | 319,076                   |
| Credit card commitments       | 908,358                   | 800,441                   |
| Loan commitments              |                           |                           |
| – Under 1 year                | 3,936                     | 5,111                     |
| – 1 year and above            | 57,657                    | 55,323                    |
|                               | 1,906,425                 | 1,676,712                 |

#### Capital expenditure commitments

|                                 | As at<br>31 December 2021 | As at<br>31 December 2020 |
|---------------------------------|---------------------------|---------------------------|
| Contracted but not provided for | 71,053                    | 62,224                    |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 40 CREDIT RELATED COMMITMENTS AND FINANCIAL GUARANTEES, OTHER COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

## Operating lease commitments

The Group acts as lessor in operating leases principally through aircraft and vessels leasing undertaken by its subsidiaries. The future minimum lease receivables on certain aircraft and vessel under irrevocable operating leases are as follows:

|   | As at<br>31 December 2021 | As at<br>31 December 2020 |
|---|---------------------------|---------------------------|
| Within 1 year (inclusive)                           | 13,186                    | 13,074                    |
| Beyond 1 year but no more than 2 years (inclusive)  | 12,864                    | 12,622                    |
| Beyond 2 years but no more than 3 years (inclusive) | 12,269                    | 12,220                    |
| Beyond 3 years but no more than 5 years (inclusive) | 21,388                    | 22,062                    |
| More than 5 years                                   | 38,879                    | 36,562                    |
|   | <b>98,586</b>             | <b>96,540</b>             |

## Commitments on security underwriting and bond acceptance

The Group is entrusted by the Ministry of Finance ('MOF') to underwrite certain Certificated Bonds and Savings Bonds. The investors of Certificated Bonds and Savings Bonds have early redemption right while the Group has the obligation to buy back those Certificated Bonds and Savings Bonds. The redemption price is the principal value of the Certificated Bonds or Savings Bonds plus unpaid interest till redemption date. As at 31 December 2021, the principal value of the certain Certificated Bonds and Savings Bonds that the Group had the obligation to buy back amounted to RMB78,594 million (31 December 2020: RMB81,548 million). The MOF will not provide funding for the early redemption of these Certificated Bonds and Savings Bonds on a back-to-back basis but will pay interest and principal at maturity. The Group expects the amount of redemption before the maturity dates of these bonds through the Group will not be material.

The original maturities of these bonds vary from 1 to 5 years.

As at 31 December 2021, the Group had no announced but unfulfilled irrevocable commitment on security underwriting (31 December 2020: Nil).

## Legal proceedings

The Group has been involved as defendants in certain lawsuits arising from its normal business operations. Management of the Group believes, based on legal advice, the final result of these lawsuits will not have a material impact on the financial position or operations of the Group. Provision for litigation losses as advised by in-house or external legal professionals is disclosed in Note 34. The total outstanding claims against the Group (as defendant) by a number of third parties at the end of the year are summarised as follows:

|  | As at<br>31 December 2021 | As at<br>31 December 2020 |
|--|---------------------------|---------------------------|
| Outstanding litigations                        | 4,096                     | 3,876                     |
| Provision for outstanding litigation (Note 34) | 472                       | 1,032                     |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

### 41 COLLATERALS

#### (1) Assets pledged

The Group uses part of its assets as collaterals for interbank repurchase arrangements and other liabilities-related business. All of these arrangements mature within 12 months from the date they take effect. The carrying amount of these collaterals and the balance of operations related are listed below:

|                       | Pledged assets            |                           | Associated liabilities    |                           |
|-----------------------|---------------------------|---------------------------|---------------------------|---------------------------|
|                       | As at<br>31 December 2021 | As at<br>31 December 2020 | As at<br>31 December 2021 | As at<br>31 December 2020 |
| Investment securities | 382,640                   | 520,254                   | 326,776                   | 456,210                   |
| Bills                 | 3,531                     | 28,854                    | 3,531                     | 28,854                    |
| Total                 | 386,171                   | 549,108                   | 330,307                   | 485,064                   |

Financial assets sold under repurchase agreements included certain transactions under which the title of the pledged securities has been transferred to counterparties. These transactions have been disclosed in Note 46 transfers of financial assets.

In addition, loans and advances to customers pledged as collateral for placements from banks by the Group as at 31 December 2021 amounted to RMB5,090 million in total (31 December 2020: RMB6,401 million).

#### (2) Collateral accepted

As part of the repurchase 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 2021, the Group had received securities with a fair value of RMB731 million on such terms (31 December 2020: Nil). As at 31 December 2021 and 31 December 2020, the Group did not sell or repledge any collaterals received.

### 42 OTHER COMPREHENSIVE INCOME

|  | Year ended 31 December 2021 |            |                   |
|--|-----------------------------|------------|-------------------|
|  | Before tax amount           | Tax effect | Net of tax amount |
| Other comprehensive income   |                             |            |                   |
| Loans and advances to customers – carried at FVOCI   | 43                          | (12)       | 31                |
| Amount recognised in equity  | 614                         | (155)      | 459               |
| Amount reclassified to profit or loss  | (571)                       | 143        | (428)             |
| Debt investments at FVOCI  | 2,925                       | (571)      | 2,354             |
| Amount recognised in equity  | 3,514                       | (718)      | 2,796             |
| Amount reclassified to profit or loss  | (589)                       | 147        | (442)             |
| Effective portion of gains or losses on hedging instruments in cash flow hedges                              | 516                         | (88)       | 428               |
| Amount recognised in equity  | 1,133                       | (242)      | 891               |
| Amount reclassified to profit or loss  | (617)                       | 154        | (463)             |
| Translation difference on foreign operations   | (3,450)                     | –          | (3,450)           |
| Changes in fair value of equity investments designated at FVOCI  | (1,830)                     | 275        | (1,555)           |
| Changes in fair value attributable to changes in the credit risk of financial liabilities designated at FVPL | (36)                        | –          | (36)              |
| Actuarial gains on pension benefits  | 55                          | –          | 55                |
| Others   | 16                          | –          | 16                |
| Other comprehensive income for the year  | (1,761)                     | (396)      | (2,157)           |



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 42 OTHER COMPREHENSIVE INCOME (Continued)

|  | Year ended 31 December 2020 |            |                   |
|--|-----------------------------|------------|-------------------|
|  | Before tax amount           | Tax effect | Net of tax amount |
| Other comprehensive income   |                             |            |                   |
| Loans and advances to customers – carried at FVOCI   | (218)                       | 54         | (164)             |
| <i>Amount recognised in equity</i>   | 26                          | (7)        | 19                |
| <i>Amount reclassified to profit or loss</i>   | (244)                       | 61         | (183)             |
| Debt investments at FVOCI  | (2,122)                     | 377        | (1,745)           |
| <i>Amount recognised in equity</i>   | (1,022)                     | 102        | (920)             |
| <i>Amount reclassified to profit or loss</i>   | (1,100)                     | 275        | (825)             |
| Effective portion of gains or losses on hedging instruments in cash flow hedges                              | (676)                       | 129        | (547)             |
| <i>Amount recognised in equity</i>   | (1,761)                     | 399        | (1,362)           |
| <i>Amount reclassified to profit or loss</i>   | 1,085                       | (270)      | 815               |
| Translation difference on foreign operations   | (4,776)                     | –          | (4,776)           |
| Changes in fair value of equity investments designated at FVOCI  | (1,606)                     | 402        | (1,204)           |
| Changes in fair value attributable to changes in the credit risk of financial liabilities designated at FVPL | 7                           | –          | 7                 |
| Actuarial gains on pension benefits  | (132)                       | –          | (132)             |
| Others   | 15                          | (3)        | 12                |
| Other comprehensive income for the year  | (9,508)                     | 959        | (8,549)           |

## 43 NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

## Analysis of the balance of cash and cash equivalents

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise the following balances with maturities of less than or equal to 90 days from date of purchase and used for the purpose of meeting short-term cash commitments:

|   | As at<br>31 December 2021 | As at<br>31 December 2020 |
|---|---------------------------|---------------------------|
| Cash and balances with central banks                                | 103,648                   | 171,950                   |
| Due from and placements with banks and other financial institutions | 90,660                    | 135,170                   |
|   | 194,308                   | 307,120                   |

## 44 CONSOLIDATED STRUCTURED ENTITIES

Structured entities consolidated by the Group include certain trust investment plans, funds, and securitisation products issued, managed and invested by the Group. The Group controls these entities because the Group has power over, is exposed to, or has right to variable returns from its involvement with these entities and has the ability to use its power over these entities to affect the amount of the Group's returns. As at 31 December 2021, the consolidated structured entities amounted to RMB182,733 million (As at 31 December 2020, the consolidated structured entities amounted to RMB36,716 million).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

### 45 UNCONSOLIDATED STRUCTURED ENTITIES

The Group has been involved in other structured entities through investments in structured entities or acting as sponsors of structured entities that provide specialised investment opportunities to investors. These structured entities generally finance the purchase of assets by issuing units of the products. The Group does not control these structured entities and therefore, these structured entities are not consolidated.

As at 31 December 2021, those structured entities sponsored by the Group consist primarily of funds, trusts, asset management products, limited partnerships, wealth management products with principals not guaranteed by the Group and securitisation products. The Group earns commission income by providing management services to the investors of these structured entities. In addition, the Group is also involved in certain structured entities sponsored by the Group or third parties through direct investments. These investments are recognised as financial investments at fair value through profit or loss, financial investments at fair value through other comprehensive income, and financial investments at amortised cost.

As at 31 December 2021, the balance of the non-principal guaranteed wealth management products set up by the Group amounted to RMB1,426,253 million (As at 31 December 2020: RMB1,211,959 million), the balance of funds issued by the Group amounted to RMB547,188 million, the balance of trusts and asset management plans and others sponsored by the Group amounted to RMB721,946 million (As at 31 December 2020: the balance of funds issued by the Group amounted to RMB339,871 million, the balance of trusts and asset management plans and others sponsored by the Group amounted to RMB843,540 million).

For the year ended 31 December 2021, the Group's commission income from providing services to the structured entities managed by the Group was RMB11,775 million (For the year ended 31 December 2020: RMB9,856 million), and no interest income from placements and repurchase transactions with those unconsolidated wealth management products (For the year ended 31 December 2020: RMB1 million).

To achieve a smooth transition and steady development of the wealth management business, in 2021, in accordance with the requirements of the Guidance on Regulating the Asset Management Business of Financial Institutions, the Group has consistently promoted net worth transformation of its wealth management products and the disposal of existing portfolios, included part of the wealth management assets into the balance sheet from the wealth management products off the balance sheet, and measured them as debt investment at amortised cost.

As at 31 December 2021 and 31 December 2020, the carrying amount of interests in unconsolidated structured entities held by the Group through investment was set out as follows:

#### As at 31 December 2021

|                                      | Carrying amount               |                                |   |                          | Type of income  |
|--------------------------------------|-------------------------------|--------------------------------|---|--------------------------|---|
|                                      | Financial investments at FVPL | Financial investments at FVOCI | Financial investments at amortised cost | Maximum exposure to loss |   |
| Funds                                | 144,421                       | –                              | –                                       | 144,421                  | Net gains arising from trading activities   |
| Trusts and asset management products | 13,445                        | –                              | 83,245                                  | 96,690                   | Net interest income, net gains arising from trading activities                          |
| Limited partnerships                 | 3,317                         | 620                            | –                                       | 3,937                    | Net gains arising from trading activities, net gains arising from financial investments |
| Securitisation products              | 63                            | –                              | 134                                     | 197                      | Net interest income, Net gains arising from trading activities                          |
| Total                                | 161,246                       | 620                            | 83,379                                  | 245,245                  |   |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 45 UNCONSOLIDATED STRUCTURED ENTITIES (Continued)

The information of total size of the unconsolidated structured entities listed above is not readily available from the public domain.

As at 31 December 2020

|                                      | Carrying amount                  |                                   |  |                             | Type of income  |
|--------------------------------------|----------------------------------|-----------------------------------|--|-----------------------------|---|
|                                      | Financial investments<br>at FVPL | Financial investments<br>at FVOCI | Financial investments<br>at amortised cost | Maximum exposure<br>to loss |   |
| Funds                                | 243,980                          | –                                 | –  | 243,980                     | Net gains arising from trading activities   |
| Trusts and asset management products | 3,956                            | –                                 | 101,599                                    | 105,555                     | Net interest income, net gains arising from trading activities                          |
| Limited partnerships                 | 2,729                            | 619                               | –  | 3,348                       | Net gains arising from trading activities, net gains arising from financial investments |
| Securitisation products              | –                                | –                                 | 134  | 134                         | Net interest income   |
| Total                                | 250,665                          | 619                               | 101,733                                    | 353,017                     |   |

The information of total size of the unconsolidated structured entities listed above is not readily available from the public domain.

## 46 TRANSFERS OF FINANCIAL ASSETS

## 46.1 Financial assets sold under repurchase agreements

Sales and repurchase agreements are transactions in which the Group sells a security and simultaneously agrees to repurchase it (or an asset that is substantially the same) at a fixed price on a future date. Since the repurchase prices are fixed, the Group is still exposed to substantially all the credit risks and market risks and rewards of those securities sold. These securities, which the Group does not have the ability to use during the term of the arrangements, are not derecognised from the financial statements but regarded as “collateral” for the secured lending. In addition, the Group recognises a financial liability for cash received.

As at 31 December 2021 and 31 December 2020, the Group entered into repurchase agreements with certain counterparties. The proceeds from selling such securities are presented as “financial assets sold under repurchase agreements” (Note 29).

The following table provides a summary of carrying amounts related to the transferred financial assets that are not derecognised and the associated liabilities:

|                       | Collaterals               |                           | Associated liabilities    |                           |
|-----------------------|---------------------------|---------------------------|---------------------------|---------------------------|
|                       | As at<br>31 December 2021 | As at<br>31 December 2020 | As at<br>31 December 2021 | As at<br>31 December 2020 |
| Investment securities | –                         | 2,020                     | –                         | 1,806                     |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

### 46 TRANSFERS OF FINANCIAL ASSETS (Continued)

#### 46.2 Securities lending transactions

Transferred financial assets that do not qualify for de-recognition mainly include debt securities lent to counterparties under securities lending agreements. The counterparties are allowed to sell or repledge those securities lent under agreements to repurchase in the absence of default by the Group, but has an obligation to return the securities at the maturity of the contract. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. As at 31 December 2021, the carrying value of debt securities lent to counterparties was RMB13,900 million (31 December 2020: RMB12,640 million).

#### 46.3 Asset securitisation

The Group enters into securitisation transactions in the normal course of business by which it transfers credit assets to special purpose trusts which issue asset-backed securities to investors.

The Group retains interests in the form of subordinated tranches which may give rise to the Group's continuing involvement in the transferred assets. Those financial assets are recognised on the consolidated statement of financial position to the extent of the Group's continuing involvement, while the rest are derecognised. The extent of the Group's continuing involvement is the extent of risk the Group faces due to changes in the value of the transferred assets.

As at 31 December 2021, loans with an original value of RMB66,061 million and carrying amount of RMB56,834 million (31 December 2020: RMB53,492 million and RMB41,600 million) have been securitised by the Group. For the year ended 31 December 2021, the Group transferred financial assets amounted to RMB13,927 million through assets backed securitization transactions, and all have met the requirement of derecognition (For the year ended 31 December 2020, the Group transferred financial assets amounted to RMB15,272 million through assets backed securitization transactions, and all have met the requirement of derecognition).

As at 31 December 2021, the Group retained their continued involvement in securitised credit assets by holding subordinated securities. The value of the assets that the Group continued to recognise was RMB5,529 million (31 December 2020: RMB4,275 million).

#### 46.4 Disposal of non-performing loans and advances to customers

The Group disposes non-performing loans and advances to customers through transferring to third parties in the normal course of business. For the year ended 31 December 2021, the Group had transferred non-performing loans and advances to customers with a gross carrying amount of RMB12,853 million (31 December 2020: RMB18,806 million) and collected cash totalling RMB8,403 million (31 December 2020: RMB8,790 million) from the transfer. The difference between the gross carrying amount and the cash collected had been written off. The Group derecognised the non-performing loans and advances to customers from the Group's financial statements at the time of disposal.

### 47 RELATED PARTY TRANSACTIONS

#### (a) Transactions with the MOF

As at 31 December 2021, the MOF held 17,732 million (31 December 2020: 17,732 million) ordinary shares of Bank of Communications Co., Ltd. which represented 23.88% (31 December 2020: 23.88%) of the total share capital.

The MOF is a Chinese government ministry, primarily responsible for managing state fiscal revenue and expenditures, and establishing and enforcing taxation policies. The Group enters into banking transactions with the MOF under normal commercial terms and at market rates. These transactions mainly include the purchase and redemption of financial investments issued by the MOF.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 47 RELATED PARTY TRANSACTIONS (Continued)

## (a) Transactions with the MOF (Continued)

Details of transaction volumes and outstanding balances are summarised below:

|   | As at<br>31 December 2021 | As at<br>31 December 2020 |
|---|---------------------------|---------------------------|
| Bonds issued by the MOF                   | 974,910                   | 801,187                   |
|   | Year ended 31 December    |                           |
|   | 2021                      | 2020                      |
| Interest income                           | 26,029                    | 22,081                    |
| Net gains arising from trading activities | 368                       | 129                       |

The interest rates of the transactions between the Group and MOF are summarised below:

|                         | Year ended 31 December<br>2021 | 2020      |
|-------------------------|--------------------------------|-----------|
|                         | %                              | %         |
| Bonds issued by the MOF | 0.13~5.06                      | 0.13~5.32 |

## (b) Transactions with the National Council for Social Security Fund

As at 31 December 2021, the National Council for Social Security Fund held 12,160 million (31 December 2020: 12,160 million) ordinary shares of Bank of Communications Co., Ltd. which represented 16.37% (31 December 2020: 16.37%) of the total share capital.

The National Council for Social Security Fund was incorporated in August 2000, which is an independent legal entity under the management of the Ministry of Finance, responsible for managing and operating the national social security fund. Its legal representative is Liu Wei, its registered capital is RMB8.00 million and its registered address is South Fortune Times Building, No. 11 Fenghuiyuan, Xicheng District, Beijing. The Group enters into transactions with the National Council for Social Security Fund in the normal course of business and they mainly include deposits which are carried out under normal commercial terms and paid at market rates.

Details of transaction volumes and outstanding balances are summarised below:

|                  | As at<br>31 December 2021 | As at<br>31 December 2020 |
|------------------|---------------------------|---------------------------|
| Due to customers | 92,373                    | 87,356                    |
|                  | Year ended 31 December    |                           |
|                  | 2021                      | 2020                      |
| Interest expense | (3,703)                   | (3,523)                   |

The interest rates of the transactions between the Group and the National Council for Social Security Fund are summarised below:

|                  | Year ended 31 December<br>2021 | 2020      |
|------------------|--------------------------------|-----------|
|                  | %                              | %         |
| Due to customers | 3.50~5.20                      | 3.85~5.30 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

### 47 RELATED PARTY TRANSACTIONS (Continued)

#### (c) Transactions with the Hongkong and Shanghai Banking Corporation Limited ("HSBC") Group and its joint ventures

As at 31 December 2021, HSBC held 13,886 million (31 December 2020: 13,886 million) ordinary shares of the Bank of Communications Co., Ltd. which represented 18.70% (31 December 2020: 18.70%) of the total share capital.

HSBC was incorporated in 1866, primarily providing local and international banking services, and related financial services in the Asia-Pacific region. Its Co-chief Executive Officer is Liao, Yi Chien David and Surendra Rosha, and its registered address is 1 Queen's Road Central, Central, Hong Kong. The ordinary share capital of HSBC is HKD116,103 million and USD7,198 million, which was divided into 46,441 million ordinary shares. Transactions between the Group and HSBC are carried out under normal commercial terms and paid at market rates.

Details of transaction volumes and outstanding balances are summarised below:

|   | As at<br>31 December 2021 | As at<br>31 December 2020 |
|---|---------------------------|---------------------------|
| On-balance sheet items  |                           |                           |
| Due from and placements with banks and other financial institutions | 3,338                     | 11,328                    |
| Derivative financial assets   | 1,672                     | 2,370                     |
| Financial investments at FVPL                                       | 1,931                     | 2,709                     |
| Financial investments at amortised cost                             | 419                       | 432                       |
| Financial investments at FVOCI                                      | 4,052                     | 3,354                     |
| Due to and placements from banks and other financial institutions   | 17,083                    | 8,261                     |
| Financial liabilities at FVPL                                       | 1,424                     | 212                       |
| Derivative financial liabilities                                    | 1,613                     | 2,963                     |
| Off-balance sheet items   |                           |                           |
| Notional principal of derivative financial instruments              | 240,864                   | 192,032                   |
|   | Year ended 31 December    |                           |
|   | 2021                      | 2020                      |
| Interest income   | 163                       | 203                       |
| Interest expense  | (95)                      | (202)                     |
| Fee and commission income   | 1                         | 52                        |
| Fee and commission expense  | (4)                       | (8)                       |
| Net gains/(losses) from trading activities                          | 2,310                     | (264)                     |

The interest rates of the transactions between the Group and HSBC are summarised below:

|   |                        |             |
|---|------------------------|-------------|
|   | Year ended 31 December |             |
|   | 2021                   | 2020        |
|   | %                      | %           |
| Due from and placements with banks and other financial institutions | 0.0001~3.60            | 0.01~3.42   |
| Financial investments at FVPL                                       | 0.98~6.00              | 1.49~6.00   |
| Financial investments at amortised cost                             | 3.26~4.74              | 3.26~4.74   |
| Financial investments at FVOCI                                      | (0.04)~4.95            | 0.002~4.95  |
| Due to and placements from banks and other financial institutions   | (0.40)~4.12            | (0.24)~4.12 |
| Financial liabilities at FVPL                                       | 0.46~0.69              | 0.50~0.70   |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 47 RELATED PARTY TRANSACTIONS (Continued)

## (d) Transactions with state-owned entities in PRC

The Group operates in an economic environment predominated by enterprises directly or indirectly owned and/or controlled by the government through its authorities, affiliates or other organisations (collectively the “state-owned entities”). During the period, the Group entered into extensive banking transactions with these state-owned entities including, but not limited to, the provision of credit and guarantees, deposits, foreign exchange, derivatives transactions, agency business, underwriting and distribution of bonds issued by the government as well as trading and redemption of securities issued by the government.

Management considers that transactions with state-owned entities are activities conducted in the ordinary course of business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and these state-owned entities are ultimately controlled or owned by the government. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are state-owned entities.

## (e) Transactions with subsidiaries

Transactions between the Bank and its subsidiaries are carried out under normal commercial terms and paid at market rates. These transactions are eliminated on consolidation. Basic information and relevant details of subsidiaries are set out in note 24.

Details of transaction volumes and outstanding balances are summarised below:

| The Bank  | As at<br>31 December 2021 | As at<br>31 December 2020 |
|---|---------------------------|---------------------------|
| Due from and placements with banks and other financial institutions | 123,461                   | 141,231                   |
| Loans and advances to customers                                     | 486                       | 521                       |
| Financial investments at FVPL                                       | 433                       | 891                       |
| Financial investments at amortised cost                             | 1,551                     | 1,240                     |
| Financial investments at FVOCI                                      | 11,455                    | 8,986                     |
| Derivative financial assets   | 793                       | 1,736                     |
| Other assets  | 766                       | 808                       |
| Due to and placements from banks and other financial institutions   | 14,523                    | 16,236                    |
| Derivative financial liabilities                                    | 1,851                     | 429                       |
| Due to customers  | 11,683                    | 14,873                    |
| Debt securities issued  | –                         | 51                        |
| Other liabilities   | 119                       | 97                        |

| The Bank                                  | Year ended 31 December<br>2021 | 2020  |
|---|--------------------------------|-------|
| Interest income                           | 1,952                          | 2,024 |
| Interest expense                          | (238)                          | (377) |
| Fee and commission income                 | 1,681                          | 1,251 |
| Fee and commission expense                | (95)                           | (191) |
| Net gains arising from trading activities | 818                            | 138   |
| Other operating income                    | 555                            | 570   |
| Other operating expense                   | (82)                           | (184) |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

### 47 RELATED PARTY TRANSACTIONS (Continued)

#### (e) Transactions with subsidiaries (Continued)

The interest rates of the transactions between the Bank and its subsidiaries are summarised below:

|   | Year ended 31 December |           |
|---|------------------------|-----------|
|   | 2021<br>%              | 2020<br>% |
| The Bank  |                        |           |
| Due from and placements with banks and other financial institutions | 0.01~6.40              | 0.01~5.69 |
| Financial investments at FVPL                                       | 1.12~4.00              | 1.97~4.38 |
| Financial investments at amortised cost                             | 1.07~6.00              | 1.18~4.70 |
| Financial investments at FVOCI                                      | 0.95~4.38              | 0.95~4.38 |
| Loans and advances to customers                                     | 1.29~3.00              | 1.61~3.97 |
| Due to and placements from banks and other financial institutions   | (0.48)~2.95            | 0.01~4.50 |
| Due to customers  | 0.04~4.00              | 0.70~4.18 |
| Debt securities issued  | 5.75                   | 5.75      |

#### (f) Transactions with directors, supervisors and senior management

Transactions with directors, supervisors, senior management, their close relatives and entities that are controlled, jointly controlled or significantly influenced by either such directors, supervisors and senior management or their close relatives mainly include loans and deposits and are carried out under normal commercial terms and paid at market rates.

Details of transaction volumes and outstanding balances are summarised below:

|                                 | As at<br>31 December 2021 | As at<br>31 December 2020 |
|---------------------------------|---------------------------|---------------------------|
| Due to customers                | 10                        | 6                         |
| Loans and advances to customers | 1                         | 1                         |

Compensations of directors and senior management are disclosed in Note 15.

#### (g) Transactions with associates and joint ventures

Transactions between the Group and its associates and joint ventures are carried out under normal commercial terms and paid at market rates. Basic information and relevant details of associates and joint ventures are set out in note 25.

Details of transaction volumes and outstanding balances are summarised below:

|   | As at<br>31 December 2021 | As at<br>31 December 2020 |
|---|---------------------------|---------------------------|
| On-balance sheet items  |                           |                           |
| Due from and placements with banks and other financial institutions       | 500                       | 100                       |
| Derivative financial assets   | 31                        | 7                         |
| Loans and advances to customers   | 6,041                     | 4,767                     |
| Due to and placements from banks and other financial institutions         | 104                       | 44                        |
| Derivative financial liabilities  | 35                        | 16                        |
| Off-balance sheet items   |                           |                           |
| Notional principal of derivative financial instruments                    | 6,947                     | 2,094                     |
| Credit related commitments(Guarantees, acceptances and letters of credit) | 12,126                    | 10,337                    |



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 47 RELATED PARTY TRANSACTIONS (Continued)

## (g) Transactions with associates and joint ventures (Continued)

|                                    | Year ended 31 December |      |
|------------------------------------|------------------------|------|
|                                    | 2021                   | 2020 |
| Interest income                    | 242                    | 195  |
| Interest expense                   | (6)                    | (2)  |
| Net losses from trading activities | (13)                   | (14) |

The interest rates of the transactions between the Group and its associates and joint ventures are summarised below:

|   | Year ended 31 December |           |
|---|------------------------|-----------|
|   | 2021                   | 2020      |
|   | %                      | %         |
| Due from and placements with banks and other financial institutions | 0.30~3.19              | 0.30~1.81 |
| Loans and advances to customers                                     | 0.30~4.90              | 2.95~5.39 |
| Due to and placements from banks and other financial institutions   | 0.0001~0.35            | 0.01~1.55 |
| Due to customers  | 0.75~2.03              | 0.30~1.89 |

## (h) Transactions with other related parties

Details of transaction volumes and outstanding balances are summarised below:

|   | As at<br>31 December 2021 | As at<br>31 December 2020 |
|---|---------------------------|---------------------------|
| Loans and advances to customers                                   | 1,080                     | 744                       |
| Financial investments at amortised cost                           | –                         | 204                       |
| Due to and placements from banks and other financial institutions | 1,204                     | 92                        |
| Due to customers  | 79,787                    | 42,313                    |

|                  | Year ended 31 December |         |
|------------------|------------------------|---------|
|                  | 2021                   | 2020    |
| Interest income  | 22                     | 45      |
| Interest expense | (2,543)                | (1,593) |

The interest rates of the transactions between the Group and other related parties are summarised below:

|   | Year ended 31 December |           |
|---|------------------------|-----------|
|   | 2021                   | 2020      |
|   | %                      | %         |
| Loans and advances to customers                                   | 0.30~4.79              | 0.30~5.06 |
| Financial investments at amortised cost                           | 3.78                   | 3.19~3.78 |
| Due to and placements from banks and other financial institutions | 0.30~2.20              | 0.30~3.15 |
| Due to customers  | 0.30~4.18              | 0.30~4.18 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

### 47 RELATED PARTY TRANSACTIONS (Continued)

#### (i) Proportion of major related party transactions

The major balances and transactions with subsidiaries have been eliminated in the consolidated financial statements. When calculating the proportion of related party transactions, transactions with the subsidiary are not involved.

|   | As at 31 December 2021      |       | As at 31 December 2020      |                |
|---|-----------------------------|-------|-----------------------------|----------------|
|   | Balances                    | %     | Balances                    | %              |
| On-balance sheet items  |                             |       |                             |                |
| Due from and placements with banks and other financial institutions       | 3,838                       | 0.01  | 11,428                      | 0.02           |
| Derivative financial assets   | 1,703                       | 4.34  | 2,377                       | 4.38           |
| Loans and advances to customers   | 7,122                       | 0.11  | 5,512                       | 0.10           |
| Financial investments   | 981,312                     | 27.85 | 807,886                     | 24.96          |
| Due to and placements from banks and other financial institutions         | 18,391                      | 0.01  | 8,397                       | 0.01           |
| Financial liabilities at FVPL   | 1,424                       | 2.85  | 212                         | 0.72           |
| Derivative financial liabilities  | 1,648                       | 4.57  | 2,979                       | 5.33           |
| Due to customers  | 172,170                     | 2.45  | 129,675                     | 1.96           |
| Off-balance sheet items   |                             |       |                             |                |
| Notional principal of derivative financial instruments                    | 247,811                     | 3.48  | 194,126                     | 3.51           |
| Credit related commitments(Guarantees, acceptances and letters of credit) | 12,126                      | 0.64  | 10,337                      | 0.62           |
|   |                             |       |                             |                |
|   | Year ended 31 December 2021 |       | Year ended 31 December 2020 |                |
|   | Amount                      | %     | Amount                      | %              |
| Interest income   | 26,456                      | 7.01  | 22,524                      | 6.10           |
| Interest expense  | (6,347)                     | 2.94  | (5,320)                     | 2.47           |
| Fee and commission income   | 1                           | –     | 52                          | 0.11           |
| Fee and commission expense  | (4)                         | 0.08  | (8)                         | 0.19           |
| Net gains/(losses) from trading activities                                | 2,665                       | 0.11  | (149)                       | Not applicable |

### 48 SEGMENTAL ANALYSIS

The Group's Board of Directors and senior management reviews the Group's operation by the particular economic areas in which the Group's branches and subsidiaries provide products or services. The Group's geographical operating segments are decided based upon location of the assets, as the Group's branches and subsidiaries mainly serve local customers.

The reportable geographical operating segments derive their revenue primarily from commercial banking services and investing activities, including deposits, loans, bills, trade financing, money market placements and takings, and securities investments, etc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

### 48 SEGMENTAL ANALYSIS *(Continued)*

The Group's geographical operating segments include provincial and directly managed branches and subsidiaries (if any) in relevant regions, as follows:

- (1) Yangtze River Delta: including Shanghai (excluding Head Office), Jiangsu Province, Zhejiang Province, and Anhui Province;
- (2) Pearl River Delta: including Fujian Province and Guangdong Province;
- (3) Bohai Rim Economic Zone: including Beijing, Tianjin, Hebei Province, and Shandong Province;
- (4) Central China: including Shanxi Province, Jiangxi Province, Henan Province, Hubei Province, Hunan Province, Hainan Province, and Guangxi Zhuang Autonomous Region;
- (5) Western China: including Chongqing, Sichuan Province, Guizhou Province, Yunnan Province, Shanxi Province, Gansu Province, Qinghai Province, Inner Mongolia Autonomous Region, Ningxia Autonomous Region, and Xinjiang Uyghur Autonomous Region;
- (6) Northeastern China: including Liaoning Province, Jilin Province and Heilongjiang Province;
- (7) Overseas: including Hong Kong, New York, Tokyo, Singapore, Seoul, Frankfurt, Macau, Ho Chi Minh City, San Francisco, Sydney, Taipei, London, Luxembourg, Brisbane, Paris, Rome, Brazil, Melbourne, Toronto, Prague, Johannesburg;
- (8) Head Office, including the Pacific Credit Card Centre.

The revenue from external parties is reported to the Board of Directors and the senior management in a manner consistent with that in the consolidated statement of profit or loss and other comprehensive income.

As the Group's major revenue is derived from interest, and the Board of Directors and the senior management relies primarily on net interest income to assess the performance of segments, the interest income and expenses for all reportable segments are presented on a net basis.

The Group's Board of Directors and senior management reviews the segment performance on the basis of profit before tax. Funds are ordinarily allocated between segments. Costs of these funds are charged at the Group's cost of capital and disclosed in inter-segment net interest income. There are no other material items of income or expenses between the segments.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

## 48 SEGMENTAL ANALYSIS (Continued)

### Geographical operating segment information

|   | Year ended 31 December 2021 |                      |                               |               |               |                        |               |                | Total          |
|---|-----------------------------|----------------------|-------------------------------|---------------|---------------|------------------------|---------------|----------------|----------------|
|   | Yangtze River<br>Delta      | Pearl River<br>Delta | Bohai Rim<br>Economic<br>Zone | Central China | Western China | North Eastern<br>China | Overseas      | Head Office    |                |
| External interest income                          | 74,720                      | 34,117               | 36,732                        | 47,925        | 32,359        | 10,039                 | 18,082        | 123,672        | 377,646        |
| External interest expense                         | (48,442)                    | (21,514)             | (37,735)                      | (25,027)      | (15,472)      | (9,411)                | (7,584)       | (50,768)       | (215,953)      |
| Inter-segment net interest income/(expense)       | 21,275                      | 6,424                | 24,200                        | 7,087         | 1,800         | 5,192                  | 18            | (65,996)       | -              |
| <b>Net interest income</b>                        | <b>47,553</b>               | <b>19,027</b>        | <b>23,197</b>                 | <b>29,985</b> | <b>18,687</b> | <b>5,820</b>           | <b>10,516</b> | <b>6,908</b>   | <b>161,693</b> |
| Fee and commission income                         | 14,540                      | 3,652                | 5,739                         | 5,803         | 3,064         | 1,238                  | 2,488         | 15,761         | 52,285         |
| Fee and commission expense                        | (2,941)                     | (39)                 | (77)                          | (101)         | (26)          | (18)                   | (233)         | (1,277)        | (4,712)        |
| <b>Net fee and commission income</b>              | <b>11,599</b>               | <b>3,613</b>         | <b>5,662</b>                  | <b>5,702</b>  | <b>3,038</b>  | <b>1,220</b>           | <b>2,255</b>  | <b>14,484</b>  | <b>47,573</b>  |
| Net gains arising from trading activities         | 7,031                       | 376                  | 380                           | 659           | 1,824         | 12                     | (784)         | 13,846         | 23,344         |
| Net gains arising from financial investments      | 849                         | -                    | 27                            | -             | -             | 18                     | 589           | (172)          | 1,311          |
| Insurance business income                         | 16,459                      | -                    | -                             | -             | -             | -                      | 56            | -              | 16,515         |
| Share of profits of associates and joint ventures | -                           | -                    | -                             | -             | -             | -                      | 47            | 230            | 277            |
| Other operating income                            | 15,316                      | 416                  | 954                           | 734           | 551           | 203                    | 456           | 405            | 19,035         |
| <b>Total operating income -net</b>                | <b>98,807</b>               | <b>23,432</b>        | <b>30,220</b>                 | <b>37,080</b> | <b>24,100</b> | <b>7,273</b>           | <b>13,135</b> | <b>35,701</b>  | <b>269,748</b> |
| Credit impairment losses                          | (7,451)                     | (4,828)              | (8,046)                       | (9,019)       | (10,600)      | (9,582)                | (977)         | (15,868)       | (66,371)       |
| Other assets impairment losses                    | (2,020)                     | (6)                  | (8)                           | (14)          | (58)          | (212)                  | -             | (2)            | (2,320)        |
| Insurance business expense                        | (17,037)                    | -                    | -                             | -             | -             | -                      | (17)          | -              | (17,054)       |
| Other operating expense                           | (26,518)                    | (6,571)              | (8,854)                       | (9,125)       | (5,922)       | (3,378)                | (4,372)       | (25,304)       | (90,044)       |
| <b>Profit before tax</b>                          | <b>45,781</b>               | <b>12,027</b>        | <b>13,312</b>                 | <b>18,922</b> | <b>7,520</b>  | <b>(5,899)</b>         | <b>7,769</b>  | <b>(5,473)</b> | <b>93,959</b>  |
| Income tax  |                             |                      |                               |               |               |                        |               |                | (5,020)        |
| <b>Net profit for the year</b>                    |                             |                      |                               |               |               |                        |               |                | <b>88,939</b>  |
| Depreciation and amortisation                     | (1,814)                     | (909)                | (1,133)                       | (1,116)       | (954)         | (498)                  | (469)         | (1,206)        | (8,099)        |
| Capital expenditure                               | (17,500)                    | (660)                | (494)                         | (864)         | (488)         | (265)                  | (141)         | (2,535)        | (22,947)       |

|   | Year ended 31 December 2020 |                      |                               |               |               |                        |               |                 | Total          |
|---|-----------------------------|----------------------|-------------------------------|---------------|---------------|------------------------|---------------|-----------------|----------------|
|   | Yangtze River<br>Delta      | Pearl River<br>Delta | Bohai Rim<br>Economic<br>Zone | Central China | Western China | North Eastern<br>China | Overseas      | Head Office     |                |
| External interest income                              | 69,139                      | 29,870               | 34,257                        | 43,757        | 29,309        | 9,248                  | 23,605        | 129,916         | 369,101        |
| External interest expense                             | (47,044)                    | (19,874)             | (35,346)                      | (23,741)      | (15,176)      | (9,090)                | (14,820)      | (50,674)        | (215,765)      |
| Inter-segment net interest income/(expense)           | 23,063                      | 6,369                | 21,884                        | 7,625         | 2,324         | 5,189                  | 19            | (66,473)        | -              |
| <b>Net interest income</b>                            | <b>45,158</b>               | <b>16,365</b>        | <b>20,795</b>                 | <b>27,641</b> | <b>16,457</b> | <b>5,347</b>           | <b>8,804</b>  | <b>12,769</b>   | <b>153,336</b> |
| Fee and commission income                             | 11,724                      | 3,370                | 5,173                         | 5,560         | 3,001         | 1,154                  | 2,802         | 16,514          | 49,298         |
| Fee and commission expense                            | (2,137)                     | (47)                 | (71)                          | (69)          | (25)          | (19)                   | (226)         | (1,618)         | (4,212)        |
| <b>Net fee and commission income</b>                  | <b>9,587</b>                | <b>3,323</b>         | <b>5,102</b>                  | <b>5,491</b>  | <b>2,976</b>  | <b>1,135</b>           | <b>2,576</b>  | <b>14,896</b>   | <b>45,086</b>  |
| Net gains/(losses) arising from trading activities    | 3,443                       | 171                  | 253                           | 485           | 57            | 16                     | (346)         | 9,765           | 13,844         |
| Net gains/(losses) arising from financial investments | 507                         | -                    | -                             | -             | -             | -                      | 2,420         | (1,750)         | 1,177          |
| Insurance business income                             | 15,103                      | -                    | -                             | -             | -             | -                      | 67            | -               | 15,170         |
| Share of profits of associates and joint ventures     | -                           | -                    | -                             | -             | -             | -                      | 50            | 172             | 222            |
| Other operating income                                | 14,321                      | 495                  | 1,218                         | 629           | 497           | 174                    | 285           | 270             | 17,889         |
| <b>Total operating income -net</b>                    | <b>88,119</b>               | <b>20,354</b>        | <b>27,368</b>                 | <b>34,246</b> | <b>19,987</b> | <b>6,672</b>           | <b>13,856</b> | <b>36,122</b>   | <b>246,724</b> |
| Credit impairment losses                              | (7,443)                     | (4,301)              | (7,287)                       | (10,201)      | (1,679)       | (3,028)                | (1,156)       | (26,964)        | (62,059)       |
| Other assets impairment losses                        | (486)                       | -                    | 1                             | -             | -             | (4)                    | 5             | -               | (484)          |
| Insurance business expense                            | (15,699)                    | -                    | -                             | -             | -             | -                      | (30)          | -               | (15,729)       |
| Other operating expense                               | (25,848)                    | (6,376)              | (8,188)                       | (8,471)       | (5,882)       | (3,248)                | (4,222)       | (19,792)        | (82,027)       |
| <b>Profit before tax</b>                              | <b>38,643</b>               | <b>9,677</b>         | <b>11,894</b>                 | <b>15,574</b> | <b>12,426</b> | <b>392</b>             | <b>8,453</b>  | <b>(10,634)</b> | <b>86,425</b>  |
| Income tax  |                             |                      |                               |               |               |                        |               |                 | (6,855)        |
| <b>Net profit for the year</b>                        |                             |                      |                               |               |               |                        |               |                 | <b>79,570</b>  |
| Depreciation and amortisation                         | (1,779)                     | (902)                | (1,114)                       | (1,096)       | (945)         | (486)                  | (488)         | (1,078)         | (7,888)        |
| Capital expenditure                                   | (19,236)                    | (545)                | (786)                         | (1,460)       | (561)         | (273)                  | (193)         | (1,130)         | (24,158)       |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 48 SEGMENTAL ANALYSIS (Continued)

## Geographical operating segment information (Continued)

|  | As at 31 December 2021 |             |               |               |               |           |             |             |              |              |
|--|------------------------|-------------|---------------|---------------|---------------|-----------|-------------|-------------|--------------|--------------|
|  | Yangtze River          | Pearl River | Bohai Rim     | North Eastern |               |           | Overseas    | Head Office | Eliminations | Total        |
|  | Delta                  | Delta       | Economic Zone | Central China | Western China | China     |             |             |              |              |
| Segment assets                               | 2,881,066              | 1,059,386   | 1,711,386     | 1,277,003     | 881,918       | 409,288   | 1,095,657   | 4,459,033   | (2,141,041)  | 11,633,696   |
| Including:                                   |                        |             |               |               |               |           |             |             |              |              |
| Investments in associates and joint ventures | 4                      | -           | -             | 1             | -             | -         | 201         | 5,573       | -            | 5,779        |
| Unallocated assets                           |                        |             |               |               |               |           |             |             |              | 32,061       |
| Total assets                                 |                        |             |               |               |               |           |             |             |              | 11,665,757   |
| Segment liabilities                          | (2,658,802)            | (1,042,577) | (1,688,784)   | (1,239,658)   | (870,308)     | (417,068) | (1,046,572) | (3,863,904) | 2,141,041    | (10,686,632) |
| Unallocated liabilities                      |                        |             |               |               |               |           |             |             |              | (1,889)      |
| Total liabilities                            |                        |             |               |               |               |           |             |             |              | (10,688,521) |

|  | As at 31 December 2020 |             |               |               |               |           |             |             |              |             |
|--|------------------------|-------------|---------------|---------------|---------------|-----------|-------------|-------------|--------------|-------------|
|  | Yangtze River          | Pearl River | Bohai Rim     | North Eastern |               |           | Overseas    | Head Office | Eliminations | Total       |
|  | Delta                  | Delta       | Economic Zone | Central China | Western China | China     |             |             |              |             |
| Segment assets                               | 2,564,088              | 930,550     | 1,567,967     | 1,196,795     | 825,149       | 385,027   | 1,114,676   | 4,226,501   | (2,141,128)  | 10,669,625  |
| Including:                                   |                        |             |               |               |               |           |             |             |              |             |
| Investments in associates and joint ventures | 4                      | -           | -             | 6             | -             | -         | 203         | 4,468       | -            | 4,681       |
| Unallocated assets                           |                        |             |               |               |               |           |             |             |              | 27,991      |
| Total assets                                 |                        |             |               |               |               |           |             |             |              | 10,697,616  |
| Segment liabilities                          | (2,359,977)            | (918,511)   | (1,549,435)   | (1,165,323)   | (811,091)     | (386,178) | (1,057,224) | (3,711,091) | 2,141,128    | (9,817,702) |
| Unallocated liabilities                      |                        |             |               |               |               |           |             |             |              | (1,286)     |
| Total liabilities                            |                        |             |               |               |               |           |             |             |              | (9,818,988) |

Given the adjustment to the standards of dividing segments and evaluation guidelines of income allocation within segment, the comparative figures were stated under existing standards

## Business information

The Group is engaged predominantly in banking and related financial activities. It comprises corporate banking, personal banking, treasury and other business. Corporate banking mainly comprises corporate loans, bills, trade financing, corporate deposits and remittance. Personal banking mainly comprises personal loans, personal deposits, credit cards and remittance. Treasury mainly comprises money market placements and takings, financial investment, and securities sold under repurchase agreements. The "Others Business" segment mainly comprises items which cannot be categorised in the above business segments.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

### 48 SEGMENTAL ANALYSIS (Continued)

#### Business information (Continued)

The business information of the Group is summarised as follows:

|  | Year ended 31 December 2021      |                                 |                      |                   |                |
|--|----------------------------------|---------------------------------|----------------------|-------------------|----------------|
|  | Corporate<br>Banking<br>Business | Personal<br>Banking<br>Business | Treasury<br>Business | Other<br>Business | Total          |
| External net interest income                         | 69,804                           | 53,414                          | 38,353               | 122               | 161,693        |
| Inter-segment net interest income/<br>(expense)      | 16,291                           | 18,260                          | (34,551)             | –                 | –              |
| Net interest income                                  | 86,095                           | 71,674                          | 3,802                | 122               | 161,693        |
| Net fee and commission income                        | 10,341                           | 30,743                          | 6,330                | 159               | 47,573         |
| Net gains arising from trading activities            | 8,883                            | 2,073                           | 12,040               | 348               | 23,344         |
| Net gains arising from financial<br>investments      | (323)                            | 313                             | 1,321                | –                 | 1,311          |
| Share of profits of associates and joint<br>ventures | 6                                | –                               | –                    | 271               | 277            |
| Insurance business income                            | 56                               | 16,459                          | –                    | –                 | 16,515         |
| Other operating income                               | 15,406                           | 2,857                           | 35                   | 737               | 19,035         |
| <b>Total operating income – net</b>                  | <b>120,464</b>                   | <b>124,119</b>                  | <b>23,528</b>        | <b>1,637</b>      | <b>269,748</b> |
| Credit impairment losses                             | (47,024)                         | (19,079)                        | (259)                | (9)               | (66,371)       |
| Other assets impairment losses                       | (2,265)                          | (55)                            | –                    | –                 | (2,320)        |
| Insurance business expense                           | (17)                             | (17,037)                        | –                    | –                 | (17,054)       |
| Other operating expense                              |                                  |                                 |                      |                   |                |
| – Depreciation and amortisation                      | (2,941)                          | (4,460)                         | (641)                | (57)              | (8,099)        |
| – Others   | (35,267)                         | (40,350)                        | (5,404)              | (924)             | (81,945)       |
| <b>Profit before tax</b>                             | <b>32,950</b>                    | <b>43,138</b>                   | <b>17,224</b>        | <b>647</b>        | <b>93,959</b>  |
| Income tax   |                                  |                                 |                      |                   | (5,020)        |
| <b>Net profit for the year</b>                       |                                  |                                 |                      |                   | <b>88,939</b>  |
| Depreciation and amortisation                        | (2,941)                          | (4,460)                         | (641)                | (57)              | (8,099)        |
| Capital expenditure                                  | (8,332)                          | (12,636)                        | (1,817)              | (162)             | (22,947)       |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 48 SEGMENTAL ANALYSIS (Continued)

## Business information (Continued)

|  | Year ended 31 December 2020      |                                 |                      |                   |                |
|--|----------------------------------|---------------------------------|----------------------|-------------------|----------------|
|  | Corporate<br>Banking<br>Business | Personal<br>Banking<br>Business | Treasury<br>Business | Other<br>Business | Total          |
| External net interest income                         | 61,666                           | 49,328                          | 42,280               | 62                | 153,336        |
| Inter-segment net interest income/<br>(expense)      | 18,634                           | 16,978                          | (35,612)             | –                 | –              |
| Net interest income                                  | 80,300                           | 66,306                          | 6,668                | 62                | 153,336        |
| Net fee and commission income                        | 11,254                           | 28,090                          | 5,585                | 157               | 45,086         |
| Net gains arising from trading activities            | 3,909                            | 1,444                           | 8,371                | 120               | 13,844         |
| Net gains arising from financial<br>investments      | (140)                            | 396                             | 926                  | (5)               | 1,177          |
| Share of profits of associates and joint<br>ventures | (8)                              | –                               | –                    | 230               | 222            |
| Insurance business income                            | 32                               | 15,138                          | –                    | –                 | 15,170         |
| Other operating income                               | 14,408                           | 2,530                           | 219                  | 732               | 17,889         |
| <b>Total operating income – net</b>                  | <b>109,755</b>                   | <b>113,904</b>                  | <b>21,769</b>        | <b>1,296</b>      | <b>246,724</b> |
| Credit impairment losses                             | (33,072)                         | (28,214)                        | (772)                | (1)               | (62,059)       |
| Other assets impairment losses                       | (489)                            | –                               | –                    | 5                 | (484)          |
| Insurance business expense                           | (30)                             | (15,699)                        | –                    | –                 | (15,729)       |
| Other operating expense                              |                                  |                                 |                      |                   |                |
| – Depreciation and amortisation                      | (1,430)                          | (2,250)                         | (176)                | (52)              | (3,908)        |
| – Others   | (34,150)                         | (38,444)                        | (4,537)              | (988)             | (78,119)       |
| <b>Profit before tax</b>                             | <b>40,584</b>                    | <b>29,297</b>                   | <b>16,284</b>        | <b>260</b>        | <b>86,425</b>  |
| Income tax   |                                  |                                 |                      |                   | (6,855)        |
| <b>Net profit for the year</b>                       |                                  |                                 |                      |                   | <b>79,570</b>  |
| Depreciation and amortisation                        | (2,949)                          | (4,433)                         | (407)                | (99)              | (7,888)        |
| Capital expenditure                                  | (9,033)                          | (13,574)                        | (1,247)              | (304)             | (24,158)       |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

### 48 SEGMENTAL ANALYSIS (Continued)

#### Business information (Continued)

|  | As at 31 December 2021           |                                 |                      |                   |                     |
|--|----------------------------------|---------------------------------|----------------------|-------------------|---------------------|
|  | Corporate<br>Banking<br>Business | Personal<br>Banking<br>Business | Treasury<br>Business | Other<br>Business | Total               |
| Segment assets                               | 4,645,110                        | 2,385,982                       | 4,530,160            | 72,444            | 11,633,696          |
| Including:                                   |                                  |                                 |                      |                   |                     |
| Investments in associates and joint ventures | -                                | -                               | -                    | 5,779             | 5,779               |
| Unallocated assets                           |                                  |                                 |                      |                   | 32,061              |
| <b>Total assets</b>                          |                                  |                                 |                      |                   | <b>11,665,757</b>   |
| Segment liabilities                          | (4,999,768)                      | (2,533,625)                     | (3,078,851)          | (69,663)          | (10,681,907)        |
| Unallocated liabilities                      |                                  |                                 |                      |                   | (6,614)             |
| <b>Total liabilities</b>                     |                                  |                                 |                      |                   | <b>(10,688,521)</b> |

|  | As at 31 December 2020           |                                 |                      |                   |                    |
|--|----------------------------------|---------------------------------|----------------------|-------------------|--------------------|
|  | Corporate<br>Banking<br>Business | Personal<br>Banking<br>Business | Treasury<br>Business | Other<br>Business | Total              |
| Segment assets                               | 4,192,292                        | 2,067,778                       | 4,346,218            | 63,337            | 10,669,625         |
| Including:                                   |                                  |                                 |                      |                   |                    |
| Investments in associates and joint ventures | -                                | -                               | -                    | 4,681             | 4,681              |
| Unallocated assets                           |                                  |                                 |                      |                   | 27,991             |
| <b>Total assets</b>                          |                                  |                                 |                      |                   | <b>10,697,616</b>  |
| Segment liabilities                          | (4,832,353)                      | (2,312,508)                     | (2,598,865)          | (70,190)          | (9,813,916)        |
| Unallocated liabilities                      |                                  |                                 |                      |                   | (5,072)            |
| <b>Total liabilities</b>                     |                                  |                                 |                      |                   | <b>(9,818,988)</b> |

There were no significant transactions with a single external customer that the Group mainly relied on.

The comparative information was prepared in accordance with the categorisation of the current period since the assessment rules of the income and expense distribution between various business segments have been adjusted.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 49 FINANCIAL STATEMENTS OF THE BANK

## (a) Statement of financial position of the Bank

|  | As at<br>31 December 2021 | As at<br>31 December 2020 |
|--|---------------------------|---------------------------|
| <b>ASSETS</b>  |                           |                           |
| Cash and balances with central banks                                   | 721,912                   | 807,383                   |
| Due from and placements with banks and other financial institutions    | 720,824                   | 670,148                   |
| Derivative financial assets  | 38,426                    | 54,494                    |
| Loans and advances to customers  | 6,083,046                 | 5,441,506                 |
| Financial investments at fair value through profit or loss             | 507,745                   | 391,648                   |
| Financial investments at amortised cost                                | 2,147,313                 | 1,980,248                 |
| Financial investments at fair value through other comprehensive income | 472,635                   | 555,787                   |
| Investments in associates and joint ventures                           | 5,118                     | 4,178                     |
| Investments in subsidiaries  | 79,269                    | 79,272                    |
| Property and equipment   | 50,297                    | 50,500                    |
| Deferred income tax assets   | 29,950                    | 26,262                    |
| Other assets   | 86,801                    | 69,219                    |
| <b>Total assets</b>  | <b>10,943,336</b>         | <b>10,130,645</b>         |
|  |                           |                           |
|  | As at<br>31 December 2021 | As at<br>31 December 2020 |
| <b>Liabilities</b>   |                           |                           |
| Due to banks and other financial institutions                          | 1,807,016                 | 1,672,012                 |
| Financial liabilities at FVPL  | 16,799                    | 23,972                    |
| Derivative financial liabilities                                       | 36,740                    | 54,311                    |
| Due to customers   | 6,769,618                 | 6,404,997                 |
| Certificates of deposits issued  | 882,435                   | 627,011                   |
| Current income tax liabilities   | 2,952                     | 2,643                     |
| Deferred income tax liabilities  | 41                        | 58                        |
| Debt securities issued   | 413,552                   | 408,906                   |
| Other liabilities  | 98,910                    | 107,985                   |
| <b>Total liabilities</b>   | <b>10,028,063</b>         | <b>9,301,895</b>          |
| <b>Equity</b>  |                           |                           |
| Share capital  | 74,263                    | 74,263                    |
| Other equity investments   | 174,790                   | 133,292                   |
| <i>Including: Preference shares</i>                                    | <i>44,952</i>             | <i>44,952</i>             |
| <i>Perpetual bonds</i>   | <i>129,838</i>            | <i>88,340</i>             |
| Capital surplus  | 111,226                   | 111,226                   |
| Other reserves   | 336,666                   | 324,383                   |
| Retained earnings  | 218,328                   | 185,586                   |
| <b>Total equity</b>  | <b>915,273</b>            | <b>828,750</b>            |
| <b>Total equity and liabilities</b>                                    | <b>10,943,336</b>         | <b>10,130,645</b>         |

The financial statements of the Bank were approved and authorised for issuance by the Board of Directors on 25 March 2022 and signed on its behalf by:

Chairman and Executive Director: Ren Deqi

Vice Chairman, Executive Director and President: Liu Jun

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

## 49 FINANCIAL STATEMENTS OF THE BANK (Continued)

### (b) Statement of changes in equity of the Bank

|   | Other reserves |                   |                 |                 |                   |                       |                           |   |   |                         |   |                           |        |                   |          |         |
|---|----------------|-------------------|-----------------|-----------------|-------------------|-----------------------|---------------------------|---|---|-------------------------|---|---------------------------|--------|-------------------|----------|---------|
|   | Share capital  | Preference shares | Perpetual bonds | Capital surplus | Statutory reserve | Discretionary reserve | Statutory general reserve | Revaluation measured at designated assets | Revaluation reserve for the changes in credit risk of the financial liabilities | Cash flow hedge reserve | Translation reserve on foreign operations | Actuarial changes reserve | Others | Retained earnings | Total    |         |
|   |                |                   |                 |                 |                   |                       |                           | FVOCI                                     | FVPL  |                         |   |                           |        |                   |          |         |
| As at 1 January 2021  | 74,263         | 44,952            | 88,340          | 111,226         | 70,147            | 139,764               | 115,920                   | (769)                                     | 12  | 40                      | (1,964)                                   | (142)                     | 1,375  | 185,586           | 828,750  |         |
| Net profit for the year                                     | -              | -                 | -               | -               | -                 | -                     | -                         | -   | -   | -                       | -   | -                         | -      | -                 | 75,219   | 75,219  |
| Other comprehensive income                                  | -              | -                 | -               | -               | -                 | -                     | -                         | 752                                       | (36)  | 13                      | (1,840)                                   | 55                        | 16     | -                 | -        | (1,040) |
| Total comprehensive income                                  | -              | -                 | -               | -               | -                 | -                     | -                         | 752                                       | (36)  | 13                      | (1,840)                                   | 55                        | 16     | 75,219            | 74,179   |         |
| Capital contribution by holders of other equity instruments | -              | -                 | 41,498          | -               | -                 | -                     | -                         | -   | -   | -                       | -   | -                         | -      | -                 | -        | 41,498  |
| Dividends paid to ordinary shareholders                     | -              | -                 | -               | -               | -                 | -                     | -                         | -   | -   | -                       | -   | -                         | -      | (23,541)          | (23,541) |         |
| Dividends paid to preference shareholders                   | -              | -                 | -               | -               | -                 | -                     | -                         | -   | -   | -                       | -   | -                         | -      | (1,755)           | (1,755)  |         |
| Interest paid to perpetual bond holders                     | -              | -                 | -               | -               | -                 | -                     | -                         | -   | -   | -                       | -   | -                         | -      | (3,858)           | (3,858)  |         |
| Transfer to reserves  | -              | -                 | -               | -               | 6,897             | -                     | 6,421                     | -   | -   | -                       | -   | -                         | -      | (13,318)          | -        |         |
| Transferred from other comprehensive income                 | -              | -                 | -               | -               | -                 | -                     | -                         | 5   | -   | -                       | -   | -                         | -      | (5)               | -        | -       |
| As at 31 December 2021                                      | 74,263         | 44,952            | 129,838         | 111,226         | 77,044            | 139,764               | 122,341                   | (12)                                      | (24)  | 53                      | (3,804)                                   | (87)                      | 1,391  | 218,328           | 915,273  |         |

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

49 FINANCIAL STATEMENTS OF THE BANK (Continued)

(b) Statement of changes in equity of the Bank (Continued)

|   | Share capital | Preference shares | Perpetual bonds | Capital surplus | Statutory reserve | Discretionary reserve | Statutory general reserve | Revaluation measured at designated FVOCI assets | Revaluation reserve for the changes in credit risk of the financial liabilities measured at designated FVPL | Cash flow hedge reserve | Translation reserve on foreign operations | Actuarial changes reserve | Others | Retained earnings | Total    |
|---|---------------|-------------------|-----------------|-----------------|-------------------|-----------------------|---------------------------|---|---|-------------------------|---|---------------------------|--------|-------------------|----------|
| As at 1 January 2020  | 74,263        | 59,876            | 39,994          | 113,427         | 63,072            | 139,764               | 111,455                   | 2,327   | 5   | (18)                    | 293                                       | (10)                      | 1,363  | 155,944           | 761,755  |
| Net profit for the year                                     | -             | -                 | -               | -               | -                 | -                     | -                         | -   | -   | -                       | -   | -                         | -      | 68,969            | 68,969   |
| Other comprehensive income                                  | -             | -                 | -               | -               | -                 | -                     | -                         | (3,096)   | 7   | 58                      | (2,257)                                   | (132)                     | 12     | -                 | (5,408)  |
| <b>Total comprehensive income</b>                           | -             | -                 | -               | -               | -                 | -                     | -                         | (3,096)   | 7   | 58                      | (2,257)                                   | (132)                     | 12     | 68,969            | 63,561   |
| Capital contribution by holders of other equity instruments | -             | (14,924)          | 48,346          | (2,201)         | -                 | -                     | -                         | -   | -   | -                       | -   | -                         | -      | -                 | 31,221   |
| Dividends paid to ordinary shareholders                     | -             | -                 | -               | -               | -                 | -                     | -                         | -   | -   | -                       | -   | -                         | -      | (23,393)          | (23,393) |
| Dividends paid to preference shareholders                   | -             | -                 | -               | -               | -                 | -                     | -                         | -   | -   | -                       | -   | -                         | -      | (2,714)           | (2,714)  |
| Interest paid to perpetual bond holders                     | -             | -                 | -               | -               | -                 | -                     | -                         | -   | -   | -                       | -   | -                         | -      | (1,680)           | (1,680)  |
| Transfer to reserves  | -             | -                 | -               | -               | 7,075             | -                     | 4,465                     | -   | -   | -                       | -   | -                         | -      | (11,540)          | -        |
| As at 31 December 2020                                      | 74,263        | 44,952            | 88,340          | 111,226         | 70,147            | 139,764               | 115,920                   | (769)   | 12  | 40                      | (1,964)                                   | (142)                     | 1,375  | 185,586           | 828,750  |

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021  
(All amounts expressed in millions of RMB unless otherwise stated)

### 50 COMPARATIVE FIGURES

Certain comparative figures have been adjusted to conform with changes in disclosures in current year.

### 51 NON-ADJUSTING EVENTS AFTER REPORTING PERIOD

In February 2022, the Bank issued a tier-2 capital bond of RMB30,000 million with the maturity date in 2032 and a coupon rate of 3.45% on the national interbank bond market. The Bank has an option to exercise its right of redemption at the end of 2027.

# UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(All amounts expressed in millions of RMB unless otherwise stated)

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# UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(All amounts expressed in millions of RMB unless otherwise stated)

## 1 CURRENCY CONCENTRATIONS

|                               | USD         | HKD       | Others    | Total       |
|-------------------------------|-------------|-----------|-----------|-------------|
| <b>As at 31 December 2021</b> |             |           |           |             |
| Spot assets                   | 1,016,873   | 233,474   | 174,843   | 1,425,190   |
| Spot liabilities              | (956,839)   | (305,411) | (125,300) | (1,387,550) |
| Forward purchases             | 1,446,642   | 227,581   | 171,559   | 1,845,782   |
| Forward sales                 | (1,571,846) | (130,762) | (222,085) | (1,924,693) |
| Net option position           | 5,503       | (12)      | (747)     | 4,744       |
| Net long/(short) position     | (59,667)    | 24,870    | (1,730)   | (36,527)    |
| Net structural position       | 121,168     | 31,246    | 7,799     | 160,213     |
|                               | USD         | HKD       | Others    | Total       |
| <b>As at 31 December 2020</b> |             |           |           |             |
| Spot assets                   | 971,473     | 232,530   | 200,619   | 1,404,622   |
| Spot liabilities              | (866,247)   | (339,250) | (131,716) | (1,337,213) |
| Forward purchases             | 1,130,911   | 298,686   | 81,772    | 1,511,369   |
| Forward sales                 | (1,293,531) | (155,669) | (141,908) | (1,591,108) |
| Net option position           | (1,878)     | 41        | 2,663     | 826         |
| Net long/(short) position     | (59,272)    | 36,338    | 11,430    | (11,504)    |
| Net structural position       | 117,569     | 30,147    | 11,065    | 158,781     |

The net options position is calculated using the approach set out by the CBIRC in the regulatory report. The net structural position of the Group includes the structural positions of the Group's overseas branches, banking subsidiaries and other subsidiaries substantially involved in foreign exchange. Structural assets and liabilities include:

- Investments in fixed assets and properties, net of depreciation charges;
- Capital and statutory reserve of overseas branches;
- Investments in overseas subsidiaries and related companies; and
- Loan capital

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(All amounts expressed in millions of RMB unless otherwise stated)

### 2 INTERNATIONAL CLAIMS

International claims are the sum of cross-border claims in all currencies and local claims in foreign currencies. The Group is principally engaged in business operations within Mainland China.

In respect of this unaudited supplementary financial information, Mainland China excludes Hong Kong Special Administrative Region of the PRC ("Hong Kong"), Macau Special Administrative Region of the PRC ("Macau") and Taiwan.

International claims include loans and advances to customers, due from and placements with banks and other financial institutions, holdings of trade bills and certificates of deposits and investment securities.

International claims have been disclosed by country or region. A country or region is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfers are only made if risk exposure is transferred to other counterparty by risk resolving methods. Exposure to credit risk is also mitigated through methods of guarantees, collaterals and credit derivatives.

| As at 31 December 2021                  | Bank          | Official sector | Non-bank<br>private sector | Others   | Total          |
|---|---------------|-----------------|----------------------------|----------|----------------|
| Asia Pacific                            | 448,033       | 122,959         | 717,912                    | –        | 1,288,904      |
| <i>Of which attributed to Hong Kong</i> | <i>62,204</i> | <i>21,533</i>   | <i>304,709</i>             | <i>-</i> | <i>388,446</i> |
| North and South America                 | 34,071        | 21,351          | 65,018                     | –        | 120,440        |
| Africa                                  | 442           | 1,887           | –                          | –        | 2,329          |
| Europe                                  | 42,156        | 3,878           | 23,337                     | –        | 69,371         |
|   | 524,702       | 150,075         | 806,267                    | –        | 1,481,044      |

| As at 31 December 2020                  | Bank           | Official sector | Non-bank<br>private sector | Others   | Total          |
|---|----------------|-----------------|----------------------------|----------|----------------|
| Asia Pacific                            | 509,860        | 53,881          | 568,620                    | –        | 1,132,361      |
| <i>Of which attributed to Hong Kong</i> | <i>129,213</i> | <i>23,119</i>   | <i>299,229</i>             | <i>-</i> | <i>451,561</i> |
| North and South America                 | 41,818         | 28,597          | 70,286                     | –        | 140,701        |
| Africa                                  | 575            | 613             | –                          | –        | 1,188          |
| Europe                                  | 42,235         | 2,727           | 31,132                     | –        | 76,094         |
|   | 594,488        | 85,818          | 670,038                    | –        | 1,350,344      |

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(All amounts expressed in millions of RMB unless otherwise stated)

### 3 OVERDUE AND RESTRUCTURED ASSETS

#### 3.1 Balance of overdue loans

|  | As at<br>31 December 2021 | As at<br>31 December 2020 |
|--|---------------------------|---------------------------|
| Loans and advances to customers which have been overdue for: |                           |                           |
| – Less than 3 months   | 23,164                    | 25,480                    |
| – 3 to 6 months  | 15,966                    | 10,884                    |
| – 6 to 12 months   | 13,467                    | 23,261                    |
| – Over 12 months   | 34,565                    | 30,578                    |
|  | 87,162                    | 90,203                    |
| Percentage (%):  |                           |                           |
| – Less than 3 months   | 0.35                      | 0.44                      |
| – 3 to 6 months  | 0.24                      | 0.19                      |
| – 6 to 12 months   | 0.21                      | 0.40                      |
| – Over 12 months   | 0.53                      | 0.51                      |
|  | 1.33                      | 1.54                      |

#### 3.2 Overdue and restructured loans

|  | As at<br>31 December 2021 | As at<br>31 December 2020 |
|--|---------------------------|---------------------------|
| Total restructured loans and advances to customers   | 8,792                     | 8,299                     |
| <i>Including: Restructured loans and advances to customers overdue above 3 months</i>            | 1,625                     | 2,394                     |
| Percentage of restructured loans and advances to customers overdue above 3 months in total loans | 0.02                      | 0.04                      |



## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(All amounts expressed in millions of RMB unless otherwise stated)

## 4 SEGMENTAL INFORMATION OF LOANS

## 4.1 Impaired loans and advances to customers by geographical area

|   | As at 31 December 2021                   |                                 | As at 31 December 2020                   |                                 |
|---|--|---------------------------------|--|---------------------------------|
|   | Impaired loans and advances to customers | Allowance for impairment losses | Impaired loans and advances to customers | Allowance for impairment losses |
| PRC domestic regions                          |  |                                 |  |                                 |
| –Yangtze River Delta                          | 22,399                                   | (13,277)                        | 20,149                                   | (11,213)                        |
| –Pearl River Delta                            | 5,559                                    | (3,389)                         | 7,332                                    | (4,050)                         |
| –Bohai Rim Economic Zone                      | 13,893                                   | (9,786)                         | 17,058                                   | (12,068)                        |
| –Central China                                | 19,224                                   | (10,244)                        | 18,788                                   | (10,673)                        |
| –Western China                                | 9,661                                    | (6,402)                         | 9,220                                    | (6,136)                         |
| –North Eastern China                          | 12,090                                   | (9,299)                         | 10,998                                   | (7,891)                         |
| –Head Office                                  | 10,831                                   | (10,064)                        | 10,567                                   | (10,466)                        |
| Subtotal                                      | 93,657                                   | (62,461)                        | 94,112                                   | (62,497)                        |
| Hong Kong, Macau, Taiwan and overseas regions | 3,139                                    | (1,421)                         | 3,586                                    | (843)                           |
| Total   | 96,796                                   | (63,882)                        | 97,698                                   | (63,340)                        |

## 4.2 Overdue loans and advances to customers by geographical area

|   | As at 31 December 2021 |                                 | As at 31 December 2020 |                                 |
|---|------------------------|---------------------------------|------------------------|---------------------------------|
|   | Overdue loans          | Allowance for impairment losses | Overdue loans          | Allowance for impairment losses |
| PRC domestic regions                          |                        |                                 |                        |                                 |
| –Yangtze River Delta                          | 16,399                 | (9,189)                         | 15,722                 | (10,996)                        |
| –Pearl River Delta                            | 5,853                  | (3,166)                         | 6,167                  | (3,208)                         |
| –Bohai Rim Economic Zone                      | 9,749                  | (6,561)                         | 14,517                 | (10,140)                        |
| –Central China                                | 15,170                 | (8,080)                         | 14,405                 | (8,252)                         |
| –Western China                                | 7,176                  | (4,333)                         | 7,312                  | (4,748)                         |
| –North Eastern China                          | 9,119                  | (6,644)                         | 10,283                 | (7,194)                         |
| –Head Office                                  | 20,468                 | (12,767)                        | 18,251                 | (13,048)                        |
| Subtotal                                      | 83,934                 | (50,740)                        | 86,657                 | (57,586)                        |
| Hong Kong, Macau, Taiwan and overseas regions | 3,228                  | (1,516)                         | 3,546                  | (976)                           |
| Total   | 87,162                 | (52,256)                        | 90,203                 | (58,562)                        |
| Fair value of collaterals                     | 42,319                 | Not applicable                  | 44,069                 | Not applicable                  |

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(All amounts expressed in millions of RMB unless otherwise stated)

### 5 LOANS AND ADVANCES TO CUSTOMERS

#### 5.1 The risk concentration analysis for loans and advances to customers by industry sectors (gross)

|   | As at 31 December 2021 |        |                                  | As at 31 December 2020 |        |                                  |
|---|------------------------|--------|----------------------------------|------------------------|--------|----------------------------------|
|   |                        | %      | Amount covered<br>by collaterals |                        | %      | Amount covered<br>by collaterals |
| Hong Kong   |                        |        |                                  |                        |        |                                  |
| Corporate loans   |                        |        |                                  |                        |        |                                  |
| Manufacturing   |                        |        |                                  |                        |        |                                  |
| – Petroleum and chemical  | 1,130                  | 0.54   | 148                              | 1,325                  | 0.68   | -                                |
| – Electronics   | 1,577                  | 0.76   | 25                               | 4,441                  | 2.28   | 21                               |
| – Textile and clothing  | 148                    | 0.07   | 7                                | 312                    | 0.16   | 6                                |
| – Other manufacturing   | 25,506                 | 12.24  | 5,284                            | 15,599                 | 8.02   | 5,401                            |
| Production and supply of power, heat, gas and water                         | 1,418                  | 0.68   | 320                              | 861                    | 0.44   | 365                              |
| Construction  | 5,051                  | 2.42   | 1,159                            | 4,469                  | 2.30   | 1,009                            |
| Transportation, storage and postal service                                  | 9,482                  | 4.55   | 3,375                            | 14,550                 | 7.48   | 2,540                            |
| Information transmission, software and IT services                          | 3,537                  | 1.70   | 20                               | 3,257                  | 1.67   | 8                                |
| Wholesale and retail  | 15,584                 | 7.48   | 4,052                            | 15,912                 | 8.18   | 3,657                            |
| Finance   | 6,730                  | 3.23   | 826                              | 5,339                  | 2.74   | 594                              |
| Real estate   | 60,900                 | 29.23  | 16,186                           | 55,315                 | 28.43  | 16,532                           |
| Leasing and commercial services   | 11,711                 | 5.62   | 3,838                            | 6,636                  | 3.41   | 2,903                            |
| Others  | 22,489                 | 10.79  | 4,175                            | 29,347                 | 15.09  | 5,640                            |
| Total corporate loans   | 165,263                | 79.31  | 39,415                           | 157,363                | 80.88  | 38,676                           |
| Personal loans  |                        |        |                                  |                        |        |                                  |
| Mortgage  | 29,857                 | 14.33  | 29,837                           | 23,621                 | 12.14  | 23,616                           |
| Credit cards  | 94                     | 0.05   | -                                | 97                     | 0.05   | -                                |
| Others  | 13,149                 | 6.31   | 12,539                           | 13,492                 | 6.93   | 12,745                           |
| Total personal loans  | 43,100                 | 20.69  | 42,376                           | 37,210                 | 19.12  | 36,361                           |
| Gross amount of loans and advances to customers before impairment allowance | 208,363                | 100.00 | 81,791                           | 194,573                | 100.00 | 75,037                           |
| Outside Hong Kong   | 6,352,037              |        |                                  | 5,653,851              |        |                                  |

Note: The classification of industries is consistent with the latest national standards for industry classification (*Industrial Classification for National Economic Activities* (GB/T 4754-2017) issued by SAC and AQSIQ in 2017).

The risk concentration analysis for loans and advances to customers by industry sectors is based on the Group's internal classification system.

The ratio of collateral and pledge loans to the total loans of the Group was 52% as at 31 December 2021 (31 December 2020: 52%).

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(All amounts expressed in millions of RMB unless otherwise stated)

5 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

## 5.2 Allowance on loans and advances to customers by type of loan

|                           | As at 31 December 2021 |                                 | As at 31 December 2020 |                                 |
|---------------------------|------------------------|---------------------------------|------------------------|---------------------------------|
|                           | Impaired loans         | Allowance for impairment losses | Impaired loans         | Allowance for impairment losses |
| Corporates                | 77,628                 | (49,172)                        | 78,925                 | (48,335)                        |
| Individuals               | 19,168                 | (14,710)                        | 18,773                 | (15,005)                        |
|                           | 96,796                 | (63,882)                        | 97,698                 | (63,340)                        |
| Fair value of collaterals | 46,194                 | Not applicable                  | 46,359                 | Not applicable                  |

Collaterals held against such loans mainly include cash deposits and mortgages over properties.

The amount of new provisions charged to statement of profit or loss, and the amount of loans and advances written off during the years are disclosed below:

|             | Year ended 31 December 2021 |   |  | Year ended 31 December 2020 |   |  |
|-------------|-----------------------------|---|--|-----------------------------|---|--|
|             | New provisions              | Loans and advances written off as uncollectible | Recoveries of loans and advances written off in previous years | New provisions              | Loans and advances written off as uncollectible | Recoveries of loans and advances written off in previous years |
| Corporates  | 45,986                      | (32,886)  | 4,443  | 29,855                      | (33,248)  | 3,340  |
| Individuals | 16,959                      | (14,633)  | 1,881  | 26,414                      | (20,580)  | 1,712  |
|             | 62,945                      | (47,519)  | 6,324  | 56,269                      | (53,828)  | 5,052  |

# SUPPLEMENTARY INFORMATION ON LEVERAGE RATIO, LIQUIDITY COVERAGE RATIO AND NET STABLE FUNDING RATIO

## APPENDIX 1: INFORMATION RELATED TO LEVERAGE RATIO

Leverage ratio disclosure is disclosed according to Note 3 *Leverage Ratio Disclosure Format of the Measures for the Administration of the Leverage Ratio of Commercial Banks (Revised)*.

### Reconciliation of Regulatory Consolidation and Accounting Consolidation

(in millions of RMB)

| Serial Number | Item   | 31 December 2021 | 31 December 2020 |
|---------------|--|------------------|------------------|
| 1             | Total consolidated assets                            | 11,665,757       | 10,697,615       |
| 2             | Adjustments of consolidation                         | (91,385)         | (70,282)         |
| 3             | Adjustments item of customer's assets                | 0                | 0                |
| 4             | Adjustments of derivatives                           | 41,498           | 33,616           |
| 5             | Adjustments of securities financing transactions     | 725              | 2,022            |
| 6             | Adjustments of off-balance sheet item                | 1,021,988        | 844,885          |
| 7             | Other Adjustments                                    | (6,010)          | (5,252)          |
| 8             | Balance of adjusted on- and off-balance sheet assets | 12,632,573       | 11,502,604       |

### Leverage Ratio Information

(in millions of RMB unless otherwise stated)

| Serial Number | Item  | 31 December 2021 | 31 December 2020 |
|---------------|---|------------------|------------------|
| 1             | On-balance-sheet assets (excluding derivatives and securities financing transactions)   | 11,426,283       | 10,495,090       |
| 2             | Less: Deduction of tier-1 capital   | (6,010)          | (5,252)          |
| 3             | Balance of adjusted on-balance sheet assets (excluding derivatives and securities financing transactions)                                   | 11,420,273       | 10,489,838       |
| 4             | Replacement costs of derivatives (less eligible margin)   | 39,220           | 54,236           |
| 5             | Potential risk exposure of derivatives  | 41,498           | 33,616           |
| 6             | Sum of collaterals deducted from the balance sheet  | 0                | 0                |
| 7             | Less: Assets receivable from providing eligible margin  | 0                | 0                |
| 8             | Less: Derivative assets resulting from the transactions with central counterparties in providing clearing settlement services for customers | 0                | 0                |
| 9             | Notional principal of sold credit derivatives   | 0                | 0                |
| 10            | Less: Deductible balance of sold credit derivatives   | 0                | 0                |
| 11            | Derivative asset balance  | 80,718           | 87,852           |
| 12            | Accounting asset balance of securities financing transactions   | 108,869          | 78,007           |
| 13            | Less: Balance of deductible securities financing transaction assets   | 0                | 0                |
| 14            | Counterparty credit risk exposure of securities financing transactions  | 725              | 2,022            |
| 15            | Balance of securities financing transaction assets from acting for securities financing transactions  | 0                | 0                |
| 16            | Securities financing assets balance   | 109,594          | 80,029           |
| 17            | Balance of off-balance-sheet items  | 2,373,602        | 2,007,150        |
| 18            | Less: Balance of off-balance-sheet items arising from the reduction of credit transfer  | (1,351,614)      | (1,162,265)      |
| 19            | Adjusted off-balance sheet items balance  | 1,021,988        | 844,885          |
| 20            | Net tier-1 capital  | 960,225          | 862,221          |
| 21            | Adjusted balance of on- and off-balance sheet assets  | 12,632,573       | 11,502,604       |
| 22            | Leverage ratio (%)  | 7.60             | 7.50             |

## SUPPLEMENTARY INFORMATION ON LEVERAGE RATIO, LIQUIDITY COVERAGE RATIO AND NET STABLE FUNDING RATIO (CONTINUED)

### APPENDIX 2: THE DAILY AVERAGE LIQUIDITY COVERAGE RATIO AND ITS DETAILS OF THE GROUP IN THE FOURTH QUARTER OF 2021

(in millions of RMB unless otherwise stated)

| Serial Number  | Amount before<br>conversion | Amount after<br>conversion         |
|--|-----------------------------|------------------------------------|
| <b>The qualified high-quality liquid assets</b>                            |                             |                                    |
| 1 The qualified high-quality liquid assets                                 |                             | 2,143,415                          |
| <b>Cash Outflow</b>  |                             |                                    |
| 2 Retail deposits, small business deposits, including:                     | 2,283,598                   | 218,861                            |
| 3 Stable deposit   | 187,863                     | 9,287                              |
| 4 Less stable deposit  | 2,095,735                   | 209,574                            |
| 5 Unsecured wholesale funding, including:                                  | 4,773,737                   | 2,005,883                          |
| 6 Business relationship deposit (excluding agency business)                | 2,658,589                   | 663,356                            |
| 7 Non-business relationship deposit (including all counterparties)         | 2,099,114                   | 1,326,493                          |
| 8 Unsecured debt   | 16,034                      | 16,034                             |
| 9 Secured funding  |                             | 12,989                             |
| 10 Other items, including:   | 2,201,657                   | 1,262,724                          |
| 11 Cash outflow relates to derivatives and other collateral/pledged assets | 1,227,188                   | 1,209,533                          |
| 12 Cash outflow relates to loss of funding on asset-blocked securities     | 162                         | 162                                |
| 13 Committed credit and liquidity facilities                               | 974,307                     | 53,029                             |
| 14 Other contractual obligation to extend funds                            | 58,341                      | 58,341                             |
| 15 Contingent funding obligations  | 1,825,657                   | 67,107                             |
| 16 Total expected cash outflow   |                             | 3,625,905                          |
| <b>Cash Inflow</b>   |                             |                                    |
| 17 Secured lending (including reverse repos and securities borrowing)      | 103,994                     | 102,556                            |
| 18 Inflows from fully performing exposure                                  | 837,116                     | 545,173                            |
| 19 Other cash inflow   | 1,241,241                   | 1,222,887                          |
| 20 Total expected cash inflow  | 2,182,351                   | 1,870,616                          |
|  |                             | <b>Amount after<br/>adjustment</b> |
| 21 The qualified high-quality liquid assets                                |                             | 2,031,441                          |
| 22 Net cash outflow  |                             | 1,755,289                          |
| 23 Liquidity Coverage Ratio (%)  |                             | 115.70                             |

# SUPPLEMENTARY INFORMATION ON LEVERAGE RATIO, LIQUIDITY COVERAGE RATIO AND NET STABLE FUNDING RATIO (CONTINUED)

## APPENDIX 3: NET STABLE FUNDING RATIO AND ITEMS FOR THE THIRD QUARTER OF 2021

(in millions of RMB unless otherwise stated)

|                               |   | Unweighted value |           |             |             | Weighted value |
|-------------------------------|---|------------------|-----------|-------------|-------------|----------------|
|                               |   | Less than        |           |             |             |                |
| Serial Number                 |   | No Maturity      | 6 months  | 6-12 months | Over 1 year |                |
| Available Stable Funding Item |   |                  |           |             |             |                |
| 1                             | Capital   | 950,277          | –         | –           | 150,433     | 1,100,710      |
| 2                             | Regulatory Capital  | 950,277          | –         | –           | 143,733     | 1,094,010      |
| 3                             | Other capital instruments   | –                | –         | –           | 6,700       | 6,700          |
| 4                             | Retail deposits and deposits from small enterprises   | 847,332          | 1,609,483 | 10,059      | 760         | 2,230,672      |
| 5                             | Stable deposits   | 190,908          | 2,990     | 625         | 568         | 185,365        |
| 6                             | Less stable deposits  | 656,424          | 1,606,493 | 9,434       | 192         | 2,045,307      |
| 7                             | Wholesale funding   | 2,606,884        | 3,291,982 | 725,454     | 444,407     | 3,023,305      |
| 8                             | Operational deposits  | 2,524,843        | 117,421   | 39,694      | 8,173       | 1,349,152      |
| 9                             | Other wholesale funding   | 82,040           | 3,174,561 | 685,761     | 436,234     | 1,674,153      |
| 10                            | Liabilities with matching interdependent assets   | –                | –         | –           | –           | –              |
| 11                            | Other liabilities   | 54,954           | 311,985   | 18,282      | 361,707     | 387,256        |
| 12                            | Net stable funding ratio derivative liabilities   |                  |           |             | 27,725      |                |
| 13                            | All other liabilities and equities not included in the above categories   | 54,954           | 311,985   | 18,282      | 333,982     | 387,256        |
| 14                            | Total available stable funding  |                  |           |             |             | 6,741,944      |
| Required Stable Funding Item  |   |                  |           |             |             |                |
| 15                            | Total net stable funding ratio high-quality liquid assets   |                  |           |             |             | 337,642        |
| 16                            | Business relationship deposits held at other financial institutions   | 99,183           | 100       | 1,500       | 500         | 50,891         |
| 17                            | Loans and securities  | 73,115           | 1,804,015 | 1,048,456   | 4,680,628   | 5,312,307      |
| 18                            | Loans to financial institutions secured by Level 1 assets   | –                | 31,502    | –           | –           | 4,680          |
| 19                            | Loans to financial institutions secured by non-Level 1 assets or unsecured  | –                | 360,390   | 196,460     | 81,808      | 234,096        |
| 20                            | Loans to retail and small business customers, non-financial institutions, sovereigns, central banks and public sector entities. | 130              | 1,371,656 | 813,953     | 2,735,257   | 3,411,535      |
| 21                            | Including: with a risk weight less than or equal to 35%   | –                | 18,336    | 6,582       | 32,987      | 33,900         |
| 22                            | Residential mortgages   | –                | 686       | 832         | 1,394,361   | 1,185,966      |
| 23                            | Including: with a risk weight less than or equal to 35%   | –                | –         | –           | –           | –              |
| 24                            | Securities that are not in default and do not qualify as high-quality liquid assets, including exchange-traded equities         | 72,985           | 39,781    | 37,211      | 469,202     | 476,030        |
| 25                            | Assets with matching interdependent liabilities   | –                | –         | –           | –           | –              |
| 26                            | Other assets  | 189,303          | 70,451    | 9,146       | 58,456      | 296,987        |
| 27                            | Physical traded commodities (including gold)  | 26,431           |           |             |             | 22,467         |

## SUPPLEMENTARY INFORMATION ON LEVERAGE RATIO, LIQUIDITY COVERAGE RATIO AND NET STABLE FUNDING RATIO (CONTINUED)

### APPENDIX 3: NET STABLE FUNDING RATIO AND ITEMS FOR THE THIRD QUARTER OF 2021 *(CONTINUED)*

(in millions of RMB unless otherwise stated)

| Serial Number |   | Unweighted value |                    |             |             | Weighted value |
|---------------|---|------------------|--------------------|-------------|-------------|----------------|
|               |   | No Maturity      | Less than 6 months | 6-12 months | Over 1 year |                |
| 28            | Assets posted as initial margin for derivative contracts and contributions to default funds of central counterparties |                  |                    |             | 9,757       | 8,294          |
| 29            | Net stable funding ratio derivative assets  |                  |                    |             | 30,101      | 2,376          |
| 30            | Derivative with additional requirements   |                  |                    |             | 27,725      | 5,545          |
| 31            | All other assets not included in the above  | 162,872          | 70,451             | 9,146       | 18,598      | 258,306        |
| 32            | Off-balance-sheet items   |                  |                    |             | 3,189,068   | 135,138        |
| 33            | Total required stable funding   |                  |                    |             |             | 6,132,965      |
| 34            | Net stable funding ratio (%)  |                  |                    |             |             | 109.93         |

#### Notes:

1. The “no maturity” bucket mentioned in the table above include, but are not limited to, capital with perpetual maturity, non-maturity (demand) deposits, short positions, open maturity positions, non-high-quality liquid assets equities, and physical traded commodities.
2. The unweighted value of item 30 “Net stable funding ratio derivative liabilities with additional requirements” is the net stable funding ratio derivative liabilities before the deduction of the variation margin, without differentiation of maturity, and not included in the unweighted value of item 26 “Other assets”.

# SUPPLEMENTARY INFORMATION ON LEVERAGE RATIO, LIQUIDITY COVERAGE RATIO AND NET STABLE FUNDING RATIO (CONTINUED)

## APPENDIX 4: NET STABLE FUNDING RATIO AND ITEMS FOR THE FOURTH QUARTER OF 2021

(in millions of RMB unless otherwise stated)

|                               |  | Unweighted value   |             |             |           | Weighted value |
|-------------------------------|--|--------------------|-------------|-------------|-----------|----------------|
|                               |  | Less than 6 months |             |             |           |                |
| Serial Number                 |  | No Maturity        | 6-12 months | Over 1 year |           |                |
| Available Stable Funding Item |  |                    |             |             |           |                |
| 1                             | Capital  | 970,768            | –           | –           | 139,972   | 1,110,740      |
| 2                             | Regulatory Capital   | 970,768            | –           | –           | 139,972   | 1,110,740      |
| 3                             | Other capital instruments  | –                  | –           | –           | –         | –              |
| 4                             | Retail deposits and deposits from small enterprises  | 898,313            | 1,577,874   | 10,109      | 775       | 2,249,286      |
| 5                             | Stable deposits  | 213,205            | 3,057       | 634         | 540       | 206,591        |
| 6                             | Less stable deposits   | 685,108            | 1,574,817   | 9,475       | 235       | 2,042,694      |
| 7                             | Wholesale funding  | 2,855,911          | 3,201,260   | 786,525     | 464,642   | 3,121,409      |
| 8                             | Operational deposits   | 2,787,487          | 117,955     | 39,697      | 6,786     | 1,479,356      |
| 9                             | Other wholesale funding  | 68,424             | 3,083,305   | 746,828     | 457,855   | 1,642,054      |
| 10                            | Liabilities with matching interdependent assets  | –                  | –           | –           | –         | –              |
| 11                            | Other liabilities  | 59,399             | 232,740     | 109,046     | 247,800   | 312,855        |
| 12                            | Net stable funding ratio derivative liabilities  |                    |             |             | 36,101    |                |
| 13                            | All other liabilities and equities not included in the above categories  | 59,399             | 232,740     | 109,046     | 211,699   | 312,855        |
| 14                            | Total available stable funding   |                    |             |             |           | 6,794,290      |
| Required Stable Funding Item  |  |                    |             |             |           |                |
| 15                            | Total net stable funding ratio high-quality liquid assets  |                    |             |             |           | 373,711        |
| 16                            | Business relationship deposits held at other financial institutions  | 98,421             | 340         | 2,000       | –         | 50,381         |
| 17                            | Loans and securities   | 42,612             | 1,855,894   | 1,015,633   | 4,753,861 | 5,382,024      |
| 18                            | Loans to financial institutions secured by Level 1 assets  | –                  | 26,216      | –           | –         | 3,896          |
| 19                            | Loans to financial institutions secured by non-Level 1 assets or unsecured   | –                  | 334,814     | 195,396     | 101,570   | 249,490        |
| 20                            | Loans to retail and small business customers, non-financial institutions, sovereigns, central banks and public sector entities | –                  | 1,416,380   | 791,861     | 2,792,283 | 3,470,996      |
| 21                            | Including: with a risk weight less than or equal to 35%  | –                  | 12,499      | 7,116       | 34,380    | 32,155         |
| 22                            | Residential mortgages  | –                  | 714         | 883         | 1,447,908 | 1,231,520      |
| 23                            | Including: with a risk weight less than or equal to 35%  | –                  | –           | –           | –         | –              |
| 24                            | Securities that are not in default and do not qualify as high-quality liquid assets, including exchange-traded equities        | 42,611             | 77,770      | 27,494      | 412,099   | 426,121        |
| 25                            | Assets with matching interdependent liabilities  | –                  | –           | –           | –         | –              |
| 26                            | Other assets   | 191,296            | 68,009      | 9,493       | 77,511    | 310,191        |
| 27                            | Physical traded commodities (including gold)   | 26,357             |             |             |           | 22,404         |



## SUPPLEMENTARY INFORMATION ON LEVERAGE RATIO, LIQUIDITY COVERAGE RATIO AND NET STABLE FUNDING RATIO (CONTINUED)

### APPENDIX 4: NET STABLE FUNDING RATIO AND ITEMS FOR THE FOURTH QUARTER OF 2021 *(CONTINUED)*

(in millions of RMB unless otherwise stated)

| Serial Number |   | Unweighted value |                    |             |             | Weighted value |
|---------------|---|------------------|--------------------|-------------|-------------|----------------|
|               |   | No Maturity      | Less than 6 months | 6-12 months | Over 1 year |                |
| 28            | Assets posted as initial margin for derivative contracts and contributions to default funds of central counterparties |                  |                    |             | 10,288      | 8,745          |
| 29            | Net stable funding ratio derivative assets  |                  |                    |             | 39,220      | 3,119          |
| 30            | Derivative with additional requirements   |                  |                    |             | 36,101      | 7,220          |
| 31            | All other assets not included in the above  | 164,938          | 68,009             | 9,493       | 28,003      | 268,703        |
| 32            | Off-balance-sheet items   |                  |                    |             | 3,228,439   | 137,793        |
| 33            | Total required stable funding   |                  |                    |             |             | 6,254,099      |
| 34            | Net stable funding ratio (%)  |                  |                    |             |             | 108.64         |

#### Notes:

1. The “no maturity” bucket mentioned in the table above include, but are not limited to, capital with perpetual maturity, non-maturity (demand) deposits, short positions, open maturity positions, non-high-quality liquid assets equities, and physical traded commodities.
2. The unweighted value of item 30 “Net stable funding ratio derivative liabilities with additional requirements” is the net stable funding ratio derivative liabilities before the deduction of the variation margin, without differentiation of maturity, and not included in the unweighted value of item 26 “Other assets”.

# REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

**To the Board of Directors of Bank of Communications Co., Ltd.**

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

## INTRODUCTION

We have reviewed the accompanying interim financial information, which comprises the interim condensed consolidated statement of financial position of Bank of Communications Co., Ltd. as at 30 June 2022, and the interim condensed consolidated statement of profit or loss and other comprehensive income, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of cash flows for the six-month period then ended, and 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, issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial information in accordance with International Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial information and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity, issued by the International Auditing and Assurance Standards Board. A review of the interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

## CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information as at 30 June 2022 is not prepared, in all material respects, in accordance with International Accounting Standard 34, Interim Financial Reporting.

### **KPMG**

*Certified Public Accountants*

8th Floor, Prince's Building  
10 Chater Road  
Central, Hong Kong

26 August 2022

# UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2022

(All amounts presented in millions of RMB except when otherwise indicated)

|   | Note | Six months ended 30 June |                |
|---|------|--------------------------|----------------|
|   |      | 2022                     | 2021           |
| Interest income   |      | 202,568                  | 183,952        |
| Interest expense  |      | (117,475)                | (105,466)      |
| <b>Net interest income</b>  | 4    | <b>85,093</b>            | <b>78,486</b>  |
| Fee and commission income   | 5    | 27,072                   | 27,299         |
| Fee and commission expense  | 6    | (2,418)                  | (2,333)        |
| <b>Net fee and commission income</b>  |      | <b>24,654</b>            | <b>24,966</b>  |
| Net gains arising from trading activities   | 7    | 9,954                    | 10,169         |
| Net gains arising from financial investments  |      | 660                      | 772            |
| <i>Including: Net (loss) or gains on derecognition of financial assets measured at amortised cost</i> |      | <i>(13)</i>              | <i>40</i>      |
| Share of profits of associates and joint ventures   |      | 70                       | 114            |
| Insurance business income   | 8    | 13,519                   | 11,022         |
| Other operating income  | 9    | 9,618                    | 8,522          |
| <b>Net operating income</b>   |      | <b>143,568</b>           | <b>134,051</b> |
| Credit impairment losses  | 10   | (36,827)                 | (33,082)       |
| Other assets impairment losses  | 11   | (690)                    | (418)          |
| Insurance business expense  | 12   | (13,790)                 | (10,925)       |
| Other operating expenses  | 13   | (46,644)                 | (43,038)       |
| <b>Profit before tax</b>  |      | <b>45,617</b>            | <b>46,588</b>  |
| Income tax expense  | 16   | (1,485)                  | (3,715)        |
| <b>Net profit for the period</b>  |      | <b>44,132</b>            | <b>42,873</b>  |

# UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (Continued)

For the six months ended 30 June 2022

(All amounts presented in millions of RMB except when otherwise indicated)

|   | Note | Six months ended 30 June |               |
|---|------|--------------------------|---------------|
|   |      | 2022                     | 2021          |
| <b>Other comprehensive income, net of tax</b>   |      |                          |               |
| <b>Items that may be reclassified subsequently to profit or loss:</b>   |      |                          |               |
| Changes in fair value of debt instruments measured at fair value through other comprehensive income                                     |      |                          |               |
| Amount recognised in equity   |      | (7,739)                  | 708           |
| Amount reclassified to profit or loss   |      | 630                      | (335)         |
| Expected credit losses of debt instruments measured at fair value through other comprehensive income                                    |      |                          |               |
| Amount recognised in equity   |      | 296                      | (179)         |
| Amount reclassified to profit or loss   |      | –                        | –             |
| Effective portion of gains or losses on hedging instruments in cash flow hedges   |      |                          |               |
| Amount recognised in equity   |      | 709                      | 972           |
| Amount reclassified to profit or loss   |      | (97)                     | (740)         |
| Translation differences for foreign operations  |      | 4,122                    | (1,344)       |
| Others  |      | 131                      | 5             |
| Subtotal  |      | (1,948)                  | (913)         |
| <b>Items that will not be reclassified subsequently to profit or loss:</b>  |      |                          |               |
| Actuarial losses on pension benefits  |      | (20)                     | 58            |
| Changes in fair value of equity investments designated at fair value through other comprehensive income                                 |      | (192)                    | (455)         |
| Changes in fair value attributable to changes in the credit risk of financial liability designated at fair value through profit or loss |      | 46                       | (36)          |
| Others  |      | 1                        | 7             |
| Subtotal  |      | (165)                    | (426)         |
| Other comprehensive income, net of tax  | 42   | (2,113)                  | (1,339)       |
| <b>Total comprehensive income for the period</b>  |      | <b>42,019</b>            | <b>41,534</b> |
| <b>Net profit attributable to:</b>  |      |                          |               |
| Shareholders of the parent company  |      | 44,040                   | 42,019        |
| Non-controlling interests   |      | 92                       | 854           |
|   |      | <b>44,132</b>            | <b>42,873</b> |
| <b>Total comprehensive income attributable to:</b>  |      |                          |               |
| Shareholders of the parent company  |      | 41,776                   | 40,799        |
| Non-controlling interests   |      | 243                      | 735           |
|   |      | <b>42,019</b>            | <b>41,534</b> |
| <b>Basic and diluted earnings per share for profit attributable to the shareholders of the parent company (in RMB yuan)</b>             | 17   | <b>0.55</b>              | <b>0.54</b>   |

The accompanying notes form a part of these condensed consolidated financial statements.

## UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2022

(All amounts presented in millions of RMB except when otherwise indicated)

|  | Note | As at 30 June<br>2022 | As at 31 December<br>2021 |
|--|------|-----------------------|---------------------------|
| <b>ASSETS</b>  |      |                       |                           |
| Cash and balances with central banks   | 18   | 746,660               | 734,728                   |
| Due from and placements with banks and other financial institutions          | 19   | 799,743               | 632,708                   |
| Derivative financial assets  | 20   | 56,150                | 39,220                    |
| Loans and advances to customers  | 21   | 6,923,521             | 6,412,201                 |
| Financial investments at fair value through profit or loss                   | 22   | 666,260               | 638,483                   |
| Financial investments at amortised cost                                      | 22   | 2,375,762             | 2,203,037                 |
| Financial investments at fair value through other comprehensive income       | 22   | 650,592               | 681,729                   |
| Investments in associates and joint ventures                                 | 24   | 7,389                 | 5,779                     |
| Property and equipment   | 25   | 179,238               | 171,194                   |
| Deferred tax assets  | 26   | 38,856                | 32,061                    |
| Other assets   | 27   | 136,405               | 114,617                   |
| <b>Total assets</b>  |      | <b>12,580,576</b>     | <b>11,665,757</b>         |
| <b>LIABILITIES AND EQUITY</b>  |      |                       |                           |
| <b>LIABILITIES</b>   |      |                       |                           |
| Due to and placements from banks and other financial institutions            | 28   | 1,898,934             | 1,947,768                 |
| Financial liabilities at fair value through profit or loss                   | 29   | 59,887                | 50,048                    |
| Derivative financial liabilities   | 20   | 39,488                | 36,074                    |
| Deposits from customers  | 30   | 7,811,363             | 7,039,777                 |
| Certificates of deposits issued  | 31   | 982,520               | 892,020                   |
| Income taxes payable   |      | 4,953                 | 4,725                     |
| Debt securities issued   | 32   | 518,676               | 503,525                   |
| Deferred tax liabilities   | 26   | 1,508                 | 1,889                     |
| Other liabilities  | 33   | 274,311               | 212,695                   |
| <b>Total liabilities</b>   |      | <b>11,591,640</b>     | <b>10,688,521</b>         |
| <b>EQUITY</b>  |      |                       |                           |
| Share capital  | 34   | 74,263                | 74,263                    |
| Other equity instruments   | 35   | 174,790               | 174,790                   |
| <i>Including: Preference shares</i>  |      | <i>44,952</i>         | <i>44,952</i>             |
| <i>Perpetual bonds</i>   |      | <i>129,838</i>        | <i>129,838</i>            |
| Capital surplus  | 34   | 111,428               | 111,428                   |
| Other reserves   | 36   | 364,948               | 346,092                   |
| Retained earnings  | 36   | 251,114               | 258,074                   |
| <b>Equity attributable to shareholders of the parent company</b>             |      | <b>976,543</b>        | <b>964,647</b>            |
| Equity attributable to non-controlling interests of ordinary shares          |      | 9,082                 | 9,424                     |
| Equity attributable to non-controlling interests of other equity instruments |      | 3,311                 | 3,165                     |
| <b>Non-controlling interests</b>   | 38   | <b>12,393</b>         | <b>12,589</b>             |
| <b>Total equity</b>  |      | <b>988,936</b>        | <b>977,236</b>            |
| <b>Total equity and liabilities</b>  |      | <b>12,580,576</b>     | <b>11,665,757</b>         |

The condensed consolidated financial statements were approved and authorised for issuance by the Board of Directors on 26 August 2022 and signed on its behalf by:

Chairman and Executive Director: Ren Deqi

Vice Chairman, Executive Director and President: Liu Jun

The accompanying notes form a part of these condensed consolidated financial statements.

# UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2022

(All amounts presented in millions of RMB except when otherwise indicated)

|   | Equity attributable to shareholders of the parent company |                             |                            |                            |                              |  |                                      |  |   |   |  |                           |        |                                  |  | Attributable to Non-controlling interests    |  |          | Total |
|---|---|-----------------------------|----------------------------|----------------------------|------------------------------|--|--------------------------------------|--|---|---|--|---------------------------|--------|----------------------------------|--|--|--|----------|-------|
|   | Other equity instruments                                  |                             |                            |                            |                              | Other reserves                           |                                      |  |   |   |  |                           |        |                                  |  |  |  |          |       |
|   | Share capital<br>Note 34                                  | Preference Share<br>Note 35 | Perpetual bonds<br>Note 35 | Capital surplus<br>Note 34 | Statutory reserve<br>Note 36 | Discretionary surplus reserve<br>Note 36 | Statutory general reserve<br>Note 36 | Revaluation reserve for the changes in fair value of financial assets at fair value through other comprehensive income | Revaluation reserve for the changes in credit risk of the financial liabilities designated at fair value through profit or loss | Effective portion of gains or losses on hedging instruments in cash flow hedges | Translation differences for foreign operations | Actuarial changes reserve | Others | Retained earnings<br>Note 36, 37 | Attributable to the shareholders of the parent company | Non-controlling interests of ordinary shares | Non-controlling interests of other equity instruments<br>Note 35 |          |       |
|   |   |                             |                            |                            |                              |  |                                      |  |   |   |  |                           |        |                                  |  |  |  |          |       |
|   |   |                             |                            |                            |                              |  |                                      |  |   |   |  |                           |        |                                  |  |  |  |          |       |
| As at 1 January 2022  | 74,263  | 44,952                      | 129,838                    | 111,428                    | 79,967                       | 140,022                                  | 130,280                              | 1,531  | (24)  | (104)   | (6,884)  | (87)                      | 1,391  | 258,074                          | 964,647  | 9,424  | 3,165  | 977,236  |       |
| Total comprehensive income  | -   | -                           | -                          | -                          | -                            | -  | -                                    | (6,874)  | 46  | 618   | 3,834  | (20)                      | 132    | 44,040                           | 41,776   | 38   | 205  | 42,019   |       |
| Dividends paid to ordinary shareholders   | -   | -                           | -                          | -                          | -                            | -  | -                                    | -  | -   | -   | -  | -                         | -      | (26,363)                         | (26,363)   | (380)  | -  | (26,743) |       |
| Dividends paid to preference shareholders   | -   | -                           | -                          | -                          | -                            | -  | -                                    | -  | -   | -   | -  | -                         | -      | (1,832)                          | (1,832)  | -  | -  | (1,832)  |       |
| Interest paid to perpetual bond holders   | -   | -                           | -                          | -                          | -                            | -  | -                                    | -  | -   | -   | -  | -                         | -      | (1,685)                          | (1,685)  | -  | -  | (1,685)  |       |
| Interest paid to non-cumulative subordinated additional tier-1 capital securities holders | -   | -                           | -                          | -                          | -                            | -  | -                                    | -  | -   | -   | -  | -                         | -      | -                                | -  | -  | -  | (59)     | (59)  |
| Transferred to reserves   | -   | -                           | -                          | -                          | 7,784                        | -  | 13,328                               | -  | -   | -   | -  | -                         | -      | (21,112)                         | -  | -  | -  | -        | -     |
| Transfer of other comprehensive income to retained earnings                               | -   | -                           | -                          | -                          | -                            | -  | -                                    | 8  | -   | -   | -  | -                         | -      | (8)                              | -  | -  | -  | -        | -     |
| As at 30 June 2022  | 74,263  | 44,952                      | 129,838                    | 111,428                    | 87,751                       | 140,022                                  | 143,608                              | (5,335)  | 22  | 514   | (3,050)  | (107)                     | 1,523  | 251,114                          | 976,543  | 9,082  | 3,311  | 988,936  |       |
| As at 1 January 2021  | 74,263  | 44,952                      | 88,340                     | 111,428                    | 72,431                       | 139,930                                  | 123,163                              | 456  | 12  | (532)   | (3,517)  | (142)                     | 1,375  | 214,448                          | 866,607  | 8,763  | 3,258  | 878,628  |       |
| Total comprehensive income  | -   | -                           | -                          | -                          | -                            | -  | -                                    | (144)  | (36)  | 231   | (1,341)  | 58                        | 12     | 42,019                           | 40,799   | 711  | 24   | 41,534   |       |
| Capital contribution to holders of other equity instruments                               | -   | -                           | 41,498                     | -                          | -                            | -  | -                                    | -  | -   | -   | -  | -                         | -      | -                                | 41,498   | -  | -  | 41,498   |       |
| Dividends paid to ordinary shareholders   | -   | -                           | -                          | -                          | -                            | -  | -                                    | -  | -   | -   | -  | -                         | -      | (23,541)                         | (23,541)   | (388)  | -  | (23,929) |       |
| Dividends paid to preference shareholders   | -   | -                           | -                          | -                          | -                            | -  | -                                    | -  | -   | -   | -  | -                         | -      | (1,755)                          | (1,755)  | -  | -  | (1,755)  |       |
| Interest paid to non-cumulative subordinated additional tier-1 capital securities holders | -   | -                           | -                          | -                          | -                            | -  | -                                    | -  | -   | -   | -  | -                         | -      | -                                | -  | -  | -  | (61)     | (61)  |
| Transferred to reserves   | -   | -                           | -                          | -                          | 7,100                        | -  | 6,715                                | -  | -   | -   | -  | -                         | -      | (13,815)                         | -  | -  | -  | -        | -     |
| Transfer of other comprehensive income to retained earnings                               | -   | -                           | -                          | -                          | -                            | -  | -                                    | (1)  | -   | -   | -  | -                         | -      | 1                                | -  | -  | -  | -        | -     |
| As at 30 June 2021  | 74,263  | 44,952                      | 129,838                    | 111,428                    | 79,531                       | 139,930                                  | 129,878                              | 311  | (24)  | (301)   | (4,858)  | (84)                      | 1,387  | 217,357                          | 923,608  | 9,086  | 3,221  | 935,915  |       |

The accompanying notes form a part of these condensed consolidated financial statements.

## UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2022

(All amounts presented in millions of RMB except when otherwise indicated)

| Note   | Six months ended 30 June |                  |
|--|--------------------------|------------------|
|  | 2022                     | 2021             |
| <b>Cash flows from operating activities:</b>   |                          |                  |
| Profit before tax:   | 45,617                   | 46,588           |
| Adjustments for:   |                          |                  |
| Provision for credit impairment losses   | 36,827                   | 33,082           |
| Provision for other assets impairment losses   | 690                      | 418              |
| Provision for insurance contracts reserve  | 9,623                    | 10,053           |
| Depreciation and amortization  | 7,980                    | 7,320            |
| Provision/(Reversal) for outstanding litigation and unsettled obligation                     | 103                      | (54)             |
| Net gains on the disposal of property, equipment and other assets                            | (246)                    | (302)            |
| Interest income on financial investments   | (46,923)                 | (43,155)         |
| Fair value net losses  | 3,429                    | 826              |
| Net gains on investments in associates and joint ventures                                    | (70)                     | (114)            |
| Net gains on financial investments   | (660)                    | (772)            |
| Interest expense on debt securities issued   | 7,627                    | 7,989            |
| Interest expense on lease liabilities  | 90                       | 111              |
| Operating cash flows before movements in operating assets and liabilities                    | 64,087                   | 61,990           |
| Net increase in balances with central banks  | (47,139)                 | (33,185)         |
| Net increase in due from and placements with banks and other financial institutions          | (137,891)                | (129,165)        |
| Net increase in loans and advances to customers  | (525,813)                | (527,372)        |
| Net increase in financial assets at fair value through profit or loss                        | (27,867)                 | (99,628)         |
| Net increase in other assets   | (23,508)                 | (2,496)          |
| Net (decrease)/increase in due to and placements from banks and other financial institutions | (39,037)                 | 49,880           |
| Net decrease/(increase) in financial liabilities at fair value through profit or loss        | 2,659                    | (2,890)          |
| Net increase in deposits from customers and certificates of deposit issued                   | 815,909                  | 557,355          |
| Net increase in other liabilities  | 25,961                   | 16,803           |
| Net (decrease)/increase in value-added tax and other taxes payable                           | (11,378)                 | 1,091            |
| Income taxes paid  | (6,874)                  | (5,126)          |
| <b>Net cash flows generated/(used) in operating activities</b>                               | <b>89,109</b>            | <b>(112,743)</b> |

# UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

For the six months ended 30 June 2022

(All amounts presented in millions of RMB except when otherwise indicated)

|   |      | Six months ended 30 June |                 |
|---|------|--------------------------|-----------------|
|   | Note | 2022                     | 2021            |
| <b>Cash flows from investing activities:</b>  |      |                          |                 |
| Cash payment for investment in subsidiaries, associated ventures and joint ventures |      | (1,588)                  | (750)           |
| Cash payments for financial investments   |      | (551,750)                | (539,963)       |
| Proceeds from disposal or redemption of financial investments                       |      | 407,104                  | 510,961         |
| Dividends received  |      | 2,301                    | 1,838           |
| Interest received from financial investments  |      | 43,493                   | 42,023          |
| Acquisition of intangible assets and other assets                                   |      | (621)                    | (622)           |
| Cash received from the sale of intangible assets and other assets                   |      | 258                      | 336             |
| Acquisition of property, equipment  |      | (11,486)                 | (7,549)         |
| Cash received from disposal of property, equipment                                  |      | 4,011                    | 2,690           |
| <b>Net cash flows (used)/generated in investing activities</b>                      |      | <b>(108,278)</b>         | <b>8,964</b>    |
| <b>Cash flows from financing activities:</b>  |      |                          |                 |
| Proceeds from issue of other equity instruments                                     |      | –                        | 41,498          |
| Proceeds from issue of debt securities  |      | 66,892                   | 54,988          |
| Repayment of principal and interest of lease liabilities                            |      | (1,234)                  | (1,182)         |
| Repayment of principals of debt securities issued                                   |      | (56,324)                 | (13,240)        |
| Payment of interest on debt securities  |      | (5,481)                  | (3,829)         |
| Dividends paid  |      | (1,685)                  | –               |
| Dividends paid to non-controlling interests   |      | (59)                     | (112)           |
| <b>Net cash flows generated from financing activities</b>                           |      | <b>2,109</b>             | <b>78,123</b>   |
| <b>Effect of exchange rate fluctuations on cash and cash equivalents held</b>       |      | <b>1,895</b>             | <b>(2,835)</b>  |
| <b>Net decrease in cash and cash equivalents</b>                                    |      | <b>(15,165)</b>          | <b>(28,491)</b> |
| <b>Cash and cash equivalents at the beginning of the period</b>                     |      | <b>194,308</b>           | <b>307,120</b>  |
| <b>Cash and cash equivalents at the end of the period</b>                           | 43   | <b>179,143</b>           | <b>278,629</b>  |
| <b>Net cash flows from operating activities include:</b>                            |      |                          |                 |
| Interest received   |      | 155,132                  | 143,138         |
| Interest paid   |      | (95,563)                 | (86,764)        |

The accompanying notes form a part of these condensed consolidated financial statements.



# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

(All amounts presented in millions of RMB except when otherwise indicated)

## 1 GENERAL

Bank of Communications Co., Ltd. (the “Bank”) is a national state-owned joint-stock commercial bank, headquartered in Shanghai, which was reorganised upon the approval of Notice Guo Fa (1986) No. 81 issued by the State Council of the PRC and Notice Yin Fa (1987) No. 40 issued by the People’s Bank of China (the “PBOC”).

The Bank possesses the Finance Permit No. B0005H131000001 issued by the China Banking and Insurance Regulatory Commission (the “CBIRC”) of the PRC with the registration number of 9131000010000595XD.

The Bank’s A Shares are listed on the Shanghai Stock Exchange (the “SSE”) and H Shares are listed on the Hong Kong Stock Exchange, with the stock codes of 601328 and 03328 respectively.

The principal activities of the Bank and its subsidiaries (the “Group”) include corporate and personal banking services, interbank and financial market business, financial leasing, fund management, wealth management, trustees, insurance, overseas securities, debt-to-equity swap and other related financial services.

## 2 SIGNIFICANT ACCOUNTING POLICIES

### (1) Basis of preparation

The unaudited interim financial information for the six months ended 30 June 2022 have been prepared in accordance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting”, as well as with all applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

The unaudited interim condensed consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments which are measured at fair value. The principal accounting policies and methods of computation used in preparing the interim financial information are the same as those followed in the preparation of the Group’s consolidated financial statements for the year ended 31 December 2021.

The unaudited interim condensed consolidated financial statements should be read in conjunction with the Group’s consolidated financial statements for the year ended 31 December 2021, which have been audited.

### (2) Changes in accounting policies

#### (a) Standards and amendments effective in 2022 relevant to and adopted by the Group

In the current reporting period, the Group has adopted the following International Financial Reporting Standards (“IFRSs”) and amendments issued by the International Accounting Standards Board (“IASB”), that are mandatorily effective for the current reporting period.

|     |   |  | Effective for<br>annual periods<br>beginning on or after | Notes |
|-----|---|--|--|-------|
| (1) | Amendments to IFRS 3  | Reference to the Conceptual Framework                        | 1 January 2022   | (i)   |
| (2) | Amendments to IAS 37  | Onerous Contracts – Cost of Fulfilling a Contract            | 1 January 2022   | (i)   |
| (3) | Amendments to IAS 16  | Property, Plant and Equipment – Proceeds before Intended Use | 1 January 2022   | (i)   |
| (4) | Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41  | IASB Annual Improvements 2018 – 2020 cycle                   | 1 January 2022   | (i)   |
| (i) | Description of this standard and amendment was disclosed in the Group’s consolidated financial statements for the year ended 31 December 2021. The adoption of this standard and amendment does not have a significant impact on the operating results, comprehensive income, or financial position of the Group. |  |  |       |

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022  
(All amounts presented in millions of RMB except when otherwise indicated)

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (2) Changes in accounting policies (Continued)

##### **(b) Standards and amendments relevant to the Group that are not yet effective in the current reporting period and have not been adopted before their effective dates by the Group**

The Group has not adopted the following new or amended standards and interpretations issued by the IASB and the International Financial Reporting Interpretations Committee ("IFRIC"), that have been issued but are not yet effective.

|      |  |   | Effective for<br>annual periods<br>beginning on or after | Notes |
|------|--|---|--|-------|
| (1)  | Amendments to IAS 1  | Classification of Liabilities as Current or Non-current                               | 1 January 2023   | (i)   |
| (2)  | IFRS 17  | Insurance Contracts   | 1 January 2023   | (ii)  |
| (3)  | Amendments to IAS 1 and IFRS Practice Statement 2  | Disclosure of Accounting Policies   | 1 January 2023   | (i)   |
| (4)  | Amendments to IAS 8  | Definition of Accounting Estimates  | 1 January 2023   | (i)   |
| (5)  | Amendments to IAS 12   | Deferred Tax related to Assets and Liabilities arising from a Single Transaction      | 1 January 2023   | (i)   |
| (6)  | Amendments to IFRS 10 and IAS 28   | Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture | The effective date has now been deferred.                | (i)   |
| (i)  | Descriptions of these standards and amendments were disclosed in the Group's consolidated financial statements for the year ended 31 December 2021. The Group anticipates that the adoption of these standards and amendments will not have a significant impact on the Group's financial information. |   |  |       |
| (ii) | Amendments to IFRS 17: Insurance Contracts   |   |  |       |

Descriptions of this amendments was disclosed in the Group's consolidated financial statements for the year ended 31 December 2021. The Group has not completed its assessment of the impact on the Group's operating results and financial position of adopting IFRS 17.

#### (3) Significant accounting estimates and judgements in applying accounting policies

The preparation of this interim condensed consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, and income and expense. Actual results may differ from these estimates.

In preparing this interim condensed consolidated financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Group's consolidated financial statements for the year ended 31 December 2021.

## 3 FINANCIAL RISK MANAGEMENT

### Overview

The Group's operating activities expose it to a variety of financial risks and those activities involve analysis, evaluation, acceptance and management of a certain degree of risks or a portfolio of risks. The Group's aim is to achieve an appropriate balance between risks and returns and minimise potential adverse effects on the Group's financial performance. The main types of financial risks are credit risk, liquidity risk, market risk, operational risk, etc.

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022

(All amounts presented in millions of RMB except when otherwise indicated)

### 3 FINANCIAL RISK MANAGEMENT *(Continued)*

#### Overview *(Continued)*

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, monitor the risks and to control the risk limits through reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets and products and the latest best practice.

#### Risk management framework

The Board of Directors sets out risk management strategies, overall risk preference and risk tolerance level. The senior management establishes risk management policies and procedures according to the strategies set by the Board of Directors. The Risk Management Department/Internal Control and Crime Prevention Office at Head Office serves as the chief department for the Group's risk management and leads the overall risk management duties, of which the crucial ones would be further designated to specific leading departments. The risk management division in each operation department at Head Office, in each domestic and overseas branch and in each subsidiary undertakes specific risk management function. Internal Audit Department is responsible for independent review of risk management and control environment.

#### (1) Credit risk

Credit risk is the risk of loss that a borrower or counterparty fails to or is unwilling to meet its obligations. Credit risk arises principally from loans and advances to customers, financial investments, derivative instruments and due from and placements with banks and other financial institutions. There is also credit risk in off-balance sheet items such as loan commitments, financial guarantees, acceptances and letters of credit. Credit risk is a major risk to which the Group is exposed. Therefore, the Group manages and controls the overall credit risk, integrated into the comprehensive risk management, in a prudent manner, and reports regularly to the Senior Management and the Board of Directors of the Group.

#### (a) **Credit risk management**

The Group's credit risk management is assumed by major functions such as Corporate Business Department, Inclusive Finance Department, Retail Credit Business Department, Pacific Credit Card Centre, International Banking Department, Credit Management Department, Credit Authorisation Department, Risk Management Department/Internal Control and Crime Prevention Office, Asset Preservation Department, Financial institution Department and Financial Market Department. They are responsible for the standardised management of corporate and retail credit businesses in terms of guidance on credit investment, credit investigation and report, credit approval, loan granting, post-loan management and non-performing loan management.

#### (i) *Loans and advances to customers*

As for corporate loans, the Group's relationship managers are responsible for receiving application files submitted by the applicants, conducting pre-loan investigation, assessing the credit risk, and raising the proposed rating. The Group adopts the hierarchical approval system at the branch and Head Office level based on the credit approval authority. Credit line is determined by taking into account the credit record, financial position, collaterals and guarantees of the applicant, overall credit risk of the credit portfolio, macroeconomic regulation and control policies and relevant laws and regulations. The Group keeps a close eye on the economic and financial trend and credit risk profile in the industry, provides more guidance on credit investment, formulate guidance for different industries, strengthens daily risk pre-warning, monitoring and specific risk investigation, identify customers under major risks and material potential risk points, enhances the refinement of post-loan management and centers on customer credit risk management to carry out post-loan management. The independent loan granting centre shall review the compliance, completeness and effectiveness of relevant credit files before loan granting according to the applications for drawdown of credit line. The Group's relationship managers are primarily responsible for post-loan management. The Group adopts a series of tools and approaches, such as risk filtering, list management, risk warning and risk investigation, in daily risk monitoring of corporate loans. The Group manages non-performing loans mainly through (1) collection; (2) restructuring; (3) disposal of collaterals or recourse to the guarantors; (4) litigation or arbitration; (5) disposal.

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### (1) Credit risk (Continued)

#### (a) Credit risk management (Continued)

##### (i) Loans and advances to customers (Continued)

For retail credit assets, the Group manages the overall risk profile of retail credit business through on-site review and adoption of reporting system on material matters, strengthens daily risk monitoring and pre-warning through optimising management system, standardises operation process of retail credit business through formulating business management system and combining relevant system function control, identifies and reveals material potential risks on a timely manner through strengthening risk monitoring and early-warning, and understands and forecasts the quality trends so as to adopt targeted risk control measures in advance by using stress testing and quality migration analysis. In addition, the Group continues to carry out fast response mechanism to address emergencies properly and maintains a list to manage those key risk projects through risk monitoring, guidance, collection and mitigation.

The Group adopts categorised management for retail credit assets on the basis of overdue ageing and guarantee type. With regard to retail credit customers with overdue loans, different approaches are adopted to collect such loans based on their overdue days.

Credit Card Centre of the Group is in charge of the operation and management of credit card business. Credit Card Centre of the Group adopts various supervisory and preventive measures. It reinforces data cross-validation to enhance risk prevention in the approval process, reduces risk exposure to high risk customers through subsequent credit investigation and enters into the intervention process earlier than scheduled, effectively improves collection result through reasonable allocation of available resources, and optimises data analytic system to further enhance the management of credit card business.

##### (ii) Treasury business

For treasury business (including debt investments), the Group chooses banks and other financial institutions prudently and balances the credit risk and return rate of investments. By making reference to internal and external credit rating information, the Group approves credits of different levels and uses an appropriate credit limit management system to review and adjust credit lines, aiming to manage the credit risk exposed to the treasury business.

For debt securities, internal and external ratings (such as Standard and Poor's) are used by the Group when available for managing the credit risk exposed to debt securities and bills. The investment in those debts and bills is to have better credit quality assets while maintaining readily available liquidity resource. The bond issuers involved with the Group are subject to the credit granting review and approval of the Head Office and credit limits are placed on such issuers.

Debt investments other than debt securities include investments in fund trust schemes, asset management plans and wealth management products set up by banking financial institutions. The Group implements a rating system for accepting trust companies, securities companies and fund companies, sets credit limits for repurchase parties of trust beneficiary right, ultimate borrowers of targeted asset management plans, and issuers of inter-bank wealth management products, and carries out follow-up risk management on a regular basis.

As for derivative instruments, the Group maintains strict limits on net open derivative investment positions (i.e., the difference between long and short contracts), by both amount and maturity. At any time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e., assets where their fair value is positive), which, in relation to derivative instruments, is only a fraction of the contract's notional amount used to express the amount outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market fluctuations. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except when the Group requires margin deposits from counterparties. The management has set limits of these contracts according to counterparty, and regularly monitor and control the actual credit risk when the Group concludes foreign exchange and interest rate contracts with other financial institutions and clients.

The Group manages the credit quality of due from and placements with banks and other financial institutions, and balances arising from transactions for precious metals, by considering the size, financial position, the internal and external credit rating of the banks and other financial institutions. The Head Office monitors and reviews the credit risk of due from and placements with banks and other financial institutions by counterparties regularly. Limits are placed on different counterparties.

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022

(All amounts presented in millions of RMB except when otherwise indicated)

### 3 FINANCIAL RISK MANAGEMENT *(Continued)*

#### (1) Credit risk *(Continued)*

##### (a) **Credit risk management** *(Continued)*

##### (iii) *Credit-related commitments*

Credit risk exposures to financial guarantees are the same as that of loans. However, commercial letters of credit are usually pledged by the relevant shipped goods, and therefore are subject to lower risk compared with direct loans. Credit-related commitments are included in the management of overall credit line granted to the applicant. For customers with transactions beyond the credit limit or infrequent transactions, the applicant shall be requested to provide relevant margin deposits in order to reduce credit risk exposures.

##### (iv) *Credit risk quality*

In accordance with the Guideline for Loan Credit Risk Classification issued by the CBIRC, the Group measures and manages the quality of corporate and personal loans and advances by classifying loans into the following five categories: normal, special-mention, substandard, doubtful and loss, of which substandard, doubtful and loss loans are regarded as non-performing loans.

The five categories of loan classification into which the Group classifies its loans and advances to customers are set out below:

|                  |  |
|------------------|--|
| Normal:          | Borrowers can honour the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.  |
| Special-mention: | Borrowers are able to service their loans currently, although repayment may be adversely affected by specific factors.   |
| Substandard:     | Borrowers' ability to service their loans is in question and they cannot rely entirely on normal operating revenues to repay principal and interest. Losses may ensue even when collaterals or guarantees are invoked. |
| Doubtful:        | Borrowers cannot repay principal and interest in full and significant losses will need to be recognised even when collaterals or guarantees are invoked.   |
| Loss:            | Only a small portion or none of the principal and interest can be recovered after taking all possible measures and exhausting all legal remedies.  |

##### (b) **Expected credit loss ("ECL")**

The Group measures the ECL of financial instruments at amortised cost or debt investments at fair value through other comprehensive income ("FVOCI"). The Group divides them into 3 stages by assessing whether there has been a significant increase in credit risk since initial recognition to recognise ECL.

The Group measures the ECL of a financial instrument in a way that reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money;
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

##### *Stage classification*

The Group divides them into 3 stages. Stage 1 is "financial assets without significant increase in credit risk since initial recognition", at which the Group only needs to measure ECL in the next 12 months. Stage 2 is "financial assets with significant increase in credit risk" and stage 3 is "credit-impaired financial assets", at both of which the Group needs to measure lifetime ECL.

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### (1) Credit risk (Continued)

#### (b) Expected credit loss ("ECL") (Continued)

##### *Significant increases in credit risk*

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the balance sheet date with that assessed at the date of initial recognition.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information, including forward-looking information. In particular, the following information is taken into account:

- Principal or interest of the instrument is more than 30 days past due;
- Credit rating of obligor changes significantly. Credit rating is based on both internal and external rating results, and the criteria are as follow:
  - (i) The changed internal and external ratings are worse than the Group's credit access standards;
  - (ii) The non-retail assets' internal ratings are downgraded by 3 ranks or above upon initial recognition;
  - (iii) Significant adverse issues have negative impacts on obligator's repayment ability;
  - (iv) Other circumstances of significant increase in credit risk. For example, appearance of other risk alarm indicators which imply growing potential risk, and could cause losses of financial assets to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

##### *Definition of credit-impaired and default*

The criteria adopted by the Group to determine whether a credit impairment occurs under IFRS 9 is consistent with the internal credit risk management objectives for relevant financial instrument, in addition to consideration of quantitative and qualitative indicators. In general, the Group considers a financial instrument to be credit-impaired or otherwise in default when one or more of the following criteria have been met:

- Principal or interest of the asset is more than 90 days past due;
- The issuer or obligor is in significant financial difficulty, or has already become insolvent;
- It is becoming probable that the obligor will enter bankruptcy;
- An active market for that financial asset has disappeared because of financial difficulties of issuers;
- Other objective evidence indicating impairment of the financial asset.

The financial assets are moveable between stages. For instance, financial instruments originally classified at stage 1 should be downgraded to stage 2 if events occur such as a significant increase in credit risk. Financial instruments at stage 2 could be upgraded to stage 1 if credit risk decreases and the criteria for the determination of "a significant increase in credit risk" are no longer met.

After the outbreak of the pandemic of COVID-19, the Group strictly followed the regulatory policies and requirements and prudently evaluates the repayment ability of the clients who apply for payment holiday. On the premise that the subsequent risks will not be enlarged and subsequent settlement will not be affected, the Group provided relief measures to those clients meeting specific criteria by extending the maturity and so on. The Group has assessed whether the relief measures would cause a significant increase in credit risks and has adjusted the stage classification as appropriate.

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022

(All amounts presented in millions of RMB except when otherwise indicated)

### 3 FINANCIAL RISK MANAGEMENT *(Continued)*

#### (1) Credit risk *(Continued)*

##### **(b) Expected credit loss (“ECL”) *(Continued)***

###### *Description of parameters, assumptions and estimation techniques*

The Group recognises a loss allowance to different financial instruments at an amount equal to 12-month or lifetime expected credit loss based on whether there has been a significant increase in credit risk and whether the financial instrument is credit-impaired. ECL is the result of discounted product of the weighted average of “probability of default (PD)”, “loss given default (LGD)”, “exposure at default (EAD)” under the three scenarios, which are defined as follows:

Probability of default (PD) is the probability of default occurring of a client and its assets in a given period of time in the future.

Exposure at default (EAD) represents the total amount of on-balance sheet and off-balance sheet exposure at the time of default by debtor, reflecting the total amount of possible losses likely to be incurred. In general, this includes the utilised credit limit, interest receivable, the anticipated usage of unused credit facilities as well as the related expenses to be incurred.

Loss given default (LGD) represents the percentage of amount of loss to be incurred in the event of default to the total risk exposure. It typically varies by nature of debtor, type and seniority of claim and the availability of collaterals or other credit risk mitigation.

Definition of default has been consistently applied to model establishment of probability of default (PD), exposure at default (EAD), loss given default (LGD) in ECL calculation throughout the Group.

###### *Estimation of ECL: the impairment models*

The impairment models adopt a top down approach. Through grouping, the models cover the risk exposures of financial institutions, corporates and retailers. The Group has established a macro-economic forecast model driven by the year-on-year Gross Domestic Product (GDP) growth rate to forecast values of macro-economic indicators in multiple categories, including national accounts, price index, foreign trades, fixed asset investments, currency and interest rates, under three scenarios, namely “Basic Scenario”, “Optimistic Scenario” and “Pessimistic Scenario”. The forecasts, after evaluation and confirmation by economic experts and senior management of the Bank, are used in asset impairment model. The macro scenario settings and the rationality of the weightings are reviewed and adjusted semiannually, based on changes in the internal and external economic environment.

As at June 30 2022, The Group forecasts the 2022 year-on-year growth rate of GDP to be around 5.0% in the Basic Scenario. The Group fully considered the macroeconomic forecast for 2022 when evaluating the forecast information used in the impairment models, and made prudential adjustments to the macro scenario settings.

The Group determined the weightings of “Basic Scenario”, “Optimistic Scenario” and “Pessimistic Scenario” with macro data analysis and expert’s judgement and maintain relative stability.

Where impairment models could not be established due to lack of data support, the Group endeavoured to select appropriate methods in order to make prospective estimation. The Group made prospective adjustments to impairment calculation of overseas branches regularly based on macro-forecast data from authoritative institutions (such as IMF and the World Bank). For asset portfolios not covered by impairment models, expected loss rate was set by referring to that of similar asset portfolios with impairment models available. When the management believed that the forecast model could not fully reflect recent credit or economic events, management overlay adjustments could be used to supplement ECL allowances.

###### *Grouping of instruments with similar credit risk characteristics*

To calculate the relevance between ECL allowance and macro-economic indicators, a grouping of exposure is performed for assets with similar credit risk characteristics. In performing this grouping, the Group has obtained sufficient information to ensure the data reliability for statistical purposes. Where sufficient information is not available internally, the Group has leveraged supplementary data from both internal and external environments to help establish impairment model. Non-retail assets of the Group are mainly grouped according to industries, while retail assets are mainly grouped based on product types and so on.



# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022  
(All amounts presented in millions of RMB except when otherwise indicated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### (1) Credit risk (Continued)

#### (b) Expected credit loss (“ECL”) (Continued)

##### Sensitivity analysis

The Group measures sensitivity analysis on the macro-economic indicators used in prospective estimation. As at 30 June 2022, if the optimistic/pessimistic scenario weighting increases or decreases by 10%, and the prediction of economic indicators changed correspondingly, the change of the impairment allowance does not exceed 5%.

#### (c) Maximum exposure to credit risk

##### (i) financial instruments included in impairment assessment

The Group classified the credit risk levels of financial assets measured by ECL into “Low” (credit risk in good condition), “Medium” (increased credit risk), and “High” (credit risk in severe condition), based on the quality of assets. The credit risk level is used for the purpose of the group’s internal credit risk management. “Low” refers to assets with good credit quality. There is no sufficient reason to doubt that the assets are not expected to fulfill its contractual obligation to repay or if there is any other behaviors breaching the debt contracts that would significantly impact the repayment of debt according to contract terms. “Medium” refers to assets facing obvious negative factors impacting its repayment capacity, but not yet have non-repayment behaviors. “High” refers to non-repayment according to the debt contract terms, or other behaviors breaching the debt contracts or having significant impact on the repayment of debt according to contract terms.

The table below analyses exposure to credit risk of major financial instruments included in expected credit losses assessment. The balance of financial instruments below is the maximum exposure to credit risk of these instruments in the Group.

| As at 30 June 2022  | Low risk  | Medium risk | High risk | Domestic branches | Overseas and subsidiaries | Group total | Allowance for Impairment losses | Group Carrying amount |
|---|-----------|-------------|-----------|-------------------|---------------------------|-------------|---------------------------------|-----------------------|
| <b>On-balance sheet item</b>  |           |             |           |                   |                           |             |                                 |                       |
| <b>Cash and balances with central banks (Stage 1)</b>                           | 692,553   | -           | -         | 692,553           | 42,123                    | 734,676     | -                               | 734,676               |
| <b>Loans and advances to customers – Corporate (Excluding accrued interest)</b> |           |             |           |                   |                           |             |                                 |                       |
| at amortised cost   | 3,831,463 | 73,914      | 71,027    | 3,976,404         | 518,388                   | 4,494,792   | (134,933)                       | 4,359,859             |
| Stage 1   | 3,758,624 | -           | -         | 3,758,624         | 478,682                   | 4,237,306   | (50,856)                        | 4,186,450             |
| Stage 2   | 72,839    | 73,914      | -         | 146,753           | 29,699                    | 176,452     | (33,329)                        | 143,123               |
| Stage 3   | -         | -           | 71,027    | 71,027            | 10,007                    | 81,034      | (50,748)                        | 30,286                |
| at FVOCI  | 241,199   | 1           | 79        | 241,279           | 2,742                     | 244,021     | -                               | 244,021               |
| Stage 1   | 236,870   | -           | -         | 236,870           | 2,742                     | 239,612     | -                               | 239,612               |
| Stage 2   | 4,329     | 1           | -         | 4,330             | -                         | 4,330       | -                               | 4,330                 |
| Stage 3   | -         | -           | 79        | 79                | -                         | 79          | -                               | 79                    |
| <b>Loans and advances to customers – Personal (Excluding accrued interest)</b>  |           |             |           |                   |                           |             |                                 |                       |
| at amortised cost   | 2,249,395 | 17,118      | 21,819    | 2,288,332         | 60,558                    | 2,348,890   | (42,501)                        | 2,306,389             |
| Stage 1   | 2,249,395 | 2,769       | -         | 2,252,164         | 59,942                    | 2,312,106   | (20,211)                        | 2,291,895             |
| Stage 2   | -         | 14,349      | -         | 14,349            | 343                       | 14,692      | (5,415)                         | 9,277                 |
| Stage 3   | -         | -           | 21,819    | 21,819            | 273                       | 22,092      | (16,875)                        | 5,217                 |
| <b>Due from and placements with banks and other financial institutions</b>      | 444,674   | -           | -         | 444,674           | 357,240                   | 801,914     | (2,171)                         | 799,743               |
| Stage 1   | 444,674   | -           | -         | 444,674           | 353,423                   | 798,097     | (2,169)                         | 795,928               |
| Stage 2   | -         | -           | -         | -                 | 3,817                     | 3,817       | (2)                             | 3,815                 |
| <b>Financial investments at amortised cost</b>                                  | 2,255,745 | 1,213       | 1,101     | 2,258,059         | 120,678                   | 2,378,737   | (2,975)                         | 2,375,762             |
| Stage 1   | 2,250,337 | 152         | -         | 2,250,489         | 118,292                   | 2,368,781   | (1,499)                         | 2,367,282             |
| Stage 2   | 5,408     | 1,061       | -         | 6,469             | 1,026                     | 7,495       | (571)                           | 6,924                 |
| Stage 3   | -         | -           | 1,101     | 1,101             | 1,360                     | 2,461       | (905)                           | 1,556                 |
| <b>Debt investments at FVOCI</b>  | 229,977   | -           | -         | 229,977           | 403,040                   | 633,017     | -                               | 633,017               |
| Stage 1   | 229,977   | -           | -         | 229,977           | 397,891                   | 627,868     | -                               | 627,868               |
| Stage 2   | -         | -           | -         | -                 | 4,899                     | 4,899       | -                               | 4,899                 |
| Stage 3   | -         | -           | -         | -                 | 250                       | 250         | -                               | 250                   |
| <b>On-balance sheet total</b>   | 9,945,006 | 92,246      | 94,026    | 10,131,278        | 1,504,769                 | 11,636,047  | (182,580)                       | 11,453,467            |



## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022

(All amounts presented in millions of RMB except when otherwise indicated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

## (1) Credit risk (Continued)

## (c) Maximum exposure to credit risk (Continued)

## (i) financial instruments included in impairment assessment (Continued)

| As at 30 June 2022   | Domestic<br>branches | Overseas and<br>subsidiaries | Group total      | Allowance for<br>Impairment<br>losses | Group<br>Carrying<br>amount |
|--|----------------------|------------------------------|------------------|---------------------------------------|-----------------------------|
| <b>Credit related commitments and financial guarantees</b> |                      |                              |                  |                                       |                             |
| Stage 1  | 1,988,504            | 57,449                       | 2,045,953        | (9,831)                               | 2,036,122                   |
| Stage 2  | 10,710               | 672                          | 11,382           | (1,014)                               | 10,368                      |
| <b>Off-balance sheet total</b>                             | <b>1,999,214</b>     | <b>58,121</b>                | <b>2,057,335</b> | <b>(10,845)</b>                       | <b>2,046,490</b>            |

| As at 31 December 2021   | Low risk         | Medium risk   | High risk     | Domestic<br>branches | Overseas and<br>subsidiaries | Group total       | Allowance for<br>Impairment<br>losses | Group<br>Carrying<br>amount |
|--|------------------|---------------|---------------|----------------------|------------------------------|-------------------|---------------------------------------|-----------------------------|
| <b>On-balance sheet item</b>   |                  |               |               |                      |                              |                   |                                       |                             |
| <b>Cash and balances with central banks (Stage 1)</b>                      | 667,440          | -             | -             | 667,440              | 53,990                       | 721,430           | -                                     | 721,430                     |
| <b>Loans and advances to customers - Corporate</b>                         |                  |               |               |                      |                              |                   |                                       |                             |
| <b>(Excluding accrued interest)</b>  |                  |               |               |                      |                              |                   |                                       |                             |
| at amortised cost  | 3,449,747        | 66,771        | 69,992        | 3,586,510            | 504,061                      | 4,090,571         | (121,252)                             | 3,969,319                   |
| Stage 1  | 3,364,303        | -             | -             | 3,364,303            | 479,277                      | 3,843,580         | (37,786)                              | 3,805,794                   |
| Stage 2  | 85,444           | 66,771        | -             | 152,215              | 17,158                       | 169,373           | (34,382)                              | 134,991                     |
| Stage 3  | -                | -             | 69,992        | 69,992               | 7,626                        | 77,618            | (49,084)                              | 28,534                      |
| at FVOCI   | 182,148          | 34            | 10            | 182,192              | 2,514                        | 184,706           | -                                     | 184,706                     |
| Stage 1  | 178,511          | -             | -             | 178,511              | 2,514                        | 181,025           | -                                     | 181,025                     |
| Stage 2  | 3,637            | 34            | -             | 3,671                | -                            | 3,671             | -                                     | 3,671                       |
| Stage 3  | -                | -             | 10            | 10                   | -                            | 10                | -                                     | 10                          |
| <b>Loans and advances to customers - Personal</b>                          |                  |               |               |                      |                              |                   |                                       |                             |
| <b>(Excluding accrued interest)</b>  |                  |               |               |                      |                              |                   |                                       |                             |
| at amortised cost  | 2,198,737        | 14,554        | 18,932        | 2,232,223            | 52,873                       | 2,285,096         | (38,837)                              | 2,246,259                   |
| Stage 1  | 2,198,737        | 3,375         | -             | 2,202,112            | 52,329                       | 2,254,441         | (19,617)                              | 2,234,824                   |
| Stage 2  | -                | 11,179        | -             | 11,179               | 308                          | 11,487            | (4,510)                               | 6,977                       |
| Stage 3  | -                | -             | 18,932        | 18,932               | 236                          | 19,168            | (14,710)                              | 4,458                       |
| <b>Due from and placements with banks and other financial institutions</b> | 411,963          | -             | -             | 411,963              | 223,051                      | 635,014           | (2,306)                               | 632,708                     |
| Stage 1  | 411,963          | -             | -             | 411,963              | 219,552                      | 631,515           | (2,304)                               | 629,211                     |
| Stage 2  | -                | -             | -             | -                    | 3,499                        | 3,499             | (2)                                   | 3,497                       |
| <b>Financial investments at amortised cost</b>                             | 2,124,848        | -             | 1,088         | 2,125,936            | 80,059                       | 2,205,995         | (2,958)                               | 2,203,037                   |
| Stage 1  | 2,121,126        | -             | -             | 2,121,126            | 77,343                       | 2,198,469         | (1,695)                               | 2,196,774                   |
| Stage 2  | 3,722            | -             | -             | 3,722                | 515                          | 4,237             | (371)                                 | 3,866                       |
| Stage 3  | -                | -             | 1,088         | 1,088                | 2,201                        | 3,289             | (892)                                 | 2,397                       |
| <b>Debt investments at FVOCI</b>   | 250,966          | -             | -             | 250,966              | 414,501                      | 665,467           | -                                     | 665,467                     |
| Stage 1  | 250,966          | -             | -             | 250,966              | 410,700                      | 661,666           | -                                     | 661,666                     |
| Stage 2  | -                | -             | -             | -                    | 3,772                        | 3,772             | -                                     | 3,772                       |
| Stage 3  | -                | -             | -             | -                    | 29                           | 29                | -                                     | 29                          |
| <b>On-balance sheet total</b>  | <b>9,285,849</b> | <b>81,359</b> | <b>90,022</b> | <b>9,457,230</b>     | <b>1,331,049</b>             | <b>10,788,279</b> | <b>(165,353)</b>                      | <b>10,622,926</b>           |

| As at 31 December 2021                                     | Domestic<br>branches | Overseas and<br>subsidiaries | Group total      | Allowance for<br>Impairment<br>losses | Group<br>Carrying<br>amount |
|--|----------------------|------------------------------|------------------|---------------------------------------|-----------------------------|
| <b>Credit related commitments and financial guarantees</b> |                      |                              |                  |                                       |                             |
| Stage 1  | 1,814,432            | 45,815                       | 1,860,247        | (8,736)                               | 1,851,511                   |
| Stage 2  | 6,916                | 732                          | 7,648            | (506)                                 | 7,142                       |
| <b>Off-balance sheet total</b>                             | <b>1,821,348</b>     | <b>46,547</b>                | <b>1,867,895</b> | <b>(9,242)</b>                        | <b>1,858,653</b>            |

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022  
(All amounts presented in millions of RMB except when otherwise indicated)

### 3 FINANCIAL RISK MANAGEMENT *(Continued)*

#### (1) Credit risk *(Continued)*

##### (c) **Maximum exposure to credit risk** *(Continued)*

##### (ii) *financial instruments not included in impairment assessment*

The analysis of credit risk exposure of those financial assets which are not included in the impairment assessment are as follows:

|   | As at<br>30 June 2022 | As at<br>31 December 2021 |
|---|-----------------------|---------------------------|
| Financial assets at fair value through profit or loss |                       |                           |
| Derivative financial instruments                      | 56,150                | 39,220                    |
| Loans and advances to customers                       | 27                    | 27                        |
| Debt securities                                       | 265,848               | 247,934                   |
| Funds, trusts and debt investments                    | 173,150               | 166,710                   |
| Precious metal contracts                              | 19,381                | 21,924                    |
| Other investments                                     | 145,214               | 138,466                   |
| Total   | 659,770               | 614,281                   |

##### (iii) *Collaterals and other credit enhancements*

The Group manages, limits and controls concentrations of credit risk wherever they are identified, in particular, to individual counterparty, groups, industry segments and geographical regions.

The Group optimises its credit risk structure by placing limits in relation to one borrower, or group of borrowers. Such risks are monitored by the Group on a regular basis and subject to annual or more frequent review, whenever necessary.

The exposure to any single borrower including banks and brokers is further restricted by sub-limits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. The Group monitors the actual credit risk exposure and credit limits on a daily basis.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet principal and interest repayment obligations. The Group will change their lending limits when appropriate based on the analysis.

Some other specific control and risk mitigation measures are outlined below.

#### Collaterals

The Group employs a range of policies and practices to mitigate credit risk. The most common practice is to accept collaterals or pledges. The Group implements guidelines on the acceptability of specific classes of collaterals and pledges. The principal types of collaterals and pledges for loans and advances to customers are:

- Residential properties;
- Business assets such as premises, inventory and receivables;
- Financial instruments such as debt securities and stocks.

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022

(All amounts presented in millions of RMB except when otherwise indicated)

### 3 FINANCIAL RISK MANAGEMENT *(Continued)*

#### (1) Credit risk *(Continued)*

##### (c) **Maximum exposure to credit risk** *(Continued)*

##### (iii) **Collaterals and other credit enhancements** *(Continued)*

##### **Collaterals** *(Continued)*

The value of collaterals at the time of loan origination is subject to loan-to-value ratio limits based on collateral types. The principal types of collaterals for corporate loans and personal loans are as follows:

| <b>Collaterals</b>                            | <b>Maximum<br/>loan-to-value ratio</b> |
|---|--|
| Cash deposits with the Group                  | 90%                                    |
| PRC treasury bonds                            | 90%                                    |
| Financial institution bonds                   | 90%                                    |
| Publicly traded stocks                        | 60%                                    |
| Rights to collect fees or right of management | 65%                                    |
| Properties                                    | 70%                                    |
| Land use rights                               | 70%                                    |
| Vehicles                                      | 50%                                    |

Long-term loans and advances to corporate and personal customers are generally secured. In addition, in order to minimise the credit loss the Group will strengthen collection through short message reminders, telephone calls, letters, judicial proceedings and other means as soon as impairment indicators are noted for the personal loans and advances.

For loans guaranteed by a third-party guarantor, the Group will assess the financial condition, credit history and ability to meet obligations of the guarantor.

Collaterals and pledges held as security for financial assets other than loans and advances to customers are determined by the nature of the instrument. Debt securities, PRC treasury bonds and the PBOC bills are generally unsecured, with the exception of asset-backed securities, which are secured by portfolios of financial instruments.

The Group closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Group will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

|  | <b>Gross<br/>exposure</b> | <b>Impairment<br/>allowance</b> | <b>Carrying<br/>amount</b> | <b>Exposure<br/>covered by<br/>collateral</b> |
|--|---------------------------|---------------------------------|----------------------------|---|
| 30 June 2022   |                           |                                 |                            |   |
| Credit impaired assets   |                           |                                 |                            |   |
| Loans and advances to customers  |                           |                                 |                            |   |
| Loans and advances to customers at amortised cost                                | 103,126                   | (67,623)                        | 35,503                     | 55,309  |
| Loans and advances to customers at fair value through other comprehensive income | 79                        | –                               | 79                         | 79  |
| Financial investments  |                           |                                 |                            |   |
| Financial investments at amortised cost  | 2,461                     | (905)                           | 1,556                      | 1,263   |
| Financial investments at fair value through other comprehensive income           | 250                       | –                               | 250                        | –   |

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022  
(All amounts presented in millions of RMB except when otherwise indicated)

### 3 FINANCIAL RISK MANAGEMENT (Continued)

#### (1) Credit risk (Continued)

##### (c) Maximum exposure to credit risk (Continued)

##### (iii) Collaterals and other credit enhancements (Continued)

##### Collaterals (Continued)

| 31 December 2021   | Gross exposure | Impairment allowance | Carrying amount | Fair value of collateral held |
|--|----------------|----------------------|-----------------|-------------------------------|
| Credit impaired assets   |                |                      |                 |                               |
| Loans and advances to customers  |                |                      |                 |                               |
| Loans and advances to customers at amortised cost                                | 96,786         | (63,794)             | 32,992          | 46,184                        |
| Loans and advances to customers at fair value through other comprehensive income | 10             | –                    | 10              | 10                            |
| Financial investments  |                |                      |                 |                               |
| Financial investments at amortised cost  | 3,289          | (892)                | 2,397           | 4,876                         |
| Financial investments at fair value through other comprehensive income           | 29             | –                    | 29              | –                             |

##### Master netting arrangements

The Group may enter into master netting arrangements or similar agreements with the counterparties to reduce credit risk furtherly. The related credit risk of contracts will reduce when settled on a net basis. Each party to the master netting arrangements or similar agreements will settle all such amounts on a net basis in the event of default of the other party.

##### (d) Derivative instruments

The Group undertakes its transactions in foreign exchange, commodity, interest rate and other derivative contracts with other financial institutions and customers. The management has established limits for these contracts based on counterparties, industry sectors and countries. Actual credit risk exposures are regularly monitored and controlled by the management.

##### Credit risk-weighted amounts

|  | As at<br>30 June 2022 | As at<br>31 December 2021 |
|--|-----------------------|---------------------------|
| Counterparty credit risk-weighted amount | 50,572                | 53,789                    |

The credit risk-weighted amounts are the amounts calculated with reference to the guidelines issued by the CBIRC and are dependent on the creditworthiness of the counterparty and the maturity of each type of contract. The credit risk-weighted amounts stated above have not taken the effects of netting arrangements into account.

##### (e) Foreclosed assets

|                             | As at<br>30 June 2022 | As at<br>31 December 2021 |
|-----------------------------|-----------------------|---------------------------|
| Buildings                   | 1,408                 | 1,424                     |
| Land use rights             | 8                     | 8                         |
| Others                      | 5                     | 5                         |
| Gross                       | 1,421                 | 1,437                     |
| Less: Impairment allowances | (411)                 | (407)                     |
| Net                         | 1,010                 | 1,030                     |

Foreclosed assets are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness. The Group does not generally occupy foreclosed assets for its own business use. Foreclosed assets are classified as other assets in the statement of financial position.

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022

(All amounts presented in millions of RMB except when otherwise indicated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

## (1) Credit risk (Continued)

## (f) Concentration risk analysis for financial assets with credit risk exposure

The Group mainly manages concentration risk for loans and advances to customers by industry sectors and also manages concentration risk for financial assets by geographical sectors.

## Concentration risk for geographical sectors

| As at 30 June 2022  | Mainland China | Hong Kong | Others  | Total      |
|---|----------------|-----------|---------|------------|
| Financial assets  |                |           |         |            |
| Balances with central banks   | 695,274        | 3,055     | 36,347  | 734,676    |
| Due from and placements with banks and other financial institutions | 504,129        | 98,045    | 197,569 | 799,743    |
| Derivative financial assets   | 39,141         | 9,529     | 7,480   | 56,150     |
| Loans and advances to customers                                     | 6,561,519      | 225,734   | 136,268 | 6,923,521  |
| Financial investments at FVTPL                                      | 535,964        | 14,678    | 52,951  | 603,593    |
| Debt investments at FVOCI   | 294,059        | 100,095   | 238,863 | 633,017    |
| Financial investments at amortised cost                             | 2,303,378      | 32,555    | 39,829  | 2,375,762  |
| Other financial assets  | 70,086         | 9,718     | 391     | 80,195     |
| Total   | 11,003,550     | 493,409   | 709,698 | 12,206,657 |
| Off-balance sheet exposures   |                |           |         |            |
| Guarantees, acceptances and letters of credit                       | 1,012,155      | 8,317     | 11,090  | 1,031,562  |
| Loan commitments and other credit related commitments               | 988,940        | 24,500    | 12,333  | 1,025,773  |
| Total   | 2,001,095      | 32,817    | 23,423  | 2,057,335  |

| As at 31 December 2021  | Mainland China | Hong Kong | Others  | Total      |
|---|----------------|-----------|---------|------------|
| Financial assets  |                |           |         |            |
| Balances with central banks   | 670,925        | 28,814    | 21,387  | 721,126    |
| Due from and placements with banks and other financial institutions | 463,774        | 68,572    | 100,362 | 632,708    |
| Derivative financial assets   | 26,989         | 9,284     | 2,947   | 39,220     |
| Loans and advances to customers                                     | 6,065,792      | 206,433   | 139,976 | 6,412,201  |
| Financial investments at FVTPL                                      | 511,854        | 6,511     | 56,669  | 575,034    |
| Debt investments at FVOCI   | 394,613        | 58,562    | 212,292 | 665,467    |
| Financial investments at amortised cost                             | 2,161,046      | 6,621     | 35,370  | 2,203,037  |
| Other financial assets  | 52,737         | 11,201    | 3,567   | 67,505     |
| Total   | 10,347,730     | 395,998   | 572,570 | 11,316,298 |
| Off-balance sheet exposures   |                |           |         |            |
| Guarantees, acceptances and letters of credit                       | 879,413        | 6,458     | 12,073  | 897,944    |
| Loan commitments and other credit related commitments               | 943,804        | 23,598    | 2,549   | 969,951    |
| Total   | 1,823,217      | 30,056    | 14,622  | 1,867,895  |

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022  
(All amounts presented in millions of RMB except when otherwise indicated)

### 3 FINANCIAL RISK MANAGEMENT (Continued)

#### (1) Credit risk (Continued)

##### (f) Concentration risk analysis for financial assets with credit risk exposure (Continued)

Geographical risk concentration for loans and advances to customers

|   | As at 30 June 2022 |        | As at 31 December 2021 |        |
|---|--------------------|--------|------------------------|--------|
|   |                    | %      |                        | %      |
| Yangtze River Delta                             | 1,947,910          | 27.48  | 1,780,637              | 27.14  |
| Central China                                   | 1,172,880          | 16.55  | 1,092,985              | 16.66  |
| Bohai Rim Economic Zone                         | 1,079,193          | 15.23  | 965,957                | 14.72  |
| Pearl River Delta                               | 945,967            | 13.35  | 857,521                | 13.07  |
| Western China                                   | 841,414            | 11.87  | 774,445                | 11.80  |
| Head Office                                     | 480,825            | 6.78   | 492,884                | 7.52   |
| Overseas  | 365,089            | 5.15   | 348,948                | 5.32   |
| North Eastern China                             | 254,452            | 3.59   | 247,023                | 3.77   |
| Gross amount of loans and advances to customers | 7,087,730          | 100.00 | 6,560,400              | 100.00 |

Note: The definitions of geographical operating segments are set out in Note 48.

Industry analysis for loans and advances to customers

|   | As at 30 June 2022 |        | As at 31 December 2021 |        |
|---|--------------------|--------|------------------------|--------|
|   |                    | %      |                        | %      |
| Corporate loans   |                    |        |                        |        |
| Transportation, storage and postal service                      | 789,077            | 11.13  | 763,419                | 11.64  |
| Manufacturing   | 783,050            | 11.05  | 732,565                | 11.16  |
| – Electronics   | 203,453            | 2.87   | 168,825                | 2.57   |
| – Petroleum and chemical  | 139,085            | 1.96   | 126,354                | 1.93   |
| – Machinery   | 113,668            | 1.60   | 102,338                | 1.56   |
| – Steel   | 42,988             | 0.61   | 40,781                 | 0.62   |
| – Textile and clothing  | 29,190             | 0.41   | 26,817                 | 0.41   |
| – Other manufacturing   | 254,666            | 3.60   | 267,450                | 4.07   |
| Leasing and commercial services                                 | 698,520            | 9.86   | 650,742                | 9.92   |
| Real estate   | 493,963            | 6.97   | 419,820                | 6.40   |
| Water conservancy, environmental and other public services      | 420,070            | 5.93   | 382,201                | 5.83   |
| Production and supply of power, heat, gas and water             | 297,323            | 4.19   | 268,772                | 4.10   |
| Wholesale and retail  | 263,263            | 3.71   | 215,554                | 3.29   |
| Construction  | 190,257            | 2.68   | 157,729                | 2.40   |
| Education, science, culture and public health                   | 126,047            | 1.78   | 122,196                | 1.86   |
| Mining  | 125,254            | 1.77   | 120,216                | 1.83   |
| Finance   | 123,723            | 1.75   | 132,633                | 2.02   |
| Information transmission, software and IT services              | 65,933             | 0.93   | 60,718                 | 0.93   |
| Accommodation and catering                                      | 38,778             | 0.55   | 34,133                 | 0.52   |
| Others  | 138,590            | 1.96   | 77,884                 | 1.19   |
| Discounted bills  | 184,992            | 2.61   | 136,722                | 2.08   |
| Total corporate loans   | 4,738,840          | 66.87  | 4,275,304              | 65.17  |
| Personal loans  |                    |        |                        |        |
| Mortgages   | 1,528,420          | 21.56  | 1,489,517              | 22.70  |
| Credit cards  | 480,853            | 6.78   | 492,580                | 7.51   |
| Others  | 339,617            | 4.79   | 302,999                | 4.62   |
| Total personal loans  | 2,348,890          | 33.13  | 2,285,096              | 34.83  |
| Gross amount of loans and advances before impairment allowances | 7,087,730          | 100.00 | 6,560,400              | 100.00 |

Note: The classification of industries is consistent with the latest national standards for industry classification (Industrial classification for national economic activities (GB/T 4754-2017) issued by SAC and AQSIQ in 2017).

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The industry risk concentration analysis for loans and advances to customers is based on the type of industry of the borrowers.

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022

(All amounts presented in millions of RMB except when otherwise indicated)

### 3 FINANCIAL RISK MANAGEMENT *(Continued)*

#### (2) Market risk

##### Overview

Market risk is risk of loss on the Group's on balance sheet and off balance sheet businesses, which is originated from the unfavourable changes and fluctuations in interest rates, foreign exchange rates, commodity price and equity product price. Market risk consists of interest rate risk, foreign exchange rate risk, equity product price risk and commodity price risk. The market risk of the Group mainly comprises interest rate risk and foreign exchange rate risk.

The Group established an integrated market risk management system, formed a market risk management structure with the separation of front and middle-end platforms and specified the responsibilities, the division of labor and the reporting route of the Board of Directors, Board of Supervisors, Senior Management, Special Committees and other relevant departments to ensure the compliance and effectiveness of market risk management.

In accordance with the requirements of the CBIRC, the Group's financial instrument positions are divided into trading book and banking book. The trading book consists of financial instruments held either for trading intent or economic hedging against risks of the trading book. The banking book consists of all financial instruments other than those included in trading book. The Group recognises, measures, monitors and controls the market risks in trading book and banking book according to their nature and characteristics.

With regard to the exchange rate risk and the interest rate risk of trading book, the Group established an effective limit management system by implementing Net Position, Risk Sensitivity, Value at Risk ("VaR") and other indicators. Meanwhile, with regard to the interest risk of banking book, net interest income simulation and gap analysis are the major tools used by the Group to monitor the interest risk of its overall businesses. In addition, through adequate repricing management and structure adjustment of assets and liabilities, the Group strives to maximise its rate of return while keeping its risks under control.

The Group has continuously improved the management system of market risk. The Group conducted stress tests on historical scenarios and hypothetical scenarios in the consideration of the Group's major market risk factors. The Group has realised daily automatic collection of trading data and market data in the system. The Group conducted the management of risk capital and VaR quota, and formulated the quota allocation plans.

The Group also applies sensitivity analysis to assess and measure the market risk of trading book and banking book. Sensitivity analysis indicates the impact on the relevant market risk assuming that only a single variable changes. As any risk variable rarely changes isolatedly, and the correlation between variables will have a significant effect on the final impact amount of the change of a risk variable, the results of sensitivity analysis can only provide limited market risk information.

The major measurement techniques used to measure and control market risk are outlined below:

##### (a) VaR

VaR refers to the maximum loss that an investment portfolio may incur at a given confidence level and holding period caused by the changes in market price factors such as interest rates and exchange rates etc. The Group adopted the historical simulation method to calculate daily VaR (99% confidence interval, the holding period of one day).

A summary of VaR by risk type including foreign exchange rate risk and interest rate risk of the trading book of the Group's portfolios is as follows:

| Items                         | Six months ended 30 June 2022 |         |         |         |
|-------------------------------|-------------------------------|---------|---------|---------|
|                               | 30 June 2022                  | Average | Maximum | Minimum |
| VaR                           | 529                           | 498     | 671     | 298     |
| Including: Interest rate risk | 552                           | 496     | 676     | 282     |
| Foreign exchange risk         | 82                            | 79      | 130     | 51      |

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022  
(All amounts presented in millions of RMB except when otherwise indicated)

### 3 FINANCIAL RISK MANAGEMENT (Continued)

#### (2) Market risk (Continued)

##### (a) VaR (Continued)

| Items                         | Six months ended 30 June 2021 |         |         |         |
|-------------------------------|-------------------------------|---------|---------|---------|
|                               | 30 June 2021                  | Average | Maximum | Minimum |
| VaR                           | 336                           | 454     | 746     | 336     |
| Including: Interest rate risk | 290                           | 362     | 453     | 263     |
| Foreign exchange risk         | 255                           | 226     | 743     | 100     |

##### (b) Sensitivity analysis

###### Interest rate sensitivity analysis

The table below illustrates the impact on net profit of the Group for the following year based on the structure of financial assets and liabilities as at the date of statement of financial position, resulting from a parallel upward or downward shift of 100 basis points in related yield curves.

|   | Changes in net profit |                           |
|---|-----------------------|---------------------------|
|   | As at<br>30 June 2022 | As at<br>31 December 2021 |
| +100 basis points parallel shift in yield curves  | 5,718                 | 10,562                    |
| – 100 basis points parallel shift in yield curves | (5,718)               | (10,562)                  |

The table below illustrates the impact on other comprehensive income of the Group for the following year based on the structure of financial assets and liabilities as at the date of statement of financial position, resulting from a parallel upward or downward shift of 100 basis points in related yield curves.

|   | Changes in other comprehensive income |                           |
|---|---------------------------------------|---------------------------|
|   | As at<br>30 June 2022                 | As at<br>31 December 2021 |
| +100 basis points parallel shift in yield curves  | (13,836)                              | (12,995)                  |
| – 100 basis points parallel shift in yield curves | 15,013                                | 14,012                    |

The above-mentioned impact on other comprehensive income arises from the changes in the fair value of fixed-interest-rate bonds at fair value through other comprehensive income, and loans and advances to customers at fair value through other comprehensive income.

The results of the interest rate sensitivity analysis set out in the table above are illustrative only and are based on simplified scenarios. The figures represent the projected impact to the net profit and other comprehensive income caused by the projected movement of current interest risk structure yield curves. This effect, however, does not take into account actions that would be taken by the Group to mitigate the impact of interest rate changes.

The projections above also assume that interest rates of all maturities excluding demand deposits move by the same amount and, therefore, do not reflect the potential impact on net profit due to changes in certain rates while others remain unchanged. The projections are based on other simplified assumptions as well, including that all positions are to be held to maturity. There will be changes to the projection if positions are not held to maturity but it is not expected that the changes would be material.

The Group believes the assumption does not represent the Group's policy on use of funds and interest rate risk management. As a result, the above impact may differ from the actual situation.



## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022

(All amounts presented in millions of RMB except when otherwise indicated)

### 3 FINANCIAL RISK MANAGEMENT *(Continued)*

#### (2) Market risk *(Continued)*

##### (b) Sensitivity analysis *(Continued)*

##### Foreign exchange sensitivity analysis

The table below illustrates the impact of a concurrent appreciation or depreciation of RMB spot and forward rates against USD and HKD by 5% on the Group's net profit:

|                        | Changes in net profit |                           |
|------------------------|-----------------------|---------------------------|
|                        | As at<br>30 June 2022 | As at<br>31 December 2021 |
| 5% appreciation of RMB | (607)                 | (1,803)                   |
| 5% depreciation of RMB | 607                   | 1,803                     |

The table below illustrates the impact of a concurrent appreciation or depreciation of RMB spot and forward rates against USD and HKD by 5% on the Group's other comprehensive income:

|                        | Changes in other comprehensive income |                           |
|------------------------|---------------------------------------|---------------------------|
|                        | As at<br>30 June 2022                 | As at<br>31 December 2021 |
| 5% appreciation of RMB | (1,226)                               | (1,403)                   |
| 5% depreciation of RMB | 1,226                                 | 1,403                     |

The impact on net profit arises from the influences of RMB exchange rate fluctuation on the net position of monetary assets (excluding other book value other than amortised cost of monetary assets at fair value through other comprehensive income) and liabilities denominated in foreign currencies, the net position of non-monetary financial assets (excluding non-monetary items denominated in foreign currencies measured at fair value through other comprehensive income) and liabilities denominated in foreign currencies measured at fair value, and the fair value of currency derivatives denominated in RMB.

The impact on other comprehensive income arises from the influences of RMB exchange rate fluctuation on the differences on translation of foreign currency financial statements of foreign operators, the overseas investment portion of monetary assets denominated in foreign currencies, other book value other than amortised cost of the non-monetary items denominated in foreign currencies measured at fair value through other comprehensive income (such as stock) and monetary items at fair value through other comprehensive income.

The above impact on net profit is based on the assumption that the sensitive position of the Group's year-end exchange rate and currency derivatives denominated in RMB remain unchanged around the year. While in practice, the Group will, based on its judgement on the trend of exchange rate, actively adjust the foreign currency position and use appropriate derivative instruments to mitigate the impact of the foreign currency risk. Therefore, the above impact might differ from the actual situation.

##### (c) Interest rate risk

The Group's interest rate risk mainly arises from interest rate repricing and maturity mismatching of assets and liabilities, and the fluctuation of market interest rates, as well as from the adjustments in the interest rate policies made by the PBOC. On 20 July 2013, the PBOC cancelled the lower limit of benchmark interest rates of loans dominated in RMB, allowing financial institutions to determine the loan interest rates independently based on commercial principles. The PBOC cancelled the upper limit of the benchmark interest rates for deposits on 24 October 2015 and established RMB Loan Prime Rate (LPR) as a new pricing benchmark of new loans in 2019. The Group conducts most of its domestic deposit businesses at benchmark interest rates for deposits and conducts most of its domestic loan businesses at LPR published by the PBOC.

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022  
(All amounts presented in millions of RMB except when otherwise indicated)

### 3 FINANCIAL RISK MANAGEMENT (Continued)

#### (2) Market risk (Continued)

##### (c) Interest rate risk (Continued)

The Group pays high attention to the transition of interest rate benchmark and has established a task force to speed up the launch and implementation of interest rate benchmark reform project. At the current stage, the progress of this reform is basically on schedule. The first batch exited the market on 1 January 2022 have already complete transition successfully, and the remaining transition of USD libor is ready on schedule, and the impact of the methods of benchmark transition on interest rate risk is generally under control, which has a relatively limited substantial impact on the operations.

The Group has initially established a relatively complete interest rate risk monitoring system. By using the gap analysis system, the Group regularly monitors the repricing maturity gap of interest rate-sensitive assets and liabilities throughout the Group, takes the initiative to adjust the proportion of interest-bearing assets at floating interest rates and fixed interest rates, and adjusts the repricing term structure of interest rate and manages interest rate risk by applying appropriate derivatives such as interest rate swaps based on allocation strategy of assets and liabilities. Consequently, the Group is less vulnerable to interest rate risk.

During the reporting period, the Group closely monitored the interest rate trend for RMB and foreign currencies, conducted specific management of risk limits, and strengthened comprehensive operations and limit monitoring. In addition, the Group, by rationally adjusting the loan repricing strategies, reinforced the specific management of price negotiation to maximise its rate of return while keeping its risks under control.

At the date of statement of financial position, the Group's assets and liabilities categorised by the repricing date or maturity date (whichever is earlier) are as follows:

|   | Up to 1<br>month   | 1-3<br>months      | 3-12<br>months     | 1-5<br>years       | Over 5<br>years  | Non-<br>interest<br>bearing | Total               |
|---|--------------------|--------------------|--------------------|--------------------|------------------|-----------------------------|---------------------|
| <b>As at 30 June 2022</b>   |                    |                    |                    |                    |                  |                             |                     |
| <b>Assets</b>   |                    |                    |                    |                    |                  |                             |                     |
| Cash and balances with central banks                                | 731,562            | –                  | –                  | –                  | –                | 15,098                      | 746,660             |
| Due from and placements with banks and other financial institutions | 409,157            | 138,181            | 201,391            | 42,127             | 3,863            | 5,024                       | 799,743             |
| Derivative financial assets   | –                  | –                  | –                  | –                  | –                | 56,150                      | 56,150              |
| Loans and advances to customers                                     | 719,624            | 892,299            | 4,271,212          | 446,626            | 233,724          | 360,036                     | 6,923,521           |
| Financial investments at FVTPL                                      | 19,363             | 45,420             | 96,597             | 88,918             | 39,490           | 376,472                     | 666,260             |
| Financial investments at amortised cost                             | 49,628             | 83,035             | 221,691            | 980,277            | 1,010,823        | 30,308                      | 2,375,762           |
| Financial investments at FVOCI                                      | 55,992             | 95,722             | 37,701             | 259,278            | 178,548          | 23,351                      | 650,592             |
| Other assets  | 489                | –                  | –                  | –                  | –                | 361,399                     | 361,888             |
| <b>Total assets</b>   | <b>1,985,815</b>   | <b>1,254,657</b>   | <b>4,828,592</b>   | <b>1,817,226</b>   | <b>1,466,448</b> | <b>1,227,838</b>            | <b>12,580,576</b>   |
| <b>Liabilities</b>  |                    |                    |                    |                    |                  |                             |                     |
| Due to and placements from banks and other financial institutions   | (1,069,729)        | (280,887)          | (513,999)          | (20,659)           | (3,465)          | (10,195)                    | (1,898,934)         |
| Financial liabilities at FVTPL                                      | (3,579)            | (8,381)            | (4,278)            | (9,435)            | –                | (34,214)                    | (59,887)            |
| Derivative financial liabilities                                    | –                  | –                  | –                  | –                  | –                | (39,488)                    | (39,488)            |
| Deposits from customers   | (3,941,979)        | (671,244)          | (1,369,601)        | (1,719,900)        | (23)             | (108,616)                   | (7,811,363)         |
| Other liabilities   | (135,174)          | (141,015)          | (845,883)          | (247,314)          | (222,674)        | (189,908)                   | (1,781,968)         |
| <b>Total liabilities</b>  | <b>(5,150,461)</b> | <b>(1,101,527)</b> | <b>(2,733,761)</b> | <b>(1,997,308)</b> | <b>(226,162)</b> | <b>(382,421)</b>            | <b>(11,591,640)</b> |
| <b>Total interest sensitivity gap</b>                               | <b>(3,164,646)</b> | <b>153,130</b>     | <b>2,094,831</b>   | <b>(180,082)</b>   | <b>1,240,286</b> | <b>845,417</b>              | <b>988,936</b>      |

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022

(All amounts presented in millions of RMB except when otherwise indicated)

**3 FINANCIAL RISK MANAGEMENT** *(Continued)***(2) Market risk** *(Continued)***(c) Interest rate risk** *(Continued)*

|   | Up to 1<br>month   | 1-3<br>months    | 3-12<br>months     | 1-5<br>years       | Over<br>5 years  | Non-<br>interest<br>bearing | Total               |
|---|--------------------|------------------|--------------------|--------------------|------------------|-----------------------------|---------------------|
| <b>As at 31 December 2021</b>                                       |                    |                  |                    |                    |                  |                             |                     |
| <b>Assets</b>   |                    |                  |                    |                    |                  |                             |                     |
| Cash and balances with central banks                                | 714,689            | –                | –                  | –                  | –                | 20,039                      | 734,728             |
| Due from and placements with banks and other financial institutions | 274,884            | 105,476          | 212,107            | 28,423             | 7,950            | 3,868                       | 632,708             |
| Derivative financial assets   | –                  | –                | –                  | –                  | –                | 39,220                      | 39,220              |
| Loans and advances to customers                                     | 1,752,819          | 740,873          | 2,904,431          | 442,783            | 259,155          | 312,140                     | 6,412,201           |
| Financial investments at FVTPL                                      | 32,659             | 52,942           | 90,657             | 35,428             | 45,306           | 381,491                     | 638,483             |
| Financial investments at amortised cost                             | 18,908             | 35,803           | 262,899            | 1,009,017          | 846,114          | 30,296                      | 2,203,037           |
| Financial investments at FVOCI                                      | 49,415             | 109,842          | 91,364             | 227,236            | 181,312          | 22,560                      | 681,729             |
| Other assets  | 458                | –                | –                  | –                  | –                | 323,193                     | 323,651             |
| <b>Total assets</b>   | <b>2,843,832</b>   | <b>1,044,936</b> | <b>3,561,458</b>   | <b>1,742,887</b>   | <b>1,339,837</b> | <b>1,132,807</b>            | <b>11,665,757</b>   |
| <b>Liabilities</b>  |                    |                  |                    |                    |                  |                             |                     |
| Due to and placements from banks and other financial institutions   | (1,167,169)        | (261,570)        | (486,143)          | (20,848)           | (2,889)          | (9,149)                     | (1,947,768)         |
| Financial liabilities at FVTPL                                      | (24,954)           | (1,995)          | (10,196)           | (1,266)            | –                | (11,637)                    | (50,048)            |
| Derivative financial liabilities                                    | –                  | –                | –                  | –                  | –                | (36,074)                    | (36,074)            |
| Deposits from customers   | (3,787,796)        | (534,784)        | (1,020,946)        | (1,607,059)        | (39)             | (89,153)                    | (7,039,777)         |
| Other liabilities   | (125,188)          | (183,613)        | (722,988)          | (224,408)          | (216,154)        | (142,503)                   | (1,614,854)         |
| <b>Total liabilities</b>  | <b>(5,105,107)</b> | <b>(981,962)</b> | <b>(2,240,273)</b> | <b>(1,853,581)</b> | <b>(219,082)</b> | <b>(288,516)</b>            | <b>(10,688,521)</b> |
| <b>Total interest sensitivity gap</b>                               | <b>(2,261,275)</b> | <b>62,974</b>    | <b>1,321,185</b>   | <b>(110,694)</b>   | <b>1,120,755</b> | <b>844,291</b>              | <b>977,236</b>      |

**(d) Foreign exchange risk**

The Group conducts the majority of its businesses in RMB, and the recording currency is RMB. Certain foreign transactions are conducted in USD, HKD and other currencies. The exchange rate of RMB to USD, HKD or other currencies is subject to the trading rules of China Foreign Exchange Trade System. Exchange rate risk mainly results from currency mismatch between foreign currency assets and liabilities and between off balance sheet currency exposure. The Group has formulated management measures for exchange rate risks, defining the functional division and scope of work of the exchange rate risk management department, risk identification, measurement, monitoring and control methods, and specific measures. Moreover, the Group controls exchange rate risk by setting relevant limits, taking the initiative to adjust the structure of foreign currency assets for a proper matching of currency structure of assets and liabilities, and applying appropriate exchange rate financial derivatives for transfers and hedging based on its own risk tolerance and operating level.

As at 30 June 2022, the exchange rates for US dollar and HK dollar are 1 US dollar to RMB6.7114 (31 December 2021: RMB6.3757) and 1 HK dollar to RMB0.8552 (31 December 2021: RMB0.8176), respectively.

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022  
(All amounts presented in millions of RMB except when otherwise indicated)

### 3 FINANCIAL RISK MANAGEMENT (Continued)

#### (2) Market risk (Continued)

##### (d) Foreign exchange risk (Continued)

Carrying amounts of the Group's total assets and liabilities categorised by the original currency as at the date of statement of financial position are as follows:

|  | RMB                 | USD (RMB<br>Equivalent) | HKD (RMB<br>Equivalent) | Others (RMB<br>Equivalent) | Total               |
|--|---------------------|-------------------------|-------------------------|----------------------------|---------------------|
| <b>As at 30 June 2022</b>  |                     |                         |                         |                            |                     |
| <b>Assets</b>  |                     |                         |                         |                            |                     |
| Cash and balances with central banks                                   | 682,250             | 34,804                  | 3,968                   | 25,638                     | 746,660             |
| Due from and placements with banks<br>and other financial institutions | 406,614             | 354,332                 | 18,063                  | 20,734                     | 799,743             |
| Derivative financial assets  | 29,941              | 19,619                  | 4,233                   | 2,357                      | 56,150              |
| Loans and advances to customers  | 6,349,268           | 306,213                 | 189,603                 | 78,437                     | 6,923,521           |
| Financial investments at FVTPL   | 568,163             | 67,287                  | 4,904                   | 25,906                     | 666,260             |
| Financial investments at amortised cost                                | 2,306,193           | 42,942                  | 18,375                  | 8,252                      | 2,375,762           |
| Financial investments at FVOCI   | 281,108             | 295,041                 | 21,523                  | 52,920                     | 650,592             |
| Other assets   | 195,699             | 151,024                 | 9,639                   | 5,526                      | 361,888             |
| <b>Total assets</b>  | <b>10,819,236</b>   | <b>1,271,262</b>        | <b>270,308</b>          | <b>219,770</b>             | <b>12,580,576</b>   |
| <b>Liabilities</b>   |                     |                         |                         |                            |                     |
| Due to and placements from banks and<br>other financial institutions   | (1,493,044)         | (333,432)               | (17,278)                | (55,180)                   | (1,898,934)         |
| Financial liabilities at FVTPL   | (37,976)            | (4,079)                 | (37)                    | (17,795)                   | (59,887)            |
| Derivative financial liabilities                                       | (29,054)            | (5,384)                 | (3,688)                 | (1,362)                    | (39,488)            |
| Deposits from customers  | (6,994,430)         | (474,376)               | (288,731)               | (53,826)                   | (7,811,363)         |
| Other liabilities  | (1,575,809)         | (168,494)               | (13,714)                | (23,951)                   | (1,781,968)         |
| <b>Total liabilities</b>   | <b>(10,130,313)</b> | <b>(985,765)</b>        | <b>(323,448)</b>        | <b>(152,114)</b>           | <b>(11,591,640)</b> |
| <b>Net position</b>  | <b>688,923</b>      | <b>285,497</b>          | <b>(53,140)</b>         | <b>67,656</b>              | <b>988,936</b>      |
| <b>Credit related commitments and<br/>financial guarantees</b>         | <b>1,861,116</b>    | <b>146,338</b>          | <b>20,753</b>           | <b>29,128</b>              | <b>2,057,335</b>    |

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022

(All amounts presented in millions of RMB except when otherwise indicated)

**3 FINANCIAL RISK MANAGEMENT** (Continued)**(2) Market risk** (Continued)**(d) Foreign exchange risk** (Continued)

|  | RMB                | USD (RMB<br>Equivalent) | HKD (RMB<br>Equivalent) | Others (RMB<br>Equivalent) | Total               |
|--|--------------------|-------------------------|-------------------------|----------------------------|---------------------|
| <b>As at 31 December 2021</b>  |                    |                         |                         |                            |                     |
| <b>Assets</b>  |                    |                         |                         |                            |                     |
| Cash and balances with central banks                                   | 659,377            | 32,034                  | 30,113                  | 13,204                     | 734,728             |
| Due from and placements with banks<br>and other financial institutions | 316,755            | 276,807                 | 19,944                  | 19,202                     | 632,708             |
| Derivative financial assets  | 32,268             | 5,982                   | 482                     | 488                        | 39,220              |
| Loans and advances to customers  | 5,882,592          | 294,495                 | 164,923                 | 70,191                     | 6,412,201           |
| Financial investments at FVTPL   | 539,513            | 79,414                  | 727                     | 18,829                     | 638,483             |
| Financial investments at amortised cost                                | 2,169,831          | 29,760                  | 812                     | 2,634                      | 2,203,037           |
| Financial investments at FVOCI   | 309,518            | 283,663                 | 37,699                  | 50,849                     | 681,729             |
| Other assets   | 173,258            | 137,483                 | 7,292                   | 5,618                      | 323,651             |
| <b>Total assets</b>  | <b>10,083,112</b>  | <b>1,139,638</b>        | <b>261,992</b>          | <b>181,015</b>             | <b>11,665,757</b>   |
| <b>Liabilities</b>   |                    |                         |                         |                            |                     |
| Due to and placements from banks and<br>other financial institutions   | (1,496,464)        | (389,507)               | (22,857)                | (38,940)                   | (1,947,768)         |
| Financial liabilities at FVTPL   | (34,217)           | (3,196)                 | (41)                    | (12,594)                   | (50,048)            |
| Derivative financial liabilities                                       | (27,910)           | (7,021)                 | (614)                   | (529)                      | (36,074)            |
| Deposits from customers  | (6,341,729)        | (387,816)               | (262,148)               | (48,084)                   | (7,039,777)         |
| Other liabilities  | (1,392,157)        | (176,573)               | (20,418)                | (25,706)                   | (1,614,854)         |
| <b>Total liabilities</b>   | <b>(9,292,477)</b> | <b>(964,113)</b>        | <b>(306,078)</b>        | <b>(125,853)</b>           | <b>(10,688,521)</b> |
| <b>Net position</b>  | <b>790,635</b>     | <b>175,525</b>          | <b>(44,086)</b>         | <b>55,162</b>              | <b>977,236</b>      |
| <b>Credit related commitments and<br/>financial guarantees</b>         |                    |                         |                         |                            |                     |
|  | 1,683,043          | 137,706                 | 19,797                  | 27,349                     | 1,867,895           |

**(e) Other price risk**

The Group is exposed to other price risk arising from financial assets such as equity investments and derivatives linked to commodity price. The equity investments arise from the proprietary trading of the Group's subsidiaries which hold the qualification of securities dealing and brokerage as well. As for the proprietary trading exposure, the Group enforces strict management of the risk exposure limit and the balance is insignificant to the Group's financial assets. The Group considers the exposure to the other price risk to be insignificant.

**(3) Liquidity risk****Overview**

Liquidity risk is the risk that occurs when the Group cannot obtain sufficient funds in time and at a reasonable cost to repay debts when they are due, fulfill other payment obligations, or meet other funding needs in the normal course of business. The Group's liquidity risk mainly comes from depositors' early or centralised withdrawals, borrowers' deferred repayment of loans, the amount of assets and liabilities and maturity mismatches.

# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022  
(All amounts presented in millions of RMB except when otherwise indicated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### (3) Liquidity risk (Continued)

#### (a) Liquidity risk management

The Group implements centralised management of liquidity risk and, on the basis of forecasting liquidity requirements, formulates corresponding liquidity management plans and actively manages the liquidity of the Bank. The specific measures mainly include:

- Pay close attention to changes in the macroeconomic situation, central bank monetary policy, capital market dynamics, etc.
- Enhance weighting of core deposits as a percentage of liabilities, so as to improve the stability of liabilities;
- Monitor and manage liquidity position bank-wide by implementing a series of indicators and restrictions;
- Liquidity position management and cash utilisation functions are centralised by the Head offices;
- Maintain an appropriate level of central bank reserves, overnight inter-bank transactions, highly liquid debt investment, actively involve in capital management through open market, monetary market and bond market in order to ensure optimal financing capability at market places;
- Minimise liquidity risk by proper management of asset maturity structures and multi-level liquidity portfolios.

#### (b) Non-derivative financial instruments cash flows

The table below presents the structural analysis by contracted maturities on non-derivative financial assets and liabilities of the Group at the balance sheet date. The amount of financial assets and liabilities for each period is the amount of undiscounted cash flows. The Group's expected cash flows on these financial instruments may vary significantly from the following analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance although they have been classified as repayable on demand in the following tables.

|   | Overdue       | Undated        | On Demand          | Up to 1 month      | 1 – 3 months       | 3 – 12 months      | 1 – 5 years        | Over 5 years     | Total               |
|---|---------------|----------------|--------------------|--------------------|--------------------|--------------------|--------------------|------------------|---------------------|
| <b>As at 30 June 2022</b>   |               |                |                    |                    |                    |                    |                    |                  |                     |
| <b>Assets</b>   |               |                |                    |                    |                    |                    |                    |                  |                     |
| Cash and balances with central banks  | -             | 677,931        | 68,425             | -                  | 304                | -                  | -                  | -                | 746,660             |
| Due from and placements with banks and other financial institutions         | -             | -              | 107,436            | 279,261            | 131,893            | 220,059            | 65,418             | 9,592            | 813,659             |
| Loans and advances to customers   | 34,696        | -              | -                  | 542,591            | 388,957            | 1,729,148          | 2,028,425          | 3,260,836        | 7,984,653           |
| Financial investments at FVTPL  | 310           | 62,667         | 242,053            | 30,146             | 64,215             | 126,736            | 111,848            | 48,686           | 686,661             |
| Financial investments at amortised cost                                     | 1,198         | -              | -                  | 51,607             | 91,606             | 284,709            | 1,181,505          | 1,194,848        | 2,805,473           |
| Financial investments at FVOCI  | 281           | 17,575         | -                  | 23,101             | 35,083             | 81,124             | 364,862            | 224,087          | 746,113             |
| Other financial assets  | 4,165         | -              | 80,792             | -                  | -                  | -                  | -                  | -                | 84,957              |
| <b>Assets held for managing liquidity risk (contractual maturity dates)</b> | <b>40,650</b> | <b>758,173</b> | <b>498,706</b>     | <b>926,706</b>     | <b>712,058</b>     | <b>2,441,776</b>   | <b>3,752,058</b>   | <b>4,738,049</b> | <b>13,868,176</b>   |
| <b>Liabilities</b>  |               |                |                    |                    |                    |                    |                    |                  |                     |
| Due to and placements from banks and other financial institutions           | -             | (27)           | (764,542)          | (302,015)          | (264,633)          | (531,155)          | (46,732)           | (9,588)          | (1,918,692)         |
| Financial liabilities at FVTPL  | -             | -              | (26,628)           | (5,699)            | (11,221)           | (6,941)            | (9,512)            | -                | (60,001)            |
| Deposits from customers   | -             | -              | (3,089,158)        | (927,093)          | (624,417)          | (1,409,956)        | (1,820,827)        | (24)             | (7,871,475)         |
| Certificates of deposit issued  | -             | -              | -                  | (110,545)          | (125,414)          | (745,600)          | (13,424)           | (35)             | (995,018)           |
| Debt securities issued  | -             | -              | -                  | (5,468)            | (588)              | (136,402)          | (238,698)          | (197,025)        | (578,181)           |
| Other financial liabilities   | -             | -              | (96,781)           | (2,609)            | (125)              | (2,541)            | (7,622)            | (18,049)         | (127,727)           |
| <b>Total liabilities (contractual maturity dates)</b>                       | <b>-</b>      | <b>(27)</b>    | <b>(3,977,109)</b> | <b>(1,353,429)</b> | <b>(1,026,398)</b> | <b>(2,832,595)</b> | <b>(2,136,815)</b> | <b>(224,721)</b> | <b>(11,551,094)</b> |
| <b>Net position</b>   | <b>40,650</b> | <b>758,146</b> | <b>(3,478,403)</b> | <b>(426,723)</b>   | <b>(314,340)</b>   | <b>(390,819)</b>   | <b>1,615,243</b>   | <b>4,513,328</b> | <b>2,317,082</b>    |

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## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022

(All amounts presented in millions of RMB except when otherwise indicated)

**3 FINANCIAL RISK MANAGEMENT** *(Continued)***(3) Liquidity risk** *(Continued)***(b) Non-derivative financial instruments cash flows** *(Continued)*

|   | Overdue       | Undated          | On Demand          | Up to 1 month      | 1 – 3 months     | 3 – 12 months      | 1 – 5 years        | Over 5 years     | Total               |
|---|---------------|------------------|--------------------|--------------------|------------------|--------------------|--------------------|------------------|---------------------|
| <b>As at 31 December 2021</b>   |               |                  |                    |                    |                  |                    |                    |                  |                     |
| <b>Assets</b>   |               |                  |                    |                    |                  |                    |                    |                  |                     |
| Cash and balances with central banks  | –             | 630,776          | 103,648            | –                  | 304              | –                  | –                  | –                | 734,728             |
| Due from and placements with banks and other financial institutions         | –             | –                | 88,993             | 171,571            | 89,939           | 229,521            | 47,273             | 11,908           | 639,205             |
| Loans and advances to customers   | 50,266        | –                | –                  | 526,302            | 331,408          | 1,600,584          | 1,962,475          | 4,708,281        | 9,179,316           |
| Financial investments at FVTPL  | –             | 376,060          | 2,697              | 25,865             | 47,830           | 96,235             | 53,221             | 56,240           | 658,148             |
| Financial investments at amortised cost                                     | 2,397         | –                | –                  | 18,705             | 41,124           | 328,799            | 1,216,983          | 983,448          | 2,591,456           |
| Financial investments at FVOCI  | 29            | 16,262           | –                  | 17,767             | 57,326           | 129,941            | 327,239            | 205,699          | 754,263             |
| Other financial assets  | 4,198         | –                | 63,307             | –                  | –                | –                  | –                  | –                | 67,505              |
| <b>Assets held for managing liquidity risk (contractual maturity dates)</b> | <b>56,890</b> | <b>1,023,098</b> | <b>258,645</b>     | <b>760,210</b>     | <b>567,931</b>   | <b>2,385,080</b>   | <b>3,607,191</b>   | <b>5,965,576</b> | <b>14,624,621</b>   |
| <b>Liabilities</b>  |               |                  |                    |                    |                  |                    |                    |                  |                     |
| Due to and placements from banks and other financial institutions           | –             | –                | (816,423)          | (339,984)          | (249,157)        | (500,344)          | (47,994)           | (8,049)          | (1,961,951)         |
| Financial liabilities at FVTPL  | –             | –                | (11,631)           | (24,958)           | (1,999)          | (10,248)           | (1,287)            | –                | (50,123)            |
| Deposits from customers   | –             | –                | (2,917,674)        | (896,297)          | (548,993)        | (1,062,886)        | (1,719,819)        | (40)             | (7,145,709)         |
| Certificates of deposit issued  | –             | –                | –                  | (102,215)          | (159,431)        | (627,356)          | (15,167)           | (29)             | (904,198)           |
| Debt securities issued  | –             | –                | –                  | (8,495)            | (12,810)         | (125,943)          | (243,207)          | (177,668)        | (568,123)           |
| Other financial liabilities   | –             | –                | (47,545)           | (157)              | (719)            | (1,547)            | (27,187)           | (64,710)         | (141,865)           |
| <b>Total liabilities (contractual maturity dates)</b>                       | <b>–</b>      | <b>–</b>         | <b>(3,793,273)</b> | <b>(1,372,106)</b> | <b>(973,109)</b> | <b>(2,328,324)</b> | <b>(2,054,661)</b> | <b>(250,496)</b> | <b>(10,771,969)</b> |
| <b>Net position</b>   | <b>56,890</b> | <b>1,023,098</b> | <b>(3,534,628)</b> | <b>(611,896)</b>   | <b>(405,178)</b> | <b>56,756</b>      | <b>1,552,530</b>   | <b>5,715,080</b> | <b>3,852,652</b>    |

Assets available to repay all of the liabilities and fulfill loan commitments include cash, balances with central banks, due from and placements with banks and other financial institutions, financial investment at fair value through profit or loss, etc. In the normal course of business, a majority of matured deposits will not be withdrew immediately on the maturity date but will continue to be kept by the Group. In addition, financial investments at fair value through other comprehensive income can also be disposed of when necessary to obtain funds for repayment of matured debts.

**(c) Derivative financial instruments cash flows**

The Group's derivative financial instruments are either settled on a net basis or a gross basis.

**(i) Derivative settled on a net basis**

The Group's derivative financial instruments that will be settled on a net basis include foreign exchange contracts, commodity contracts, interest rate contracts and others.

The table below analyses the undiscounted cash flows of the Group's derivative financial instruments which will be settled on a net basis and are classified based on the remaining contractual period from the balance sheet date to maturity date.

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022  
(All amounts presented in millions of RMB except when otherwise indicated)

### 3 FINANCIAL RISK MANAGEMENT (Continued)

#### (3) Liquidity risk (Continued)

#### (c) Derivative financial instruments cash flows (Continued)

##### (i) Derivative settled on a net basis (Continued)

|  | Up to 1<br>month | 1-3<br>months  | 3-12<br>months | 1-5<br>years    | Over 5<br>years | Total           |
|--|------------------|----------------|----------------|-----------------|-----------------|-----------------|
| <b>As at 30 June 2022</b>                  |                  |                |                |                 |                 |                 |
| <b>Assets</b>                              |                  |                |                |                 |                 |                 |
| Derivative financial instruments           |                  |                |                |                 |                 |                 |
| – Foreign exchange and commodity contracts | 1                | 1              | 18             | –               | –               | 20              |
| – Interest rate contracts and others       | 669              | 1,285          | 5,642          | 20,628          | 9,307           | 37,531          |
| <b>Total</b>                               | <b>670</b>       | <b>1,286</b>   | <b>5,660</b>   | <b>20,628</b>   | <b>9,307</b>    | <b>37,551</b>   |
| <b>Liabilities</b>                         |                  |                |                |                 |                 |                 |
| Derivative financial instruments           |                  |                |                |                 |                 |                 |
| – Foreign exchange and commodity contracts | (17)             | (55)           | (88)           | –               | –               | (160)           |
| – Interest rate contracts and others       | (484)            | (1,014)        | (4,572)        | (11,652)        | (2,398)         | (20,120)        |
| <b>Total</b>                               | <b>(501)</b>     | <b>(1,069)</b> | <b>(4,660)</b> | <b>(11,652)</b> | <b>(2,398)</b>  | <b>(20,280)</b> |
|  | Up to 1<br>month | 1-3<br>months  | 3-12<br>months | 1-5<br>years    | Over 5<br>years | Total           |
| <b>As at 31 December 2021</b>              |                  |                |                |                 |                 |                 |
| <b>Assets</b>                              |                  |                |                |                 |                 |                 |
| Derivative financial instruments           |                  |                |                |                 |                 |                 |
| – Foreign exchange and commodity contracts | 10               | 1              | 23             | –               | –               | 34              |
| – Interest rate contracts and others       | 416              | 823            | 2,880          | 7,044           | 647             | 11,810          |
| <b>Total</b>                               | <b>426</b>       | <b>824</b>     | <b>2,903</b>   | <b>7,044</b>    | <b>647</b>      | <b>11,844</b>   |
| <b>Liabilities</b>                         |                  |                |                |                 |                 |                 |
| Derivative financial instruments           |                  |                |                |                 |                 |                 |
| – Foreign exchange and commodity contracts | –                | (34)           | (27)           | –               | –               | (61)            |
| – Interest rate contracts and others       | (408)            | (900)          | (3,096)        | (6,989)         | (381)           | (11,774)        |
| <b>Total</b>                               | <b>(408)</b>     | <b>(934)</b>   | <b>(3,123)</b> | <b>(6,989)</b>  | <b>(381)</b>    | <b>(11,835)</b> |

##### (ii) Derivative settled on a gross basis

The Group's derivative financial instruments that will be settled on a gross basis mainly include foreign exchange and commodity derivatives. The table below analyses the undiscounted cash flows of the Group's derivative financial instruments which will be settled on a gross basis and are classified based on the remaining contractual period from the balance sheet date to maturity date.



## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022

(All amounts presented in millions of RMB except when otherwise indicated)

**3 FINANCIAL RISK MANAGEMENT** (Continued)**(3) Liquidity risk** (Continued)**(c) Derivative financial instruments cash flows** (Continued)**(ii) Derivative settled on a gross basis** (Continued)

|   | Up to 1<br>month | 1-3<br>months | 3-12<br>months | 1-5<br>years | Over 5<br>years | Total       |
|---|------------------|---------------|----------------|--------------|-----------------|-------------|
| <b>As at 30 June 2022</b>                   |                  |               |                |              |                 |             |
| Derivative financial instruments settled on |                  |               |                |              |                 |             |
| – Cash inflow                               | 1,211,489        | 814,886       | 1,675,547      | 186,256      | 41,924          | 3,930,102   |
| – Cash outflow                              | (1,210,904)      | (814,629)     | (1,675,106)    | (186,965)    | (42,568)        | (3,930,172) |
| Total                                       | 585              | 257           | 441            | (709)        | (644)           | (70)        |
|   | Up to 1<br>month | 1-3<br>months | 3-12<br>months | 1-5<br>years | Over 5<br>years | Total       |
| <b>As at 31 December 2021</b>               |                  |               |                |              |                 |             |
| Derivative financial instruments settled on |                  |               |                |              |                 |             |
| – Cash inflow                               | 1,095,392        | 879,647       | 1,404,576      | 111,697      | 14,918          | 3,506,230   |
| – Cash outflow                              | (1,094,721)      | (879,191)     | (1,402,398)    | (109,071)    | (15,480)        | (3,500,861) |
| Total                                       | 671              | 456           | 2,178          | 2,626        | (562)           | 5,369       |

**(d) Maturity analysis**

The table below analyses the Group's assets and liabilities into relevant maturity groupings based on the remaining period at the end of reporting date to the contractual maturity date.

|   | On<br>demand       | Up to 1<br>month   | 1-3<br>months      | 3-12<br>months     | 1-5<br>years       | Over 5<br>years  | Overdue       | Undated        | Total               |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|------------------|---------------|----------------|---------------------|
| <b>As at 30 June 2022</b>   |                    |                    |                    |                    |                    |                  |               |                |                     |
| <b>Assets</b>   |                    |                    |                    |                    |                    |                  |               |                |                     |
| Cash and balances with central banks                                | 68,425             | -                  | 304                | -                  | -                  | -                | -             | 677,931        | 746,660             |
| Due from and placements with banks and other financial institutions | 107,436            | 278,668            | 130,265            | 215,503            | 60,026             | 7,845            | -             | -              | 799,743             |
| Derivative financial assets   | -                  | 5,008              | 6,840              | 15,927             | 17,253             | 11,122           | -             | -              | 56,150              |
| Loans and advances to customers                                     | -                  | 531,555            | 362,602            | 1,614,669          | 1,679,869          | 2,702,999        | 31,827        | -              | 6,923,521           |
| Financial investments at FVTPL                                      | 242,053            | 29,766             | 63,139             | 122,056            | 103,003            | 43,266           | 310           | 62,667         | 666,260             |
| Financial investments at amortised cost                             | -                  | 47,165             | 78,500             | 228,257            | 1,000,066          | 1,020,737        | 1,037         | -              | 2,375,762           |
| Financial investments at FVOCI                                      | -                  | 21,618             | 32,300             | 68,639             | 324,629            | 185,581          | 250           | 17,575         | 650,592             |
| Other assets  | 112,488            | -                  | -                  | 950                | 37,906             | -                | 4,165         | 206,379        | 361,888             |
| <b>Total assets</b>   | <b>530,402</b>     | <b>913,780</b>     | <b>673,950</b>     | <b>2,266,001</b>   | <b>3,222,752</b>   | <b>3,971,550</b> | <b>37,589</b> | <b>964,552</b> | <b>12,580,576</b>   |
| <b>Liabilities</b>  |                    |                    |                    |                    |                    |                  |               |                |                     |
| Due to and placements from banks and other financial institutions   | (764,542)          | (300,470)          | (261,476)          | (521,035)          | (42,495)           | (8,889)          | -             | (27)           | (1,898,934)         |
| Financial liabilities at FVTPL                                      | (26,628)           | (5,696)            | (11,192)           | (6,916)            | (9,455)            | -                | -             | -              | (59,887)            |
| Derivative financial liabilities                                    | -                  | (5,361)            | (6,453)            | (15,229)           | (10,129)           | (2,316)          | -             | -              | (39,488)            |
| Deposits from customers   | (3,089,113)        | (926,794)          | (623,170)          | (1,398,836)        | (1,773,426)        | (24)             | -             | -              | (7,811,363)         |
| Other liabilities   | (120,718)          | (164,257)          | (132,985)          | (871,242)          | (273,703)          | (219,063)        | -             | -              | (1,781,968)         |
| <b>Total liabilities</b>  | <b>(4,001,001)</b> | <b>(1,402,578)</b> | <b>(1,035,276)</b> | <b>(2,813,258)</b> | <b>(2,109,208)</b> | <b>(230,292)</b> | <b>-</b>      | <b>(27)</b>    | <b>(11,591,640)</b> |
| <b>Net amount on liquidity gap</b>                                  | <b>(3,470,599)</b> | <b>(488,798)</b>   | <b>(361,326)</b>   | <b>(547,257)</b>   | <b>1,113,544</b>   | <b>3,741,258</b> | <b>37,589</b> | <b>964,525</b> | <b>988,936</b>      |

# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022  
(All amounts presented in millions of RMB except when otherwise indicated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### (3) Liquidity risk (Continued)

#### (d) Maturity analysis (Continued)

|   | On demand          | Up to 1 month      | 1-3 months       | 3-12 months        | 1-5 years          | Over 5 years     | Overdue       | Undated          | Total               |
|---|--------------------|--------------------|------------------|--------------------|--------------------|------------------|---------------|------------------|---------------------|
| <b>As at 31 December 2021</b>                                       |                    |                    |                  |                    |                    |                  |               |                  |                     |
| <b>Assets</b>   |                    |                    |                  |                    |                    |                  |               |                  |                     |
| Cash and balances with central banks                                | 103,648            | -                  | 304              | -                  | -                  | -                | -             | 630,776          | 734,728             |
| Due from and placements with banks and other financial institutions | 88,993             | 171,428            | 89,547           | 225,329            | 45,687             | 11,724           | -             | -                | 632,708             |
| Derivative financial assets   | -                  | 6,099              | 7,172            | 13,032             | 11,052             | 1,865            | -             | -                | 39,220              |
| Loans and advances to customers                                     | -                  | 504,850            | 289,612          | 1,435,771          | 1,309,429          | 2,837,626        | 34,913        | -                | 6,412,201           |
| Financial investments at FVTPL                                      | 2,697              | 25,684             | 47,293           | 92,313             | 43,656             | 50,780           | -             | 376,060          | 638,483             |
| Financial investments at amortised cost                             | -                  | 18,227             | 37,752           | 284,065            | 1,014,207          | 846,389          | 2,397         | -                | 2,203,037           |
| Financial investments at FVOCI                                      | -                  | 17,504             | 56,506           | 120,183            | 289,879            | 181,366          | 29            | 16,262           | 681,729             |
| Other assets  | 93,428             | 150                | 18               | 505                | 35,656             | 2,509            | 4,198         | 187,187          | 323,651             |
| <b>Total assets</b>   | <b>288,766</b>     | <b>743,942</b>     | <b>528,204</b>   | <b>2,171,198</b>   | <b>2,749,566</b>   | <b>3,932,259</b> | <b>41,537</b> | <b>1,210,285</b> | <b>11,665,757</b>   |
| <b>Liabilities</b>  |                    |                    |                  |                    |                    |                  |               |                  |                     |
| Due to and placements from banks and other financial institutions   | (816,423)          | (339,771)          | (247,890)        | (491,785)          | (44,522)           | (7,377)          | -             | -                | (1,947,768)         |
| Financial liabilities at FVTPL                                      | (11,631)           | (24,954)           | (1,995)          | (10,202)           | (1,266)            | -                | -             | -                | (50,048)            |
| Derivative financial liabilities                                    | -                  | (5,493)            | (6,739)          | (11,698)           | (10,266)           | (1,878)          | -             | -                | (36,074)            |
| Deposits from customers   | (2,917,672)        | (892,406)          | (544,620)        | (1,043,211)        | (1,641,829)        | (39)             | -             | -                | (7,039,777)         |
| Other liabilities   | (59,181)           | (113,511)          | (198,029)        | (739,771)          | (285,206)          | (219,156)        | -             | -                | (1,614,854)         |
| <b>Total liabilities</b>  | <b>(3,804,907)</b> | <b>(1,376,135)</b> | <b>(999,273)</b> | <b>(2,296,667)</b> | <b>(1,983,089)</b> | <b>(228,450)</b> | <b>-</b>      | <b>-</b>         | <b>(10,688,521)</b> |
| <b>Net amount on liquidity gap</b>                                  | <b>(3,516,141)</b> | <b>(632,193)</b>   | <b>(471,069)</b> | <b>(125,469)</b>   | <b>766,477</b>     | <b>3,703,809</b> | <b>41,537</b> | <b>1,210,285</b> | <b>977,236</b>      |

#### (e) Off-balance sheet items

The off-balance sheet items of the Group primarily comprise loan commitments, credit card commitments, letter of credit commitments, guarantee and letters of guarantee issued, acceptance notes, etc. The table below lists the liquidity analysis of the off-balance sheet items of the Group, and financial guarantees are included at notional amounts and based on the earliest contractual maturity date.

|   | Up to 1 year     | 1 – 5 years    | Over 5 years  | Total            |
|---|------------------|----------------|---------------|------------------|
| <b>As at 30 June 2022</b>                             |                  |                |               |                  |
| Loan commitments and other credit related commitments | 970,928          | 29,169         | 25,676        | 1,025,773        |
| Guarantees, acceptances and letters of credit         | 892,692          | 136,703        | 2,167         | 1,031,562        |
| <b>Total</b>  | <b>1,863,620</b> | <b>165,872</b> | <b>27,843</b> | <b>2,057,335</b> |
|   | Up to 1 year     | 1-5 years      | Over 5 Years  | Total            |
| <b>As at 31 December 2021</b>                         |                  |                |               |                  |
| Loan commitments and other credit related commitments | 924,244          | 30,785         | 14,922        | 969,951          |
| Guarantees, acceptances and letters of credit         | 757,497          | 138,818        | 1,629         | 897,944          |
| <b>Total</b>  | <b>1,681,741</b> | <b>169,603</b> | <b>16,551</b> | <b>1,867,895</b> |

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022

(All amounts presented in millions of RMB except when otherwise indicated)

### 3 FINANCIAL RISK MANAGEMENT *(Continued)*

#### (4) Fair value of financial assets and liabilities

##### **(a) Determination of fair value and valuation techniques**

Certain financial assets and liabilities of the Group are measured at fair value or with fair value disclosed for financial reporting purposes. The fair value has been determined using appropriate valuation techniques and inputs for fair value measurements. The appropriateness of the valuation techniques and the inputs to the fair value measurements are reviewed by the Board of Directors periodically.

Fair value measurements are categorised into level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- (1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- (2) Level 2 inputs are inputs, other than quoted prices included within level 1, that are observable for the asset or liability, either directly or indirectly; and
- (3) Level 3 inputs are unobservable inputs for the asset or liability.

The fair value of financial instruments with unadjusted quoted prices for identical instruments in active markets is determined by the open market quotations. These instruments are classified as level 1.

The Group uses valuation techniques to determine the fair value of financial instruments when an open market quotation in active markets is not obtainable.

If the key parameters used in valuation techniques for financial instruments are substantially observable and obtainable from active open market, the instruments are classified as level 2. The second hierarchy of financial instruments held by the Group mainly includes derivatives, debt securities, certificates of deposit without quotations from active market, loans and advances to customers carried at FVOCI, precious metals and debt securities issued. The fair value of RMB denominated bonds is mainly valued based on the yield curves of the bonds from China Central Depository & Clearing Co., Ltd., while the fair value of the foreign currency denominated bonds is determined based on the valuation results published by Bloomberg. The fair value of foreign currency forwards, swaps, interest rate swaps, foreign currency options is estimated by the discounted cash flow method and Black-Scholes model; the fair value of precious metal contract is mainly determined in accordance with the closing prices of the Shanghai Gold Exchange or the settlement prices of the Shanghai Futures Exchange. The main parameters used in discounted cash flow model include recent market prices, the relevant yield curve, exchange rates and counterparty's credit spread. Main parameters used in Black-Scholes model include the relevant yield curve, exchange rate, level of volatilities and counterparty's credit spread, etc. All parameters used in valuation techniques are substantially observable and obtainable from active open market.

For trust and asset management plan at fair value through profit or loss, loans and advances to customers at fair value through other comprehensive income, the fair value is determined based on discounted cash flow model using unobservable discount rates that reflect credit risk. These financial instruments are classified as level 3.

For convertible bonds, unlisted funds, unlisted equities and equity derivatives held by the Group, the fair value of these financial instruments are determined with reference to certain unobservable inputs, and therefore the instruments have been classified by the Group as level 3. The management determines the fair value of these financial instruments using a variety of techniques, including using valuation models that incorporate and take into account unobservable inputs such as Discount for Lack of Marketability (DLOM). The Group has established internal control procedures to monitor the Group's exposure to such financial instruments.

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022  
(All amounts presented in millions of RMB except when otherwise indicated)

### 3 FINANCIAL RISK MANAGEMENT (Continued)

#### (4) Fair value of financial assets and liabilities (Continued)

##### (b) Financial instruments not measured at fair value

The table below summarises the carrying amount and fair value of those financial assets and liabilities that are not presented at fair value as at the date of statement of financial position. Financial assets and liabilities with carrying amount approximate to fair value, such as cash and balances with central banks, due from and placements with banks and other financial institutions, loans and advances to customers at amortised cost, due to and placements from banks and other financial institutions, and deposits from customers, are not included in the table below.

|   | As at 30 June 2022 |            | As at 31 December 2021 |            |
|---|--------------------|------------|------------------------|------------|
|   | Carrying amount    | Fair value | Carrying amount        | Fair value |
| <b>Financial assets</b>                 |                    |            |                        |            |
| Financial investments at amortised cost | 2,375,762          | 2,386,385  | 2,203,037              | 2,234,814  |
| <b>Financial liabilities</b>            |                    |            |                        |            |
| Debt securities issued                  | (507,221)          | (515,572)  | (491,372)              | (496,082)  |

#### Fair value hierarchy of financial instruments not measured at fair value

| As at 30 June 2022                      | Level 1        | Level 2        | Level 3        | Total        |
|---|----------------|----------------|----------------|--------------|
| <b>Financial assets</b>                 |                |                |                |              |
| Financial investments at amortised cost | 26,947         | 2,273,486      | 85,952         | 2,386,385    |
| <b>Financial liabilities</b>            |                |                |                |              |
| Debt securities issued                  | –              | (515,572)      | –              | (515,572)    |
| <b>As at 31 December 2021</b>           | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b> |
| <b>Financial assets</b>                 |                |                |                |              |
| Financial investments at amortised cost | 7,757          | 2,138,742      | 88,315         | 2,234,814    |
| <b>Financial liabilities</b>            |                |                |                |              |
| Debt securities issued                  | –              | (496,082)      | –              | (496,082)    |

The carrying amounts and fair values of other financial assets and liabilities (including loans and advances to customers at amortised cost, due from and placements with banks and other financial institutions, due to and placements from banks and other financial institutions) are approximately the same, because the interest rates of most of these assets and liabilities are adjusted following the changes in interest rates determined by the PBOC, other regulatory bodies or market.

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022

(All amounts presented in millions of RMB except when otherwise indicated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

## (4) Fair value of financial assets and liabilities (Continued)

## (c) Financial assets and financial liabilities measured at fair value on a recurring basis

The financial assets and liabilities measured at fair value on a recurring basis by the three levels are analysed below:

| As at 30 June 2022                                      | Level 1        | Level 2          | Level 3       | Total            |
|---|----------------|------------------|---------------|------------------|
| <b>At fair value through profit or loss</b>             |                |                  |               |                  |
| Debt securities   | 4,407          | 258,382          | 3,059         | 265,848          |
| Fund investments and other asset management products    | 143,479        | 152,654          | 22,231        | 318,364          |
| Equity securities and others                            | 8,075          | 3,295            | 51,297        | 62,667           |
| Precious metal contracts                                | –              | 19,381           | –             | 19,381           |
| Derivative financial instruments                        | –              | 54,999           | 1,151         | 56,150           |
| Loans and advances to customers                         | –              | 27               | –             | 27               |
| Subtotal  | 155,961        | 488,738          | 77,738        | 722,437          |
| <b>At fair value through other comprehensive income</b> |                |                  |               |                  |
| Debt Investments at FVOCI                               | 160,009        | 472,576          | 432           | 633,017          |
| Investments in equity instruments designated at FVOCI   | 8,654          | 1,922            | 6,999         | 17,575           |
| Loans and advances to customers at FVOCI                | –              | 243,942          | 79            | 244,021          |
| Subtotal  | 168,663        | 718,440          | 7,510         | 894,613          |
| <b>Total assets</b>                                     | <b>324,624</b> | <b>1,207,178</b> | <b>85,248</b> | <b>1,617,050</b> |
| <b>Financial liabilities at FVTPL</b>                   | –              | (59,887)         | –             | (59,887)         |
| Derivative financial instruments                        | –              | (39,488)         | –             | (39,488)         |
| Debt securities issued                                  | –              | (11,455)         | –             | (11,455)         |
| <b>Total liabilities</b>                                | <b>–</b>       | <b>(110,830)</b> | <b>–</b>      | <b>(110,830)</b> |

| As at 31 December 2021                                  | Level 1        | Level 2               | Level 3       | Total            |
|---|----------------|-----------------------|---------------|------------------|
| <b>At fair value through profit or loss</b>             |                |                       |               |                  |
| Debt securities   | 13,308         | 231,473               | 3,153         | 247,934          |
| Fund investments and other asset management products    | 685            | 287,847               | 16,644        | 305,176          |
| Equity securities and others                            | 7,826          | 5,081                 | 50,542        | 63,449           |
| Precious metal contracts                                | –              | 21,924                | –             | 21,924           |
| Derivative financial instruments                        | –              | 38,183                | 1,037         | 39,220           |
| Loans and advances to customers                         | –              | 27                    | –             | 27               |
| Subtotal  | 21,819         | 584,535               | 71,376        | 677,730          |
| <b>At fair value through other comprehensive income</b> |                |                       |               |                  |
| Debt Investments at FVOCI                               | 239,205        | 425,966               | 296           | 665,467          |
| Investments in equity instruments designated at FVOCI   | 7,357          | 1,636                 | 7,269         | 16,262           |
| Loans and advances to customers at FVOCI                | –              | 184,696               | 10            | 184,706          |
| Subtotal  | 246,562        | 612,298               | 7,575         | 866,435          |
| <b>Total assets</b>                                     | <b>268,381</b> | <b>1,196,833</b>      | <b>78,951</b> | <b>1,544,165</b> |
| <b>Financial liabilities at FVTPL</b>                   | –              | (50,048)              | –             | (50,048)         |
| Derivative financial instruments                        | –              | (36,074)              | –             | (36,074)         |
| Debt securities issued                                  | –              | (12,153)              | –             | (12,153)         |
| <b>Total liabilities</b>                                | <b>–</b>       | <b>F-200 (98,275)</b> | <b>–</b>      | <b>(98,275)</b>  |

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022  
(All amounts presented in millions of RMB except when otherwise indicated)

### 3 FINANCIAL RISK MANAGEMENT (Continued)

#### (4) Fair value of financial assets and liabilities (Continued)

##### (c) Financial assets and financial liabilities measured at fair value on a recurring basis (Continued)

###### Reconciliation of Level 3 items

|  | Financial assets at<br>FVTPL | Financial assets at<br>FVOCI |
|--|------------------------------|------------------------------|
| Balance at 1 January 2022  | 71,376                       | 7,575                        |
| Total gains or losses  |                              |                              |
| – Net (losses)/gains arising from trading activities                                       | (174)                        | 653                          |
| – Other comprehensive income   | –                            | (1,008)                      |
| Additions  | 7,498                        | 295                          |
| Disposals and settlement   | (962)                        | (3)                          |
| Transfer to other levels   | –                            | (2)                          |
| Balance at 30 June 2022  | 77,738                       | 7,510                        |
| Total gains/(losses) generated by financial assets held by<br>the Group as at 30 June 2022 |                              |                              |
| – Realised gains   | 1,573                        | 649                          |
| – Unrealised losses  | (1,747)                      | (1,004)                      |

|  | Financial assets at<br>FVTPL | Financial assets at<br>FVOCI |
|--|------------------------------|------------------------------|
| Balance at 1 January 2021  | 65,024                       | 8,166                        |
| Total gains or losses  |                              |                              |
| – Net gains arising from trading activities  | 4,951                        | 48                           |
| – Other comprehensive income   | –                            | (1,233)                      |
| Additions  | 10,723                       | 975                          |
| Disposals and settlement   | (9,286)                      | (381)                        |
| Transfer to other levels   | (36)                         | –                            |
| Balance at 31 December 2021  | 71,376                       | 7,575                        |
| Total gains/(losses) generated by financial assets held by<br>the Group as at 31 December 2021 |                              |                              |
| – Realised gains   | 1,998                        | 46                           |
| – Unrealised losses  | 2,000                        | (1,231)                      |

These financial instruments with fair values determined based on unobservable inputs are primarily convertible bonds, unlisted equities, unlisted funds, part of the trust and asset management plan, equity derivatives and part of loans and advances to customers. The fair value of these financial instruments is determined primarily using discounted cash flow method and market comparison method. These valuation methods involve inputs from various unobservable assumptions such as cash flow, risk-adjusted discount rate, price to book value ratio, price to earnings ratio and liquidity discounts.

#### (5) Offsetting financial assets and liabilities

Certain financial assets and financial liabilities of the Group are subject to enforceable master netting arrangements or similar agreements. The agreement between the Group and the counterparty generally allows for net settlement of the relevant financial assets and financial liabilities when both elect to settle on a net basis. In the absence of such a mutual consent, financial assets and financial liabilities will be settled on a gross basis. However, each party to the master netting arrangements or similar agreements will have the option to settle all such amounts on a net basis in the event of default of the other party. These financial assets and financial liabilities of the Group are not offset in accordance with IFRSs.

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022

(All amounts presented in millions of RMB except when otherwise indicated)

### 3 FINANCIAL RISK MANAGEMENT *(Continued)*

#### (6) Capital management

The “capital” in capital management is a broader concept than “shareholders’ equity” on the statement of financial position. The Group’s objectives in capital management are:

- To comply with the capital requirements set by the regulators of the markets where the Group operates;
- To ensure the Group’s ability to maintain a stable operation so as to continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

The Group management adopts administrative measures issued by the CBIRC, which was developed based on guideline issued by the Basel Committee, in monitoring its capital adequacy ratio and the usage of regulatory capital on a quarterly basis. The quarterly monitored information is then submitted to CBIRC.

The Administrative Measures for the Capital of Commercial Banks (Provisional) specified the regulatory requirements for minimum capital, capital conservation buffer, additional capital surcharge for systemically important banks, countercyclical buffer and Pillar II capital as follows:

- Minimum regulatory requirements for core tier-1 capital adequacy ratio, tier-1 capital adequacy ratio and capital adequacy ratio are 5%, 6% and 8%, respectively;
- Capital conservation buffer requires additional 2.5% on core tier-1 capital adequacy ratio;
- Additional capital surcharge for systemically important banks requires additional 0.75% on core tier-1 capital adequacy ratio;
- Should the regulators require countercyclical buffer under particular circumstances or regulators impose additional Pillar II capital requirements for specific banks, these requirements shall be met within the specified time limits.

The Group’s capital as monitored by its Planning and Finance Department consists of the following:

- Core tier-1 capital, including ordinary shares, eligible portion of capital surplus, statutory reserve, statutory general reserve, retained earnings, eligible portion of non-controlling interests and others;
- Additional tier-1 capital, including Additional tier-1 capital instruments issued and related premium and eligible portion of non-controlling interests;
- Tier-2 capital, including tier-2 capital instruments issued and related premium, excess loan loss provisions and eligible portion of non-controlling interests.

The Group’s deductible items from core tier-1 capital include: Goodwill, other intangible assets (except land use rights), investments in core tier-1 capital of financial institutions with controlling interests but outside the scope of regulatory consolidation.

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022  
(All amounts presented in millions of RMB except when otherwise indicated)

### 3 FINANCIAL RISK MANAGEMENT (Continued)

#### (6) Capital management (Continued)

In April 2014, the CBIRC officially approved the implementation of the advanced approach of capital management, and the Group has steadily promoted the implementation and deepened application of advanced methods in accordance with regulatory requirements. The Group expanded the implementation scope of advanced methods and ended the transition period with the approval of CBRC in 2018. According to the implementation scope of the advanced methods of capital management approved by the CBRC, the Group elected to use elementary internal rating based ("IRB") approach for credit risk exposures, internal model approach for market risk exposures and standardised approach for operational risk exposures which is compliant with regulatory requirements. For credit risk exposures not covered by IRB, the corresponding portion shall be calculated by the weight method. For market risk exposures not covered by internal model approach, the corresponding portion shall be calculated by the standardised method. For operational risk exposures not covered by standardised approach, the corresponding portion shall be calculated by basic index method.

The capital ratios calculated based on Administrative Measures for the Capital of Commercial Banks (Provisional) are as follows:

| Item                                   | As at<br>30 June 2022 | As at<br>31 December 2021 |
|--|-----------------------|---------------------------|
| Core tier-1 capital adequacy ratio (%) | 9.99                  | 10.62                     |
| Tier-1 capital adequacy ratio (%)      | 12.20                 | 13.01                     |
| Capital adequacy ratio (%)             | 14.49                 | 15.45                     |
| Core tier-1 capital                    | 801,102               | 789,887                   |
| Core tier-1 capital deductions         | (6,615)               | (6,010)                   |
| Net core tier-1 capital                | 794,487               | 783,877                   |
| Additional tier-1 capital              | 176,386               | 176,348                   |
| Net tier-1 capital                     | 970,873               | 960,225                   |
| Tier-2 capital                         | 182,022               | 179,732                   |
| Net capital                            | 1,152,895             | 1,139,957                 |
| Risk-weighted assets                   | 7,956,077             | 7,379,912                 |

### 4 NET INTEREST INCOME

|   | Six months ended 30 June |           |
|---|--------------------------|-----------|
|   | 2022                     | 2021      |
| Interest income   |                          |           |
| Loans and advances to customers                                     | 143,177                  | 129,626   |
| Financial investments   | 46,923                   | 43,155    |
| Due from and placements with banks and other financial institutions | 7,204                    | 5,788     |
| Balances with central banks   | 5,264                    | 5,383     |
| Subtotal  | 202,568                  | 183,952   |
| Interest expense  |                          |           |
| Deposits from customers   | (76,882)                 | (69,536)  |
| Due to and placements from banks and other financial institutions   | (20,766)                 | (19,154)  |
| Certificates of deposit issued                                      | (12,200)                 | (8,787)   |
| Debt securities issued  | (7,627)                  | (7,989)   |
| Subtotal  | (117,475)                | (105,466) |
| Net interest income   | 85,093                   | 78,486    |



## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022

(All amounts presented in millions of RMB except when otherwise indicated)

## 5 FEE AND COMMISSION INCOME

|                                      | Six months ended 30 June |        |
|--------------------------------------|--------------------------|--------|
|                                      | 2022                     | 2021   |
| Bank cards                           | 9,923                    | 9,750  |
| Wealth management business           | 5,232                    | 6,081  |
| Custody and other fiduciary business | 4,249                    | 3,972  |
| Agency services                      | 3,394                    | 3,324  |
| Investment banking                   | 1,968                    | 1,945  |
| Guarantee and commitment             | 1,489                    | 1,358  |
| Settlement services                  | 720                      | 713    |
| Others                               | 97                       | 156    |
| Total                                | 27,072                   | 27,299 |

## 6 FEE AND COMMISSION EXPENSE

|                                | Six months ended 30 June |       |
|--------------------------------|--------------------------|-------|
|                                | 2022                     | 2021  |
| Bank card business             | 1,252                    | 1,240 |
| Settlement and agency services | 947                      | 868   |
| Others                         | 219                      | 225   |
| Total                          | 2,418                    | 2,333 |

## 7 NET GAINS ARISING FROM TRADING ACTIVITIES

|                                      | Six months ended 30 June |        |
|--------------------------------------|--------------------------|--------|
|                                      | 2022                     | 2021   |
| Foreign exchange                     | 4,391                    | 1,446  |
| Financial instruments at FVTPL       | 2,542                    | 8,445  |
| Interest rate instruments and others | 3,021                    | 278    |
| Total                                | 9,954                    | 10,169 |

Net gains or losses on foreign exchange include trading gains or losses and fair value changes of derivative instruments such as spot and forward contracts, currency swaps, cross currency interest rate swaps, currency options and the translation of foreign currency monetary assets and liabilities into RMB.

Net gains or losses on interest rate instruments and others include trading gains or losses and fair value changes of interest rate swaps, interest rate options, commodity and other derivatives.

Net gains arising from trading activities for the six months ended 30 June 2022 included a net gain of RMB59 million (for the six months ended 30 June 2021: a net gain of RMB38 million) in relation to changes in the fair value of financial liabilities designated at fair value through profit or loss.

## 8 INSURANCE BUSINESS INCOME

|                      | Six months ended 30 June |        |
|----------------------|--------------------------|--------|
|                      | 2022                     | 2021   |
| Premiums earned      | 13,678                   | 11,489 |
| Less: Premiums ceded | (159)                    | (467)  |
| Total                | 13,519                   | 11,022 |

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022  
(All amounts presented in millions of RMB except when otherwise indicated)

### 9 OTHER OPERATING INCOME

|   | Six months ended 30 June |       |
|---|--------------------------|-------|
|   | 2022                     | 2021  |
| Leasing income  | 6,849                    | 6,279 |
| Income from sales of precious metal merchandise         | 709                      | 903   |
| Net gain on the disposal of fixed and foreclosed assets | 246                      | 302   |
| Revaluation of investment properties                    | –                        | (96)  |
| Other miscellaneous income                              | 1,814                    | 1,134 |
| Total   | 9,618                    | 8,522 |

Other miscellaneous income mainly includes income arising from miscellaneous banking services provided to the Group's customers.

### 10 CREDIT IMPAIRMENT LOSSES

|   | Six months ended 30 June |        |
|---|--------------------------|--------|
|   | 2022                     | 2021   |
| Loans and advances to customers at amortised cost                   | 34,316                   | 30,703 |
| Credit related commitments and financial guarantees                 | 1,599                    | 2,779  |
| Loans and advances to customers at FVOCI                            | 204                      | 256    |
| Debt investments at FVOCI   | 117                      | (76)   |
| Financial investments at amortised cost                             | 16                       | (528)  |
| Due from and placements with banks and other financial institutions | (176)                    | 322    |
| Others  | 751                      | (374)  |
| Total   | 36,827                   | 33,082 |

### 11 OTHER ASSETS IMPAIRMENT LOSSES

|   | Six months ended 30 June |      |
|---|--------------------------|------|
|   | 2022                     | 2021 |
| Impairment losses on operating lease assets | 672                      | 248  |
| Impairment losses on precious metal         | 14                       | –    |
| Impairment losses on foreclosed assets      | 4                        | 170  |
| Total                                       | 690                      | 418  |

### 12 INSURANCE BUSINESS EXPENSE

|  | Six months ended 30 June |        |
|--|--------------------------|--------|
|  | 2022                     | 2021   |
| Change in insurance reserves                                 | 9,630                    | 10,167 |
| Less: Change in insurance reserves recovered from reinsurers | (7)                      | 963    |
| Surrenders   | 3,450                    | 586    |
| Others   | 717                      | (791)  |
| Total  | 13,790                   | 10,925 |

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022

(All amounts presented in millions of RMB except when otherwise indicated)

## 13 OTHER OPERATING EXPENSES

|  | Six months ended 30 June |        |
|--|--------------------------|--------|
|  | 2022                     | 2021   |
| Staff costs and benefits (Note 14)               | 14,797                   | 14,160 |
| General operating and administrative expenses    | 19,916                   | 17,400 |
| Costs of operating lease business                | 4,460                    | 4,569  |
| Depreciation and amortisation                    | 4,210                    | 3,977  |
| Tax and surcharges                               | 1,607                    | 1,474  |
| Provision/(reversal) for outstanding litigations | 103                      | (54)   |
| Others   | 1,551                    | 1,512  |
| Total  | 46,644                   | 43,038 |

## 14 STAFF COSTS AND BENEFITS

|   | Note | Six months ended 30 June |        |
|---|------|--------------------------|--------|
|   |      | 2022                     | 2021   |
| Salaries, bonuses, allowances and subsidies |      | 9,776                    | 9,321  |
| Post-employment benefit                     | (1)  | 1,971                    | 1,867  |
| Other social security and benefit costs     |      | 3,050                    | 2,972  |
| Total                                       |      | 14,797                   | 14,160 |

## (1) Post-employment benefit

**Defined contribution plans**

The Group participates in various defined contribution retirement benefit plans organised by municipal and provincial governments in Mainland China, under which it is required to make monthly contributions to these plans at rates ranging from 10% to 27% of the employees' basic salary for the year. The Group's contributions to these pension plans are charged to profit or loss and other comprehensive income in the year to which they relate.

Employees who retire at or after 1 January 2009 can voluntarily participate in an Annuity Plan. The Group contributes to the Annuity Plan based on certain percentage of the employees' gross salary which is recognised in profit or loss as incurred.

As at 30 June 2022, there are no forfeited contributions under the Group's retirement benefit plans which can be used to deduct contributions payable for future years.

The amount recognised in profit or loss is as follows:

|   | Six months ended 30 June |       |
|---|--------------------------|-------|
|   | 2022                     | 2021  |
| Expenses incurred for retirement benefit plans and unemployment insurance | 1,198                    | 1,140 |
| Expenses incurred for annuity plan  | 762                      | 718   |
| Total   | 1,960                    | 1,858 |

The amount payable at the end of the period or year is as follows:

|   | As at<br>30 June 2022 | As at<br>31 December 2021 |
|---|-----------------------|---------------------------|
| Payable for retirement benefit plans and unemployment insurance | 66                    | 105                       |
| Payable for annuity plan  | 32                    | 50                        |
| Total   | 98                    | 155                       |

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022  
(All amounts presented in millions of RMB except when otherwise indicated)

### 14 STAFF COSTS AND BENEFITS (Continued)

#### (1) Post-employment benefit (Continued)

##### Defined benefit plans

The Group pays supplementary retirement benefits to employees in Mainland China, who retired at or before 31 December 2008. The Group's obligations in respect of supplementary retirement benefits are calculated by estimating the amount of future benefits that the Group is committed to pay to the employees after their retirement using actuarial techniques. Such benefits, which are estimated by using key parameters such as inflation rate and mortality ratio, are discounted to their present values. The discount rate is the yield on government bonds at the end of reporting date, the maturity dates of which approximate to the terms of the Group's obligations. Actuarial gains or losses and changes in actuarial assumptions are recognised in other comprehensive income, and amendments to pension plan are recognised in profit or loss in the period of a plan amendment. The amounts recognised in the statement of financial position represent the present value of unfunded obligations.

The Group's retirement benefit obligations in locations other than Mainland China are immaterial and are made in accordance with the relevant local policies and regulations.

|  | As at<br>30 June 2022 | As at<br>31 December 2021 |
|--|-----------------------|---------------------------|
| Statement of financial position        |                       |                           |
| – Net obligations for pension benefits | 391                   | 385                       |

Amounts recognised in comprehensive income in respect of the supplementary retirement benefits are as follows:

|  | Six months ended 30 June |      |
|--|--------------------------|------|
|  | 2022                     | 2021 |
| Components of defined benefit costs recognised in profit or loss             | 11                       | 9    |
| Components of defined benefit costs recognised in other comprehensive income | 20                       | (58) |
| Total  | 31                       | (49) |

Past service cost and interest expense are recognised in other operating expenses in the income statement. The average duration of the supplementary retirement benefits plan at 30 June 2022 is 11.88 years (31 December 2021: 12.31 years).

The Group expects to make a contribution of RMB39 million (2021: RMB39 million) to the defined benefit plan during the next financial year.

The supplementary retirement benefits plan exposes the Group to actuarial risks such as interest risk, longevity risk and inflation risk. A decrease in the government bond yield will increase the present value of unfunded obligations. The present value of unfunded obligations is calculated by reference to the best estimate of the mortality of plan participants. An increase in the life expectancy of the plan participants will increase the plan's liability. The present value of unfunded obligations is also measured by future payment standards, which are determined by inflation rate. Hence, an increase in inflation rate will increase the present value of the unfunded obligations.

The principal actuarial assumptions used by the Group are government bond yield, inflation rate and future mortality rate. The government bond yield and inflation rate were 2.91% (31 December 2021: 3.07%) and 1.37% (31 December 2021: 0.81%) respectively as at 30 June 2022. In the meantime, assumptions regarding future mortality rate are set based on published statistics by the CBIRC. As at 30 June 2022, an average longevity of a pensioner after retirement at age 60 for male is 23.13 years (31 December 2021: 23.13 years) while a pensioner after retirement at age 55 for female is 33.13 years (31 December 2021: 33.13 years).

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022

(All amounts presented in millions of RMB except when otherwise indicated)

## 15 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

|              | Six months ended 30 June |      |
|--------------|--------------------------|------|
|              | 2022                     | 2021 |
| Remuneration | 7                        | 6    |

No director or supervisor waived or agreed to waive any emoluments during the above periods.

For the six months ended 30 June 2022, RMB0.63 million was accrued for independent non-executive directors' emolument (For the six months ended 30 June 2021, RMB0.32 million).

## 16 INCOME TAX

|                               | Six months ended 30 June |       |
|-------------------------------|--------------------------|-------|
|                               | 2022                     | 2021  |
| Current income tax            |                          |       |
| – Enterprise income tax       | 5,618                    | 4,067 |
| – Hong Kong profits tax       | 1,055                    | 340   |
| – Other countries or regions  | 246                      | 259   |
| Subtotal                      | 6,919                    | 4,666 |
| Deferred income tax (Note 26) | (5,434)                  | (951) |
| Total                         | 1,485                    | 3,715 |

The provision for enterprise income tax in Mainland China is calculated based on the statutory rate of 25% of the assessable income of the Bank and each of the subsidiary established in Mainland China. Taxation arising in other jurisdictions (including Hong Kong) is calculated at the rates prevailing in the relevant jurisdictions, the shortfall arising from the difference between tax paid by overseas branches and the accrued tax under the regulation of Mainland China shall be compensated by the head office.

The actual taxation on the Group differs from the theoretical amount calculated using the Group's profit before tax at the tax rate of 25%. The major reconciliation items are as follows:

|   | Note | Six months ended 30 June |         |
|---|------|--------------------------|---------|
|   |      | 2022                     | 2021    |
| Profit before tax   |      | 45,617                   | 46,588  |
| Tax calculated at statutory rate of 25%                                 |      | 11,404                   | 11,647  |
| Effects of different tax rates prevailing in other countries or regions |      | 48                       | (127)   |
| Effects of non-deductible expenses                                      | (1)  | 1,812                    | 1,795   |
| Effects of non-taxable income   | (2)  | (10,871)                 | (9,489) |
| Adjustments for income tax filing of prior years                        |      | (487)                    | (111)   |
| Others  |      | (421)                    | –       |
| Income tax  |      | 1,485                    | 3,715   |

(1) Non-deductible expenses primarily represent non-deductible write-offs.

(2) Non-taxable income primarily represents interest income from PRC treasury bonds and municipal government bonds and fund investment income.

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022  
(All amounts presented in millions of RMB except when otherwise indicated)

### 17 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit attributable to shareholders of the parent company by the weighted average number of ordinary shares in issue during the period.

|  | Six months ended 30 June |         |
|--|--------------------------|---------|
|  | 2022                     | 2021    |
| Net profit attributable to shareholders of the parent company  | 44,040                   | 42,019  |
| Less: Dividends paid to preference shareholders  | (1,832)                  | (1,755) |
| Interest paid to perpetual bond holders  | (1,685)                  | –       |
| Net profit attributable to holders of ordinary shares of the parent company                          | 40,523                   | 40,264  |
| Weighted average number of ordinary shares in issue (expressed in millions) at the end of the period | 74,263                   | 74,263  |
| Basic and diluted earnings per share (expressed in RMB per share)                                    | 0.55                     | 0.54    |

For the calculation of basic earnings per share, a cash dividend of RMB1,832 million on preference shares declared for the period was deducted from the amounts attributable to shareholders of the parent company. The conversion feature of preference shares may lead to the possible existence of contingently issuable ordinary shares. The triggering events of conversion did not occur for the six months ended 30 June 2022, and therefore the conversion feature of preference shares has no effect on the calculation of the basic and diluted earnings per share.

### 18 CASH AND BALANCES WITH CENTRAL BANKS

|                            | As at<br>30 June 2022 | As at<br>31 December 2021 |
|----------------------------|-----------------------|---------------------------|
| Cash                       | 11,984                | 13,298                    |
| Mandatory reserve deposits | 675,121               | 624,340                   |
| Excess reserve deposits    | 56,441                | 90,350                    |
| Fiscal deposits and others | 2,810                 | 6,436                     |
| Accrued interest           | 304                   | 304                       |
| Total                      | 746,660               | 734,728                   |

The Group places mandatory reserves with the PBOC and several other central banks of overseas countries and regions. Such mandatory reserves are not available for use by the Group in its day-to-day operations.

The Bank's domestic mandatory deposit reserve rates as at the balance sheet date are as follows:

|  | As at<br>30 June 2022 | As at<br>31 December 2021 |
|--|-----------------------|---------------------------|
| Domestic mandatory reserve rate for deposits denominated in RMB                | 9.75                  | 10.00                     |
| Domestic mandatory reserve rate for deposits denominated in foreign currencies | 8.00                  | 9.00                      |

Reserve rate for deposits denominated in RMB of the Group's subsidiaries in Mainland China is subject to relevant regulations of the PBOC.

Mandatory reserve rate for deposits with central banks of overseas countries and regions is subject to regulations of local regulatory bodies.

Excess reserve deposits with central banks are mainly used for capital settlement, financial institution transfer, etc.

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022

(All amounts presented in millions of RMB except when otherwise indicated)

## 19 DUE FROM AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

|  | As at<br>30 June 2022 | As at<br>31 December 2021 |
|--|-----------------------|---------------------------|
| Due from banks and other financial institutions                                    |                       |                           |
| – Banks and other financial institutions operating in Mainland China               | 95,312                | 83,372                    |
| – Banks and other financial institutions operating outside Mainland China          | 35,085                | 36,422                    |
| Accrued interest   | 292                   | 298                       |
| Less: Allowance for impairment losses  | (176)                 | (202)                     |
| Financial assets purchased under repurchase agreements                             |                       |                           |
| – Securities   | 128,190               | 59,964                    |
| – Bills  | 7,586                 | 13,512                    |
| Accrued interest   | 9                     | 33                        |
| Less: Allowance for impairment losses  | (215)                 | (141)                     |
| Placements with and loans to banks   |                       |                           |
| – Banks operating in Mainland China  | 120,411               | 111,677                   |
| – Banks operating outside Mainland China   | 145,874               | 77,490                    |
| Placements with and loans to other financial institutions                          |                       |                           |
| – Placements with and loans to other financial institutions in Mainland China      | 186,174               | 194,502                   |
| – Placements with and loans to other financial institutions outside Mainland China | 78,228                | 54,176                    |
| Accrued interest   | 4,753                 | 3,568                     |
| Less: Allowance for impairment losses  | (1,780)               | (1,963)                   |
| Total  | 799,743               | 632,708                   |

As at 30 June 2022 and 31 December 2021, due from banks and other financial institutions of the Group included pledged deposits, risk reserves and other deposits. The use of these deposits is restricted.

## 20 DERIVATIVE FINANCIAL INSTRUMENTS

The Group utilize derivative financial instruments for trading or hedging purposes, including forwards, swaps and options.

The notional amounts of derivative financial instruments provide a reference of the business scale for those financial instruments recognised in the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative financial instruments may become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market foreign exchange rates, interest rates or commodity price relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The fair values of derivative financial instruments held are set out in the following tables.

| As at 30 June 2022  | Contractual/Notional<br>Amount | Fair values<br>Assets | Liabilities |
|---|--------------------------------|-----------------------|-------------|
| Foreign exchange and commodity contracts                    | 3,529,290                      | 28,527                | (28,531)    |
| Interest rate contracts and others                          | 3,104,230                      | 27,623                | (10,957)    |
| Total amount of derivative financial instruments recognised | 6,633,520                      | 56,150                | (39,488)    |

| As at 31 December 2021                                      | Contractual/Notional<br>Amount | Fair values<br>Assets | Amount   |
|---|--------------------------------|-----------------------|----------|
| Foreign exchange and commodity contracts                    | 3,501,041                      | 27,195                | (24,899) |
| Interest rate contracts and others                          | 3,626,588                      | 12,025                | (11,175) |
| Total amount of derivative financial instruments recognised | 7,127,629                      | 39,220                | (36,074) |

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022  
(All amounts presented in millions of RMB except when otherwise indicated)

### 20 DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

#### Hedge accounting

Notional amount and fair value of hedging instruments included in the above derivative financial instruments are as follows:

| As at 30 June 2022  | Contractual/Notional<br>Amount | Fair values<br>Assets | Amount |
|---|--------------------------------|-----------------------|--------|
| Derivative financial instruments designated as hedging instruments in fair value hedges | 169,677                        | 11,534                | (29)   |
| Derivative financial instruments designated as hedging instruments in cash flow hedges  | 59,978                         | 1,174                 | (720)  |
| Total   | 229,655                        | 12,708                | (749)  |

| As at 31 December 2021  | Contractual/Notional<br>Amount | Fair values<br>Assets | Amount  |
|---|--------------------------------|-----------------------|---------|
| Derivative financial instruments designated as hedging instruments in fair value hedges | 141,731                        | 1,871                 | (1,274) |
| Derivative financial instruments designated as hedging instruments in cash flow hedges  | 71,805                         | 519                   | (973)   |
| Total   | 213,536                        | 2,390                 | (2,247) |

#### (1) Fair value hedge

The Group uses interest rate swaps to hedge against changes in fair value arising from changes in interest rates. Some purchased interest rate swap contracts are designated as hedging instruments, whose terms are identical with those of the corresponding hedged items regarding interest rate, maturity and currency. The Group uses regression analysis to evaluate the effectiveness of hedging. With the support of testing results, the Group's management considers the hedging relationship to be highly effective. The hedged items include debt investments at FVOCI, loans and advances to customers, deposits from customers and financial investments at amortised cost.

The following table shows the hedge effectiveness of the fair value hedges:

|  | Six months ended 30 June |         |
|--|--------------------------|---------|
|  | 2022                     | 2021    |
| Net gains/(losses) from fair value hedges:   |                          |         |
| Hedging instruments                          | 10,554                   | 2,320   |
| Hedged items attributable to the hedged risk | (10,764)                 | (2,408) |
| Total  | (210)                    | (88)    |

#### (2) Cash flow hedge

The Group uses foreign exchange contracts to hedge against exposures to cash flow variability primarily resulting from foreign exchange risks, and uses interest rate swaps to hedge against exposures to cash flow variability primarily resulting from interest rate risks. The hedged items include debt investments at FVOCI, due from and placements with banks and other financial institutions, debt securities issued, loans and advances to customers, due to and placements from banks and other financial institutions and certificates of deposits issued. The Group mainly uses regression analysis to evaluate the effectiveness of hedging. With the supporting of testing results, the Group's management considers the hedging relationship to be highly effective.

For the six months ended 30 June 2022, the Group recognised a profit of RMB875 million (For the six months ended 30 June 2021: a profit of RMB1,271 million) from effective portion of cash flow hedge in other comprehensive income. The Group reclassifies a loss of RMB130 million from other comprehensive income to profit or loss (For the six months ended 30 June 2021: a loss of RMB986 million). Gains or losses arising from ineffective portion of cash flow hedge were immaterial. There were no transactions for which cash flow hedge accounting had to be ceased as a result of the highly probable cash flows no longer being expected to occur.



## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022

(All amounts presented in millions of RMB except when otherwise indicated)

## 21 LOANS AND ADVANCES TO CUSTOMERS

## (1) Loans and advances to customers

|   | As at<br>30 June 2022 | As at<br>31 December 2021 |
|---|-----------------------|---------------------------|
| Loans and advances to customers                           |                       |                           |
| – Carried at amortised cost                               | 6,843,682             | 6,375,667                 |
| – Carried at FVOCI  | 244,021               | 184,706                   |
| – Carried at FVTPL  | 27                    | 27                        |
| Less: Allowance for impairment losses                     | (177,434)             | (160,089)                 |
| Accrued interest  | 15,256                | 13,985                    |
| Less: Allowance for impairment losses of accrued interest | (2,031)               | (2,095)                   |
|   | 6,923,521             | 6,412,201                 |

## (2) Loans and advances to customers analysed by security type

|                             | As at<br>30 June 2022 | As at<br>31 December 2021 |
|-----------------------------|-----------------------|---------------------------|
| Unsecured loans             | 2,315,087             | 2,085,835                 |
| Guaranteed loans            | 1,152,964             | 1,056,138                 |
| Loans secured by collateral | 2,579,849             | 2,488,276                 |
| Pledged loans               | 1,039,830             | 930,151                   |
| Total                       | 7,087,730             | 6,560,400                 |

## (3) Movements of ECL allowance

Movements of ECL allowance – Loans and advances to customers at amortised cost:

|   | For the six months ended 30 June 2022 |                         |                         | Total    |
|---|---------------------------------------|-------------------------|-------------------------|----------|
|   | Stage 1<br>12-month ECL               | Stage 2<br>Lifetime ECL | Stage 3<br>Lifetime ECL |          |
| As at 1 January 2022  | 57,403                                | 38,892                  | 63,794                  | 160,089  |
| Transfers:  |                                       |                         |                         |          |
| Transfer to Stage 1   | 2,735                                 | (2,512)                 | (223)                   | –        |
| Transfer to Stage 2   | (2,324)                               | 2,639                   | (315)                   | –        |
| Transfer to Stage 3   | (201)                                 | (8,727)                 | 8,928                   | –        |
| Provision   | 13,340                                | 8,379                   | 12,669                  | 34,388   |
| Written-offs and disposals                                      | –                                     | –                       | (20,355)                | (20,355) |
| Recovery of loans and advances<br>written off in previous years | –                                     | –                       | 3,523                   | 3,523    |
| Others  | 114                                   | 73                      | (398)                   | (211)    |
| As at 30 June 2022  | 71,067                                | 38,744                  | 67,623                  | 177,434  |

# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022  
(All amounts presented in millions of RMB except when otherwise indicated)

## 21 LOANS AND ADVANCES TO CUSTOMERS (Continued)

### (3) Movements of ECL allowance (Continued)

Movements of ECL allowance – Loans and advances to customers at amortised cost: (Continued)

|  | For the year ended 31 December 2021 |                         |                         |          |
|--|-------------------------------------|-------------------------|-------------------------|----------|
|  | Stage 1<br>12-month ECL             | Stage 2<br>Lifetime ECL | Stage 3<br>Lifetime ECL | Total    |
| <b>As at 1 January 2021</b>                                  | 43,426                              | 32,870                  | 62,978                  | 139,274  |
| Transfers:   |                                     |                         |                         |          |
| Transfer between Stage 1 and Stage 2, net                    | (142)                               | 142                     | –                       | –        |
| Transfer between Stage 1 and Stage 3, net                    | (391)                               | –                       | 391                     | –        |
| Transfer between Stage 2 and Stage 3, net                    | –                                   | (7,598)                 | 7,598                   | –        |
| Provision  | 14,593                              | 13,243                  | 34,951                  | 62,787   |
| Written-offs and disposals                                   | –                                   | –                       | (47,151)                | (47,151) |
| Recovery of loans and advances written off in previous years | –                                   | –                       | 6,324                   | 6,324    |
| Others   | (83)                                | 235                     | (1,297)                 | (1,145)  |
| <b>As at 31 December 2021</b>                                | 57,403                              | 38,892                  | 63,794                  | 160,089  |

Movements of ECL allowance – Loans and advances to customers at fair value through other comprehensive income:

|                             | For the six months ended 30 June 2022 |                         |                         |       |
|-----------------------------|---------------------------------------|-------------------------|-------------------------|-------|
|                             | Stage 1<br>12-month ECL               | Stage 2<br>Lifetime ECL | Stage 3<br>Lifetime ECL | Total |
| <b>As at 1 January 2022</b> | 937                                   | 48                      | 88                      | 1,073 |
| Transfers:                  |                                       |                         |                         |       |
| Transfer to Stage 1         | –                                     | –                       | –                       | –     |
| Transfer to Stage 2         | (4)                                   | 4                       | –                       | –     |
| Transfer to Stage 3         | –                                     | (22)                    | 22                      | –     |
| Provision/(reversal)        | 130                                   | 79                      | (5)                     | 204   |
| Written-offs and disposals  | –                                     | –                       | (20)                    | (20)  |
| <b>As at 30 June 2022</b>   | 1,063                                 | 109                     | 85                      | 1,257 |

|   | For the year ended 31 December 2021 |                         |                         |       |
|---|-------------------------------------|-------------------------|-------------------------|-------|
|   | Stage 1<br>12-month ECL             | Stage 2<br>Lifetime ECL | Stage 3<br>Lifetime ECL | Total |
| <b>As at 1 January 2021</b>               | 878                                 | 47                      | 362                     | 1,287 |
| Transfers:                                |                                     |                         |                         |       |
| Transfer between Stage 1 and Stage 2, net | (64)                                | 64                      | –                       | –     |
| Transfer between Stage 1 and Stage 3, net | (20)                                | –                       | 20                      | –     |
| Transfer between Stage 2 and Stage 3, net | –                                   | –                       | –                       | –     |
| Provision/(reversal)                      | 143                                 | (63)                    | 78                      | 158   |
| Written-offs and disposals                | –                                   | –                       | (368)                   | (368) |
| Others                                    | –                                   | –                       | (4)                     | (4)   |
| <b>As at 31 December 2021</b>             | 937                                 | 48                      | 88                      | 1,073 |

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## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022

(All amounts presented in millions of RMB except when otherwise indicated)

## 21 LOANS AND ADVANCES TO CUSTOMERS (Continued)

## (4) Overdue loans analysed by security type

|                             | As at 30 June 2022                |  |   |                                | Total  |
|-----------------------------|-----------------------------------|--|---|--------------------------------|--------|
|                             | Overdue<br>within three<br>months | Overdue<br>between<br>three months<br>and one year | Overdue<br>between one<br>year and<br>three years | Overdue<br>over three<br>years |        |
| Unsecured loans             | 11,921                            | 12,499   | 4,342   | 1,043                          | 29,805 |
| Guaranteed loans            | 4,641                             | 4,946  | 4,356   | 1,489                          | 15,432 |
| Loans secured by collateral | 11,160                            | 9,157  | 9,674   | 3,579                          | 33,570 |
| Pledged loans               | 4,176                             | 4,645  | 1,422   | 571                            | 10,814 |
| Total                       | 31,898                            | 31,247   | 19,794  | 6,682                          | 89,621 |

|                             | As at 31 December 2021            |  |   |                                | Total  |
|-----------------------------|-----------------------------------|--|---|--------------------------------|--------|
|                             | Overdue<br>within three<br>months | Overdue<br>between<br>three months<br>and one year | Overdue<br>between one<br>year and<br>three years | Overdue<br>over three<br>years |        |
| Unsecured loans             | 10,351                            | 10,096   | 5,215   | 1,035                          | 26,697 |
| Guaranteed loans            | 3,315                             | 7,693  | 6,853   | 2,364                          | 20,225 |
| Loans secured by collateral | 7,729                             | 8,925  | 12,324  | 3,419                          | 32,397 |
| Pledged loans               | 1,769                             | 2,719  | 2,772   | 583                            | 7,843  |
| Total                       | 23,164                            | 29,433   | 27,164  | 7,401                          | 87,162 |

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022  
(All amounts presented in millions of RMB except when otherwise indicated)

### 22 FINANCIAL INVESTMENTS

|   | As at<br>30 June 2022 | As at<br>31 December 2021 |
|---|-----------------------|---------------------------|
| Financial investments at FVTPL          |                       |                           |
| – Listed in Hong Kong                   | 46,995                | 45,482                    |
| – Listed outside Hong Kong              | 230,795               | 200,197                   |
| – Unlisted                              | 388,470               | 392,804                   |
| Total                                   | 666,260               | 638,483                   |
| Financial investments at amortised cost |                       |                           |
| – Listed in Hong Kong                   | 20,795                | 13,474                    |
| – Listed outside Hong Kong              | 2,210,569             | 2,044,176                 |
| – Unlisted                              | 117,065               | 120,387                   |
| Accrued interest                        | 30,308                | 27,958                    |
| Less: Allowance for impairment losses   | (2,975)               | (2,958)                   |
| Total                                   | 2,375,762             | 2,203,037                 |
| Financial investments at FVOCI          |                       |                           |
| Debt investments at FVOCI               |                       |                           |
| – Listed in Hong Kong                   | 177,231               | 168,690                   |
| – Listed outside Hong Kong              | 348,134               | 417,119                   |
| – Unlisted                              | 101,876               | 73,382                    |
| Accrued interest                        | 5,776                 | 6,276                     |
| Subtotal                                | 633,017               | 665,467                   |
| Equity investments at FVOCI             |                       |                           |
| – Listed in Hong Kong                   | 5,976                 | 3,238                     |
| – Listed outside Hong Kong              | 4,603                 | 5,755                     |
| – Unlisted                              | 6,996                 | 7,269                     |
| Subtotal                                | 17,575                | 16,262                    |
| Total                                   | 650,592               | 681,729                   |

Debt securities traded in the China domestic inter-bank bond market are included in “Listed outside Hong Kong”.

The financial investments at fair value through profit or loss include financial assets held for trading and financial assets that cannot pass the Solely Payments of Principal and Interest Test (“SPPI test”).

The Group designates part of non-trading equity investments as financial investments measured at FVOCI.

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022

(All amounts presented in millions of RMB except when otherwise indicated)

## 22 FINANCIAL INVESTMENTS (Continued)

For the six months ended 30 June 2022, the Group's cash dividends received from equity investments at FVOCI was RMB650 million (for the six months ended 30 June 2021: RMB477 million).

Debt securities analysed by issuer are as follows:

|  | As at<br>30 June 2022 | As at<br>31 December 2021 |
|--|-----------------------|---------------------------|
| Financial investments at FVTPL           |                       |                           |
| – Governments and central banks          | 125,543               | 99,079                    |
| – Banks and other financial institutions | 85,914                | 100,898                   |
| – Corporate entities                     | 54,041                | 46,655                    |
| – Public sector entities                 | 350                   | 1,302                     |
| Total                                    | 265,848               | 247,934                   |
| Bond investments at amortised cost       |                       |                           |
| – Governments and central banks          | 2,109,489             | 1,922,479                 |
| – Banks and other financial institutions | 106,258               | 117,156                   |
| – Corporate entities                     | 42,794                | 47,035                    |
| – Public sector entities                 | 31,270                | 21,201                    |
| Total                                    | 2,289,811             | 2,107,871                 |
| Debt investments at FVOCI                |                       |                           |
| – Governments and central banks          | 258,610               | 304,365                   |
| – Banks and other financial institutions | 266,366               | 254,601                   |
| – Corporate entities                     | 89,408                | 101,931                   |
| – Public sector entities                 | 18,633                | 4,570                     |
| Total                                    | 633,017               | 665,467                   |

The movements in allowance for impairment losses of financial investments at amortised cost are summarised as follows:

|                      | For the six months ended 30 June 2022 |                         |                         |       |
|----------------------|---------------------------------------|-------------------------|-------------------------|-------|
|                      | Stage 1<br>12-month ECL               | Stage 2<br>Lifetime ECL | Stage 3<br>Lifetime ECL | Total |
| As at 1 January 2022 | 1,695                                 | 371                     | 892                     | 2,958 |
| Transfers:           |                                       |                         |                         |       |
| Transfer to Stage 1  | (15)                                  | 15                      | –                       | –     |
| Transfer to Stage 2  | –                                     | –                       | –                       | –     |
| Transfer to Stage 3  | –                                     | –                       | –                       | –     |
| (Reversal)/provision | (162)                                 | 184                     | (6)                     | 16    |
| Others               | (19)                                  | 1                       | 19                      | 1     |
| As at 30 June 2022   | 1,499                                 | 571                     | 905                     | 2,975 |

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022  
(All amounts presented in millions of RMB except when otherwise indicated)

### 22 FINANCIAL INVESTMENTS (Continued)

|   | For the year ended 31 December 2021 |                         |                         | Total |
|---|-------------------------------------|-------------------------|-------------------------|-------|
|   | Stage 1<br>12-month ECL             | Stage 2<br>Lifetime ECL | Stage 3<br>Lifetime ECL |       |
| <b>As at 1 January 2021</b>               | 1,844                               | 682                     | 524                     | 3,050 |
| Transfers:                                |                                     |                         |                         |       |
| Transfer between Stage 1 and Stage 2, net | 274                                 | (274)                   | –                       | –     |
| Transfer between Stage 1 and Stage 3, net | –                                   | –                       | –                       | –     |
| Transfer between Stage 2 and Stage 3, net | –                                   | (399)                   | 399                     | –     |
| (Reversal)/provision                      | (420)                               | 104                     | 192                     | (124) |
| Others                                    | (3)                                 | 258                     | (223)                   | 32    |
| <b>As at 31 December 2021</b>             | 1,695                               | 371                     | 892                     | 2,958 |

The movements in allowance for impairment losses of debt investments at FVOCI are summarised as follows:

|                             | For the six months ended 30 June 2022 |                         |                         | Total |
|-----------------------------|---------------------------------------|-------------------------|-------------------------|-------|
|                             | Stage 1<br>12-month ECL               | Stage 2<br>Lifetime ECL | Stage 3<br>Lifetime ECL |       |
| <b>As at 1 January 2022</b> | 555                                   | 10                      | 456                     | 1,021 |
| Transfers:                  |                                       |                         |                         |       |
| Transfer to Stage 1         | (1)                                   | 1                       | –                       | –     |
| Transfer to Stage 2         | –                                     | (15)                    | 15                      | –     |
| Transfer to Stage 3         | –                                     | –                       | –                       | –     |
| (Reversal)/provision        | (61)                                  | 32                      | 146                     | 117   |
| Others                      | (35)                                  | 5                       | 17                      | (13)  |
| <b>As at 30 June 2022</b>   | 458                                   | 33                      | 634                     | 1,125 |

|   | For the year ended 31 December 2021 |                         |                         | Total |
|---|-------------------------------------|-------------------------|-------------------------|-------|
|   | Stage 1<br>12-month ECL             | Stage 2<br>Lifetime ECL | Stage 3<br>Lifetime ECL |       |
| <b>As at 1 January 2021</b>               | 670                                 | 11                      | 563                     | 1,244 |
| Transfers:                                |                                     |                         |                         |       |
| Transfer between Stage 1 and Stage 2, net | (9)                                 | 9                       | –                       | –     |
| Transfer between Stage 1 and Stage 3, net | –                                   | –                       | –                       | –     |
| Transfer between Stage 2 and Stage 3, net | –                                   | –                       | –                       | –     |
| (Reversal)/provision                      | (115)                               | 1                       | 27                      | (87)  |
| Others                                    | 9                                   | (11)                    | (134)                   | (136) |
| <b>As at 31 December 2021</b>             | 555                                 | 10                      | 456                     | 1,021 |

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022

(All amounts presented in millions of RMB except when otherwise indicated)

## 23 PRINCIPAL SUBSIDIARIES

| Name of subsidiaries  | Legal representative/<br>Principal | Registered capital | Nature of entity          | Place of operation   | Place of registration | Nature of business     | Principal business                                  | Proportion of shares held |          | Means of acquisition |
|---|------------------------------------|--------------------|---------------------------|--|-----------------------|------------------------|---|---------------------------|----------|----------------------|
|   |                                    |                    |                           |  |                       |                        |   | Direct                    | Indirect |                      |
| Bank of Communications Financial Leasing Co., Ltd.  | Zhao Jiong                         | RMB14,000,000,000  | Limited liability company | No. 333 Lujiazui Ring Road, Pudong New District, Shanghai                                | Mainland China        | Financial industry     | Financial leasing                                   | 100.00                    | -        | Establishment        |
| Bank of Communications International Trust Co., Ltd.  | Tong Xuewei                        | RMB5,764,705,882   | Limited liability company | No. 333 Lujiazui Ring Road, Pudong New District, Shanghai                                | Mainland China        | Financial industry     | Trust investment                                    | 85.00                     | -        | Investment           |
| Bank of Communications Schroder Fund Management Co., Ltd.   | Ruan Hong                          | RMB200,000,000     | Limited liability company | No. 8 Century Avenue, Pudong New District, Shanghai                                      | Mainland              | Financial industry     | Fund management                                     | 65.00                     | -        | Establishment        |
| BOCOM Wealth Management Tu Hong Co., Ltd.   | Tu Hong                            | RMB8,000,000,000   | Limited liability company | No. 333 Lujiazui Ring Road, Pudong New District, Shanghai                                | Mainland China        | Financial industry     | Financial products issuing and financial consulting | 100.00                    | -        | Establishment        |
| BOCOM MSIG Life Insurance Zhang Hongliang Company Limited   | Zhang Hongliang                    | RMB5,100,000,000   | Limited liability company | No. 333 Lujiazui Ring Road, Pudong New District, Shanghai                                | Mainland China        | Financial industry     | Life Insurance                                      | 62.50                     | -        | Investment           |
| Bank of Communications Financial Assets Investment Co., Ltd.  | Zheng Zhiyang                      | RMB10,000,000,000  | Limited liability company | No. 333 Lujiazui Ring Road, Pudong New District, Shanghai                                | Mainland China        | Financial industry     | Debt-to-equity swaps                                | 100.00                    | -        | Establishment        |
| BoCom International Holdings Tan Yueheng Company Limited (formerly known as BoCom Securities Company Limited) | Tan Yueheng                        | HKD2,734,392,000   | Foreign legal entity      | No. 68 Des Voeux Road Central, Central, Hong Kong  | Hong Kong China       | Financial industry     | Securities dealing and brokerage                    | 73.14                     | -        | Establishment        |
| China BoCom Insurance Co., Ltd.   | Zhang Jian                         | HKD400,000,000     | Foreign legal entity      | No. 8 Cotton Tree Drive, Hong Kong   | Hong Kong China       | Financial industry     | General insurance and                               | 100.00                    | -        | Establishment        |
| Dayi BoCom Xingmin Rural Bank Ltd.  | Liu Yike                           | RMB230,000,000     | Limited liability company | No. 168-170 Central Fumin Road, Dayi County, Chengdu City, Sichuan Province              | Mainland China        | Financial industry     | Commercial banking                                  | 97.29                     | -        | Establishment        |
| Zhejiang Anji BoCom Rural Bank Ltd.   | Xu Tong                            | RMB180,000,000     | Joint stock company       | Tower 1, Changshuo Square, Changshuo Street, Anji County, Huzhou City, Zhejiang Province | Mainland China        | Financial industry     | Commercial banking                                  | 51.00                     | -        | Establishment        |
| Xinjiang Shihezi BoCom Rural Fang Linhai Bank Company Ltd.  | Fang Linhai                        | RMB150,000,000     | Joint stock company       | No. 127 Dongyi Road, Shihezi, Xinjiang Uygur Autonomous Region                           | Mainland China        | Financial industry     | Commercial banking                                  | 51.00                     | -        | Establishment        |
| Qingdao Laoshan BoCom Rural Bank Company Ltd.   | Sheng Liang                        | RMB150,000,000     | Joint stock company       | No. 156 Shenzhen Road, Laoshan District, Qingdao, Shandong                               | Mainland China        | Financial industry     | Commercial banking                                  | 100.00                    | -        | Establishment        |
| Bank of Communications (Hong Kong) Limited  | Wu Ye                              | HKD37,900,000,000  | Foreign legal entity      | 20 Pedder Street, Central, Hong Kong   | Hong Kong China       | Financial industry     | Commercial banking                                  | 100.00                    | -        | Establishment        |
| Bank of Communications (Luxembourg) Limited   | Zhang Shuren                       | EUR350,000,000     | Foreign legal entity      | 7 Rue de la Chapelle, L-1325 Luxembourg, Luxembourg                                      | Luxembourg            | Financial industry     | Commercial banking                                  | 100.00                    | -        | Establishment        |
| BoCom Brazil Holding Company Ltda   | Sun Xu                             | BRL700,000,000     | Foreign legal entity      | Avenida Barão de Tefé, 34, salas 1701, 1702, 1801 e 1802, Saúde, Rio de Janeiro, Brazil  | Brazil                | Non-financial industry | Investment  | 100.00                    | -        | Establishment        |
| BANCO BoCom BBM S.A.  | Alexandre Lowenkron                | BRL469,300,389     | Foreign legal entity      | Av Barão de Tefé, 34-20th, Rio de Janeiro Brazil, 20220-460                              | Brazil                | Financial industry     | Commercial banking                                  | -                         | 80.00    | Investment           |

As at 30 June 2022, the amount of non-controlling interests of these subsidiaries is insignificant to the Group.

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022  
(All amounts presented in millions of RMB except when otherwise indicated)

### 24 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

|   | As at<br>30 June 2022 | As at<br>31 December 2021 |
|---|-----------------------|---------------------------|
| Investments in associates                   |                       |                           |
| Investment cost                             | 5,552                 | 4,062                     |
| Share of net profit of associates           | 1,669                 | 1,599                     |
| Share of other equity changes of associates | 112                   | 93                        |
| Dividend income                             | (275)                 | (204)                     |
| Subtotal                                    | 7,058                 | 5,550                     |
| Investments in joint ventures               | 331                   | 229                       |
| Total                                       | 7,389                 | 5,779                     |

The Group's investments in associates mainly include the investments in Jiangsu Changshu Rural Commercial Bank Co., Ltd. and Bank of Tibet Co., Ltd.

Jiangsu Changshu Rural Commercial Bank Co., Ltd. was incorporated in Changshu City, Jiangsu Province on 3 December 2001. The registered capital of the entity is RMB2,741 million, and the principal activities of the entity are banking activities. The Group held 9.01% of equity interest in this associate as at 30 June 2022 (31 December 2021: 9.01%).

Bank of Tibet Co., Ltd. was incorporated in Tibet Autonomous Region, PRC on 30 December 2011. The registered capital of the entity is RMB3,320 million, and the principal activities of the entity are banking activities. The Group held 10.60% of equity interest in this associate as at 30 June 2022 (31 December 2021: 10.60%).

### 25 PROPERTY AND EQUIPMENT

|  | Buildings       | Construction<br>in progress | Equipment And<br>Transportation<br>equipment | Aircraft<br>and vessels | Total           |
|--|-----------------|-----------------------------|--|-------------------------|-----------------|
| <b>Cost</b>                                |                 |                             |  |                         |                 |
| As at 1 January 2022                       | 74,687          | 2,963                       | 27,454                                       | 143,867                 | 248,971         |
| Additions                                  | 64              | 356                         | 358  | 20,409                  | 21,187          |
| Decreases                                  | (67)            | (9)                         | (592)  | (6,738)                 | (7,406)         |
| Transfer into investment properties        | (28)            | –                           | –  | –                       | (28)            |
| Construction in progress transfer in/(out) | 17              | (17)                        | –  | –                       | –               |
| <b>As at 30 June 2022</b>                  | <b>74,673</b>   | <b>3,293</b>                | <b>27,220</b>                                | <b>157,538</b>          | <b>262,724</b>  |
| <b>Accumulated depreciation</b>            |                 |                             |  |                         |                 |
| As at 1 January 2022                       | (29,395)        | –                           | (20,329)                                     | (25,549)                | (75,273)        |
| Charge for the period                      | (1,447)         | –                           | (1,215)                                      | (4,898)                 | (7,560)         |
| Decreases                                  | 24              | –                           | 537  | 1,701                   | 2,262           |
| Transfer into investment properties        | 16              | –                           | –  | –                       | 16              |
| <b>As at 30 June 2022</b>                  | <b>(30,802)</b> | <b>–</b>                    | <b>(21,007)</b>                              | <b>(28,746)</b>         | <b>(80,555)</b> |
| <b>Allowance for impairment losses</b>     |                 |                             |  |                         |                 |
| As at 1 January 2022                       | –               | (16)                        | –  | (2,488)                 | (2,504)         |
| Provision for impairment                   | –               | –                           | –  | (672)                   | (672)           |
| Decreases                                  | –               | –                           | –  | 245                     | 245             |
| <b>As at 30 June 2022</b>                  | <b>–</b>        | <b>(16)</b>                 | <b>–</b>                                     | <b>(2,915)</b>          | <b>(2,931)</b>  |
| <b>Net book value</b>                      |                 |                             |  |                         |                 |
| <b>As at 30 June 2022</b>                  | <b>43,871</b>   | <b>3,277</b>                | <b>6,213</b>                                 | <b>125,877</b>          | <b>179,238</b>  |



## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022

(All amounts presented in millions of RMB except when otherwise indicated)

25 PROPERTY AND EQUIPMENT *(Continued)*

|  | Buildings       | Construction<br>in progress | Equipment And<br>Transportation<br>equipment | Aircraft and<br>vessels | Total           |
|--|-----------------|-----------------------------|--|-------------------------|-----------------|
| <b>Cost</b>                                |                 |                             |  |                         |                 |
| As at 1 January 2021                       | 72,397          | 3,369                       | 26,655                                       | 136,705                 | 239,126         |
| Additions                                  | 236             | 1,351                       | 3,486  | 16,758                  | 21,831          |
| Decreases                                  | (572)           | –                           | (2,687)                                      | (9,596)                 | (12,855)        |
| Construction in progress transfer in/(out) | 1,727           | (1,727)                     | –  | –                       | –               |
| Transfer in from investment properties     | 899             | –                           | –  | –                       | 899             |
| Other transfers out                        | –               | (30)                        | –  | –                       | (30)            |
| <b>As at 31 December 2021</b>              | <b>74,687</b>   | <b>2,963</b>                | <b>27,454</b>                                | <b>143,867</b>          | <b>248,971</b>  |
| <b>Accumulated depreciation</b>            |                 |                             |  |                         |                 |
| As at 1 January 2021                       | (26,944)        | –                           | (20,679)                                     | (21,241)                | (68,864)        |
| Charge for the year                        | (2,738)         | –                           | (2,242)                                      | (6,738)                 | (11,718)        |
| Decreases                                  | 287             | –                           | 2,592  | 2,430                   | 5,309           |
| <b>As at 31 December 2021</b>              | <b>(29,395)</b> | <b>–</b>                    | <b>(20,329)</b>                              | <b>(25,549)</b>         | <b>(75,273)</b> |
| <b>Allowance for impairment losses</b>     |                 |                             |  |                         |                 |
| As at 1 January 2021                       | –               | (16)                        | –  | (775)                   | (791)           |
| Provision for impairment                   | –               | –                           | –  | (1,981)                 | (1,981)         |
| Decreases                                  | –               | –                           | –  | 268                     | 268             |
| <b>As at 31 December 2021</b>              | <b>–</b>        | <b>(16)</b>                 | <b>–</b>                                     | <b>(2,488)</b>          | <b>(2,504)</b>  |
| <b>Net book value</b>                      |                 |                             |  |                         |                 |
| <b>As at 31 December 2021</b>              | <b>45,292</b>   | <b>2,947</b>                | <b>7,125</b>                                 | <b>115,830</b>          | <b>171,194</b>  |

As at 30 June 2022, the net book value of the aircrafts and vessels used as collateral for borrowings was RMB58,364 million (31 December 2021: RMB57,988 million).

As at 30 June 2022, the property and equipment with re-registration procedure not completed amounted to RMB198 million (31 December 2021: RMB198 million). However, this registration process does not affect the rights of the Group to these assets.

## 26 DEFERRED INCOME TAX

Deferred income taxes for transactions in PRC are calculated on all temporary differences using an effective tax rate of 25% for the six months ended 30 June 2022 (for the year ended 31 December 2021: 25%). Deferred income taxes for transactions in Hong Kong are calculated on all temporary differences using an effective tax rate of 16.5% (for the year ended 31 December 2021: 16.5%).

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022  
(All amounts presented in millions of RMB except when otherwise indicated)

### 26 DEFERRED INCOME TAX (Continued)

Deferred income tax assets and liabilities are attributable to the following items:

|   | As at 30 June 2022                                   |  | As at 31 December 2021                               |  |
|---|--|--|--|--|
|   | Deductible/<br>(Taxable)<br>temporary<br>differences | Deferred<br>income tax<br>assets/<br>(liabilities) | Deductible/<br>(Taxable)<br>temporary<br>differences | Deferred<br>income tax<br>assets/<br>(liabilities) |
| <b>Deferred income tax assets</b>                       |  |  |  |  |
| Allowance for impairment of assets                      | 136,160  | 34,040   | 119,972  | 29,993   |
| Changes in fair value of derivative instruments         | 46,432   | 11,608   | 36,074   | 9,250  |
| Provisions  | 11,404   | 2,851  | 9,672  | 2,418  |
| Changes in fair value of financial assets at FVOCI      | 8,152  | 2,038  | 5,132  | 1,283  |
| Changes in fair value of financial assets at FVTPL      | 7,668  | 1,917  | –  | –  |
| Changes in fair value of financial liabilities at FVTPL | 340  | 85   | –  | –  |
| Others  | 6,951  | 1,738  | 7,067  | 1,767  |
| Subtotal  | 217,107  | 54,277   | 177,917  | 44,711   |
| <b>Deferred income tax liabilities</b>                  |  |  |  |  |
| Changes in fair value of derivative instruments         | (54,760)   | (13,690)   | (39,220)   | (9,667)  |
| Changes in fair value of investment properties          | (3,052)  | (763)  | (3,020)  | (755)  |
| Changes in fair value of financial assets at FVTPL      | (2,487)  | (622)  | (3,464)  | (866)  |
| Changes in fair value of financial assets at FVOCI      | (876)  | (219)  | (6,240)  | (1,560)  |
| Changes in fair value of financial liabilities at FVTPL | (176)  | (44)   | –  | –  |
| Others  | (6,364)  | (1,591)  | (6,764)  | (1,691)  |
| Subtotal  | (67,715)   | (16,929)   | (58,708)   | (14,539)   |
| Net deferred income tax assets                          | 149,392  | 37,348   | 119,209  | 30,172   |

The above net deferred income tax assets are disclosed separately on the statements of financial position based on different taxation authorities and entities:

|  | As at<br>30 June 2022            | As at<br>31 December 2021 |
|--|----------------------------------|---------------------------|
| Deferred income tax assets   | 38,856                           | 32,061                    |
| Deferred income tax liabilities  | (1,508)                          | (1,889)                   |
|  |                                  |                           |
|  | Six months ended<br>30 June 2022 | 2021                      |
| Net opening balance  | 30,172                           | 26,705                    |
| Net change in deferred income tax recognised in income tax expense in the current period/year          | 5,434                            | 3,863                     |
| Net changes in deferred income tax recognised in other comprehensive income in the current period/year | 1,742                            | (396)                     |
| Net ending balance   | F-221<br>37,348                  | 30,172                    |

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022

(All amounts presented in millions of RMB except when otherwise indicated)

## 27 OTHER ASSETS

|  | Note | As at<br>30 June 2022 | As at<br>31 December 2021 |
|--|------|-----------------------|---------------------------|
| Accounts receivable and temporary payments |      | 78,728                | 66,062                    |
| Less: Allowance for impairment losses      | (1)  | (3,187)               | (3,265)                   |
| Advance payments                           |      | 22,704                | 16,328                    |
| Right-of-use assets                        | (2)  | 6,813                 | 6,777                     |
| Investment properties                      | (3)  | 6,508                 | 6,340                     |
| Precious metal                             |      | 5,175                 | 4,878                     |
| Interest receivable                        | (4)  | 4,165                 | 4,250                     |
| Land use rights and others                 |      | 2,040                 | 2,077                     |
| Intangible assets                          | (5)  | 1,768                 | 1,797                     |
| Foreclosed assets                          |      | 1,010                 | 1,030                     |
| Long-term deferred expenses                |      | 680                   | 721                       |
| Refundable deposits                        |      | 489                   | 458                       |
| Goodwill                                   | (6)  | 413                   | 395                       |
| Unsettled assets                           |      | 31                    | 31                        |
| Others                                     |      | 9,068                 | 6,738                     |
| Total                                      |      | 136,405               | 114,617                   |

## (1) Allowance for impairment losses

|                                   | As at<br>1 January<br>2022 | Amounts<br>accrued | Reversal | Written-offs | Transfers in | Recoveries<br>after<br>written-offs | Exchange<br>differences | As at<br>30 June<br>2022 |
|-----------------------------------|----------------------------|--------------------|----------|--------------|--------------|-------------------------------------|-------------------------|--------------------------|
| Other receivables and prepayments | (3,265)                    | (1,831)            | 1,262    | 689          | (2)          | (43)                                | 3                       | (3,187)                  |

|                                   | As at<br>1 January<br>2021 | Amounts<br>accrued | Reversal | Written-offs | Transfers in | Recoveries<br>after<br>written-offs | Exchange<br>differences | As at<br>31 December<br>2021 |
|-----------------------------------|----------------------------|--------------------|----------|--------------|--------------|-------------------------------------|-------------------------|------------------------------|
| Other receivables and prepayments | (2,764)                    | (2,137)            | 1,020    | 1,111        | (356)        | (140)                               | 1                       | (3,265)                      |

## (2) Right-of-use assets

|                                  | As at<br>30 June 2022 | As at<br>31 December 2021 |
|----------------------------------|-----------------------|---------------------------|
| Cost                             |                       |                           |
| Opening balance                  | 13,980                | 13,693                    |
| Additions                        | 1,314                 | 2,946                     |
| Decreases                        | (1,642)               | (2,659)                   |
| As at the end of the period/year | 13,652                | 13,980                    |
| Accumulated depreciation:        |                       |                           |
| Opening balance                  | (7,203)               | (7,024)                   |
| Additions                        | (1,200)               | (2,416)                   |
| Decreases                        | 1,564                 | 2,237                     |
| As at the end of the period/year | (6,839)               | (7,203)                   |
| Net book value                   | 6,813                 | 6,777                     |
| Lease liabilities                | 6,733                 | 6,640                     |

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022  
(All amounts presented in millions of RMB except when otherwise indicated)

### 27 OTHER ASSETS (Continued)

#### (2) Right-of-use assets (Continued)

As at 30 June 2022, committed by leases but not yet commenced amount to RMB132 million (as at 31 December 2021: RMB158 million).

The Group's right-of-use assets include the above assets and land use rights.

#### (3) Investment properties

|                       | As at<br>1 January<br>2022 | Increases of<br>the period | Gains on<br>property<br>revaluation | Exchange<br>differences | As at<br>30 June<br>2022 |
|-----------------------|----------------------------|----------------------------|-------------------------------------|-------------------------|--------------------------|
| Investment properties | 6,340                      | 133                        | –                                   | 35                      | 6,508                    |

|                       | As at<br>1 January<br>2021 | Decreases of<br>the year | Gains on<br>property<br>revaluation | Exchange<br>differences | As at<br>31 December<br>2021 |
|-----------------------|----------------------------|--------------------------|-------------------------------------|-------------------------|------------------------------|
| Investment properties | 7,353                      | (899)                    | 183                                 | (297)                   | 6,340                        |

The Group's investment properties are located in active real estate markets. The external appraisers make reasonable estimation of fair value using market prices of the similar properties.

As at 30 June 2022, fair value hierarchies of the investment properties of the Group are as follows:

|  | Level 1 | Level 2 | Level 3 | As at<br>30 June 2022 |
|--|---------|---------|---------|-----------------------|
| Commercial property units located in<br>Hong Kong      | –       | –       | 938     | 938                   |
| Commercial property units located<br>outside Hong Kong | –       | –       | 5,570   | 5,570                 |

The valuation of investment properties was performed by independent qualified professional valuers not connected to the Group. Valuation methodologies include "Rental Income Approach" and "Market Approach". The inputs to these models mainly include growth rate of rental, vacancy rate, future rent income years, capitalisation rate and unit price.

(4) The interest receivable account only reflects the interest for relevant financial instruments which is due but not received on balance sheet date.

#### (5) Intangible assets

|                                 | Software       |
|---------------------------------|----------------|
| <b>Cost</b>                     |                |
| As at 1 January 2022            | 4,504          |
| Additions                       | 193            |
| Disposals                       | (4)            |
| <b>As at 30 June 2022</b>       | <b>4,693</b>   |
| <b>Accumulated amortization</b> |                |
| As at 1 January 2022            | (2,707)        |
| Amortisation expense            | (222)          |
| Disposals                       | 4              |
| <b>As at 30 June 2022</b>       | <b>(2,925)</b> |
| Net book value                  | 1,768          |

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## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022

(All amounts presented in millions of RMB except when otherwise indicated)

## 27 OTHER ASSETS (Continued)

## (5) Intangible assets (Continued)

|                                 | Software       |
|---------------------------------|----------------|
| <b>Cost</b>                     |                |
| As at 1 January 2021            | 3,888          |
| Additions                       | 633            |
| Disposals                       | (17)           |
| <b>As at 31 December 2021</b>   | <b>4,504</b>   |
| <b>Accumulated amortization</b> |                |
| As at 1 January 2021            | (2,338)        |
| Amortisation expense            | (376)          |
| Disposals                       | 7              |
| <b>As at 31 December 2021</b>   | <b>(2,707)</b> |
| Net book value                  | 1,797          |

## (6) Goodwill

|  | For the six months ended 30 June 2022 |                                  |                                  |                         |                          |
|--|---------------------------------------|----------------------------------|----------------------------------|-------------------------|--------------------------|
|  | As at<br>1 January<br>2022            | Addition<br>during the<br>period | Decrease<br>during the<br>period | Exchange<br>differences | As at<br>30 June<br>2022 |
| Bank of Communications International Trust Co., Ltd. | 200                                   | –                                | –                                | –                       | 200                      |
| BOCOM MSIG Life Insurance Company Limited            | 122                                   | –                                | –                                | –                       | 122                      |
| BANCO Bocom BBM S.A.                                 | 73                                    | –                                | –                                | 18                      | 91                       |
| <b>Total</b>   | <b>395</b>                            | <b>–</b>                         | <b>–</b>                         | <b>18</b>               | <b>413</b>               |

|  | For the year ended 31 December 2021 |                                |                                |                         |                              |
|--|-------------------------------------|--------------------------------|--------------------------------|-------------------------|------------------------------|
|  | As at<br>1 January<br>2021          | Addition<br>during the<br>year | Decrease<br>during the<br>year | Exchange<br>differences | As at<br>31 December<br>2021 |
| Bank of Communications International Trust Co., Ltd. | 200                                 | –                              | –                              | –                       | 200                          |
| BOCOM MSIG Life Insurance Company Limited            | 122                                 | –                              | –                              | –                       | 122                          |
| BANCO Bocom BBM S.A.                                 | 79                                  | –                              | –                              | (6)                     | 73                           |
| <b>Total</b>   | <b>401</b>                          | <b>–</b>                       | <b>–</b>                       | <b>(6)</b>              | <b>395</b>                   |

At each end of year, the Group performed impairment tests on goodwill. In the test, the Group compares the book value of cash-generating unit (CGU) or CGUs (including goodwill) with the recoverable amount. If the recoverable amount is less than the book value, the related difference is recognised in profit or loss.

The Group calculates the recoverable amount of CGU and CGUs using cash flow models based on the management's approved financial forecasts and fixed growth rates afterwards.

As indicated by the impairment tests, goodwill arising from business combinations is not impaired and therefore, no impairment loss is recognised.

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022  
(All amounts presented in millions of RMB except when otherwise indicated)

### 28 DUE TO AND PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

|   | As at<br>30 June 2022 | As at<br>31 December 2021 |
|---|-----------------------|---------------------------|
| Borrowing from central banks                                    | 337,957               | 334,794                   |
| Accrued interest  | 4,800                 | 4,564                     |
| Due to banks  |                       |                           |
| – Banks operating in Mainland China                             | 221,041               | 242,492                   |
| – Banks operating outside Mainland China                        | 11,404                | 11,871                    |
| Due to other financial institutions                             |                       |                           |
| – Other financial institutions operating in Mainland China      | 805,143               | 831,784                   |
| – Other financial institutions operating outside Mainland China | 5,655                 | 6,810                     |
| Accrued interest  | 4,002                 | 3,683                     |
| Placements from banks   |                       |                           |
| – Banks operating in Mainland China                             | 275,434               | 284,232                   |
| – Banks operating outside Mainland China                        | 169,454               | 170,980                   |
| Placements from other financial institutions                    |                       |                           |
| – Other financial institutions operating in Mainland China      | 1,250                 | 2,364                     |
| – Other financial institutions operating outside Mainland China | 9,645                 | 8,583                     |
| Accrued interest  | 1,273                 | 860                       |
| Financial assets sold under repurchase agreements               |                       |                           |
| Securities  | 51,783                | 44,710                    |
| Loans   | 1                     | –                         |
| Accrued interest  | 92                    | 41                        |
| Total   | 1,898,934             | 1,947,768                 |

### 29 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

|   | As at<br>30 June 2022 | As at<br>31 December 2021 |
|---|-----------------------|---------------------------|
| Short position of securities held for trading             | 8                     | 134                       |
| Certificates of deposit issued                            | 7,618                 | 1,400                     |
| Financial liabilities related to precious metal contracts | 17,800                | 15,247                    |
| Notes issued  | 2,367                 | 1,385                     |
| Others (1)  | 32,094                | 31,882                    |
| Total   | 59,887                | 50,048                    |

(1) As at 30 June 2022, others mainly are liabilities of consolidated structured entities and shares held by other parties rather than the Group.

Except for certificates of deposit issued by branch in Hong Kong, notes issued by BoCom International Holdings Company Limited, and shares of consolidated structured entities held by other parties rather than the Group which are designated at fair value through profit or loss, financial liabilities at fair value through profit or loss are financial liabilities held for trading.

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022

(All amounts presented in millions of RMB except when otherwise indicated)

## 29 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

Financial liabilities designated at fair value through profit or loss

|  | As at<br>30 June 2022 | As at<br>31 December 2021 |
|--|-----------------------|---------------------------|
| Difference between carrying amount and maturity amount |                       |                           |
| Fair values  | 42,079                | 34,667                    |
| Amount payable at maturity                             | (42,239)              | (34,709)                  |
| Total  | (160)                 | (42)                      |

For the six months ended 30 June 2022 and the year ended 31 December 2021, there were no significant changes in the fair value of the Group's financial liabilities designated at fair value through profit or loss that were attributable to the changes in credit risk.

## 30 DEPOSITS FROM CUSTOMERS

|                           | As at<br>30 June 2022 | As at<br>31 December 2021 |
|---------------------------|-----------------------|---------------------------|
| Corporate demand deposits | 2,106,968             | 2,061,672                 |
| Corporate time deposits   | 2,875,207             | 2,488,348                 |
| Personal demand deposits  | 826,457               | 850,831                   |
| Personal time deposits    | 1,901,603             | 1,551,981                 |
| Other deposits            | 4,415                 | 3,359                     |
| Subtotal                  | 7,714,650             | 6,956,191                 |
| Accrued interest          | 96,713                | 83,586                    |
| Total                     | 7,811,363             | 7,039,777                 |

As at 30 June 2022, deposits from customers comprised deposits pledged as collateral of RMB268,541 million (as at 31 December 2021: RMB220,878 million).

## 31 CERTIFICATES OF DEPOSITS ISSUED

Certificates of deposits at year end were issued by Head office, the Bank's overseas branches and subsidiaries are measured at amortised cost.

## 32 DEBT SECURITIES ISSUED

|                            | Note | As at<br>30 June 2022 | As at<br>31 December 2021 |
|----------------------------|------|-----------------------|---------------------------|
| Carried at amortised cost: |      |                       |                           |
| Bonds                      | (1)  | 345,390               | 332,072                   |
| Tier-2 capital bonds       | (2)  | 148,696               | 148,342                   |
| Subordinated bonds         | (3)  | 4,800                 | 4,800                     |
| Accrued interest           |      | 8,335                 | 6,158                     |
| Subtotal                   |      | 507,221               | 491,372                   |
| Carried at fair value:     |      |                       |                           |
| Bonds                      | (1)  | 11,455                | 12,153                    |
| Total                      |      | 518,676               | 503,525                   |

# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022  
(All amounts presented in millions of RMB except when otherwise indicated)

## 32 DEBT SECURITIES ISSUED (Continued)

### (1) Bonds

Detailed information of bonds held at amortised cost is as follows:

|   | Currency | Issue place     | Coupon rate % | Par value (CCY) | Issue date | Maturity | Ending balance | Opening balance |
|---|----------|-----------------|---------------|-----------------|------------|----------|----------------|-----------------|
| <b>The Bank</b>                           |          |                 |               |                 |            |          |                |                 |
| 19 Bocomm 01                              | RMB      | Mainland China  | 3.35          | 50,000          | 2019/11/25 | 3 years  | 50,000         | 50,000          |
| 19 Bocomm 02                              | RMB      | Mainland China  | 3.35          | 40,000          | 2019/12/11 | 3 years  | 40,000         | 40,000          |
| 20 Bocomm 01                              | RMB      | Mainland China  | 3.18          | 50,000          | 2020/08/05 | 3 years  | 50,000         | 50,000          |
| 20 Bocomm 02                              | RMB      | Mainland China  | 3.50          | 40,000          | 2020/11/11 | 3 years  | 40,000         | 40,000          |
| 21 Bocomm Micro Small Enterprises Bond    | RMB      | Mainland China  | 3.40          | 40,000          | 2021/04/06 | 3 years  | 40,000         | 40,000          |
| 22 Bocomm Micro Small Enterprises Bond 01 | RMB      | Mainland China  | 2.75          | 30,000          | 2022/06/15 | 3 years  | 29,999         | -               |
| 17 medium-term notes 02                   | USD      | Hong Kong China | 3MLibor+0.88  | 300             | 2017/05/15 | 5 years  | -              | 1,912           |
| 17 medium-term notes 04                   | USD      | Hong Kong China | 3MLibor+0.90  | 600             | 2017/12/04 | 5 years  | 4,025          | 3,825           |
| 18 medium-term notes 02                   | USD      | Hong Kong China | 3MLibor+0.85  | 700             | 2018/05/17 | 5 years  | 4,696          | 4,462           |
| 20 Hong Kong medium-term notes 01         | HKD      | Hong Kong China | 2.25          | 2,800           | 2020/01/22 | 2 years  | -              | 2,289           |
| 20 Hong Kong medium-term notes 02         | USD      | Hong Kong China | 3MLibor+0.58  | 1,300           | 2020/01/22 | 3 years  | 8,722          | 8,287           |
| 20 Hong Kong medium-term notes 04         | USD      | Hong Kong China | 3MLibor+0.75  | 100             | 2020/06/05 | 3 years  | 670            | 637             |
| 20 Hong Kong medium-term notes 05         | USD      | Hong Kong China | 3MLibor+0.80  | 650             | 2020/07/20 | 3 years  | 4,361          | 4,143           |
| 20 Hong Kong medium-term notes 06         | USD      | Hong Kong China | 3MLibor+0.90  | 400             | 2020/07/20 | 5 years  | 2,684          | 2,550           |
| 20 Hong Kong medium-term notes 07         | USD      | Hong Kong China | 1.20          | 800             | 2020/09/10 | 5 years  | 5,353          | 5,084           |
| 20 Hong Kong medium-term notes 08         | USD      | Hong Kong China | 3MLibor+0.80  | 350             | 2020/09/10 | 3 years  | 2,348          | 2,231           |
| 21 Macau PA-medium-term notes             | MOP      | Macau China     | 0.85          | 1,200           | 2021/12/15 | 2 years  | 995            | 951             |
| P14JHTP1D                                 | RMB      | Taiwan China    | 4.00          | 200             | 2014/12/04 | 10 years | 205            | 200             |
| <b>Subtotal</b>                           |          |                 |               |                 |            |          | 284,058        | 256,571         |
| <b>Subsidiaries</b>                       |          |                 |               |                 |            |          |                |                 |
| 19 Leasing 01                             | RMB      | Mainland China  | 3.68          | 5,000           | 2019/05/20 | 3 years  | -              | 4,998           |
| 19 Leasing 02                             | RMB      | Mainland China  | 3.65          | 5,000           | 2019/07/08 | 3 years  | 5,000          | 4,998           |
| 19 Leasing 03                             | RMB      | Mainland China  | 3.49          | 3,500           | 2019/10/21 | 3 years  | 3,499          | 3,498           |
| 20 Leasing 01                             | RMB      | Mainland China  | 3.65          | 3,000           | 2020/11/05 | 3 years  | 2,997          | 2,996           |
| 21 Leasing 01                             | RMB      | Mainland China  | 3.62          | 4,000           | 2021/03/01 | 3 years  | 3,995          | 3,993           |
| 21 Leasing 02                             | RMB      | Mainland China  | 3.45          | 3,000           | 2021/04/22 | 3 years  | 2,626          | 2,625           |
| 19 USD medium-term notes 01               | USD      | Hong Kong China | 4.00          | 800             | 2019/01/22 | 3 years  | -              | 3,693           |
| 19 USD medium-term notes 02               | USD      | Hong Kong China | 4.375         | 700             | 2019/01/22 | 5 years  | 2,903          | 2,766           |
| 19 USD medium-term notes 03               | USD      | Hong Kong China | 3MLibor+1.20  | 120             | 2019/04/12 | 3 years  | -              | 765             |
| 19 USD medium-term notes 04               | USD      | Hong Kong China | 3MLibor+1.175 | 400             | 2019/09/05 | 5 years  | 1,180          | 1,129           |
| 19 USD medium-term notes 05               | USD      | Hong Kong China | 2.625         | 200             | 2019/09/05 | 5 years  | 761            | 723             |
| 19 USD medium-term notes 06               | USD      | Hong Kong China | 3MLibor+1.05  | 180             | 2019/10/25 | 3 years  | 1,207          | 1,148           |
| 19 USD medium-term notes 07               | USD      | Hong Kong China | 3MLibor+1.075 | 600             | 2019/12/10 | 5 years  | 1,656          | 1,585           |
| 20 USD medium-term notes 01               | USD      | Hong Kong China | 3MLibor+0.95  | 500             | 2020/03/02 | 5 years  | 1,793          | 1,710           |
| 20 USD medium-term notes 02               | USD      | Hong Kong China | 3MLibor+0.83  | 300             | 2020/03/02 | 3 years  | 1,566          | 1,492           |
| 20 USD medium-term notes 03               | USD      | Hong Kong China | 1.75          | 350             | 2020/07/14 | 3 years  | 1,591          | 1,515           |
| 20 USD medium-term notes 04               | USD      | Hong Kong China | 3MLibor+1.70  | 450             | 2020/07/14 | 5 years  | 1,407          | 1,348           |
| 21 USD medium-term notes 01               | USD      | Hong Kong China | 1.125         | 500             | 2021/06/18 | 3 years  | 1,965          | 1,865           |
| 21 HKD medium-term notes 02               | HKD      | Hong Kong China | 1.07          | 775             | 2021/09/27 | 3 years  | 662            | 634             |
| 13 Azure Orbit                            | USD      | Hong Kong China | 3.75          | 500             | 2013/03/06 | 10 years | 3,351          | 3,187           |
| 5 Year USD bond                           | USD      | Hong Kong China | 3.75          | 950             | 2018/01/25 | 5 years  | 6,362          | 6,047           |
| 10 Year USD bond                          | USD      | Hong Kong China | 4.00          | 250             | 2018/01/25 | 10 years | 1,662          | 1,580           |
| Azure Nova                                | USD      | Hong Kong China | 3.50          | 1,050           | 2017/03/21 | 5 years  | -              | 6,692           |
| Azure Nova                                | USD      | Hong Kong China | 4.25          | 250             | 2017/03/21 | 10 years | 1,671          | 1,589           |
| 20 Financial Investing 01                 | RMB      | Mainland China  | 2.70          | 3,000           | 2020/03/11 | 3 years  | 3,000          | 2,999           |
| 20 Financial Investing 02                 | RMB      | Mainland China  | 2.80          | 7,000           | 2020/03/11 | 5 years  | 6,991          | 6,990           |
| 21 Bocomm International 01                | USD      | Hong Kong China | 1.75          | 500             | 2021/06/22 | 5 years  | 3,050          | 2,890           |
| 19 Brazil bonds                           | BRL      | Brazil          | 110%SELIC     | 200             | 2019/01/30 | 5 years  | 56             | 46              |
| 22 Brazil bonds 01                        | BRL      | Brazil          | CDI+2.60      | 270             | 2022/02/07 | 10 years | 381            | -               |
| <b>Subtotal</b>                           |          |                 |               |                 |            |          | 61,332         | 75,501          |
| <b>Total</b>                              |          |                 |               |                 |            |          | 345,390        | 332,072         |



## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022

(All amounts presented in millions of RMB except when otherwise indicated)

## 32 DEBT SECURITIES ISSUED (Continued)

## (1) Bonds (Continued)

Detailed information of bonds held at fair value is as follows:

|                                    | Currency | Issue place     | Coupon rate % | Par value (CCY) | Issue date | Maturity | Fair value at the end of the period | Fair value at the beginning of the period |
|------------------------------------|----------|-----------------|---------------|-----------------|------------|----------|-------------------------------------|---|
| 19 Hong Kong medium-term notes     | HKD      | Hong Kong China | 2.85          | 3,500           | 2019/03/21 | 5 years  | 2,994                               | 3,027                                     |
| 19 Hong Kong USD medium-term notes | USD      | Hong Kong China | 3MLibor+0.78  | 800             | 2019/03/21 | 3 years  | –                                   | 5,106                                     |
| 20 Hong Kong medium-term notes 03  | RMB      | Hong Kong China | 3.15          | 2,000           | 2020/01/22 | 2 years  | –                                   | 2,034                                     |
| 21 Hong Kong medium-term notes 01  | HKD      | Hong Kong China | 0.95          | 1,200           | 2021/12/13 | 2 years  | 997                                 | 980                                       |
| 21 Hong Kong medium-term notes 02  | RMB      | Hong Kong China | 3.15          | 1,000           | 2021/12/13 | 3 years  | 1,000                               | 1,006                                     |
| 22 Hong Kong medium-term notes 01  | HKD      | Hong Kong China | 1.80          | 1,200           | 2022/03/21 | 2 years  | 1,006                               | –   |
| 22 Hong Kong medium-term notes 02  | RMB      | Hong Kong China | 3.20          | 2,800           | 2022/03/21 | 2 years  | 2,835                               | –   |
| 22 Hong Kong medium-term notes 03  | USD      | Hong Kong China | 2.375         | 400             | 2022/03/21 | 3 years  | 2,623                               | –   |
| Total                              |          |                 |               |                 |            |          | 11,455                              | 12,153                                    |

## (2) Tier 2 capital bonds

Detailed information of Tier 2 capital bonds is disclosed as follows:

|                     | Currency | Issue place     | Coupon rate % | Par value (CCY) | Issue date | Maturity | Note | Ending balance | Opening balance |
|---------------------|----------|-----------------|---------------|-----------------|------------|----------|------|----------------|-----------------|
| <b>The Bank</b>     |          |                 |               |                 |            |          |      |                |                 |
| 17 BoComm           | RMB      | Mainland China  | 4.50          | 30,000          | 2017/04/11 | 10 years | (a)  | –              | 29,978          |
| 19 BoComm 01        | RMB      | Mainland China  | 4.10          | 30,000          | 2019/08/14 | 10 years | (b)  | 29,998         | 29,998          |
| 19 BoComm 02        | RMB      | Mainland China  | 4.49          | 10,000          | 2019/08/14 | 15 years | (c)  | 9,999          | 9,999           |
| 20 BoComm           | RMB      | Mainland China  | 3.24          | 40,000          | 2020/05/19 | 10 years | (d)  | 39,996         | 39,996          |
| 21 BoComm           | RMB      | Mainland China  | 3.65          | 30,000          | 2021/09/23 | 10 years | (e)  | 30,000         | 30,000          |
| 22 BoComm 01        | RMB      | Mainland China  | 3.45          | 30,000          | 2022/02/23 | 10 years | (f)  | 29,998         | –               |
| Subtotal            |          |                 |               |                 |            |          |      | 139,991        | 139,971         |
| <b>Subsidiaries</b> |          |                 |               |                 |            |          |      |                |                 |
| 18 Leasing 02       | RMB      | Mainland China  | 5.15          | 2,000           | 2018/09/18 | 10 years | (g)  | 1,996          | 1,996           |
| 21 BoComm Hong Kong | USD      | Hong Kong China | 2.304         | 1,000           | 2021/07/08 | 10 years | (h)  | 6,709          | 6,375           |
| Subtotal            |          |                 |               |                 |            |          |      | 8,705          | 8,371           |
| Total               |          |                 |               |                 |            |          |      | 148,696        | 148,342         |

- (a) The Group has redeemed full face value of 17 BoComm by exercising redemption option on 13 April 2022.
- (b) The Group has an option to redeem 19 BoComm 01 at the par value partially or as a whole on 16 August 2024, the last day of the interest-bearing year with early redemption option embedded, provided that the CBIRC's permission is acquired in advance and the Group's capital structure fulfills the CBIRC requirements on capital if the redemption is exercised.
- (c) The Group has an option to redeem 19 BoComm 02 at the par value partially or as a whole on 16 August 2029, the last day of the interest-bearing year with early redemption option embedded, provided that the CBIRC's permission is acquired in advance and the Group's capital structure fulfills the CBIRC requirements on capital if the redemption is exercised.
- (d) The Group has an option to redeem 20 BoComm at the par value partially or as a whole on 21 May 2025, the last day of the interest-bearing year with early redemption option embedded, provided that the CBIRC's permission is acquired in advance and the Group's capital structure fulfills the CBIRC requirements on capital if the redemption is exercised.
- (e) The Group has an option to redeem 21 BoComm at the par value partially or as a whole on 27 September 2026, the last day of the interest-bearing year with early redemption option embedded, provided that the CBIRC's permission is acquired in advance and the Group's capital structure fulfills the CBIRC requirements on capital if the redemption is exercised.

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022  
(All amounts presented in millions of RMB except when otherwise indicated)

### 32 DEBT SECURITIES ISSUED (Continued)

#### (2) Tier 2 capital bonds (Continued)

- (f) The Group has an option to redeem 22 BoComm 01 at the par value partially or as a whole on 25 February 2027, the last day of the interest-bearing year with early redemption option embedded, provided that the CBIRC's permission is acquired in advance and the Group's capital structure fulfills the CBIRC requirements on capital if the redemption is exercised.
- (g) The Group has an option to redeem 18 Leasing 02 at the par value partially or as a whole on 20 September 2023, the first day upon the end of the fifth interest-bearing year, provided that the CBIRC's permission is acquired in advance and the Group's capital structure fulfills the CBIRC requirements on capital if the redemption is exercised.
- (h) The Group has an option to redeem 21 BoComm Hong Kong as a whole on 8 July 2026. If the issuer does not exercise the redemption right by 8 July 2026, the interest rate will be readjusted based on the 5-year U.S. Treasury rate plus 140 basis points initial rate differential.

These tier-2 capital bonds have the write-down feature, which allows the Group to write down the entire principals of the bonds when regulatory triggering events as stipulated in the offering documents occur and any accumulated unpaid interest would become not payable. These bonds are regarded as tier-2 capital without any guarantees provided and the proceeds of the debts cannot be used for compensating daily operating loss of the Group.

#### (3) Subordinated bonds

Detailed information of subordinated bonds is disclosed as follows:

|                   | Currency | Issue place    | Coupon rate % | Par value (CCY) | Issue date | Maturity | Note | Ending balance | Opening balance |
|-------------------|----------|----------------|---------------|-----------------|------------|----------|------|----------------|-----------------|
| <b>Subsidiary</b> |          |                |               |                 |            |          |      |                |                 |
| 21 Insurance 01   | RMB      | Mainland China | 4.30          | 3,000           | 2021/03/25 | 10 years | (a)  | 3,000          | 3,000           |
| 21 Insurance 02   | RMB      | Mainland China | 3.93          | 1,800           | 2021/07/27 | 10 years | (a)  | 1,800          | 1,800           |
| <b>Total</b>      |          |                |               |                 |            |          |      | <b>4,800</b>   | <b>4,800</b>    |

- (a) BOCOM MSIG Life Insurance Company Limited has an option to redeem the bonds at the par value partially or as a whole on the last day of the fifth interest-bearing year, provided that the permission of PBOC and CBIRC is acquired in advance and the BOCOM MSIG Life Insurance Company Limited's solvency ratio is not less than 100% if the redemption is exercised.

### 33 OTHER LIABILITIES

|   | Note | As at<br>30 June 2022 | As at<br>31 December 2021 |
|---|------|-----------------------|---------------------------|
| Insurance liabilities   |      | 84,789                | 74,493                    |
| Dividends payable   |      | 28,651                | 81                        |
| Temporary receipts  |      | 25,324                | 16,015                    |
| Clearing and settlement   |      | 19,789                | 24,056                    |
| Expected credit impairment allowance of credit related commitments and financial guarantees | (1)  | 10,845                | 9,242                     |
| Staff compensation payable  |      | 8,272                 | 14,401                    |
| Lease liabilities   |      | 6,733                 | 6,640                     |
| Deposits received for finance lease   |      | 6,559                 | 6,842                     |
| VAT and other taxes payable   |      | 5,572                 | 5,639                     |
| Special purpose funding   |      | 1,980                 | 2,108                     |
| Provision for outstanding litigations   | (2)  | 572                   | 472                       |
| Others  |      | 75,225                | 52,706                    |
| <b>Total</b>  |      | <b>274,311</b>        | <b>212,695</b>            |

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022

(All amounts presented in millions of RMB except when otherwise indicated)

## 33 OTHER LIABILITIES (Continued)

- (1) Movements in the expected credit impairment allowance of credit related commitments and financial guarantees

|                      | For the six months ended 30 June 2022 |                         |                         | Total  |
|----------------------|---------------------------------------|-------------------------|-------------------------|--------|
|                      | Stage 1<br>12-month ECL               | Stage 2<br>Lifetime ECL | Stage 3<br>Lifetime ECL |        |
| As at 1 January 2022 | 8,736                                 | 506                     | –                       | 9,242  |
| Transfers:           |                                       |                         |                         |        |
| Transfer to Stage 1  | 18                                    | (18)                    | –                       | –      |
| Transfer to Stage 2  | (68)                                  | 68                      | –                       | –      |
| Transfer to Stage 3  | –                                     | –                       | –                       | –      |
| Provision            | 1,133                                 | 466                     | –                       | 1,599  |
| Others               | 12                                    | (8)                     | –                       | 4      |
| As at 30 June 2022   | 9,831                                 | 1,014                   | –                       | 10,845 |

|  | For the year ended 31 December 2021 |                         |                         | Total   |
|--|-------------------------------------|-------------------------|-------------------------|---------|
|  | Stage 1<br>12-month ECL             | Stage 2<br>Lifetime ECL | Stage 3<br>Lifetime ECL |         |
| As at 1 January 2021                     | 6,858                               | 3,642                   | –                       | 10,500  |
| Transfers:                               |                                     |                         |                         |         |
| Transfer between Stage 1 and Stage 2 net | (37)                                | 37                      | –                       | –       |
| Transfer between Stage 1 and Stage 3 net | –                                   | –                       | –                       | –       |
| Transfer between Stage 2 and Stage 3 net | –                                   | –                       | –                       | –       |
| Provision                                | 1,925                               | 73                      | –                       | 1,998   |
| Others                                   | (10)                                | (3,246)                 | –                       | (3,256) |
| As at 31 December 2021                   | 8,736                               | 506                     | –                       | 9,242   |

- (2) Movements in the provision for outstanding litigations

|                                       | As at<br>1 January<br>2022 | Amounts<br>accrued<br>during the<br>period | Amounts<br>settled<br>during the<br>period | Amounts<br>reversed<br>during the<br>period | Exchange<br>differences | As at<br>30 June<br>2022 |
|---------------------------------------|----------------------------|--|--|---|-------------------------|--------------------------|
| Provision for outstanding litigations | 472                        | 161  | (3)  | (58)  | –                       | 572                      |

|                                       | As at<br>1 January<br>2021 | Amounts<br>accrued<br>during the<br>year | Amounts<br>settled during<br>the year | Amounts<br>reversed<br>during the<br>year | Exchange<br>differences | As at<br>31 December<br>2021 |
|---------------------------------------|----------------------------|--|---------------------------------------|---|-------------------------|------------------------------|
| Provision for outstanding litigations | 1,032                      | 99                                       | (361)                                 | (298)                                     | –                       | 472                          |

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022  
(All amounts presented in millions of RMB except when otherwise indicated)

### 34 SHARE CAPITAL AND CAPITAL SURPLUS

|                      | Number of shares<br>(in millions) | Ordinary shares<br>of RMB1 each | Capital surplus |
|----------------------|-----------------------------------|---------------------------------|-----------------|
| As at 1 January 2022 | 74,263                            | 74,263                          | 111,428         |
| As at 30 June 2022   | 74,263                            | 74,263                          | 111,428         |

|                        | Number of shares<br>(in millions) | Ordinary shares<br>of RMB1 each | Capital surplus |
|------------------------|-----------------------------------|---------------------------------|-----------------|
| As at 1 January 2021   | 74,263                            | 74,263                          | 111,428         |
| As at 31 December 2021 | 74,263                            | 74,263                          | 111,428         |

As at 30 June 2022 and 31 December 2021, the number of A shares of the Group was 39,251 million, and the number of H shares of the Group was 35,012 million, both with par value of RMB1 per share.

As at 30 June 2022 and 31 December 2021, the Group's capital surplus is listed as follows:

|                       | As at<br>1 January 2022 | Additions | Reductions | As at<br>30 June 2022 |
|-----------------------|-------------------------|-----------|------------|-----------------------|
| Share premium         | 110,770                 | –         | –          | 110,770               |
| Other capital reserve | 658                     | –         | –          | 658                   |
| Total                 | 111,428                 | –         | –          | 111,428               |

|                       | As at<br>1 January 2021 | Additions | Reductions | As at<br>31 December 2021 |
|-----------------------|-------------------------|-----------|------------|---------------------------|
| Share premium         | 110,770                 | –         | –          | 110,770                   |
| Other capital reserve | 658                     | –         | –          | 658                       |
| Total                 | 111,428                 | –         | –          | 111,428                   |

### 35 OTHER EQUITY INSTRUMENTS

#### (1) Preference shares

##### (a) Preference shares outstanding at the end of the period

|                            |                  |                              |                    |              |                     | In original<br>currency<br>(in millions) | In RMB<br>(in millions) | Maturity         | Conversion<br>condition | Conversion                         |
|----------------------------|------------------|------------------------------|--------------------|--------------|---------------------|--|-------------------------|------------------|-------------------------|------------------------------------|
|                            | Issue date       | Accounting<br>classification | Dividend rate<br>% | Issue price  | Amount in<br>shares |  |                         |                  |                         |                                    |
| Domestic preference shares |                  |                              |                    |              |                     |  |                         |                  |                         |                                    |
| Preference shares in RMB   | 2 September 2016 | Equity                       | 4.07               | RMB100/share | 450,000,000         | 45,000                                   | 45,000                  | No maturity date | Mandatory               | No conversion during<br>the period |
|                            |                  |                              |                    |              | Less: Issuance fees | (48)                                     |                         |                  |                         |                                    |
|                            |                  |                              |                    |              | Carrying amount     | 44,952                                   |                         |                  |                         |                                    |

##### (b) Movements of preference shares issued

|                             | As at<br>1 January 2022 | Movements |           | As at<br>30 June 2022 |
|-----------------------------|-------------------------|-----------|-----------|-----------------------|
|                             |                         | Additions | Decreases |                       |
| Domestic preferences-shares |                         |           |           |                       |
| Amount (shares)             | 450,000,000             | –         | –         | 450,000,000           |
| In RMB (millions)           | 44,952                  | –         | –         | 44,952                |

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022

(All amounts presented in millions of RMB except when otherwise indicated)

35 OTHER EQUITY INSTRUMENTS *(Continued)*(1) Preference shares *(Continued)***(c) Main clauses***Domestic preference shares*(i) Dividend

The domestic preference shares will accrue dividends on their issue price at the relevant dividend rate below:

- From and including the issue date to but excluding the first reset date, at the rate of 3.90% per annum; and
- The dividend rate will be re-priced every five years thereafter with reference to the arithmetic average value (rounding off to 0.01%) of five-year Chinese treasury bonds yield at the date which is 20 transaction days before the reset date (excluding the date) plus a fixed premium of 1.37%. As authorised by the shareholders' annual general meeting, the Board of Directors has the sole discretion to declare and distribute dividends on domestic preference shares.

With effect from 7 September 2021, the Bank has adjusted the dividend rate for the second dividend rate adjustment period to 4.07%.

The dividend for domestic preference shares is non-cumulative. Where the Bank determines to cancel the dividend for domestic preference shares in whole or in part, the omitted dividend will not be carried forward and claimed in the future period. After receiving dividends at the agreed dividend rate, domestic preference shareholders of the Bank will not participate in the distribution of residual profits with ordinary shareholders. Domestic preference shares issued by the Bank have the same dividend distribution order as the offshore preference shares.

(ii) Conditions to distribution of dividends

The Bank could pay dividends while the Bank still has distributable after-tax profit after making up previous years' losses, contributing to the statutory reserve and making general provisions, and the Bank's capital adequacy ratio meets regulatory requirements. Domestic preference shareholders of the Bank are senior to the ordinary shareholders on the right to dividends.

Subject to a resolution to be passed at a shareholders' general meeting of the Bank on each such occasion, the Bank may elect to cancel (in whole or in part) any preference share dividend. The Bank shall not distribute any dividends to its ordinary shareholders before it declares such dividends to preference shareholders for the relevant periods.

(iii) Mandatory conversion trigger events

Upon occurrence of the triggering events as stipulated by the offering documents and subject to regulatory approval, domestic preference shares shall be mandatorily converted into ordinary A Shares of the Bank, partially or entirely. The initial mandatory conversion price is RMB6.25 per share. To balance the interest between preference shareholders and ordinary shareholders, the mandatory conversion price of the preference shares will be cumulatively adjusted in sequence where certain events occur including issuances of bonus shares, capitalisation of reserves, new issuances of ordinary shares at a price lower than the market price (excluding equity increased due to exercise of convertible financing instruments that can be converted into ordinary shares) and rights issues, subject to terms and formulas provided for in the offering documents. Appropriation of dividends to ordinary shareholders is not trigger event for price adjustment.

(iv) Order of distribution and liquidation method

On winding-up of the Bank, distribution to domestic preference shareholders is made after all debts of the Bank (including subordinated debts) and obligations that are issued or guaranteed by the Bank and specifically stated to be distributed prior to the domestic preference shares; all domestic preference shareholders are ranked at the same in the distribution sequence without priority among them and have the same repayment sequence rights as holders of obligations with equivalent rights. In addition, distribution is made to domestic preference shareholders prior to ordinary shareholders.

On winding-up of the Bank, any remaining assets of the Bank shall, after the distributions in accordance with the terms and conditions of the domestic preference shares have been made, be applied to the claims of the domestic preference shareholders equally in all respects with the claims of holders of any parity obligations (which term, for the avoidance of doubt, includes the domestic preference shares and any other preference shares of the Bank issued from time to time to investors outside the PRC) and in priority to the claims of the holders of ordinary shares.

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022  
(All amounts presented in millions of RMB except when otherwise indicated)

### 35 OTHER EQUITY INSTRUMENTS (Continued)

#### (1) Preference shares (Continued)

##### (c) Main clauses (Continued)

##### Domestic preference shares (Continued)

##### (iv) Order of distribution and liquidation method (Continued)

The distribution amount obtained by the domestic preference shareholders shall be the total par value of the issued and outstanding preference shares plus dividends declared but not paid in the current period; if the distribution amount is insufficient, domestic and offshore preference shareholders will share the distribution amount on a proportional basis.

##### (v) Redemption

The domestic preference shares are perpetual and have no maturity date. The Bank may, subject to obtaining the CBIRC approval and in compliance with the redemption preconditions, redeem all or some of the domestic preference shares on 7 September 2021 and on any preference share dividend payment date thereafter. The redemption period ends at the date when shares are fully converted or redeemed.

#### (2) Perpetual bonds

##### (a) Perpetual bonds outstanding at the end of the period

|                              | Issue date        | Accounting classification | Original interest rate % | Issue price     | Amount in shares | In original currency (in millions) | In RMB (in millions) | Maturity               |
|------------------------------|-------------------|---------------------------|--------------------------|-----------------|------------------|------------------------------------|----------------------|------------------------|
| 19 BoComm perpetual bonds(1) | 18 September 2019 | Equity                    | 4.20                     | RMB100/bond     | 400,000,000      | 40,000                             | 40,000               | No fixed maturity date |
| 20 BoComm perpetual bonds(2) | 23 September 2020 | Equity                    | 4.59                     | RMB100/bond     | 300,000,000      | 30,000                             | 30,000               | No fixed maturity date |
| 21 BoComm perpetual bonds(2) | 8 June 2021       | Equity                    | 4.06                     | RMB100/bond     | 415,000,000      | 41,500                             | 41,500               | No fixed maturity date |
| Perpetual bonds in USD(3)    | 11 November 2020  | Equity                    | 3.80                     | USD200,000/bond | 14,000           | 2,800                              | 18,366               | No fixed maturity date |
| Total                        |                   |                           |                          |                 |                  |                                    | 129,866              |                        |
| Less: Issuance fees          |                   |                           |                          |                 |                  |                                    | (28)                 |                        |
| Carrying amount              |                   |                           |                          |                 |                  |                                    | 129,838              |                        |

##### (b) Main clauses

- (i) With the approvals by relevant regulatory authorities, the Bank issued RMB40 billion undated capital bonds in China's National Inter-Bank Bond Market on 18 September 2019, and the raising fund was received on 20 September 2019. The denomination of the bonds is RMB100 each and coupon rate of 4.20%. The bonds adopt a coupon rate adjusted on a stage-by-stage basis and a coupon rate adjustment period for every five years during which interests will be paid at the agreed coupon rate.

The perpetual bonds will continue to be outstanding so long as the Bank's business continues to operate. The bonds have set forth terms regarding the Bank's redemption with pre-conditions, by which the Bank is entitled to redeem the bonds after five years since the issue date in whole or in part on the annual interest payment date (including the interest payment date of the fifth year after the issue date). If, after the issuance, the perpetual bonds no longer qualify as additional tier-1 capital as a result of an unforeseeable change or amendment to relevant provisions of supervisory regulations, the Bank may redeem the whole but not part of the perpetual bonds.

The claims in respect of the perpetual bonds are subordinated to the claims of depositors, general creditors, and subordinated indebtedness that rank senior to the perpetual bonds; and will rank in priority to all classes of equity shares held by the Bank's shareholders and rank pari passu with the claims in respect of any other additional tier-1 capital instruments of the Bank that rank pari passu with the perpetual bonds.

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022

(All amounts presented in millions of RMB except when otherwise indicated)

## 35 OTHER EQUITY INSTRUMENTS (Continued)

## (2) Perpetual bonds (Continued)

## (b) Main clauses (Continued)

## (i) (Continued)

Upon the occurrence of Additional tier-1 capital trigger event, namely, the Bank's core tier-1 capital adequacy ratio having fallen to 5.125% (or below), the Bank has the right, subject to the approval of the CBIRC but without the need for the consent of the bondholders, to write down whole or part of the aggregate amount of the perpetual bonds then issued and outstanding, in order to restore the core tier-1 capital adequacy ratio to above 5.125%. Upon the occurrence of a Non-Viability Triggering Event, the Bank has the right to write down all the above perpetual bond issued and existing at that time in accordance with the total par value without the consent of the bondholders.

The distributions on the perpetual bonds are non-cumulative, and 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. The Bank may, at its sole discretion, use the proceeds from the cancelled distributions to meet other obligations as they fall due. Cancellation of any distributions on the bonds, no matter in whole or in part, will not impose any other restriction on the Bank, except in relation to dividend distributions to ordinary shares.

Investors have no right to redeem their subscription from the Bank. The net proceeds from the Bank's issuance of the above bonds, after deducting offering related expenses, will be used to replenish the Additional tier-1 capital of the Bank.

- (ii) With the approvals by relevant regulatory authorities, the Bank issued RMB30 billion undated capital bonds in China's National Inter-Bank Bond Market on 23 September 2020, and the raising fund was received on 25 September 2020. The denomination of the Bonds is RMB100 each and coupon rate of 4.59%. The Bonds adopt a coupon rate adjusted on a stage-by-stage basis and a coupon rate adjustment period for every five years during which interests will be paid at the agreed coupon rate.

With the approvals by relevant regulatory authorities, the Bank issued RMB41.5 billion undated capital bonds in China's National Inter-Bank Bond Market on 8 June 2021, and the raising fund was received on 10 June 2021. The denomination of the Bonds is RMB100 each and coupon rate of 4.06%. The Bonds adopt a coupon rate adjusted on a stage-by-stage basis and a coupon rate adjustment period for every five years during which interests will be paid at the agreed coupon rate.

The perpetual bonds will continue to be outstanding so long as the Bank's business continues to operate. The bonds have set forth terms regarding the Bank's redemption with pre-conditions, by which the Bank is entitled to redeem the bonds after five years since the issue date in whole or in part on the annual interest payment date (including the interest payment date of the fifth year after the issue date). If, after the issuance, the perpetual bonds no longer qualify as additional tier-1 capital as a result of an unforeseeable change or amendment to relevant provisions of supervisory regulations, the Bank may redeem the whole but not part of the perpetual bonds.

The claims in respect of the perpetual bonds are subordinated to the claims of depositors, general creditors, and subordinated indebtedness that rank senior to the perpetual bonds; and will rank in priority to all classes of equity shares held by the Bank's shareholders and rank pari passu with the claims in respect of any other additional tier-1 capital instruments of the Bank that rank pari passu with the perpetual bonds.

Upon the occurrence of a Non-Viability Triggering Event, the Bank has the right to write down/write off in whole or in part, without the need for the consent of the holders of the bonds, the principal amount of the bonds.

The distributions on the perpetual bonds are non-cumulative, and 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. The Bank may, at its sole discretion, use the proceeds from the cancelled distributions to meet other obligations as they fall due. Cancellation of any distributions on the bonds, no matter in whole or in part, will not impose any other restriction on the Bank, except in relation to dividend distributions to ordinary shares.

Investors have no right to redeem their subscription from the Bank. The net proceeds from the Bank's issuance of the above bonds, after deducting offering related expenses, will be used to replenish the additional tier-1 capital of the Bank.



## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022  
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### 35 OTHER EQUITY INSTRUMENTS (Continued)

#### (2) Perpetual bonds (Continued)

##### (b) Main clauses (Continued)

- (iii) With the approvals by relevant regulatory authorities, the Bank issued USD2.8 billion undated capital bonds in the offshore market on 11 November 2020, and the raising fund was received on 18 November 2020. The coupon rate of the bonds is 3.80%. The bonds adopt a coupon rate adjusted on a stage-by-stage basis and a coupon rate adjustment period for every five years during which interests will be paid at the agreed coupon rate.

The perpetual bonds will continue to be outstanding so long as the Bank's business continues to operate. The bonds have set forth terms regarding the Bank's redemption with pre-conditions. Subject to the satisfaction of the redemption conditions and having obtained the prior approval of the CBIRC, the bank is entitled to redeem the bonds after five years since the issue date in whole or in part on the annual interest payment date (including the interest payment date of the fifth year after the issue date). If, after the issuance, the perpetual bonds no longer qualify as additional tier-1 capital as a result of an unforeseeable change or amendment to relevant provisions of supervisory regulations, the Bank may redeem the whole but not part of the perpetual bonds.

The claims in respect of the perpetual bonds are subordinated to the claims of depositors, general creditors, and subordinated indebtedness that rank senior to the perpetual bonds; and will rank in priority to all classes of equity shares held by the Bank's shareholders and rank pari passu with the claims in respect of any other additional tier-1 capital instruments of the Bank that rank pari passu with the perpetual bonds.

Upon the occurrence of a Non-Viability Triggering Event, the Bank has the right to write down/write off in whole or in part, without the need for the consent of the holders of the bonds. Once the principal amount of the Bonds (in whole or in part) has been written-off, such relevant written-off portion of the bonds will not be restored or become payable again in any circumstances (including where the relevant Non-Viability Triggering Event ceases to continue), and any accrued but unpaid distribution in respect of such relevant written-off portion of the bonds shall cease to be payable. In addition, there will be no compensation in any form to remedy the loss of the bondholders.

The distributions on the perpetual bonds are non-cumulative, and 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. The Bank may, at its sole discretion, use the proceeds from the cancelled distributions to meet other obligations as they fall due. Cancellation of any distributions on the bonds, no matter in whole or in part, will not impose any other restriction on the Bank, except in relation to dividend distributions to ordinary shares.

Investors have no right to redeem their subscription from the Bank. The net proceeds from the Bank's issuance of the above bonds, after deducting offering related expenses, will be used to replenish the additional tier-1 capital of the Bank.

#### (3) Interests attributable to holders of other equity instruments

|   | As at<br>30 June 2022 | As at<br>31 December 2021 |
|---|-----------------------|---------------------------|
| Total equity attributable to equity holders of the parent company   | 976,543               | 964,647                   |
| – Equity attributable to ordinary shareholders of the parent company  | 801,753               | 789,857                   |
| – Equity attributable to preference shareholders of the parent company  | 44,952                | 44,952                    |
| – Equity attributable to perpetual bond holders of the parent company   | 129,838               | 129,838                   |
| Total equity attributable to non-controlling interests  | 12,393                | 12,589                    |
| – Equity attributable to non-controlling interests of ordinary shares   | 9,082                 | 9,424                     |
| – Equity attributable to non-controlling interests of Non-cumulative Subordinated<br>Additional Tier-1 Capital Securities (Note 38) | 3,311                 | 3,165                     |

Dividends paid to preference shareholders and interest paid to perpetual bond holders for the six months ended 30 June 2022 are disclosed in Note 37.



## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022

(All amounts presented in millions of RMB except when otherwise indicated)

## 36 OTHER RESERVES AND RETAINED EARNINGS

Pursuant to the relevant PRC regulations, the appropriation of profits to the statutory general reserve, the discretionary reserve and the distribution of dividends in each year are based on the recommendations of the directors and are subject to the resolutions to be passed at the General Meeting of Shareholders.

Pursuant to relevant PRC regulations, the Bank appropriated 10% of its net profit for the year under CAS to the statutory surplus reserve until the reserve balance reaches 50% of the Bank's registered capital. The statutory surplus reserve can be used to compensate losses or to increase share capital upon approval. The Bank appropriate RMB7,522 million to the statutory surplus upon approval from the 2021 Annual General Meeting of Shareholders held on 28 June 2022.

| For the six months ended 30 June 2022 |                         |             |          |                       |
|---------------------------------------|-------------------------|-------------|----------|-----------------------|
| The Group                             | As at<br>1 January 2022 | Appropriate | Decrease | As at<br>30 June 2022 |
| Statutory reserve                     | 79,967                  | 7,784       | –        | 87,751                |
| Discretionary reserve                 | 140,022                 | –           | –        | 140,022               |
| Total                                 | 219,989                 | 7,784       | –        | 227,773               |

Pursuant to relevant PRC banking regulations, since 1 July 2012, the Bank made statutory general reserve from net profit through profit appropriation according to Administrative Measures for the Provisioning of Financial Enterprises (Cai Jin [2012] No. 20). The proportion is determined based on several factors including the Bank's overall exposure to risk, normally no lower than 1.5% of the ending balance of risk assets. The statutory general reserve is an integral part of shareholders' equity but not subject to dividend distribution. The Bank's subsidiaries and overseas branches, if required by local regulation requirements, also need to make such general reserve. The 2021 Annual General Meeting of Shareholders, held on 28 June 2022, considered and adopted the 2021 profit distribution scheme, which stipulates as follows:

| For the six months ended 30 June 2022 |                         |             |          |                       |
|---------------------------------------|-------------------------|-------------|----------|-----------------------|
| The Group                             | As at<br>1 January 2022 | Appropriate | Decrease | As at<br>30 June 2022 |
| Statutory general reserve             | 130,280                 | 13,328      | –        | 143,608               |

The Bank appropriated RMB11,422 million to the statutory general reserve upon approval from the 2021 Annual General Meeting of Shareholders held on 28 June 2022.

## Retained earnings

The movements of retained earnings are set out below:

|  |          |
|--|----------|
| As at 1 January 2022                         | 258,074  |
| Profit for the period                        | 44,040   |
| Appropriation to statutory reserve           | (7,784)  |
| Appropriation to general reserve             | (13,328) |
| Dividends payable to ordinary shareholders   | (26,363) |
| Dividends payable to preference shareholders | (1,832)  |
| Interest to perpetual bond holders           | (1,685)  |
| Others                                       | (8)      |
| As at 30 June 2022                           | 251,114  |

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022  
(All amounts presented in millions of RMB except when otherwise indicated)

### 36 OTHER RESERVES AND RETAINED EARNINGS (Continued)

#### Retained earnings (Continued)

|  |          |
|--|----------|
| As at 1 January 2021                         | 214,448  |
| Profit for the year                          | 87,581   |
| Appropriation to statutory reserve           | (7,536)  |
| Appropriation to general reserve             | (7,117)  |
| Appropriation to discretionary reserve       | (92)     |
| Dividends payable to ordinary shareholders   | (23,541) |
| Dividends payable to preference shareholders | (1,755)  |
| Interest to perpetual bond holders           | (3,858)  |
| Others                                       | (56)     |
| As at 31 December 2021                       | 258,074  |

### 37 DIVIDENDS

|  | Six months ended 30 June |        |
|--|--------------------------|--------|
|  | 2022                     | 2021   |
| Dividends to ordinary shareholders of the Bank   | 26,363                   | 23,541 |
| Dividends to preference shareholders of the Bank | 1,832                    | 1,755  |
| Interest to perpetual bond holders of the Bank   | 1,685                    | –      |

Under PRC Company Law and the Bank's Articles of Association, the net profit after tax as reported in the PRC statutory financial statements can only be distributed as dividends after allowances for the following:

- (1) Making up cumulative losses from prior years, if any;
- (2) Allocations to the non-distributable statutory reserve of 10% of the net profit of the Bank as determined under the relevant PRC accounting standards;
- (3) Allocations to statutory general reserve;
- (4) Allocations to the discretionary reserve upon approval by the Annual General Meeting of Shareholders. These funds form part of the shareholders' equity. The cash dividends are recognised in the consolidated statement of financial position upon approval by the shareholders at Annual General Meeting.

Pursuant to the approval by the Annual General Meeting of Shareholders on 28 June 2022, the Bank appropriated a cash dividend of RMB0.355 (before tax) for each ordinary share, with total amount of RMB26,363 million, calculated based on 74,263 million shares outstanding as at 31 December 2021, will be distributed to ordinary shareholders.

Pursuant to the approval by the Board meeting on 29 April 2022, the Bank will appropriate domestic preference dividends of RMB1,832 million with a dividend yield of 4.07%.

The Bank distributed the interest on the 2021 undated capital bonds amounting to RMB1,685 million on 10 June 2022.

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022

(All amounts presented in millions of RMB except when otherwise indicated)

## 38 NON-CONTROLLING INTERESTS

Non-controlling interests of the Group include equity attributable to non-controlling interests of ordinary shares and equity attributable to non-controlling interests of other equity instruments. As at 30 June 2022, equity attributable to other equity instruments holders was RMB3,311 million. Other equity instruments were non-cumulative subordinated additional tier-1 capital securities issued by Bank of Communications (Hong Kong) Limited on 3 March 2020.

|                                    |   |
|------------------------------------|---|
| Issue Date                         | 3 March 2020  |
| Face Value                         | USB500 million  |
| First Call Date                    | 3 March 2025  |
| Distribution Rate                  | (i) from the issue date to the first call date, 3.725% per annum<br>(ii) for every five calendar years after the first call date, the then-prevailing US Treasury Rate plus 2.525% per annum if the redemption right is not exercised |
| Frequency of distribution payments | Semi-annually   |

Bank of Communications (Hong Kong) Limited may determine the policies of distribution payments and whether to redeem the bonds. Therefore, the Group recognised the bonds as equity instruments.

Pursuant to the terms and conditions of the Non-Cumulative Subordinated Additional Tier-1 Capital Securities, Bank of Communications (Hong Kong) Limited has paid a total distribution of RMB59 million during the six months ended 30 June 2022.

## 39 CONTINGENCIES

## Legal proceedings

The Group has been involved as defendants in certain lawsuits arising from its normal business operations. Management of the Group believes, based on legal advice, the final result of these lawsuits will not have a material impact on the financial position or operations of the Group. Provision for litigation losses as advised by in-house or external legal professionals is disclosed in Note 33. The total outstanding claims against the Group (as defendant) by a number of third parties at the end of the year are summarised as follows:

|  | As at<br>30 June 2022 | As at<br>31 December 2021 |
|--|-----------------------|---------------------------|
| Outstanding litigations                        | 2,602                 | 4,096                     |
| Provision for outstanding litigation (Note 33) | 572                   | 472                       |

## Future receivables from operating leases

The Group acts as lessor in operating leases principally through aircraft and vessels leasing undertaken by its subsidiaries. The future minimum lease receivables on certain aircraft and vessel under irrevocable operating leases are as follows:

|                                  | As at<br>30 June 2022 | As at<br>31 December 2021 |
|----------------------------------|-----------------------|---------------------------|
| Within 1 year                    | 14,671                | 13,186                    |
| After 1 year and within 2 years  | 14,110                | 12,864                    |
| After 2 years and within 3 years | 13,029                | 12,269                    |
| After 3 years and within 4 years | 11,821                | 11,184                    |
| After 4 years and within 5 years | 10,631                | 10,204                    |
| After 5 years                    | 40,360                | 38,879                    |
| Total                            | 104,622               | 98,586                    |

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022  
(All amounts presented in millions of RMB except when otherwise indicated)

### 40 COMMITMENTS

#### Credit related commitments and financial guarantees

The following tables provide the contractual amounts of the Group's credit related commitments and financial guarantees which the Group has committed to its customers:

|                               | As at<br>30 June 2022 | As at<br>31 December 2021 |
|-------------------------------|-----------------------|---------------------------|
| Loan commitments              |                       |                           |
| – Under 1 year                | 6,581                 | 3,936                     |
| – 1 year and above            | 68,279                | 57,657                    |
| Credit card commitments       | 950,913               | 908,358                   |
| Acceptance bills              | 455,435               | 368,120                   |
| Letters of guarantee          | 393,047               | 373,630                   |
| Letters of credit commitments | 183,080               | 156,194                   |
| Total                         | 2,057,335             | 1,867,895                 |

#### Capital expenditure commitments

|                                 | As at<br>30 June 2022 | As at<br>31 December 2021 |
|---------------------------------|-----------------------|---------------------------|
| Contracted but not provided for | 65,663                | 71,053                    |

#### Commitments on security underwriting and bond acceptance

The Group is entrusted by the Ministry of Finance ('MOF') to underwrite certain Certificated Bonds and Savings Bonds. The investors of Certificated Bonds and Savings Bonds have early redemption right while the Group has the obligation to buy back those Certificated Bonds and Savings Bonds. The redemption price is the principal value of the Certificated Bonds or Savings Bonds plus unpaid interest till redemption date. As at 30 June 2022, the principal value of the certain Certificated Bonds and Savings Bonds that the Group had the obligation to buy back amounted to RMB72,020 million (31 December 2021: RMB78,594 million). The MOF will not provide funding for the early redemption of these Certificated Bonds and Savings Bonds on a back-to-back basis but will pay interest and principal at maturity. As at 30 June 2022, The Group expects the amount of redemption before the maturity dates of these bonds through the Group will not be material.

The original maturities of these bonds vary from 1 to 5 years.

As at 30 June 2022, the Group had no announced but unfulfilled irrevocable commitment on security underwriting (31 December 2020: Nil).

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022

(All amounts presented in millions of RMB except when otherwise indicated)

## 41 COLLATERALS

## (1) Assets pledged

The Group uses part of its assets as collaterals for interbank repurchase arrangements and other liabilities-related business. The carrying amount of these collaterals and the balance of operations related are listed below:

|   | Pledged assets        |                           | Associated liabilities |                           |
|---|-----------------------|---------------------------|------------------------|---------------------------|
|   | As at<br>30 June 2022 | As at<br>31 December 2021 | As at<br>30 June 2022  | As at<br>31 December 2021 |
| Investment securities                           | 548,932               | 382,640                   | 493,027                | 326,776                   |
| Bills   | 3,750                 | 3,531                     | 3,750                  | 3,531                     |
| Due from banks and other financial institutions | 2,000                 | –                         | 1,793                  | –                         |
| Total   | 554,682               | 386,171                   | 498,570                | 330,307                   |

Financial assets sold under repurchase agreements included certain transactions under which the title of the pledged securities has been transferred to counterparties. These transactions have been disclosed in Note 46 transfers of financial assets.

In addition, loans and advances to customers pledged as collateral for borrowing from central banks or placements from banks by the Group as at 30 June 2022 amounted to RMB3,424 million in total (31 December 2021: RMB5,090 million).

## (2) Collateral accepted

The Group received debt securities and bills as collateral in connection with the securities lending transactions and the purchase of assets under resale agreements. The Group did not hold any collateral that can be resold or re-pledged on balance sheet date when non-defaulting.

## 42 OTHER COMPREHENSIVE INCOME

|   | Six months ended 30 June 2022 |            |                   |
|---|-------------------------------|------------|-------------------|
|   | Before tax amount             | Tax effect | Net of tax amount |
| Other comprehensive income  |                               |            |                   |
| Changes in fair value of debt instruments measured at fair value through other comprehensive income           | (8,899)                       | 1,790      | (7,109)           |
| Amount recognised in equity   | (9,739)                       | 2,000      | (7,739)           |
| Amount reclassified to profit or loss   | 840                           | (210)      | 630               |
| Expected credit losses of debt instruments measured at fair value through other comprehensive income          | 288                           | 8          | 296               |
| Amount recognised in equity   | 288                           | 8          | 296               |
| Amount reclassified to profit or loss   | –                             | –          | –                 |
| Effective portion of gains or losses on hedging instruments in cash flow hedges                               | 745                           | (133)      | 612               |
| Amount recognised in equity   | 875                           | (166)      | 709               |
| Amount reclassified to profit or loss   | (130)                         | 33         | (97)              |
| Translation difference on foreign operations  | 4,122                         | –          | 4,122             |
| Changes in fair value of equity investments designated at FVOCI   | (278)                         | 86         | (192)             |
| Changes in fair value attributable to changes in the credit risk of financial liabilities designated at FVTPL | 46                            | –          | 46                |
| Actuarial gains on pension benefits   | (20)                          | –          | (20)              |
| Others  | 141                           | (9)        | 132               |
| Other comprehensive income for the period   | (3,855)                       | 1,742      | (2,113)           |

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022  
(All amounts presented in millions of RMB except when otherwise indicated)

### 42 OTHER COMPREHENSIVE INCOME (Continued)

|   | Six months ended 30 June 2021 |            |                   |
|---|-------------------------------|------------|-------------------|
|   | Before tax amount             | Tax effect | Net of tax amount |
| Other comprehensive income  |                               |            |                   |
| Changes in fair value of debt instruments measured at fair value through other comprehensive income           | 373                           | –          | 373               |
| Amount recognised in equity   | 820                           | (112)      | 708               |
| Amount reclassified to profit or loss   | (447)                         | 112        | (335)             |
| Expected credit losses of debt instruments measured at fair value through other comprehensive income          | (224)                         | 45         | (179)             |
| Amount recognised in equity   | (224)                         | 45         | (179)             |
| Amount reclassified to profit or loss   | –                             | –          | –                 |
| Effective portion of gains or losses on hedging instruments in cash flow hedges                               | 285                           | (53)       | 232               |
| Amount recognised in equity   | 1,271                         | (299)      | 972               |
| Amount reclassified to profit or loss   | (986)                         | 246        | (740)             |
| Translation difference on foreign operations  | (1,344)                       | –          | (1,344)           |
| Changes in fair value of equity investments designated at FVOCI   | (435)                         | (20)       | (455)             |
| Changes in fair value attributable to changes in the credit risk of financial liabilities designated at FVTPL | (36)                          | –          | (36)              |
| Actuarial gains on pension benefits   | 58                            | –          | 58                |
| Others  | 12                            | –          | 12                |
| Other comprehensive income for the period   | (1,311)                       | (28)       | (1,339)           |

### 43 NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

#### Analysis of the balance of cash and cash equivalents

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise the following balances with maturities of less than or equal to 90 days from date of purchase and used for the purpose of meeting short-term cash commitments:

|   | As at<br>30 June 2022 | As at<br>30 June 2021 |
|---|-----------------------|-----------------------|
| Cash and balances with central banks                                | 68,425                | 131,543               |
| Due from and placements with banks and other financial institutions | 110,718               | 147,086               |
| Total   | 179,143               | 278,629               |

### 44 CONSOLIDATED STRUCTURED ENTITIES

Structured entities consolidated by the Group include certain trust investment plans, funds, and securitisation products issued, managed and invested by the Group. The Group controls these entities because the Group has power over, is exposed to, or has right to variable returns from its involvement with these entities and has the ability to use its power over these entities to affect the amount of the Group's returns. As at 30 June 2022, the consolidated structured entities amounted to RMB186,569 million (31 December 2021: RMB182,733 million).

### 45 UNCONSOLIDATED STRUCTURED ENTITIES

The Group has been involved in other structured entities through acting as sponsors of structured entities or investments in structured entities that provide specialised investment opportunities to investors. These structured entities generally finance the purchase of assets by issuing units of the products. The Group does not control these structured entities and therefore, these structured entities are not consolidated.

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022

(All amounts presented in millions of RMB except when otherwise indicated)

## 45 UNCONSOLIDATED STRUCTURED ENTITIES (Continued)

As at 30 June 2022, those unconsolidated structured entities sponsored by the Group consist primarily of funds, trusts, asset management products, limited partnerships, wealth management products with principals not guaranteed by the Group and securitisation products. The Group earns commission income by providing management services to the investors of these structured entities, such income is not significant to the Group. In addition, the Group is also involved in certain structured entities sponsored by the Group or third parties through direct investments. These investments are recognised as financial investments at fair value through profit or loss, financial investments at fair value through other comprehensive income, and financial investments at amortised cost.

As at 30 June 2022, the balance of the non-principal guaranteed wealth management products set up by the Group amounted to RMB1,276,964 million (As at 31 December 2021: RMB1,426,253 million), the balance of funds issued by the Group amounted to RMB599,312 million, the balance of trusts and asset management plans and others sponsored by the Group amounted to RMB644,250 million (As at 31 December 2021: the balance of funds issued by the Group amounted to RMB547,188 million, the balance of trusts and asset management plans and others sponsored by the Group amounted to RMB721,946 million).

For the six months ended 30 June 2022, the Group's commission income from providing services to the structured entities managed by the Group was RMB5,232 million (For the six months ended 30 June 2021: RMB4,318 million), and no interest income from placements and repurchase transactions with those unconsolidated wealth management products (For the six months ended 30 June 2021: Nil).

As at 30 June 2022 and 31 December 2021, the carrying amount of interests in unconsolidated structured entities held by the Group through investment was set out as follows:

| As at 30 June 2022                     | Carrying amount                |   |                                |                          | Type of income  |
|--|--------------------------------|---|--------------------------------|--------------------------|---|
|  | Financial investments at FVTPL | Financial investments at amortised cost | Financial investments at FVOCI | Maximum exposure to loss |   |
| Funds (including limited partnerships) | 146,909                        | –                                       | 370                            | 147,279                  | Net gains arising from trading activities, other comprehensive income |
| Trusts and asset management products   | 25,534                         | 75,115                                  | –                              | 100,649                  | Net interest income, net gains arising from trading activities        |
| Securitisation products                | 619                            | 210                                     | –                              | 829                      | Net interest income, net gains arising from trading activities        |
| Total                                  | 173,062                        | 75,325                                  | 370                            | 248,757                  |   |

The information of total size of the unconsolidated structured entities listed above is not readily available from the public domain.

| As at 31 December 2021                 | Carrying amount                |   |                                |                          | Type of income  |
|--|--------------------------------|---|--------------------------------|--------------------------|---|
|  | Financial investments at FVTPL | Financial investments at amortised cost | Financial investments at FVOCI | Maximum exposure to loss |   |
| Funds (including limited partnerships) | 147,738                        | –                                       | 620                            | 148,358                  | Net gains arising from trading activities, other comprehensive income |
| Trusts and asset management products   | 13,445                         | 83,245                                  | –                              | 96,690                   | Net interest income, net gains arising from trading activities        |
| Securitisation products                | 63                             | 134                                     | –                              | 197                      | Net interest income, net gains arising from trading activities        |
| Total                                  | 161,246                        | 83,379                                  | 620                            | 245,245                  |   |

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022  
(All amounts presented in millions of RMB except when otherwise indicated)

### 46 TRANSFERS OF FINANCIAL ASSETS

#### (1) Financial assets sold under repurchase agreements

Sales and repurchase agreements are transactions in which the Group sells a security and simultaneously agrees to repurchase it (or an asset that is substantially the same) at a fixed price on a future date. Since the repurchase prices are fixed, the Group is still exposed to substantially all the credit risks and market risks and rewards of those securities sold. These securities, which the Group does not have the ability to use during the term of the arrangements, are not derecognised from the financial statements but regarded as “collateral” for the secured lending. In addition, the Group recognises a financial liability for cash received.

As at 30 June 2022 and 31 December 2021, the Group entered into repurchase agreements with certain counterparties. The proceeds from selling such securities are presented as “financial assets sold under repurchase agreements” (Note 28).

The following table provides a summary of carrying amounts related to the transferred financial assets that are not derecognised and the associated liabilities:

|                                 | Collaterals           |                           | Associated liabilities |                           |
|---------------------------------|-----------------------|---------------------------|------------------------|---------------------------|
|                                 | As at<br>30 June 2022 | As at<br>31 December 2021 | As at<br>30 June 2022  | As at<br>31 December 2021 |
| Investment securities           | 7,277                 | –                         | 6,165                  | –                         |
| Loans and advances to customers | 1                     | –                         | 1                      | –                         |
| Total                           | 7,278                 | –                         | 6,166                  | –                         |

#### (2) Securities lending transactions

Transferred financial assets that do not qualify for de-recognition mainly include debt securities lent to counterparties under securities lending agreements. The counterparties are allowed to sell or repledge those securities lent under agreements to repurchase in the absence of default by the Group, but has an obligation to return the securities at the maturity of the contract. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. As at 30 June 2022, the carrying value of debt securities lent to counterparties was RMB7,293 million (31 December 2021: RMB13,900 million).

#### (3) Asset securitization

As part of its operational activities, the Group securitises financial assets, generally through the sale of these assets to structured entities which then issue securities to investors.

The Group retains interests in the form of subordinated tranches which may give rise to the Group’s continuing involvement in the transferred assets. Those financial assets are recognised on the consolidated statement of financial position to the extent of the Group’s continuing involvement, while the rest are derecognised. The extent of the Group’s continuing involvement is the extent of risk the Group faces due to changes in the value of the transferred assets.

As at 30 June 2022, loans with an original value of RMB71,204 million and carrying amount of RMB59,024 million (31 December 2021: RMB66,061 million and RMB56,834 million) have been securitised by the Group, among which the Group transferred financial assets amounted to RMB19,070 million through assets backed securitization transactions, and all have met the requirement of derecognition (31 December 2021: RMB13,927 million, all have met the requirement of derecognition).

As at 30 June 2022, the Group retained their continued involvement in securitised credit assets by holding subordinated securities. The value of the assets that the Group continued to recognise was RMB5,529 million (31 December 2021: RMB5,529 million).



## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022

(All amounts presented in millions of RMB except when otherwise indicated)

## 46 TRANSFERS OF FINANCIAL ASSETS (Continued)

## (4) Disposal of non-performing loans and advances to customers

The Group disposes non-performing loans and advances to customers through transferring to third parties in the normal course of business. For the six months ended 30 June 2022, the Group had batch transferred non-performing loans and advances to customers with a gross carrying amount of RMB1,104 million (For the six months ended 30 June 2021: RMB8,718 million) and collected cash totalling RMB818 million (For the six months ended 30 June 2021: RMB5,543 million) from the transfer. The difference between the gross carrying amount and the cash collected had been written off. The Group derecognised the non-performing loans and advances to customers from the Group's financial statements at the time of disposal.

## 47 RELATED PARTY TRANSACTIONS

## (1) Transactions with the MOF

As at 30 June 2022, the MOF held 17,732 million (31 December 2021: 17,732 million) ordinary shares of Bank of Communications Co., Ltd. which represented 23.88% (31 December 2021: 23.88%) of the total share capital.

The MOF is a Chinese government ministry, primarily responsible for managing state fiscal revenue and expenditures, and establishing and enforcing taxation policies. The Group enters into banking transactions with the MOF under normal commercial terms and at market rates. These transactions mainly include the purchase and redemption of financial investments issued by the MOF.

Details of transaction volumes and outstanding balances are summarised below:

|   | As at<br>30 June 2022    | As at<br>31 December 2021 |
|---|--------------------------|---------------------------|
| Bonds issued by the MOF investment        | 997,494                  | 974,910                   |
|   | Six months ended 30 June |                           |
|   | 2022                     | 2021                      |
| Interest income                           | 13,710                   | 12,445                    |
| Net gains arising from trading activities | 625                      | 47                        |

## (2) Transactions with the National Council for Social Security Fund

As at 30 June 2022, the National Council for Social Security Fund held 12,156 million (31 December 2021: 12,160 million) ordinary shares of Bank of Communications Co., Ltd. which represented 16.37% (31 December 2021: 16.37%) of the total share capital.

The National Council for Social Security Fund was incorporated in 2000, which is an independent legal entity under the management of the Ministry of Finance, responsible for managing and operating the national social security fund. Its legal representative is Liu Wei, its registered capital is RMB8.00 million and its registered address is South Fortune Times Building, No. 11 Fenghuiyuan, Xicheng District, Beijing. The Group enters into transactions with the National Council for Social Security Fund in the normal course of business and they mainly include deposits which are carried out under normal commercial terms and paid at market rates.

Details of transaction volumes and outstanding balances are summarised below:

|                         | As at<br>30 June 2022    | As at<br>31 December 2021 |
|-------------------------|--------------------------|---------------------------|
| Deposits from customers | (93,661)                 | (92,373)                  |
|                         | Six months ended 30 June |                           |
|                         | 2022                     | 2021                      |
| Interest expenses       | (1,912)                  | (1,836)                   |

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022  
(All amounts presented in millions of RMB except when otherwise indicated)

### 47 RELATED PARTY TRANSACTIONS *(Continued)*

#### (3) Transactions with the Hongkong and Shanghai Banking Corporation Limited (“HSBC”) Group and its joint ventures

As at 30 June 2022, HSBC held 14,136 million (31 December 2021: 14,136 million) ordinary shares of the Bank of Communications Co., Ltd. which represented 19.03% (31 December 2021: 19.03%) of the total share capital.

HSBC was incorporated in 1866, primarily providing local and international banking services, and related financial services in the Asia-Pacific region. Its Co-chief Executive Officer is Liao, Yi Chien David and Surendra Rosha, and its registered address is 1 Queen’s Road Central, Central, Hong Kong. The ordinary share capital of HSBC is HKD123,958 million and USD7,198 million, which was divided into 49,579 million ordinary shares. Transactions between the Group and HSBC are carried out under normal commercial terms and paid at market rates.

Details of transaction volumes and outstanding balances are summarised below:

|   | As at<br>30 June 2022    | As at<br>31 December 2021 |
|---|--------------------------|---------------------------|
| On-balance sheet items  |                          |                           |
| Due from and placements with banks and other financial institutions | 3,745                    | 3,338                     |
| Derivative financial assets   | 4,505                    | 1,672                     |
| Loans and advances to customers                                     | 464                      | –                         |
| Financial investments at FVTPL                                      | 2,083                    | 1,931                     |
| Financial investments at amortised cost                             | 1,177                    | 419                       |
| Financial investments at FVOCI                                      | 2,288                    | 4,052                     |
| Due to and placements from banks and other financial institutions   | (16,151)                 | (17,083)                  |
| Financial liabilities at FVTPL                                      | (1,761)                  | (1,424)                   |
| Derivative financial liabilities                                    | (1,986)                  | (1,613)                   |
| Off-balance sheet items   |                          |                           |
| Notional principal of derivative financial instruments              | 253,214                  | 240,864                   |
| Credit related commitments and financial guarantees                 | 54                       | –                         |
|   |                          |                           |
|   | Six months ended 30 June |                           |
|   | 2022                     | 2021                      |
| Interest income   | 112                      | 65                        |
| Interest expense  | (27)                     | (55)                      |
| Fee and commission income   | –                        | 1                         |
| Fee and commission expense  | (7)                      | (2)                       |
| Net gains from trading activities                                   | 857                      | 1,214                     |

#### (4) Transactions with state-owned entities in PRC

The Group operates in an economic environment predominated by enterprises directly or indirectly owned and/or controlled by the government through its authorities, affiliates or other organisations (collectively the “state-owned entities”). During the period, the Group entered into extensive banking transactions with these state-owned entities including, but not limited to, the provision of credit and guarantees, deposits, foreign exchange, derivatives transactions, agency business, underwriting and distribution of bonds issued by the government as well as trading and redemption of securities issued by the government.

Management considers that transactions with state-owned entities are activities conducted in the ordinary course of business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and these state-owned entities are ultimately controlled or owned by the government. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are state-owned entities.

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022

(All amounts presented in millions of RMB except when otherwise indicated)

## 47 RELATED PARTY TRANSACTIONS (Continued)

## (5) Transactions with subsidiaries

Transactions between the Bank and its subsidiaries are carried out under normal commercial terms and paid at market rates. These transactions are eliminated on consolidation. Basic information and relevant details of subsidiaries are set out in note 23.

Details of transaction volumes and outstanding balances are summarised below:

| The Bank  | As at<br>30 June 2022 | As at<br>31 December 2021 |
|---|-----------------------|---------------------------|
| Due from and placements with banks and other financial institutions | 162,724               | 123,461                   |
| Derivative financial assets   | 1,152                 | 793                       |
| Loans and advances to customers                                     | 501                   | 486                       |
| Financial investments at FVTPL                                      | 261                   | 433                       |
| Financial investments at amortised cost                             | 1,278                 | 1,551                     |
| Financial investments at FVOCI                                      | 9,719                 | 11,455                    |
| Other assets  | 1,438                 | 766                       |
| Due to and placements from banks and other financial institutions   | (16,560)              | (14,523)                  |
| Derivative financial liabilities                                    | (8,129)               | (1,851)                   |
| Deposits from customers   | (7,786)               | (11,683)                  |
| Other liabilities   | (91)                  | (119)                     |

| The Bank                                  | Six months ended 30 June |       |
|---|--------------------------|-------|
|   | 2022                     | 2021  |
| Interest income                           | 1,329                    | 1,041 |
| Interest expense                          | (174)                    | (112) |
| Fee and commission income                 | 960                      | 909   |
| Fee and commission expense                | (29)                     | (56)  |
| Net gains arising from trading activities | 746                      | 817   |
| Other operating income                    | 301                      | 294   |
| Other operating expense                   | (51)                     | (21)  |

## (6) Transactions with directors, supervisors and senior management

Transactions with directors, supervisors, senior management, their close relatives and entities that are controlled, jointly controlled or significantly influenced by either such directors, supervisors and senior management or their close relatives mainly include loans and deposits and are carried out under normal commercial terms and paid at market rates.

Details of transaction volumes and outstanding balances are summarised below:

|                                 | As at<br>30 June 2022 | As at<br>31 December 2021 |
|---------------------------------|-----------------------|---------------------------|
| Loans and advances to customers | 1                     | 1                         |
| Deposits from customers         | (10)                  | (10)                      |

Compensations of directors and senior management are disclosed in Note 15.

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022  
(All amounts presented in millions of RMB except when otherwise indicated)

### 47 RELATED PARTY TRANSACTIONS *(Continued)*

#### (7) Transactions with associates and joint ventures

Transactions between the Group and its associates and joint ventures are carried out under normal commercial terms and paid at market rates. Basic information and relevant details of associates and joint ventures are set out in note 24.

Details of transaction volumes and outstanding balances are summarised below:

|   | As at<br>30 June 2022    | As at<br>31 December 2021 |
|---|--------------------------|---------------------------|
| On-balance sheet items  |                          |                           |
| Due from and placements with banks and other financial institutions | 500                      | 500                       |
| Derivative financial assets   | 29                       | 31                        |
| Loans and advances to customers                                     | 10,798                   | 6,041                     |
| Due to and placements from banks and other financial institutions   | (171)                    | (104)                     |
| Derivative financial liabilities                                    | (2)                      | (35)                      |
| Off-balance sheet items   |                          |                           |
| Notional principal of derivative financial instruments              | 3,972                    | 6,947                     |
| Credit related commitments and financial guarantees                 | 16,257                   | 12,126                    |
|   | Six months ended 30 June |                           |
|   | 2022                     | 2021                      |
| Interest income   | 175                      | 107                       |
| Interest expense  | (19)                     | (3)                       |
| Net (losses)/gains from trading activities                          | (3)                      | 9                         |

#### (8) Transactions with other related parties

Details of transaction volumes and outstanding balances are summarised below:

|   | As at<br>30 June 2022    | As at<br>31 December 2021 |
|---|--------------------------|---------------------------|
| On-balance sheet items  |                          |                           |
| Loans and advances to customers                                   | 508                      | 1,080                     |
| Due to and placements from banks and other financial institutions | (60)                     | (1,204)                   |
| Deposits from customers   | (84,548)                 | (79,787)                  |
| Off-balance sheet items   |                          |                           |
| Credit related commitments and financial guarantees               | 20                       | –                         |
|   | Six months ended 30 June |                           |
|   | 2022                     | 2021                      |
| Interest income   | 8                        | 12                        |
| Interest expense  | (1,509)                  | (1,180)                   |

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022

(All amounts presented in millions of RMB except when otherwise indicated)

## 47 RELATED PARTY TRANSACTIONS (Continued)

## (9) Proportion of major related party transactions

The major balances and transactions with subsidiaries have been eliminated in the consolidated financial statements. When calculating the proportion of related party transactions, transactions with the subsidiary are not involved.

|   | As at 30 June 2022 |       | As at 31 December 2021 |        |
|---|--------------------|-------|------------------------|--------|
|   | Balances           | %     | Balances               | %      |
| On-balance sheet items  |                    |       |                        |        |
| Due from and placements with banks and other financial institutions | 4,245              | 0.53  | 3,838                  | 0.61   |
| Derivative financial assets   | 4,534              | 8.07  | 1,703                  | 4.34   |
| Loans and advances to customers                                     | 11,771             | 0.17  | 7,122                  | 0.11   |
| Financial investments   | 1,003,042          | 27.16 | 981,312                | 27.85  |
| Due to and placements from banks and other financial institutions   | (16,382)           | 0.86  | (18,391)               | 0.94   |
| Financial liabilities at FVTPL                                      | (1,761)            | 2.94  | (1,424)                | 2.85   |
| Derivative financial liabilities                                    | (1,988)            | 5.03  | (1,648)                | 4.57   |
| Deposits from customers   | (178,219)          | 2.28  | (172,170)              | 2.45   |
| Off-balance sheet items   |                    |       |                        |        |
| Notional principal of derivative financial instruments              | 257,186            | 3.88  | 247,811                | 3.48   |
| Credit related commitments and financial guarantees                 | 16,331             | 0.79  | 12,126                 | 0.65   |
| Six months ended 30 June  |                    |       |                        |        |
|   | 2022               |       | 2021                   |        |
|   | Amount             | %     | Amount                 | %      |
| Interest income   | 14,005             | 6.91  | 12,629                 | 6.87   |
| Interest expense  | (3,467)            | 2.95  | (3,074)                | 2.91   |
| Fee and commission income   | —                  | —     | 1                      | (0.00) |
| Fee and commission expense  | (7)                | 0.29  | (2)                    | 0.09   |
| Net gains from trading activities                                   | 1,479              | 14.86 | 1,270                  | 12.49  |

## 48 SEGMENTAL ANALYSIS

Operating segments are identified based on the structure of the Group's internal organization and management requirements. Management monitors the operating results of the Group's business units separately for the purpose of making decisions about resources allocation and performance assessment. Segment information is prepared in conformity with the accounting policies adopted for preparing and presenting the financial statements of the Group.

Segment revenues, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. The basis for allocation is mainly based on occupation of or contribution to resources. Income taxes are managed on a group basis and are not allocated to operating segments.

Funds are ordinarily allocated between segments. Costs of these funds are charged at the Group's cost of capital and disclosed in inter-segment net interest income. There are no other material items of income or expenses between the segments. Net interest income and expense relating to third parties are disclosed in external net interest income. There are no other material items of income or expenses between the segments.

### Geographical operating segment information

The Group's Board of Directors and senior management reviews the Group's operation by the particular economic areas in which the Group's branches and subsidiaries provide products or services. The Group's geographical operating segments are decided based upon location of the assets, as the Group's branches and subsidiaries mainly serve local customers.

The Group's geographical operating segments include provincial and directly managed branches and subsidiaries (if any) in relevant regions, as follows:

- Yangtze River Delta: including Shanghai (excluding Head Office), Jiangsu Province, Zhejiang Province, and Anhui Province;
- Pearl River Delta: including Fujian Province and Guangdong Province;
- Bohai Rim Economic Zone: including Beijing, Tianjin, Hebei Province, and Shandong Province;
- Central China: including Shanxi Province, Jiangxi Province, Henan Province, Hubei Province, Hunan Province, Hainan Province, and Guangxi Zhuang Autonomous Region;
- Western China: including Chongqing, Sichuan Province, Guizhou Province, Yunnan Province, Shanxi Province, Gansu Province, Qinghai Province, Inner Mongolia Autonomous Region, Ningxia Autonomous Region, and Xinjiang Uyghur Autonomous Region;
- Northeastern China: including Liaoning Province, Jilin Province and Heilongjiang Province;
- Overseas: including Hong Kong, New York, Tokyo, Singapore, Seoul, Frankfurt, Macau, Ho Chi Minh City, San Francisco, Sydney, Taipei, London, Luxembourg, Brisbane, Paris, Rome, Brazil, Melbourne, Toronto, Prague, Johannesburg;
- Head Office, including the Pacific Credit Card Centre.

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022

(All amounts presented in millions of RMB except when otherwise indicated)

## 48 SEGMENTAL ANALYSIS (Continued)

## Geographical operating segment information (Continued)

|  | Six months ended 30 June 2022 |                      |                               |               |               |                        |          |             | Total    |
|--|-------------------------------|----------------------|-------------------------------|---------------|---------------|------------------------|----------|-------------|----------|
|  | Yangtze<br>River Delta        | Pearl<br>River Delta | Bohai Rim<br>Economic<br>Zone | Central China | Western China | North Eastern<br>China | Overseas | Head Office |          |
| External net interest income/<br>(expense)             | 14,968                        | 6,817                | (185)                         | 11,644        | 9,207         | (143)                  | 5,246    | 37,539      | 85,093   |
| Inter-segment net interest<br>income/(expense)         | 10,552                        | 3,107                | 12,512                        | 3,615         | 677           | 3,167                  | (47)     | (33,583)    | -        |
| Net interest income                                    | 25,520                        | 9,924                | 12,327                        | 15,259        | 9,884         | 3,024                  | 5,199    | 3,956       | 85,093   |
| Fee and commission income                              | 7,875                         | 2,098                | 3,116                         | 3,163         | 1,665         | 607                    | 1,208    | 7,340       | 27,072   |
| Fee and commission expense                             | (1,620)                       | (23)                 | (34)                          | (72)          | (11)          | (8)                    | (111)    | (539)       | (2,418)  |
| Net fee and commission<br>income                       | 6,255                         | 2,075                | 3,082                         | 3,091         | 1,654         | 599                    | 1,097    | 6,801       | 24,654   |
| Net gains/(loss) arising from<br>trading activities    | 2,168                         | 256                  | 253                           | 427           | 39            | 37                     | (1,148)  | 7,922       | 9,954    |
| Net gains/(loss) arising from<br>financial investments | 730                           | -                    | 27                            | -             | -             | 13                     | 161      | (271)       | 660      |
| Insurance business income                              | 13,488                        | -                    | -                             | -             | -             | -                      | 31       | -           | 13,519   |
| Share of profits of associates<br>and joint ventures   | (36)                          | -                    | -                             | -             | -             | -                      | 4        | 102         | 70       |
| Other operating income                                 | 7,486                         | 245                  | 514                           | 378           | 378           | 122                    | 150      | 345         | 9,618    |
| Total operating income -net                            | 55,611                        | 12,500               | 16,203                        | 19,155        | 11,955        | 3,795                  | 5,494    | 18,855      | 143,568  |
| Credit impairment losses                               | (7,307)                       | (4,791)              | (9,342)                       | 331           | (5,753)       | (1,792)                | (942)    | (7,231)     | (36,827) |
| Other assets impairment losses                         | (676)                         | (3)                  | (3)                           | (4)           | (1)           | (3)                    | -        | -           | (690)    |
| Insurance business expense                             | (13,784)                      | -                    | -                             | -             | -             | -                      | (6)      | -           | (13,790) |
| Other operating expense                                | (12,975)                      | (3,513)              | (4,507)                       | (4,777)       | (3,366)       | (1,721)                | (2,295)  | (13,490)    | (46,644) |
| Profit/(loss) before tax                               | 20,869                        | 4,193                | 2,351                         | 14,705        | 2,835         | 279                    | 2,251    | (1,866)     | 45,617   |
| Income tax   |                               |                      |                               |               |               |                        |          |             | (1,485)  |
| Net profit for the period                              |                               |                      |                               |               |               |                        |          |             | 44,132   |
| Depreciation and amortisation                          | (910)                         | (473)                | (566)                         | (569)         | (473)         | (245)                  | (217)    | (757)       | (4,210)  |
| Capital expenditure                                    | (19,504)                      | (276)                | (531)                         | (278)         | (194)         | (66)                   | (242)    | (489)       | (21,580) |

# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022  
(All amounts presented in millions of RMB except when otherwise indicated)

## 48 SEGMENTAL ANALYSIS (Continued)

### Geographical operating segment information (Continued)

|   | Six months ended 30 June 2021 |                      |                               |                  |                  |                        |              |               |                |
|---|-------------------------------|----------------------|-------------------------------|------------------|------------------|------------------------|--------------|---------------|----------------|
|   | Yangtze<br>River Delta        | Pearl<br>River Delta | Bohai Rim<br>Economic<br>Zone | Central<br>China | Western<br>China | North Eastern<br>China | Overseas     | Head Office   | Total          |
| External net interest income                        | 12,041                        | 6,126                | 293                           | 11,035           | 8,069            | 390                    | 5,341        | 35,191        | 78,486         |
| Inter-segment net interest income/(expense)         | 10,507                        | 3,040                | 10,933                        | 3,392            | 931              | 2,484                  | 75           | (31,362)      | -              |
| <b>Net interest income</b>                          | <b>22,548</b>                 | <b>9,166</b>         | <b>11,226</b>                 | <b>14,427</b>    | <b>9,000</b>     | <b>2,874</b>           | <b>5,416</b> | <b>3,829</b>  | <b>78,486</b>  |
| Fee and commission income                           | 7,977                         | 1,940                | 3,073                         | 3,128            | 1,654            | 632                    | 1,487        | 7,408         | 27,299         |
| Fee and commission expense                          | (1,523)                       | (21)                 | (35)                          | (50)             | (13)             | (9)                    | (120)        | (562)         | (2,333)        |
| <b>Net fee and commission income</b>                | <b>6,454</b>                  | <b>1,919</b>         | <b>3,038</b>                  | <b>3,078</b>     | <b>1,641</b>     | <b>623</b>             | <b>1,367</b> | <b>6,846</b>  | <b>24,966</b>  |
| Net gains arising from trading activities           | 2,238                         | 290                  | 173                           | 322              | 40               | 14                     | 6            | 7,086         | 10,169         |
| Net gains/(loss) arising from financial investments | 457                           | -                    | 27                            | -                | -                | 11                     | 326          | (49)          | 772            |
| Insurance business income                           | 10,998                        | -                    | -                             | -                | -                | -                      | 24           | -             | 11,022         |
| Share of profits of associates and joint ventures   | -                             | -                    | -                             | -                | -                | -                      | 12           | 102           | 114            |
| Other operating income                              | 7,216                         | 186                  | 380                           | 288              | 261              | 95                     | 14           | 82            | 8,522          |
| <b>Total operating income -net</b>                  | <b>49,911</b>                 | <b>11,561</b>        | <b>14,844</b>                 | <b>18,115</b>    | <b>10,942</b>    | <b>3,617</b>           | <b>7,165</b> | <b>17,896</b> | <b>134,051</b> |
| Credit impairment losses                            | (4,038)                       | (4,042)              | (7,917)                       | (3,747)          | (4,386)          | (3,157)                | (291)        | (5,504)       | (33,082)       |
| Other assets impairment losses                      | (270)                         | -                    | (1)                           | 2                | (39)             | (110)                  | -            | -             | (418)          |
| Insurance business expense                          | (10,922)                      | -                    | -                             | -                | -                | -                      | (3)          | -             | (10,925)       |
| Other operating expense                             | (12,824)                      | (3,371)              | (4,562)                       | (4,764)          | (3,245)          | (1,838)                | (2,210)      | (10,224)      | (43,038)       |
| <b>Profit/(loss) before tax</b>                     | <b>21,857</b>                 | <b>4,148</b>         | <b>2,364</b>                  | <b>9,606</b>     | <b>3,272</b>     | <b>(1,488)</b>         | <b>4,661</b> | <b>2,168</b>  | <b>46,588</b>  |
| Income tax  |                               |                      |                               |                  |                  |                        |              |               | (3,715)        |
| <b>Net profit for the period</b>                    |                               |                      |                               |                  |                  |                        |              |               | <b>42,873</b>  |
| Depreciation and amortisation                       | (897)                         | (451)                | (558)                         | (548)            | (465)            | (243)                  | (243)        | (572)         | (3,977)        |
| Capital expenditure                                 | (7,092)                       | (51)                 | (100)                         | (230)            | (158)            | (42)                   | (140)        | (358)         | (8,171)        |

|  | As at 30 June 2022     |                      |   |                  |                  |                        |             |             |              |                     |
|--|------------------------|----------------------|---|------------------|------------------|------------------------|-------------|-------------|--------------|---------------------|
|  | Yangtze<br>River Delta | Pearl<br>River Delta | Bohai Rim<br>Economic North<br>Eastern Zone | Central<br>China | Western<br>China | North Eastern<br>China | Overseas    | Head Office | Eliminations | Total               |
| Segment assets                               | 3,072,103              | 1,191,446            | 1,867,793                                   | 1,407,670        | 933,375          | 444,167                | 1,179,441   | 4,684,466   | (2,238,741)  | 12,541,720          |
| Including:                                   |                        |                      |   |                  |                  |                        |             |             |              |                     |
| Investments in associates and joint ventures | 1,458                  | -                    | -   | 1                | -                | -                      | 540         | 5,390       | -            | 7,389               |
| Unallocated assets                           |                        |                      |   |                  |                  |                        |             |             |              | 38,856              |
| <b>Total assets</b>                          |                        |                      |   |                  |                  |                        |             |             |              | <b>12,580,576</b>   |
| Segment liabilities                          | (2,842,161)            | (1,184,529)          | (1,859,208)                                 | (1,377,125)      | (930,687)        | (445,993)              | (1,117,984) | (4,071,186) | 2,238,741    | (11,590,132)        |
| Unallocated liabilities                      |                        |                      |   |                  |                  |                        |             |             |              | (1,508)             |
| <b>Total liabilities</b>                     |                        |                      |   |                  |                  |                        |             |             |              | <b>(11,591,640)</b> |



## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022

(All amounts presented in millions of RMB except when otherwise indicated)

## 48 SEGMENTAL ANALYSIS (Continued)

## Geographical operating segment information (Continued)

As at 31 December 2021

|  | Yangtze<br>River Delta | Pearl<br>River Delta | Bohai Rim<br>Economic North<br>Eastern Zone | Central China | Western China | North<br>Eastern China | Overseas    | Head Office | Eliminations | Total        |
|--|------------------------|----------------------|---|---------------|---------------|------------------------|-------------|-------------|--------------|--------------|
| Segment assets                               | 2,881,066              | 1,059,386            | 1,711,386                                   | 1,277,003     | 881,918       | 409,288                | 1,095,657   | 4,459,033   | (2,141,041)  | 11,633,696   |
| Including:                                   |                        |                      |   |               |               |                        |             |             |              |              |
| Investments in associates and joint ventures | 4                      | -                    | -   | 1             | -             | -                      | 201         | 5,573       | -            | 5,779        |
| Unallocated assets                           |                        |                      |   |               |               |                        |             |             |              | 32,061       |
| <b>Total assets</b>                          |                        |                      |   |               |               |                        |             |             |              | 11,665,757   |
| Segment liabilities                          | (2,658,802)            | (1,042,577)          | (1,688,784)                                 | (1,239,658)   | (870,308)     | (417,068)              | (1,046,572) | (3,863,904) | 2,141,041    | (10,686,632) |
| Unallocated liabilities                      |                        |                      |   |               |               |                        |             |             |              | (1,889)      |
| <b>Total liabilities</b>                     |                        |                      |   |               |               |                        |             |             |              | (10,688,521) |

Given the adjustment to the standards of dividing segments, the comparative figures were stated under existing standards.

## Business information

The Group is engaged predominantly in banking and related financial activities. It comprises corporate banking, personal banking, treasury and other business. Corporate banking mainly comprises corporate loans, bills, trade financing, corporate deposits and remittance. Personal banking mainly comprises personal loans, personal deposits, credit cards and remittance. Treasury mainly comprises money market placements and takings, financial investment, and securities sold under repurchase agreements. The "Others Business" segment mainly comprises items which cannot be categorised in the above business segments.

The business information of the Group is summarised as follows:

|  | Six months ended 30 June 2022    |                                 |                      |                   |                |
|--|----------------------------------|---------------------------------|----------------------|-------------------|----------------|
|  | Corporate<br>Banking<br>Business | Personal<br>Banking<br>Business | Treasury<br>Business | Other<br>Business | Total          |
| External net interest income                             | 36,265                           | 27,684                          | 21,048               | 96                | 85,093         |
| Inter-segment net interest income/(expense)              | 6,964                            | 9,702                           | (16,666)             | -                 | -              |
| Net interest income                                      | 43,229                           | 37,386                          | 4,382                | 96                | 85,093         |
| Net fee and commission income                            | 7,671                            | 15,390                          | 1,509                | 84                | 24,654         |
| Net gains/(loss) arising from trading activities         | 2,364                            | 377                             | 7,231                | (18)              | 9,954          |
| Net gains/(loss) arising from financial investments      | 35                               | 693                             | (68)                 | -                 | 660            |
| Share of (loss)/profits of associates and joint ventures | (2)                              | -                               | (36)                 | 108               | 70             |
| Insurance business income                                | 31                               | 13,488                          | -                    | -                 | 13,519         |
| Other operating income                                   | 8,075                            | 1,258                           | 29                   | 256               | 9,618          |
| <b>Total operating income-net</b>                        | <b>61,403</b>                    | <b>68,592</b>                   | <b>13,047</b>        | <b>526</b>        | <b>143,568</b> |
| Credit impairment losses                                 | (26,641)                         | (10,492)                        | 306                  | -                 | (36,827)       |
| Other assets impairment losses                           | (675)                            | (15)                            | -                    | -                 | (690)          |
| Insurance business expense                               | (6)                              | (13,784)                        | -                    | -                 | (13,790)       |
| Other operating expense                                  |                                  |                                 |                      |                   |                |
| – Depreciation and amortisation                          | (1,647)                          | (2,267)                         | (253)                | (43)              | (4,210)        |
| – Others   | (18,531)                         | (21,208)                        | (2,073)              | (622)             | (42,434)       |
| <b>Profit/(loss) before tax</b>                          | <b>13,903</b>                    | <b>20,826</b>                   | <b>11,027</b>        | <b>(139)</b>      | <b>45,617</b>  |
| Income tax   |                                  |                                 |                      |                   | (1,485)        |
| <b>Net profit for the period</b>                         |                                  |                                 |                      |                   | <b>44,132</b>  |
| Depreciation and amortisation                            | (1,647)                          | (2,267)                         | (253)                | (43)              | (4,210)        |
| Capital expenditure                                      | (20,132)                         | (1,233)                         | (146)                | (69)              | (21,580)       |

# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022  
(All amounts presented in millions of RMB except when otherwise indicated)

## 48 SEGMENTAL ANALYSIS (Continued)

### Business information (Continued)

|   | Six months ended 30 June 2021    |                                 |                      |                   |                |
|---|----------------------------------|---------------------------------|----------------------|-------------------|----------------|
|   | Corporate<br>Banking<br>Business | Personal<br>Banking<br>Business | Treasury<br>Business | Other<br>Business | Total          |
| External net interest income                      | 34,216                           | 24,920                          | 19,320               | 30                | 78,486         |
| Inter-segment net interest income/(expense)       | 7,989                            | 9,126                           | (17,115)             | –                 | –              |
| Net interest income                               | 42,205                           | 34,046                          | 2,205                | 30                | 78,486         |
| Net fee and commission income                     | 8,255                            | 15,538                          | 1,094                | 79                | 24,966         |
| Net gains arising from trading activities         | 2,956                            | 623                             | 6,451                | 139               | 10,169         |
| Net gains arising from financial investments      | 29                               | 442                             | 301                  | –                 | 772            |
| Share of profits of associates and joint ventures | –                                | –                               | –                    | 114               | 114            |
| Insurance business income                         | 24                               | 10,998                          | –                    | –                 | 11,022         |
| Other operating income                            | 7,024                            | 1,239                           | 21                   | 238               | 8,522          |
| <b>Total operating income-net</b>                 | <b>60,493</b>                    | <b>62,886</b>                   | <b>10,072</b>        | <b>600</b>        | <b>134,051</b> |
| Credit impairment losses                          | (27,951)                         | (5,603)                         | 472                  | –                 | (33,082)       |
| Other assets impairment losses                    | (418)                            | –                               | –                    | –                 | (418)          |
| Insurance business expense                        | (3)                              | (10,922)                        | –                    | –                 | (10,925)       |
| Other operating expense                           |                                  |                                 |                      |                   |                |
| – Depreciation and amortisation                   | (1,450)                          | (1,918)                         | (378)                | (231)             | (3,977)        |
| – Others  | (17,503)                         | (19,745)                        | (1,626)              | (187)             | (39,061)       |
| <b>Profit before tax</b>                          | <b>13,168</b>                    | <b>24,698</b>                   | <b>8,540</b>         | <b>182</b>        | <b>46,588</b>  |
| Income tax  |                                  |                                 |                      |                   | (3,715)        |
| <b>Net profit for the period</b>                  |                                  |                                 |                      |                   | <b>42,873</b>  |
| Depreciation and amortisation                     | (1,450)                          | (1,918)                         | (378)                | (231)             | (3,977)        |
| Capital expenditure                               | (2,979)                          | (3,941)                         | (777)                | (474)             | (8,171)        |

|  | As at 30 June 2022               |                                 |                      |                   |                     |
|--|----------------------------------|---------------------------------|----------------------|-------------------|---------------------|
|  | Corporate<br>Banking<br>Business | Personal<br>Banking<br>Business | Treasury<br>Business | Other<br>Business | Total               |
| Segment assets                               | 5,157,711                        | 2,480,399                       | 4,804,850            | 98,760            | 12,541,720          |
| Including:                                   |                                  |                                 |                      |                   |                     |
| Investments in associates and joint ventures | 1,257                            | 4                               | 1,454                | 4,674             | 7,389               |
| Unallocated assets                           |                                  |                                 |                      |                   | 38,856              |
| <b>Total assets</b>                          |                                  |                                 |                      |                   | <b>12,580,576</b>   |
| Segment liabilities                          | (5,469,274)                      | (2,886,252)                     | (3,118,989)          | (110,664)         | (11,585,179)        |
| Unallocated liabilities                      |                                  |                                 |                      |                   | (6,461)             |
| <b>Total liabilities</b>                     |                                  |                                 |                      |                   | <b>(11,591,640)</b> |

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2022

(All amounts presented in millions of RMB except when otherwise indicated)

## 48 SEGMENTAL ANALYSIS (Continued)

## Business information (Continued)

|  | As at 31 December 2021           |                                 |                      |                   |              |
|--|----------------------------------|---------------------------------|----------------------|-------------------|--------------|
|  | Corporate<br>Banking<br>Business | Personal<br>Banking<br>Business | Treasury<br>Business | Other<br>Business | Total        |
| Segment assets                               | 4,645,110                        | 2,385,982                       | 4,530,160            | 72,444            | 11,633,696   |
| Including:                                   |                                  |                                 |                      |                   |              |
| Investments in associates and joint ventures | 1,156                            | 4                               | –                    | 4,619             | 5,779        |
| Unallocated assets                           |                                  |                                 |                      |                   | 32,061       |
| <b>Total assets</b>                          |                                  |                                 |                      |                   | 11,665,757   |
| Segment liabilities                          | (4,999,768)                      | (2,533,625)                     | (3,078,851)          | (69,663)          | (10,681,907) |
| Unallocated liabilities                      |                                  |                                 |                      |                   | (6,614)      |
| <b>Total liabilities</b>                     |                                  |                                 |                      |                   | (10,688,521) |

There were no significant transactions with a single external customer that the Group mainly relied on.

The comparative information was prepared in accordance with the categorisation of the current period since the assessment rules of the income and expense distribution between various business segments have been adjusted.

## 49 NON-ADJUSTING EVENTS AFTER REPORTING PERIOD

In August 2022, the Bank issued a green financial bond of RMB20,000 million with a maturity of 3 years and a coupon rate of 2.42% on the national interbank bond market.

## 50 COMPARATIVE FIGURES

Certain comparative amounts have been reclassified to conform with the current period's presentation.

# UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(All amounts expressed in millions of RMB unless otherwise stated)

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## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(All amounts expressed in millions of RMB unless otherwise stated)

## 1 CURRENCY CONCENTRATIONS

|                               | USD         | HKD       | Others    | Total       |
|-------------------------------|-------------|-----------|-----------|-------------|
| <b>As at 30 June 2022</b>     |             |           |           |             |
| Spot assets                   | 1,125,662   | 237,597   | 210,675   | 1,573,934   |
| Spot liabilities              | (980,040)   | (319,687) | (150,710) | (1,450,437) |
| Forward purchases             | 1,295,300   | 217,592   | 173,900   | 1,686,792   |
| Forward sales                 | (1,387,609) | (223,433) | (169,099) | (1,780,141) |
| Net option position           | 1,769       | 404       | (1,827)   | 346         |
| Net long/(short) position     | 55,082      | (87,527)  | 62,939    | 30,494      |
| Net structural position       | 131,787     | 31,290    | 7,785     | 170,862     |
|                               |             |           |           |             |
|                               | USD         | HKD       | Others    | Total       |
| <b>As at 31 December 2021</b> |             |           |           |             |
| Spot assets                   | 1,016,873   | 233,474   | 174,843   | 1,425,190   |
| Spot liabilities              | (956,839)   | (305,411) | (125,300) | (1,387,550) |
| Forward purchases             | 1,446,642   | 227,581   | 171,559   | 1,845,782   |
| Forward sales                 | (1,571,846) | (130,762) | (222,085) | (1,924,693) |
| Net option position           | 5,503       | (12)      | (747)     | 4,744       |
| Net long/(short) position     | (59,667)    | 24,870    | (1,730)   | (36,527)    |
| Net structural position       | 121,168     | 31,246    | 7,799     | 160,213     |

The net options position is calculated using the approach set out by the CBIRC in the regulatory report. The net structural position of the Group includes the structural positions of the Group's overseas branches, banking subsidiaries and other subsidiaries substantially involved in foreign exchange. Structural assets and liabilities include:

- Investments in fixed assets and properties, net of depreciation charges;
- Capital and statutory reserve of overseas branches;
- Investments in overseas subsidiaries and related companies; and
- Loan capital

## 2 INTERNATIONAL CLAIMS

International claims are the sum of cross-border claims in all currencies and local claims in foreign currencies. The Group is principally engaged in business operations within Mainland China.

In respect of this unaudited supplementary financial information, Mainland China excludes Hong Kong Special Administrative Region of the PRC ("Hong Kong"), Macau Special Administrative Region of the PRC ("Macau") and Taiwan.

International claims include loans and advances to customers, due from and placements with banks and other financial institutions, holdings of trade bills and certificates of deposits and investment securities.

International claims have been disclosed by country or region. A country or region is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfers are only made if risk exposure is transferred to other counterparty by risk resolving methods. Exposure to credit risk is also mitigated through methods of guarantees, collaterals and credit derivatives.

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(All amounts expressed in millions of RMB unless otherwise stated)

### 2 INTERNATIONAL CLAIMS (Continued)

| As at 30 June 2022                      | Bank    | Official sector | Non-bank private sector | Others | Total     |
|---|---------|-----------------|-------------------------|--------|-----------|
| Asia Pacific                            | 550,110 | 125,821         | 938,155                 | –      | 1,614,086 |
| <i>Of which attributed to Hong Kong</i> | 154,424 | 89,779          | 386,794                 | –      | 630,997   |
| North and South America                 | 13,532  | 9,778           | 30,977                  | –      | 54,287    |
| Africa                                  | 277     | 1,726           | –                       | –      | 2,003     |
| Europe                                  | 6,306   | 670             | 28,456                  | –      | 35,432    |
| Total                                   | 570,225 | 137,995         | 997,588                 | –      | 1,705,808 |

| As at 31 December 2021                  | Bank    | Official sector | Non-bank private sector | Others | Total     |
|---|---------|-----------------|-------------------------|--------|-----------|
| Asia Pacific                            | 448,033 | 122,959         | 717,912                 | –      | 1,288,904 |
| <i>Of which attributed to Hong Kong</i> | 62,204  | 21,533          | 304,709                 | –      | 388,446   |
| North and South America                 | 34,071  | 21,351          | 65,018                  | –      | 120,440   |
| Africa                                  | 442     | 1,887           | –                       | –      | 2,329     |
| Europe                                  | 42,156  | 3,878           | 23,337                  | –      | 69,371    |
| Total                                   | 524,702 | 150,075         | 806,267                 | –      | 1,481,044 |

### 3 OVERDUE AND RESTRUCTURED ASSETS

#### (1) Balance of overdue loans

|  | As at<br>30 June 2022 | As at<br>31 December 2021 |
|--|-----------------------|---------------------------|
| Loans and advances to customers which have been overdue for: |                       |                           |
| – Less than 3 months   | 31,898                | 23,164                    |
| – 3 to 6 months  | 15,348                | 15,966                    |
| – 6 to 12 months   | 15,899                | 13,467                    |
| – Over 12 months   | 26,476                | 34,565                    |
| Total  | 89,621                | 87,162                    |
| Percentage (%):  |                       |                           |
| – Less than 3 months   | 0.45                  | 0.35                      |
| – 3 to 6 months  | 0.22                  | 0.24                      |
| – 6 to 12 months   | 0.22                  | 0.21                      |
| – Over 12 months   | 0.37                  | 0.53                      |
| Total  | 1.26                  | 1.33                      |

#### (2) Overdue and restructured loans

|  | As at<br>30 June 2022 | As at<br>31 December 2021 |
|--|-----------------------|---------------------------|
| Total restructured loans and advances to customers   | 12,810                | 8,792                     |
| <i>Including: Restructured loans and advances to customers overdue above 3 months</i>            | 1,186                 | 1,625                     |
| Percentage of restructured loans and advances to customers overdue above 3 months in total loans | 0.02                  | 0.02                      |

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(All amounts expressed in millions of RMB unless otherwise stated)

## 4 SEGMENTAL INFORMATION OF LOANS

## (1) Impaired loans and advances to customers by geographical area

|  | As at 30 June 2022                             |                                    | As at 31 December 2021                         |                                    |
|--|--|------------------------------------|--|------------------------------------|
|  | Impaired loans<br>and advances to<br>customers | Allowance for<br>impairment losses | Impaired loans<br>and advances to<br>customers | Allowance for<br>impairment losses |
| PRC domestic regions                             |  |                                    |  |                                    |
| – Yangtze River Delta                            | 22,486   | (13,061)                           | 22,399   | (13,277)                           |
| – Pearl River Delta                              | 8,576  | (4,609)                            | 5,559  | (3,389)                            |
| – Bohai Rim Economic Zone                        | 16,357   | (12,142)                           | 13,893   | (9,786)                            |
| – Central China                                  | 15,673   | (7,650)                            | 19,224   | (10,244)                           |
| – Western China                                  | 10,197   | (6,341)                            | 9,661  | (6,402)                            |
| – North Eastern China                            | 12,377   | (9,607)                            | 12,090   | (9,299)                            |
| – Head Office                                    | 12,795   | (11,573)                           | 10,831   | (10,064)                           |
| Subtotal   | 98,461   | (64,983)                           | 93,657   | (62,461)                           |
| Hong Kong, Macau, Taiwan and<br>overseas regions | 4,771  | (2,725)                            | 3,139  | (1,421)                            |
| Total  | 103,232  | (67,708)                           | 96,796   | (63,882)                           |

## (2) Overdue loans and advances to customers by geographical area

|  | As at 30 June 2022 |                                    | As at 31 December 2021 |                                    |
|--|--------------------|------------------------------------|------------------------|------------------------------------|
|  | Overdue loans      | Allowance for<br>impairment losses | Overdue loans          | Allowance for<br>impairment losses |
| PRC domestic regions                             |                    |                                    |                        |                                    |
| – Yangtze River Delta                            | 11,522             | (8,989)                            | 16,399                 | (9,189)                            |
| – Pearl River Delta                              | 6,425              | (3,648)                            | 5,853                  | (3,166)                            |
| – Bohai Rim Economic Zone                        | 11,784             | (8,762)                            | 9,749                  | (6,561)                            |
| – Central China                                  | 14,571             | (6,130)                            | 15,170                 | (8,080)                            |
| – Western China                                  | 6,936              | (4,263)                            | 7,176                  | (4,333)                            |
| – North Eastern China                            | 7,976              | (6,175)                            | 9,119                  | (6,644)                            |
| – Head Office                                    | 22,936             | (14,606)                           | 20,468                 | (12,767)                           |
| Subtotal   | 82,150             | (52,573)                           | 83,934                 | (50,740)                           |
| Hong Kong, Macau, Taiwan and<br>overseas regions | 7,471              | (3,368)                            | 3,228                  | (1,516)                            |
| Total  | 89,621             | (55,941)                           | 87,162                 | (52,256)                           |

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(All amounts expressed in millions of RMB unless otherwise stated)

### 5 LOANS AND ADVANCES TO CUSTOMERS

#### (1) The risk concentration analysis for loans and advances to customers by industry sectors (gross)

|   | As at 30 June 2022 |              |                               | As at 31 December 2021 |              |                               |
|---|--------------------|--------------|-------------------------------|------------------------|--------------|-------------------------------|
|   |                    | %            | Amount covered by collaterals |                        | %            | Amount covered by collaterals |
| <b>Hong Kong</b>  |                    |              |                               |                        |              |                               |
| Corporate loans   |                    |              |                               |                        |              |                               |
| Manufacturing   |                    |              |                               |                        |              |                               |
| – Petroleum and chemical  | 821                | 0.36         | –                             | 1,130                  | 0.54         | 148                           |
| – Electronics   | 1,333              | 0.58         | 26                            | 1,577                  | 0.76         | 25                            |
| – Textile and clothing  | 107                | 0.05         | 6                             | 148                    | 0.07         | 7                             |
| – Other manufacturing   | 11,527             | 5.05         | 5,581                         | 25,506                 | 12.24        | 5,284                         |
| Production and supply of power, heat, gas and water                         | 632                | 0.28         | 295                           | 1,418                  | 0.68         | 320                           |
| Construction  | 7,162              | 3.14         | 1,351                         | 5,051                  | 2.42         | 1,159                         |
| Transportation, storage and postal service                                  | 10,834             | 4.75         | 2,639                         | 9,482                  | 4.55         | 3,375                         |
| Information transmission, software and IT services                          | 3,419              | 1.50         | 50                            | 3,537                  | 1.70         | 20                            |
| Wholesale and retail  | 17,255             | 7.56         | 3,623                         | 15,584                 | 7.48         | 4,052                         |
| Finance   | 4,461              | 1.95         | 1,258                         | 6,730                  | 3.23         | 826                           |
| Real estate   | 89,862             | 39.38        | 24,375                        | 60,900                 | 29.23        | 16,186                        |
| Leasing and commercial services   | 11,557             | 5.06         | 5,108                         | 11,711                 | 5.62         | 3,838                         |
| Others  | 19,529             | 8.55         | 2,402                         | 22,489                 | 10.79        | 4,175                         |
| <b>Total corporate loans</b>  | <b>178,499</b>     | <b>78.22</b> | <b>46,714</b>                 | <b>165,263</b>         | <b>79.31</b> | <b>39,415</b>                 |
| Personal loans  |                    |              |                               |                        |              |                               |
| Mortgage  | 35,664             | 15.62        | 35,452                        | 29,857                 | 14.33        | 29,837                        |
| Credit cards  | 84                 | 0.04         | –                             | 94                     | 0.05         | –                             |
| Others  | 13,957             | 6.12         | 3,259                         | 13,149                 | 6.31         | 12,539                        |
| <b>Total personal loans</b>   | <b>49,705</b>      | <b>21.78</b> | <b>38,711</b>                 | <b>43,100</b>          | <b>20.69</b> | <b>42,376</b>                 |
| Gross amount of loans and advances to customers before impairment allowance | 228,204            | 100.00       | 85,425                        | 208,363                | 100.00       | 81,791                        |
| <b>Outside Hong Kong</b>  | <b>6,859,526</b>   |              |                               | <b>6,352,037</b>       |              |                               |

Note: The classification of industries is consistent with the latest national standards for industry classification (Industrial Classification for National Economic Activities (GB/T 4754-2017) issued by SAC and AQSIQ in 2017).

The risk concentration analysis for loans and advances to customers by industry sectors is based on the Group's internal classification system.

The ratio of collateral and pledge loans to the total loans of the Group was 51% as at 30 June 2022 (31 December 2021: 52%).



## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(All amounts expressed in millions of RMB unless otherwise stated)

## 5 LOANS AND ADVANCES TO CUSTOMERS (Continued)

## (2) Allowance on loans and advances to customers by type of loan

|             | As at 30 June 2022 |                                 | As at 31 December 2021 |                                 |
|-------------|--------------------|---------------------------------|------------------------|---------------------------------|
|             | Impaired loans     | Allowance for impairment losses | Impaired loans         | Allowance for impairment losses |
| Corporates  | 81,140             | (50,748)                        | 77,628                 | (49,172)                        |
| Individuals | 22,092             | (16,875)                        | 19,168                 | (14,710)                        |
|             | 103,232            | (67,623)                        | 96,796                 | (63,882)                        |

Collaterals held against such loans mainly include cash deposits and mortgages over properties.

The amount of new provisions charged to statement of profit or loss, and the amount of loans and advances written off during the period are disclosed below:

|             | Six months ended 30 June 2022 |   |  | Six months ended 30 June 2021 |   |  |
|-------------|-------------------------------|---|--|-------------------------------|---|--|
|             | New provisions                | Loans and advances written off as uncollectible | Recoveries of loans and advances written off in previous years | New provisions                | Loans and advances written off as uncollectible | Recoveries of loans and advances written off in previous years |
| Corporates  | 24,034                        | (12,690)  | 2,644  | 25,984                        | (15,855)  | 2,545  |
| Individuals | 10,558                        | (7,685)   | 879  | 5,189                         | (7,438)   | 950  |
|             | 34,592                        | (20,375)  | 3,523  | 31,173                        | (23,293)  | 3,495  |

# SUPPLEMENTARY INFORMATION ON CAPITAL ADEQUACY RATIO, LEVERAGE RATIO, LIQUIDITY COVERAGE RATIO AND NET STABLE FUNDING RATIO

Appendices 1 to 4 are disclosed in accordance with the *Regulations on the Information Disclosure of Capital Composition of Commercial Banks* issued by the CBIRC.

## APPENDIX 1: GROUP'S CAPITAL BREAKDOWN

(in millions of RMB)

| Items   | 30 June<br>2022 | 31 December<br>2021 | Code |
|---|-----------------|---------------------|------|
| Core Tier-1 Capital:  |                 |                     |      |
| 1 Share capital   | 74,263          | 74,263              | r    |
| 2 Retained earnings   | 619,574         | 605,166             |      |
| 2a Surplus reserve  | 227,605         | 219,859             | y    |
| 2b General reserve for risk assets  | 143,432         | 130,156             | z    |
| 2c Retained earnings  | 248,537         | 255,151             | aa   |
| 3 Accumulated other comprehensive income and disclosed reserve  | 105,237         | 108,297             |      |
| 3a Capital surplus  | 111,457         | 111,441             | u    |
| 3b Others   | (6,220)         | (3,144)             | v    |
| 4 Amount recognised in core tier-1 capital during transition period (Only applicable to non-stock companies; for joint-stock companies, to be completed with "0")   | —               | —                   |      |
| 5 Non-controlling interests recognised in core tier-1 capital   | 2,028           | 2,161               | ab   |
| 6 Core tier-1 capital before regulatory adjustments   | 801,102         | 789,887             |      |
| Core Tier-1 Capital: Regulatory adjustments   |                 |                     |      |
| 7 Prudent valuation adjustment  | —               | —                   |      |
| 8 Goodwill (net of deferred tax liabilities)  | 292             | 274                 | m-p  |
| 9 Other intangible assets (excluding land use rights) (net of deferred tax liabilities)   | 2,155           | 2,186               | l-q  |
| 10 Net deferred tax assets arising from the carried forward losses and be realised upon future profits  | —               | —                   | k    |
| 11 Cash flow hedge reserves   | 514             | (104)               | x    |
| 12 Gap of loan allowance  | —               | —                   |      |
| 13 Gains from sales of asset securitisation   | —               | —                   |      |
| 14 Unrealised profit/loss arising from the changes in fair value liability due to credit risk   | —               | —                   |      |
| 15 Net defined-benefit pension assets (excluding deferred tax liabilities)  | —               | —                   |      |
| 16 Direct or indirect holding of the Bank's ordinary shares   | —               | —                   |      |
| 17 Cross holdings in core tier-1 capital based on agreements with interbank institutions or with other financial institutions   | —               | —                   |      |
| 18 Deductible amount from the core tier-1 capital of non-significant minority capital investments in financial institutions outside the scope of regulatory consolidation   | —               | —                   |      |
| 19 Deductible amount from the core tier-1 capital of significant minority capital investments in financial institutions outside the scope of regulatory consolidation   | —               | —                   |      |
| 20 Mortgage servicing rights  | —               | —                   |      |
| 21 Net deferred tax assets depending on the Bank's future profits   | —               | —                   |      |
| 22 Deduction of the undeductible amount of the core tier-1 capital of significant minority capital investments in financial institutions outside the scope of regulatory consolidation and other net deferred tax assets depending on the Bank's future profits which exceed the 15% of the core tier-1 capital | —               | —                   |      |
| 23 Including: Deductions of significant minority capital investments in financial institutions  | —               | —                   |      |
| 24 Including: Deductions of Mortgage servicing rights   | —               | —                   |      |
| 25 Including: Deductions of other deferred tax assets based on the Bank's future profits  | —               | —                   |      |

# SUPPLEMENTARY INFORMATION ON CAPITAL ADEQUACY RATIO, LEVERAGE RATIO, LIQUIDITY COVERAGE RATIO AND NET STABLE FUNDING RATIO (CONTINUED)

## APPENDIX 1: GROUP'S CAPITAL BREAKDOWN (CONTINUED)

(in millions of RMB)

| Items  | 30 June<br>2022 | 31 December<br>2021 | Code |
|--|-----------------|---------------------|------|
| 26a Investments in core tier-1 capital of financial institutions being controlled but outside the scope of regulatory consolidation  | 3,654           | 3,654               | f    |
| 26b Gaps of core tier-1 capital of financial institutions being controlled but outside the scope of regulatory consolidation         | —               | —                   |      |
| 26c Other deductions from core tier-1 Capital  | —               | —                   |      |
| 27 Other tier-1 capital and tier-2 capital to cover deductions   | —               | —                   |      |
| 28 Total regulatory adjustments to core tier-1 capital   | 6,615           | 6,010               |      |
| 29 Core tier-1 capital   | 794,487         | 783,877             |      |
| Other Tier-1 Capital:  |                 |                     |      |
| 30 Directly issued qualifying other tier-1 instruments plus stock surplus  | 174,790         | 174,790             |      |
| 31 Including: Classified as equity   | 174,790         | 174,790             | t    |
| 32 Including: Classified as liabilities  | —               | —                   |      |
| 33 Instruments not recognised in other tier-1 capital after the transition period  | —               | —                   |      |
| 34 Non-controlling interests recognised in other tier-1 capital  | 1,596           | 1,558               | ac   |
| 35 Including: Portions not recognised in other tier-1 capital after the transition period  | —               | —                   |      |
| 36 Other tier-1 capital before regulatory adjustments  | 176,386         | 176,348             |      |
| Other Tier-1 Capital: Regulatory adjustments   |                 |                     |      |
| 37 Direct or indirect investments in other tier-1 capital instruments of the Bank  | —               | —                   |      |
| 38 Cross holdings in other tier-1 instruments based on agreements with interbank institutions or with other financial institutions   | —               | —                   |      |
| 39 Non-significant investments in the other tier-1 capital of financial institutions outside the scope of regulatory consolidation   | —               | —                   |      |
| 40 Significant investments in the other tier-1 capital of financial institutions outside the scope of regulatory consolidation       | —               | —                   |      |
| 41a Investments in other tier-1 capital of financial institutions being controlled but outside the scope of regulatory consolidation | —               | —                   |      |
| 41b Gap of other tier-1 capital of financial institutions being controlled but outside the scope of regulatory consolidation         | —               | —                   |      |
| 41c Other deductions from other tier-1 capital   | —               | —                   |      |
| 42 – Undeducted gaps that should be deducted from tier-2 capital   | —               | —                   |      |
| 43 Total regulatory adjustments to other tier-1 capital  | —               | —                   |      |
| 44 Other tier-1 capital  | 176,386         | 176,348             |      |
| 45 Tier-1 capital (core tier-1 capital + other tier-1 capital)   | 970,873         | 960,225             |      |
| Tier-2 Capital:  |                 |                     |      |
| 46 Tier-2 instruments plus their premiums  | 139,991         | 139,972             | n    |
| 47 Portions not recognised in tier-2 capital after the transition period   | —               | —                   |      |
| 48 Minority interest recognised in tier-2 capital  | 4,772           | 4,494               | ad   |
| 49 Including: Portions not recognised after the transition period  | —               | —                   |      |
| 50 Excess loan loss provisions recognized in tier-2 capital  | 37,259          | 35,266              |      |
| 51 Tier-2 capital before regulatory adjustments  | 182,022         | 179,732             |      |

# SUPPLEMENTARY INFORMATION ON CAPITAL ADEQUACY RATIO, LEVERAGE RATIO, LIQUIDITY COVERAGE RATIO AND NET STABLE FUNDING RATIO (CONTINUED)

## APPENDIX 1: GROUP'S CAPITAL BREAKDOWN *(CONTINUED)*

(in millions of RMB)

| Items  | 30 June<br>2022  | 31 December<br>2021 | Code      |
|--|------------------|---------------------|-----------|
| Tier-2 Capital: Regulatory adjustments   |                  |                     |           |
| 52 Directly or indirectly holding of the Bank's tier-2 capital   | –                | –                   |           |
| 53 Interbank or with other financial institutions cross-holdings in tier-2 instruments   | –                | –                   |           |
| 54 The portion of tier-2 capital that should be deducted from the small capital investment of financial institutions outside the scope of regulatory consolidation | –                | –                   |           |
| 55 Tier-2 capital in large minority capital investment of financial institutions outside the scope of regulatory consolidation                                     | –                | –                   |           |
| 56a Investments in tier-2 capital of financial institutions being controlled but outside the scope of regulatory consolidation                                     | –                | –                   |           |
| 56b Gaps of tier-2 capital of financial institutions being controlled but outside the scope of regulatory consolidation  | –                | –                   |           |
| 56c Other deductions from tier-2 capital   | –                | –                   |           |
| 57 Total regulatory adjustments to tier-2 capital  | –                | –                   |           |
| 58 Tier-2 capital  | <b>182,022</b>   | 179,732             |           |
| 59 Total capital (tier-1 capital + tier-2 capital)   | <b>1,152,895</b> | 1,139,957           |           |
| 60 Total risk-weighted assets  | <b>7,956,077</b> | 7,379,912           |           |
| Capital adequacy ratio and reserve capital requirements  |                  |                     |           |
| 61 Core tier-1 capital adequacy ratio (%)  | <b>9.99</b>      | 10.62               |           |
| 62 Tier-1 capital adequacy ratio (%)   | <b>12.20</b>     | 13.01               |           |
| 63 Capital adequacy ratio (%)  | <b>14.49</b>     | 15.45               |           |
| 64 Specific buffer requirements of regulators (%)  | <b>2.50</b>      | 2.50                |           |
| 65 Including: Capital conservation buffer requirements (%)   | <b>2.50</b>      | 2.50                |           |
| 66 Including: Countercyclical buffer requirements (%)  | <b>0.00</b>      | 0.00                |           |
| 67 Including: Additional buffer requirements of global systemically important banks (%)  | <b>0.00</b>      | 0.00                |           |
| 68 Core tier-1 capital available to meet buffers as a percentage of risk-weighted assets (%)   | <b>4.99</b>      | 5.62                |           |
| Domestic minimum regulatory capital requirements   |                  |                     |           |
| 69 Core tier-1 capital adequacy ratio (%)  | <b>5.00</b>      | 5.00                |           |
| 70 Tier-1 capital adequacy ratio (%)   | <b>6.00</b>      | 6.00                |           |
| 71 Capital adequacy ratio (%)  | <b>8.00</b>      | 8.00                |           |
| Amounts below the threshold deductions   |                  |                     |           |
| 72 The undeducted part of the small minority investments in Core tier-1 capital of financial institutions outside the scope of regulatory consolidation            | <b>23,211</b>    | 26,395              | b+c+d+e+g |
| 73 The undeducted part of the large minority investments in the capital of financial institutions outside the scope of regulatory consolidation                    | <b>2,177</b>     | 1,740               | a+h       |
| 74 Mortgage servicing rights (net of deferred tax liabilities)   | –                | –                   |           |
| 75 Other net deferred tax assets depending on the Bank's future profits (net of deferred tax liabilities)  | <b>37,144</b>    | 29,932              | j-k-o     |

# SUPPLEMENTARY INFORMATION ON CAPITAL ADEQUACY RATIO, LEVERAGE RATIO, LIQUIDITY COVERAGE RATIO AND NET STABLE FUNDING RATIO (CONTINUED)

## APPENDIX 1: GROUP'S CAPITAL BREAKDOWN (CONTINUED)

(in millions of RMB)

| Items  | 30 June<br>2022 | 31 December<br>2021 | Code |
|--|-----------------|---------------------|------|
| Limit of excess loan loss provisions in Tier-2 Capital   |                 |                     |      |
| 76 Loan loss provisions actually made in respect of exposures subject to riskweighted approach               | 9,391           | 8,761               |      |
| 77 Excess loan loss provisions eligible for inclusion in tier-2 capital under riskweighted approach          | 4,338           | 4,929               |      |
| 78 Loan loss provisions actually made in respect of exposures subject to internal rating-based approach      | 169,300         | 152,401             |      |
| 79 Excess loan loss provisions eligible for inclusion in tier-2 capital under internal rating-based approach | 32,920          | 30,337              |      |
| Capital instruments subject to phase-out arrangements  |                 |                     |      |
| 80 Amount recognised in current-period core tier-1 capital due to transitional arrangements                  | —               | —                   |      |
| 81 Amount not recognised in current period core tier-1 capital due to transitional arrangements              | —               | —                   |      |
| 82 Amount recognised in current-period other tier-1 capital due to transitional arrangements                 | —               | —                   |      |
| 83 Amount not recognised in current period other tier-1 capital due to transitional arrangements             | —               | —                   |      |
| 84 Amount recognised in current-period tier-2 capital due to transitional arrangements                       | —               | —                   |      |
| 85 Amount not recognised in current-period tier-2 capital due to transitional arrangements                   | —               | —                   |      |

# SUPPLEMENTARY INFORMATION ON CAPITAL ADEQUACY RATIO, LEVERAGE RATIO, LIQUIDITY COVERAGE RATIO AND NET STABLE FUNDING RATIO (CONTINUED)

## APPENDIX 2: GROUP BALANCE SHEET (ACCOUNTING AND REGULATORY CONSOLIDATION)

(in millions of RMB)

|                     |  | 30 June 2022  |   | 31 December 2021                                      |   |
|---------------------|--|---|---|---|---|
|                     |  | Balance<br>sheet of the<br>consolidation<br>under CAS | Balance<br>sheet of the<br>consolidation<br>under the<br>regulation | Balance<br>sheet of the<br>consolidation<br>under CAS | Balance<br>sheet of the<br>consolidation<br>under the<br>regulation |
| <b>Assets:</b>      |  |   |   |   |   |
| 1                   | Cash and balances with central banks                                   | 746,660   | 746,660   | 734,728   | 734,610   |
| 2                   | Deposits from banks and other financial institutions                   |   |   |   |   |
|                     | Placements to banks and other financial institutions                   |   |   |   |   |
|                     | Derivative financial assets  | 130,513   | 122,796   | 119,890   | 115,353   |
| 3                   | Placements to banks and other financial institutions                   | 533,660   | 533,660   | 439,450   | 439,515   |
| 4                   | Derivative financial assets  | 56,150  | 56,150  | 39,220  | 39,220  |
| 5                   | Financial assets purchased under reverse agreements                    | 135,570   | 135,498   | 73,368  | 71,872  |
| 6                   | Loans and advances to customers  | 6,923,521   | 6,922,350   | 6,412,201   | 6,411,451   |
| 7                   | Financial assets at fair value through current profit or loss          | 666,260   | 621,944   | 638,483   | 604,958   |
| 8                   | Financial investments at amortized cost                                | 2,375,762   | 2,336,229   | 2,203,037   | 2,174,469   |
| 9                   | Financial investments at fair value through other comprehensive income | 650,592   | 624,633   | 681,729   | 648,840   |
| 10                  | Long term equity investments   | 7,389   | 10,970  | 5,779   | 12,509  |
| 11                  | Property and equipment   | 175,961   | 175,428   | 168,247   | 167,695   |
| 12                  | Land use rights  | 1,628   | 1,628   | 1,657   | 1,657   |
| 13                  | Deferred income tax assets   | 38,856  | 38,644  | 32,061  | 31,788  |
| 14                  | Goodwill   | 413   | 292   | 395   | 274   |
| 15                  | Intangible assets  | 2,180   | 2,155   | 2,217   | 2,186   |
| 16                  | Other Asset  | 135,461   | 134,089   | 113,295   | 117,975   |
| 17                  | <b>Total assets</b>  | <b>12,580,576</b>                                     | <b>12,463,126</b>   | <b>11,665,757</b>                                     | <b>11,574,372</b>   |
| <b>Liabilities:</b> |  |   |   |   |   |
| 18                  | Borrowings from central banks  | 342,757   | 342,757   | 339,358   | 339,358   |
| 19                  | Deposits from banks and other financial institutions                   | 1,047,245   | 1,047,245   | 1,096,640   | 1,096,310   |
| 20                  | Placements from banks and other financial institutions                 | 457,056   | 457,056   | 467,019   | 466,787   |
| 21                  | Transactional financial liabilities                                    | 59,887  | 48,104  | 50,048  | 46,242  |
| 22                  | Financial assets sold under repurchase agreements                      | 51,876  | 42,020  | 44,751  | 36,997  |
| 23                  | Due to customers   | 7,811,363   | 7,815,800   | 7,039,777   | 7,047,063   |
| 24                  | Derivative financial liabilities                                       | 39,488  | 39,488  | 36,074  | 36,101  |
| 25                  | Debt securities issued   | 518,676   | 513,777   | 503,525   | 499,932   |
| 26                  | Employee benefits payable  | 8,272   | 8,088   | 14,401  | 14,205  |
| 27                  | Taxes payable  | 10,525  | 10,688  | 10,364  | 10,282  |
| 28                  | Deferred tax liabilities   | 1,508   | 1,500   | 1,889   | 1,856   |
| 29                  | Provisions   | 11,417  | 11,417  | 9,714   | 9,714   |
| 30                  | Other liabilities  | 1,231,570   | 1,141,932   | 1,074,961   | 997,633   |
| 31                  | <b>Total liabilities</b>   | <b>11,591,640</b>                                     | <b>11,479,872</b>   | <b>10,688,521</b>                                     | <b>10,602,480</b>   |
| <b>Equity:</b>      |  |   |   |   |   |
| 32                  | Share capital  | 74,263  | 74,263  | 74,263  | 74,263  |
| 33                  | Other equity instruments   | 174,790   | 174,790   | 174,790   | 174,790   |
| 34                  | Capital surplus  | 111,428   | 111,457   | 111,428   | 111,441   |
| 35                  | Other comprehensive income   | (6,433)   | (6,220)   | (4,177)   | (3,144)   |
| 36                  | Surplus reserve  | 227,773   | 227,605   | 219,989   | 219,859   |
| 37                  | General risk reserve   | 143,608   | 143,432   | 130,280   | 130,156   |
| 38                  | Retained earnings  | 251,114   | 248,537   | 258,074   | 255,151   |
| 39                  | Minority interests   | 12,393  | 9,390   | 12,589  | 9,376   |
| 40                  | <b>Total equity</b>  | <b>988,936</b>  | <b>983,254</b>  | <b>977,236</b>  | <b>971,892</b>  |

## SUPPLEMENTARY INFORMATION ON CAPITAL ADEQUACY RATIO, LEVERAGE RATIO, LIQUIDITY COVERAGE RATIO AND NET STABLE FUNDING RATIO (CONTINUED)

## APPENDIX 3: BALANCE SHEET UNDER REGULATORY CONSOLIDATION

(in millions of RMB)

|   | Balance sheet of the<br>Regulatory consolidation | Code |
|---|--|------|
| <b>Assets:</b>  |  |      |
| Cash and balances with central banks  | 746,660  |      |
| Due from banks and other financial institutions   | 122,796  |      |
| Loans to banks and other financial institutions   | 533,660  |      |
| Derivative financial assets   | 56,150   |      |
| Financial assets purchased under reverse agreements   | 135,498  |      |
| Loans and advances to customers   | 6,922,350  |      |
| Financial assets at fair value through profit or loss   | 621,944  |      |
| Including: Core tier-1 capital from significant investments in the capital of financial institutions outside the scope of regulatory consolidation      | 793  | a    |
| Including: Core tier-1 capital from non-significant investments in the capital of financial institutions outside the scope of regulatory consolidation  | 379  | b    |
| Including: Core tier-2 capital from non-significant investments in the capital of financial institutions outside the scope of regulatory consolidation  | 15,332   | c    |
| Financial investments at amortized cost   | 2,336,229  |      |
| Financial investment at fair value through other comprehensive income   | 624,633  |      |
| Including: Core tier-1 capital from non-significant investments in the capital of financial institutions outside the scope of regulatory consolidation  | 3,000  | d    |
| Including: Other tier-1 capital from non-significant investments in the capital of financial institutions outside the scope of regulatory consolidation | 0  | e    |
| Long term equity investments  | 10,970   |      |
| Including: Investments in core tier-1 capital of financial institutions being controlled but outside the scope of regulatory consolidation              | 3,654  | f    |
| Including: Core tier-1 capital from non-significant investments in the capital of financial institutions outside the scope of regulatory consolidation  | 4,500  | g    |
| Including: Core tier-1 capital from significant investments in the capital of financial institutions outside the scope of regulatory consolidation      | 1,384  | h    |
| Property and equipment  | 175,428  |      |
| Land use rights   | 1,628  | i    |
| Deferred tax assets   | 38,644   | j    |
| Including: Deferred tax assets arising from operating losses which are expected to offset against future profits  | 0  | k    |
| Including: Other deferred tax assets depending on the Bank's future profits   | 38,644   |      |
| Intangible assets   | 2,155  | l    |
| Goodwill  | 292  | m    |
| Other assets  | 134,089  |      |
| <b>Total assets</b>   | <b>12,463,126</b>                                |      |

**Liabilities:**

# SUPPLEMENTARY INFORMATION ON CAPITAL ADEQUACY RATIO, LEVERAGE RATIO, LIQUIDITY COVERAGE RATIO AND NET STABLE FUNDING RATIO (CONTINUED)

## APPENDIX 3: BALANCE SHEET UNDER REGULATORY CONSOLIDATION

(CONTINUED)

(in millions of RMB)

|  | Balance sheet of the<br>Regulatory consolidation | Code |
|--|--|------|
| Borrowings from central banks  | 342,757  |      |
| Deposits from banks and other financial institutions   | 1,047,245  |      |
| Placements from banks and other financial institutions                                       | 457,056  |      |
| Financial liabilities at fair value through profit or loss                                   | 48,104   |      |
| Financial assets sold under repurchase agreements  | 42,020   |      |
| Due to customers   | 7,815,800  |      |
| Derivative financial liabilities   | 39,488   |      |
| Debt securities issued   | 513,777  |      |
| Including: Recognised in tier-2 capital  | 139,991  | n    |
| Employee benefits payable  | 8,088  |      |
| Taxes payable  | 10,688   |      |
| Deferred tax liabilities   | 1,500  | o    |
| Including: Deferred tax liabilities relating to goodwill                                     | 0  | p    |
| Including: Deferred tax liabilities relating to other intangible assets                      | 0  | q    |
| Provisions   | 11,417   |      |
| Other liabilities  | 1,141,932  |      |
| <b>Total liabilities</b>   | <b>11,479,872</b>                                |      |
| <b>Equity:</b>   |  |      |
| Share capital  | 74,263   |      |
| Including: Those to be included in core tier-1 capital                                       | 74,263   | r    |
| Including: Those to be included in other tier-1 capital                                      | 0  | s    |
| Other equity instruments   | 174,790  | t    |
| Capital surplus  | 111,457  | u    |
| Other comprehensive income   | (6,220)  | v    |
| Including: Exchange reserve  | 2,922  | w    |
| Including: Effective portion of gains or losses on hedging instruments in cash<br>flow hedge | 514  | x    |
| Surplus reserve  | 227,605  | y    |
| General reserve for risk assets  | 143,432  | z    |
| Retained earnings  | 248,537  | aa   |
| Non-controlling interests  | 9,390  |      |
| Including: Those to be included in core tier-1 capital                                       | 2,028  | ab   |
| Including: Those to be included in other tier-1 Capital                                      | 1,596  | ac   |
| Including: Those to be included in tier-2 capital  | 4,772  | ad   |
| <b>Total equity</b>  | <b>983,254</b>                                   |      |



## SUPPLEMENTARY INFORMATION ON CAPITAL ADEQUACY RATIO, LEVERAGE RATIO, LIQUIDITY COVERAGE RATIO AND NET STABLE FUNDING RATIO (CONTINUED)

### APPENDIX 4: MAIN FEATURES OF QUALIFIED REGULATORY CAPITAL INSTRUMENTS

| 1                           | Issuer   | Bank of Communications                                     | Bank of Communications            | Bank of Communications   | Bank of Communications   | Bank of Communications   | Bank of Communications   |
|-----------------------------|--|--|-----------------------------------|--|--|--|--|
| 2                           | Unique identifier  | 3328   | 601328                            | 360021   | 1928019  | 1928020  | 1928025  |
| 3                           | Governing law(s)   | China Hong Kong/Hong Kong Securities and Futures Ordinance | China/Securities Law of China     | China/Company Law of China, Securities law of China, Administrative Measures for the Capital Management of Commercial Banks (Trial Implementation), State Council Guidance on the Implementation of Pilot Scheme of Preference Shares, Measures for the Pilot Management of Preferred Shares, etc. | China/Company Law of China, Administrative Measures for the Capital Management of Commercial Banks (Trial Implementation) etc. | China/Company Law of China, Administrative Measures for the Capital Management of Commercial Banks (Trial Implementation) etc. | China/Company Law of China, Administrative Measures for the Capital Management of Commercial Banks (Trial Implementation) etc. |
| <b>Regulatory treatment</b> |  |  |                                   |  |  |  |  |
| 4                           | Including: Transitional rules under the Administrative Measures for the Capital Management of Commercial Banks (Trial Implementation)      | Core tier-1 capital  | Core tier-1 capital               | Other tier-1 capital   | Tier-2 capital   | Tier-2 capital   | Other tier-1 capital   |
| 5                           | Including: Post-transitional rules under the Administrative Measures for the Capital Management of Commercial Banks (Trial Implementation) | Core tier-1 capital  | Core tier-1 capital               | Other tier-1 capital   | Tier-2 capital   | Tier-2 capital   | Other tier-1 capital   |
| 6                           | Including: Eligible at Bank/Group level  | Bank and Group Level                                       | Bank and Group Level              | Bank and Group Level   | Bank and Group Level   | Bank and Group Level   | Bank and Group Level   |
| 7                           | Instrument type  | Ordinary shares  | Ordinary shares                   | Preference shares  | Tier-2 capital bonds   | Tier-2 capital bonds   | Undated capital  |
| 8                           | Amount recognised in regulatory capital (In millions of RMB, as at the latest reporting date)  | RMB89,498  | RMB97,534                         | RMB44,952  | RMB29,998  | RMB9,999   | RMB39,994  |
| 9                           | Par value of instrument (In millions of RMB)   | RMB35,012  | RMB39,251                         | RMB45,000  | RMB30,000  | RMB10,000  | RMB40,000  |
| 10                          | Accounting treatment   | Share capital and capital reserve                          | Share capital and capital reserve | Other equity instruments   | Bonds issuance   | Bonds issuance   | Other equity instruments   |
| 11                          | Original date of issuance  | 2005/6/23  | 2007/4/24                         | 2016/9/2   | 2019/8/16  | 2019/8/16  | 2019/9/20  |
| 12                          | Perpetual or dated   | Perpetual  | Perpetual                         | Perpetual  | Dated  | Dated  | Perpetual  |
| 13                          | Including: Original maturity date  | No maturity date   | No maturity date                  | No maturity date   | 2029/8/16  | 2034/8/16  | No maturity date   |
| 14                          | Issuer call subject to prior supervisory approval  | No   | No                                | Yes  | Yes  | Yes  | Yes  |
| 15                          | Including: Optional call date, contingent call dates and redemption amount   | N/A  | N/A                               | First call date 2021/9/7, full or partial  | 2024/8/16; full or partial   | 2029/8/16; full or partial   | First call date 2024/9/20, full or partial   |
| 16                          | Including: Subsequent call dates, if applicable  | N/A  | N/A                               | 7 September of each year subsequent to the first call date Nil   | Nil  | Nil  | 20 September of each year subsequent to the first call date  |

# SUPPLEMENTARY INFORMATION ON CAPITAL ADEQUACY RATIO, LEVERAGE RATIO, LIQUIDITY COVERAGE RATIO AND NET STABLE FUNDING RATIO (CONTINUED)

## APPENDIX 4: MAIN FEATURES OF QUALIFIED REGULATORY CAPITAL INSTRUMENTS (CONTINUED)

| Coupons/dividends |   |                       |                       |  |                    |                    |  |
|-------------------|---|-----------------------|-----------------------|--|--------------------|--------------------|--|
| 17                | Including: Fixed or floating dividend/coupon                                    | Floating              | Floating              | Floating, the dividend rate is fixed in a dividend rate adjustment period (5 years) and is subject to reset every 5 years  | Fixed              | Fixed              | Floating, the dividend rate is fixed in a dividend rate adjustment period (5 years) and is subject to reset every 5 years  |
| 18                | Including: Coupon rate and any related index                                    | N/A                   | N/A                   | 3.9% for the first 5 years. The dividend rate will be reset every 5 years based on the benchmark interest rate at reset dates plus 137 basis points. Note: the benchmark interest rate at reset dates refers to the arithmetic mean value (rounding off to 0.01%) of five-year Chinese treasury bonds yield, in the yield curve of interbank Chinese treasury bonds at fixed interest rate published 20 transaction days (excluding that day) prior to the reset dates (the days when each five years are expired as from the first day of issuance, 2 September). | 4.10%              | 4.49%              | 4.2% for the first 5 years. The coupon rate will be reset every 5 years based on the benchmark interest rate at the reset dates (the days when each five years are expired as from the first day of issuance and payment, 20 September) plus 124 basis points. If the benchmark interest rate is not available on the adjustment date, the issuer and investors will determine the subsequent benchmark interest rate or its determination principle according to the requirements of the regulatory authorities |
| 19                | Including: Existence of a dividend brake mechanism                              | N/A                   | N/A                   | Yes  | No                 | No                 | Yes  |
| 20                | Including: Discretionary of cancelling dividend distribution or coupon interest | Totally at discretion | Totally at discretion | Totally at discretion  | Without discretion | Without discretion | Totally at discretion  |
| 21                | Including: Existence of incentive to call                                       | No                    | No                    | No   | No                 | No                 | No   |
| 22                | Including: Cumulative or noncumulative  | Non-cumulative        | Non-cumulative        | Non-cumulative   | Non-cumulative     | Non-cumulative     | Non-cumulative   |
| 23                | Convertible or nonconvertible   | No                    | No                    | Yes  | No                 | No                 | No   |
| 24                | Including: If convertible, state conversion condition                           | N/A                   | N/A                   | If any trigger event of other tier-1 Capital instrument occurs, which means core tier-1 Capital adequacy ratio reduces to 5.125% (or below); or any trigger event of tier-2 Capital instrument occurs, earlier of (1) the Bank will not survive if not converted as required by CBIRC. (2) the Bank will not survive if no capital injection or same effect of support from relevant department.   | N/A                | N/A                | N/A  |

## SUPPLEMENTARY INFORMATION ON CAPITAL ADEQUACY RATIO, LEVERAGE RATIO, LIQUIDITY COVERAGE RATIO AND NET STABLE FUNDING RATIO (CONTINUED)

### APPENDIX 4: MAIN FEATURES OF QUALIFIED REGULATORY CAPITAL INSTRUMENTS (CONTINUED)

|    |  |     |     |  |     |     |     |
|----|--|-----|-----|--|-----|-----|-----|
| 25 | Including: If convertible, fully or partially                              | N/A | N/A | When any trigger event of other tier-1 capital instrument occurs, the Bank is entitled to fully or partially convert the issued and outstanding domestic preference shares to A ordinary shares based on the total par value without prior consent from the shareholders of preference shares; when any trigger event of tier-2 capital instrument occurs, the Bank is entitled to fully convert the issued and outstanding domestic preference shares to A ordinary shares based on the total par value without prior consent from the shareholders of preference shares. | N/A | N/A | N/A |
| 26 | Including: If convertible, state conversation price determination method   | N/A | N/A | The average stock transaction price of A ordinary shares 20 transactions days prior to the approval of resolution at the Board of Directors concerning the propose on issuing domestic preference shares is deemed as initial conversion price (i.e. RMB6.25 per share) and the mandatory conversion price adjustment is conducted in accordance with Paragraph 5 "Mandatory Conversion Price Adjustment Mode" in Section 4 "Main Terms of Issuance Scheme" under Prospectus for Private Placement of Preference Shares by Bank of Communications Co., Ltd.                | N/A | N/A | N/A |
| 27 | Including: If convertible, state whether mandatory convertible             | N/A | N/A | Mandatory  | N/A | N/A | N/A |
| 28 | Including: If convertible, state the instrument type after conversation    | N/A | N/A | A ordinary shares  | N/A | N/A | N/A |
| 29 | Including: If convertible, state the issuer of instrument after conversion | N/A | N/A | Bank of Communications   | N/A | N/A | N/A |
| 30 | Write-down feature   | No  | No  | No   | Yes | Yes | Yes |

# SUPPLEMENTARY INFORMATION ON CAPITAL ADEQUACY RATIO, LEVERAGE RATIO, LIQUIDITY COVERAGE RATIO AND NET STABLE FUNDING RATIO (CONTINUED)

## APPENDIX 4: MAIN FEATURES OF QUALIFIED REGULATORY CAPITAL INSTRUMENTS (CONTINUED)

|    |   |   |   |   |  |  |  |
|----|---|---|---|---|--|--|--|
| 31 | Including: If written down, state the trigger events of write-down  | N/A   | N/A   | N/A   | Earlier of the following: (1) the issuer will not survive if not written down as required by CBIRC (2) the issuer will not survive if no capital injection or same effect of support from relevant department  | Earlier of the following: (1) the issuer will not survive if not written down as required by CBIRC (2) the issuer will not survive if no capital injection or same effect of support from relevant department  | When the triggering event of other tier-1 capital instruments occurs, that is, when the core tier-1 capital adequacy ratio drops to 5.125% (or below), or when the trigger event of tier-2 capital instruments occurs, it refers to the earlier of the following two situations: (1) CBIRC identifies that the issuer is unable to survive if write-down or conversion is not carried out; (2) Relevant departments identify that the issuer is unable to survive if capital is not injected by the public departments or equally authentic support is not provided. |
| 32 | Including: If written down, state wholly write-down or partial write-down                                   | N/A   | N/A   | N/A   | Full   | Full   | Full or partial  |
| 33 | Including: if written down, state permanent write-down or temporary write-down                              | N/A   | N/A   | N/A   | Permanent  | Permanent  | Permanent  |
| 34 | Including: If temporary write-down, state reversal to book value mechanism                                  | N/A   | N/A   | N/A   | N/A  | N/A  | N/A  |
| 35 | Position in subordination hierarchy in liquidation (state instrument type immediately senior to instrument) | Ranking after depositors, normal creditors and subordinated debt holders and other tier-1 capital holders | Ranking after depositors, normal creditors and subordinated debt holders and other tier-1 capital holders | Ranking after depositors, normal creditors and subordinated debt holders and other tier-2 capital holders | Ranking after depositors and normal creditors, ranking before the holders of equity capital, other tier-1 instruments and mixed capital bonds, the same ranking as other subordinated debts which have the same repayment sequence as the current bonds issued by the issuer, ranking at the same sequence as tier-2 capital Bonds issued and other tier-2 instruments which have the same repayment sequence as the current bonds and are probable to issue in the future | Ranking after depositors and normal creditors, ranking before the holders of equity capital, other tier-1 instruments and mixed capital bonds, the same ranking as other subordinated debts which have the same repayment sequence as the current bonds issued by the issuer, ranking at the same sequence as tier-2 capital Bonds issued and other tier-2 instruments which have the same repayment sequence as the current bonds and are probable to issue in the future | Ranking after depositors, normal creditors and subordinated debts ranking senior to bond as well as ranking before all classes of shares held by the issuer's shareholders; compensated in the same order as other tier-1 capital instruments with the same repayment order  |
| 36 | Whether any temporary noncompliance features<br>Including: If yes, state the feature                        | No<br>N/A   | No<br>N/A   | No<br>N/A   | No<br>N/A  | No<br>N/A  | No<br>N/A  |

# SUPPLEMENTARY INFORMATION ON CAPITAL ADEQUACY RATIO, LEVERAGE RATIO, LIQUIDITY COVERAGE RATIO AND NET STABLE FUNDING RATIO (CONTINUED)

## APPENDIX 4: MAIN FEATURES OF QUALIFIED REGULATORY CAPITAL INSTRUMENTS (CONTINUED)

| 1                           | Issuer   | Bank of Communications   | Bank of Communications   | Bank of Communications   | Bank of Communications   | Bank of Communications   | Bank of Communications   |
|-----------------------------|--|--|--|--|--|--|--|
| 2                           | Unique identifier  | 2028018  | 2028040  | XS2238561281   | 2128022  | 2128030  | 2228014  |
| 3                           | Governing law(s)   | China/Company Law of China, Administrative Measures for the Capital Management of Commercial Banks (Trial Implementation) etc. | China/Company Law of China, Administrative Measures for the Capital Management of Commercial Banks (Trial Implementation) etc. | Non-contractual obligation of bonds, arising from or relating to bonds shall be governed by and construed in accordance with British laws, while provisions relating to subordinated position of bonds in the bonds terms are governed by and construed in accordance with Chinese laws. | China/Company Law of China, Administrative Measures for the Capital Management of Commercial Banks (Trial Implementation) etc. | China/Company Law of China, Administrative Measures for the Capital Management of Commercial Banks (Trial Implementation) etc. | China/Company Law of China, Administrative Measures for the Capital Management of Commercial Banks (Trial Implementation) etc. |
| <b>Regulatory treatment</b> |  |  |  |  |  |  |  |
| 4                           | Including: Transitional rules under the Administrative Measures for the Capital Management of Commercial Banks (Trial Implementation)      | Tier-2 capital   | Other tier-1 capital   | Other tier-1 capital   | Other tier-1 capital   | Tier-2 capital   | Tier-2 capital   |
| 5                           | Including: Post-transitional rules under the Administrative Measures for the Capital Management of Commercial Banks (Trial Implementation) | Tier-2 capital   | Other tier-1 capital   | Other tier-1 capital   | Other tier-1 capital   | Tier-2 capital   | Tier-2 capital   |
| 6                           | Including: Eligible at Bank/ Group level   | Bank and Group Level   | Bank and Group Level   | Bank and Group Level   | Bank and Group Level   | Bank and Group Level   | Bank and Group Level   |
| 7                           | Instrument type  | Tier-2 capital bonds   | Undated capital  | Undated capital  | Undated capital  | Tier-2 capital bonds   | Tier-2 capital bonds   |
| 8                           | Amount recognised in regulatory capital (In millions of RMB, as at the latest reporting date)  | RMB39,997  | RMB29,999  | Equivalent to RMB18,347  | RMB41,498  | RMB29,999  | RMB29,999  |
| 9                           | Par value of instrument (In millions of RMB)   | RMB40,000  | RMB30,000  | USD2,800   | RMB41,500  | RMB30,000  | RMB30,000  |
| 10                          | Accounting treatment   | Bonds issuance   | Other equity instruments   | Other equity instruments   | Other equity instruments   | Bonds issuance   | Bonds issuance   |
| 11                          | Original date of issuance  | 2020/5/21  | 2020/9/25  | 2020/11/18   | 2021/6/10  | 2021/9/27  | 2022/2/25  |
| 12                          | Perpetual or dated   | Dated  | Perpetual  | Perpetual  | Perpetual  | Dated  | Dated  |
| 13                          | Including: Original maturity date  | 2030/5/21  | No maturity date   | No maturity date   | No maturity date   | 2031/9/27  | 2032/2/25  |
| 14                          | Issuer call subject to prior supervisory approval  | Yes  | Yes  | Yes  | Yes  | Yes  | Yes  |
| 15                          | Including: Optional call date, contingent call dates and redemption amount   | 2025/5/21; full or partial   | First call date 2025/9/25, full or partial   | First call date 2025/11/18, full or partial  | First call date 2026/6/10, full or partial   | 2026/9/27; full or partial   | 2027/2/25; full or partial.  |
| 16                          | Including: Subsequent call dates, if applicable  | Nil  | 25 September of each year subsequent to the first call date  | 18 November of each year subsequent to the first call date   | 10 June of each year subsequent to the first call date   | Nil  | Nil  |
| <b>Coupons/dividends</b>    |  |  |  |  |  |  |  |
| 17                          | Including: Fixed or floating dividend/coupon   | Fixed  | Floating, the dividend rate is fixed in a dividend rate adjustment period (5 years) and is subject to reset every 5 years      | Floating, the dividend rate is fixed in a dividend rate adjustment period (5 years) and is subject to reset every 5 years  | Floating, the dividend rate is fixed in a dividend rate adjustment period (5 years) and is subject to reset every 5 years      | Fixed  | Fixed  |

# SUPPLEMENTARY INFORMATION ON CAPITAL ADEQUACY RATIO, LEVERAGE RATIO, LIQUIDITY COVERAGE RATIO AND NET STABLE FUNDING RATIO (CONTINUED)

## APPENDIX 4: MAIN FEATURES OF QUALIFIED REGULATORY CAPITAL INSTRUMENTS (CONTINUED)

|    |   |                    |   |  |  |                    |                    |
|----|---|--------------------|---|--|--|--------------------|--------------------|
| 18 | Including: Coupon rate and any related index                                    | 3.24%              | 4.59% for the first 5 years. The coupon rate will be reset every 5 years based on the benchmark interest rate at the reset dates (the days when each five years are expired as from the first day of issuance and payment, 25 September) plus 161 basis points. If the benchmark interest rate is not available on the adjustment date, the issuer and investors will determine the subsequent benchmark interest rate or its determination principle according to the requirements of the regulatory authorities | 3.8% for the first 5 years. The coupon rate will be reset every 5 years based on the benchmark interest rate at reset dates (Reset dates: The first reset date will be 18 November 2025 and the same day in the following 5 years or multiple years of 5 years. Benchmark interest rate at reset dates refers to the arithmetic mean of five-year American treasury bond yield one week before the second fixed interest date before the reset date) plus 334.5 basis points. If the benchmark interest rate is not available on the adjustment date, the issuer and investors will determine the subsequent benchmark interest rate or its determination principle according to the requirements of the regulatory authorities. | 4.06% for the first 5 years. The coupon rate will be reset every 5 years based on the benchmark interest rate at the reset dates (the days when each five years are expired as from the first day of issuance and payment, 10 June) plus 112 basis points. If the benchmark interest rate is not available on the adjustment date, the issuer and investors will determine the subsequent benchmark interest rate or its determination principle according to the requirements of the regulatory authorities | 3.65%              | 3.45%              |
| 19 | Including: Existence of a dividend brake mechanism                              | No                 | Yes   | Yes  | Yes  | No                 | No                 |
| 20 | Including: Discretionary of cancelling dividend distribution or coupon interest | Without discretion | Totally at discretion   | Totally at discretion  | Totally at discretion  | Without discretion | Without discretion |
| 21 | Including: Existence of incentive to call                                       | No                 | No  | No   | No   | No                 | No                 |
| 22 | Including: Cumulative or noncumulative  | Non-cumulative     | Non-cumulative  | Non-cumulative   | Non-cumulative   | Non-cumulative     | Non-cumulative     |
| 23 | Convertible or nonconvertible   | No                 | No  | No   | No   | No                 | No                 |
| 24 | Including: If convertible, state conversion condition                           | N/A                | N/A   | N/A  | N/A  | N/A                | N/A                |
| 25 | Including: If convertible, fully or partially                                   | N/A                | N/A   | N/A  | N/A  | N/A                | N/A                |
| 26 | Including: If convertible, state conversion price determination method          | N/A                | N/A   | N/A  | N/A  | N/A                | N/A                |
| 27 | Including: If convertible, state whether mandatory convertible                  | N/A                | N/A   | N/A  | N/A  | N/A                | N/A                |
| 28 | Including: If convertible, state the instrument type after conversion           | N/A                | N/A   | N/A  | N/A  | N/A                | N/A                |
| 29 | Including: If convertible, state the issuer of instrument after conversion      | N/A                | N/A   | N/A  | N/A  | N/A                | N/A                |
| 30 | Write-down feature  | Yes                | Yes   | Yes  | Yes  | Yes                | Yes                |

## SUPPLEMENTARY INFORMATION ON CAPITAL ADEQUACY RATIO, LEVERAGE RATIO, LIQUIDITY COVERAGE RATIO AND NET STABLE FUNDING RATIO (CONTINUED)

### APPENDIX 4: MAIN FEATURES OF QUALIFIED REGULATORY CAPITAL INSTRUMENTS (CONTINUED)

|    |   |  |   |   |   |  |  |
|----|---|--|---|---|---|--|--|
| 31 | Including: If written down, state the trigger events of write-down  | Earlier of the following: (1) the issuer will not survive if not written down as required by CBIRC. (2) the issuer will not survive if no capital injection or same effect of support from relevant department   | Earlier of the following: (1) the issuer will not survive if not written down as required by CBIRC. (2) the issuer will not survive if no capital injection or same effect of support from relevant department  | Earlier of the following: (1) the issuer will not survive if not written down as required by CBIRC. (2) the issuer will not survive if no capital injection or same effect of support from relevant department  | Earlier of the following: (1) the issuer will not survive if not written down as required by CBIRC. (2) the issuer will not survive if no capital injection or same effect of support from relevant department  | Earlier of the following: (1) the issuer will not survive if not written down as required by CBIRC. (2) the issuer will not survive if no capital injection or same effect of support from relevant department   | Earlier of the following: (1) the issuer will not survive if not written down as required by CBIRC. (2) the issuer will not survive if no capital injection or same effect of support from relevant department   |
| 32 | Including: If written down, state wholly write-down or partial write-down                                   | Full or partial  | Full or partial   | Full or partial   | Full or partial   | Full or partial  | Full or partial  |
| 33 | Including: if written down, state permanent write-down or temporary write-down                              | Permanent  | Permanent   | Permanent   | Permanent   | Permanent  | Permanent  |
| 34 | Including: If temporary write-down, state reversal to book value mechanism                                  | N/A  | N/A   | N/A   | N/A   | N/A  | N/A  |
| 35 | Position in subordination hierarchy in liquidation (state instrument type immediately senior to instrument) | Ranking after depositors and normal creditors, ranking before the holders of equity capital, other tier-1 instruments and mixed capital bonds, the same ranking as other subordinated debts which have the same repayment sequence as the current bonds issued by the issuer, ranking at the same sequence as tier-2 Capital Bonds issued and other tier-2 instruments which have the same repayment sequence as the current bonds and are probable to issue in the future | Ranking after depositors, normal creditors and subordinated debts ranking senior to bond as well as ranking before all classes of shares held by the issuer's shareholders; compensated in the same order as other tier-1 capital instruments with the same repayment order | Ranking after depositors, normal creditors and subordinated debts ranking senior to bond as well as ranking before all classes of shares held by the issuer's shareholders; compensated in the same order as other tier-1 capital instruments with the same repayment order | Ranking after depositors, normal creditors and subordinated debts ranking senior to bond as well as ranking before all classes of shares held by the issuer's shareholders; compensated in the same order as other tier-1 capital instruments with the same repayment order | Ranking after depositors and normal creditors, ranking before the holders of equity capital, other tier-1 instruments and mixed capital bonds, the same ranking as other subordinated debts which have the same repayment sequence as the current bonds issued by the issuer, ranking at the same sequence as tier-2 Capital Bonds issued and other tier-2 instruments which have the same repayment sequence as the current bonds and are probable to issue in the future | Ranking after depositors and normal creditors, ranking before the holders of equity capital, other tier-1 instruments and mixed capital bonds, the same ranking as other subordinated debts which have the same repayment sequence as the current bonds issued by the issuer, ranking at the same sequence as tier-2 Capital Bonds issued and other tier-2 instruments which have the same repayment sequence as the current bonds and are probable to issue in the future |
| 36 | Whether any temporary noncompliance features  | No   | No  | No  | No  | No   | No   |
|    | Including: If yes, state the feature  | N/A  | N/A   | N/A   | N/A   | N/A  | N/A  |

# SUPPLEMENTARY INFORMATION ON CAPITAL ADEQUACY RATIO, LEVERAGE RATIO, LIQUIDITY COVERAGE RATIO AND NET STABLE FUNDING RATIO (CONTINUED)

## APPENDIX 5: INFORMATION RELATED TO LEVERAGE RATIO LEVERAGE RATIO

Disclosed according to the Measures for the Administration of the Leverage Ratio of Commercial Banks (Revised).

### Reconciliation of Regulatory Consolidation and Accounting Consolidation

(in millions of RMB)

| SN | Item   | 30 June 2022 | 31 December 2021 |
|----|--|--------------|------------------|
| 1  | Total consolidated assets                            | 12,580,576   | 11,665,757       |
| 2  | Adjustments of consolidation                         | (117,450)    | (91,385)         |
| 3  | Adjustments item of customer's assets                | 0            | 0                |
| 4  | Adjustments of derivatives                           | 33,660       | 41,498           |
| 5  | Adjustments of securities financing transactions     | 24,293       | 725              |
| 6  | Adjustments of off-balance sheet item                | 1,256,232    | 1,021,988        |
| 7  | Other Adjustments                                    | (6,615)      | (6,010)          |
| 8  | Balance of adjusted on- and off-balance sheet assets | 13,770,696   | 12,632,573       |

### Leverage Ratio Information

(in millions of RMB unless otherwise stated)

| SN | Item  | 30 June 2022      | 31 December 2021  |
|----|---|-------------------|-------------------|
| 1  | On-balance-sheet assets (excluding derivatives and securities financing transactions)   | 12,229,458        | 11,426,283        |
| 2  | Less: Deduction of tier-1 capital   | (6,615)           | (6,010)           |
| 3  | <b>Balance of adjusted on-balance sheet assets (excluding derivatives and securities financing transactions)</b>                            | <b>12,222,843</b> | <b>11,420,273</b> |
| 4  | Replacement costs of derivatives (less eligible margin)   | 55,097            | 39,220            |
| 5  | Potential risk exposure of derivatives  | 34,712            | 41,498            |
| 6  | Sum of collaterals deducted from the balance sheet  | 0                 | 0                 |
| 7  | Less: Assets receivable from providing eligible margin  | 0                 | 0                 |
| 8  | Less: Derivative assets resulting from the transactions with central counterparties in providing clearing settlement services for customers | 0                 | 0                 |
| 9  | Notional principal of sold credit derivatives   | 0                 | 0                 |
| 10 | Less: Deductible balance of sold credit derivatives   | 0                 | 0                 |
| 11 | <b>Derivative asset balance</b>   | <b>89,809</b>     | <b>80,718</b>     |
| 12 | Accounting asset balance of securities financing transactions   | 177,519           | 108,869           |
| 13 | Less: Balance of deductible securities financing transaction assets   | 0                 | 0                 |
| 14 | Counterparty credit risk exposure of securities financing transactions  | 24,293            | 725               |
| 15 | Balance of securities financing transaction assets from acting for securities financing transactions  | 0                 | 0                 |
| 16 | <b>Securities financing assets balance</b>  | <b>201,812</b>    | <b>109,594</b>    |
| 17 | Balance of off-balance-sheet items  | 2,745,005         | 2,373,602         |
| 18 | Less: Balance of off-balance-sheet items arising from the reduction of credit transfer  | (1,488,773)       | (1,351,614)       |
| 19 | <b>Adjusted off-balance sheet items balance</b>   | <b>1,256,232</b>  | <b>1,021,988</b>  |
| 20 | Net tier-1 capital  | 970,873           | 960,225           |
| 21 | Adjusted balance of on- and off-balance sheet assets  | 13,770,696        | 12,632,573        |
| 22 | <b>Leverage ratio (%)</b>   | <b>7.05</b>       | <b>7.60</b>       |



# SUPPLEMENTARY INFORMATION ON CAPITAL ADEQUACY RATIO, LEVERAGE RATIO, LIQUIDITY COVERAGE RATIO AND NET STABLE FUNDING RATIO (CONTINUED)

## APPENDIX 6: THE DAILY AVERAGE LIQUIDITY COVERAGE RATIO AND ITS DETAILS OF THE GROUP IN THE SECOND QUARTER OF 2022

(in millions of RMB unless otherwise stated)

| Serial Number  | Amount before conversion | Amount after conversion |
|--|--------------------------|-------------------------|
| <b>The qualified high-quality liquid assets</b>                            |                          |                         |
| 1 The qualified high-quality liquid assets                                 |                          | 2,341,606               |
| <b>Cash Outflow</b>  |                          |                         |
| 2 Retail deposits, small business deposits, including:                     | 2,487,142                | 239,343                 |
| 3 Stable deposit   | 185,316                  | 9,160                   |
| 4 Less stable deposit  | 2,301,826                | 230,183                 |
| 5 Unsecured wholesale funding, including:                                  | 5,144,045                | 2,174,404               |
| 6 Business relationship deposit (excluding agency business)                | 2,816,095                | 702,689                 |
| 7 Non-business relationship deposit (including all counterparties)         | 2,322,815                | 1,466,580               |
| 8 Unsecured debt   | 5,135                    | 5,135                   |
| 9 Secured funding  |                          | 19,018                  |
| 10 Other items, including:   | 2,006,463                | 1,025,890               |
| 11 Cash outflow relates to derivatives and other collateral/pledged assets | 996,751                  | 971,388                 |
| 12 Cash outflow relates to loss of funding on asset-blocked securities     | 200                      | 200                     |
| 13 Committed credit and liquidity facilities                               | 1,009,512                | 54,302                  |
| 14 Other contractual obligation to extend funds                            | 70,150                   | 70,150                  |
| 15 Contingent funding obligations  | 1,924,735                | 69,260                  |
| 16 Total expected cash outflow   |                          | 3,598,065               |
| <b>Cash Inflow</b>   |                          |                         |
| 17 Secured lending (including reverse repos and securities borrowing)      | 156,072                  | 156,072                 |
| 18 Inflows from fully performing exposure                                  | 1,016,764                | 673,594                 |
| 19 Other cash inflow   | 1,002,560                | 982,443                 |
| 20 Total expected cash inflow  | 2,175,396                | 1,812,109               |
|  |                          | Amount after adjustment |
| 21 The qualified high-quality liquid assets                                |                          | 2,288,535               |
| 22 Net cash outflow  |                          | 1,785,956               |
| 23 Liquidity Coverage Ratio (%)  |                          | 128.15                  |

# SUPPLEMENTARY INFORMATION ON CAPITAL ADEQUACY RATIO, LEVERAGE RATIO, LIQUIDITY COVERAGE RATIO AND NET STABLE FUNDING RATIO (CONTINUED)

## APPENDIX 7: NET STABLE FUNDING RATIO AND ITEMS FOR THE FIRST QUARTER OF 2022

(in millions of RMB unless otherwise stated)

| Serial Number | Available Stable Funding Item  | Unweighted value |                    |             |             | Weighted value |
|---------------|--|------------------|--------------------|-------------|-------------|----------------|
|               |  | No Maturity      | Less than 6 months | 6-12 months | Over 1 year |                |
| 1             | Capital  | 990,654          | –                  | –           | 169,973     | 1,160,626      |
| 2             | Regulatory Capital   | 990,654          | –                  | –           | 169,973     | 1,160,626      |
| 3             | Other capital instruments  | –                | –                  | –           | –           | –              |
| 4             | Retail deposits and deposits from small enterprises  | 890,099          | 1,791,734          | 11,916      | 1,919       | 2,437,065      |
| 5             | Stable deposits  | 210,012          | 2,902              | 2,528       | 1,499       | 206,168        |
| 6             | Less stable deposits   | 680,087          | 1,788,833          | 9,388       | 420         | 2,230,897      |
| 7             | Wholesale funding  | 2,709,409        | 3,380,562          | 1,090,808   | 469,806     | 3,326,237      |
| 8             | Operational deposits   | 2,645,943        | 109,887            | 65,617      | 15,092      | 1,425,816      |
| 9             | Other wholesale funding  | 63,465           | 3,270,675          | 1,025,191   | 454,714     | 1,900,421      |
| 10            | Liabilities with matching interdependent assets  | –                | –                  | –           | –           | –              |
| 11            | Other liabilities  | 60,965           | 279,853            | 127,914     | 241,751     | 319,781        |
| 12            | Net stable funding ratio derivative liabilities  |                  |                    |             | 34,054      |                |
| 13            | All other liabilities and equities not included in the above categories  | 60,965           | 279,853            | 127,914     | 207,697     | 319,781        |
| 14            | Total available stable funding   |                  |                    |             |             | 7,243,709      |
| 15            | Total net stable funding ratio high-quality liquid assets  |                  |                    |             |             | 428,112        |
| 16            | Business relationship deposits held at other financial institutions  | 127,045          | 867                | 500         | –           | 64,206         |
| 17            | Loans and securities   | 40,192           | 2,087,150          | 1,048,109   | 4,983,257   | 5,635,773      |
| 18            | Loans to financial institutions secured by Level 1 assets  | –                | 48,493             | –           | –           | 7,274          |
| 19            | Loans to financial institutions secured by non-Level 1 assets or unsecured   | –                | 519,076            | 167,406     | 106,704     | 268,269        |
| 20            | Loans to retail and small business customers, nonfinancial institutions, sovereigns, central banks and public sector entities. | 37               | 1,464,581          | 848,106     | 2,952,517   | 3,659,122      |
| 21            | Including: with a risk weight less than or equal to 35%  | –                | 12,310             | 4,424       | 36,390      | 32,020         |
| 22            | Residential mortgages  | –                | 728                | 924         | 1,477,551   | 1,256,744      |
| 23            | Including: with a risk weight less than or equal to 35%  | –                | –                  | –           | –           | –              |
| 24            | Securities that are not in default and do not qualify as high-quality liquid assets, including exchange traded equities        | 40,155           | 54,273             | 31,673      | 446,485     | 444,364        |

# SUPPLEMENTARY INFORMATION ON CAPITAL ADEQUACY RATIO, LEVERAGE RATIO, LIQUIDITY COVERAGE RATIO AND NET STABLE FUNDING RATIO (CONTINUED)

## APPENDIX 7: NET STABLE FUNDING RATIO AND ITEMS FOR THE FIRST QUARTER OF 2022 (CONTINUED)

(in millions of RMB unless otherwise stated)

| Serial Number |   | Unweighted value |                    |             |             | Weighted value |
|---------------|---|------------------|--------------------|-------------|-------------|----------------|
|               |   | No Maturity      | Less than 6 months | 6-12 months | Over 1 year |                |
| 25            | Assets with matching interdependent liabilities   | –                | –                  | –           | –           | –              |
| 26            | Other assets  | 197,898          | 84,172             | 9,398       | 66,062      | 320,390        |
| 27            | Physical traded commodities (including gold)  | 28,946           |                    |             |             | 24,604         |
| 28            | Assets posted as initial margin for derivative contracts and contributions to default funds of central counterparties |                  |                    |             | 10,565      | 8,980          |
| 29            | Net stable funding ratio derivative assets  |                  |                    |             | 46,380      | 12,326         |
| 30            | Net stable funding ratio derivative liabilities with additional requirements  |                  |                    |             | 34,054      | 6,811          |
| 31            | All other assets not included in the above  | 168,952          | 84,172             | 9,398       | 9,117       | 267,668        |
| 32            | Off-balance-sheet items   |                  |                    |             | 3,183,062   | 133,427        |
| 33            | Total required stable funding   |                  |                    |             |             | 6,581,907      |
| 34            | Net stable funding ratio (%)  |                  |                    |             |             | 110.05         |

## Notes:

- Items to be reported in the “no maturity” bucket mentioned in the table above include, but are not limited to, capital with perpetual maturity, non-maturity (demand) deposits, short positions, open maturity positions, non-high-quality liquid assets equities, and physical traded commodities.
- The unweighted value of item 30 “Net stable funding ratio derivative liabilities with additional requirements” is the net stable funding ratio derivative liabilities before the deduction of the variation margin, without differentiation of maturity, and not included in the unweighted value of item 26 “Other assets”.

# SUPPLEMENTARY INFORMATION ON CAPITAL ADEQUACY RATIO, LEVERAGE RATIO, LIQUIDITY COVERAGE RATIO AND NET STABLE FUNDING RATIO (CONTINUED)

## APPENDIX 8: NET STABLE FUNDING RATIO AND ITEMS FOR THE SECOND QUARTER OF 2022

(in millions of RMB unless otherwise stated)

| Serial Number | Available Stable Funding Item  | Unweighted value |                    |             |             | Weighted value |
|---------------|--|------------------|--------------------|-------------|-------------|----------------|
|               |  | No Maturity      | Less than 6 months | 6-12 months | Over 1 year |                |
| 1             | Capital  | 982,168          | –                  | –           | 139,991     | 1,122,159      |
| 2             | Regulatory Capital   | 982,168          | –                  | –           | 139,991     | 1,122,159      |
| 3             | Other capital instruments  | –                | –                  | –           | –           | –              |
| 4             | Retail deposits and deposits from small enterprises  | 875,661          | 1,918,046          | 27,463      | 3,954       | 2,553,249      |
| 5             | Stable deposits  | 198,704          | 2,887              | 3,268       | 3,064       | 197,680        |
| 6             | Less stable deposits   | 676,957          | 1,915,159          | 24,194      | 890         | 2,355,570      |
| 7             | Wholesale funding  | 2,830,609        | 3,431,279          | 1,004,777   | 492,319     | 3,398,303      |
| 8             | Operational deposits   | 2,774,415        | 126,743            | 68,693      | 19,853      | 1,504,779      |
| 9             | Other wholesale funding  | 56,194           | 3,304,536          | 936,084     | 472,465     | 1,893,524      |
| 10            | Liabilities with matching interdependent assets  | –                | –                  | –           | –           | –              |
| 11            | Other liabilities  | 70,102           | 402,614            | 35,850      | 266,398     | 302,507        |
| 12            | Net stable funding ratio derivative liabilities  |                  |                    |             | 39,491      |                |
| 13            | All other liabilities and equities not included in the above categories  | 70,102           | 402,614            | 35,850      | 226,907     | 302,507        |
| 14            | Total available stable funding   |                  |                    |             |             | 7,376,218      |
| 15            | Total net stable funding ratio high-quality liquid assets  |                  |                    |             |             | 399,030        |
| 16            | Business relationship deposits held at other financial institutions  | 109,552          | 961                | –           | –           | 55,257         |
| 17            | Loans and securities   | 39,335           | 2,035,135          | 1,136,073   | 5,129,371   | 5,803,248      |
| 18            | Loans to financial institutions secured by Level 1 assets  | –                | 122,955            | –           | –           | 18,443         |
| 19            | Loans to financial institutions secured by non-Level 1 assets or unsecured   | –                | 379,737            | 218,211     | 133,335     | 299,401        |
| 20            | Loans to retail and small business customers, nonfinancial institutions, sovereigns, central banks and public sector entities. | 70               | 1,490,741          | 880,313     | 3,055,952   | 3,775,350      |
| 21            | Including: with a risk weight less than or equal to 35%  | –                | 4,584              | 4,253       | 40,829      | 30,957         |
| 22            | Residential mortgages  | –                | 776                | 981         | 1,484,695   | 1,262,870      |
| 23            | Including: with a risk weight less than or equal to 35%  | –                | –                  | –           | –           | –              |
| 24            | Securities that are not in default and do not qualify as high-quality liquid assets, including exchange traded equities        | 39,264           | 40,926             | 36,567      | 455,388     | 447,183        |
| 25            | Assets with matching interdependent liabilities  | –                | –                  | –           | –           | –              |
| 26            | Other assets   | 197,535          | 80,402             | 9,933       | 124,844     | 370,307        |
| 27            | Physical traded commodities (including gold)   | 24,155           |                    |             |             | 20,532         |

# SUPPLEMENTARY INFORMATION ON CAPITAL ADEQUACY RATIO, LEVERAGE RATIO, LIQUIDITY COVERAGE RATIO AND NET STABLE FUNDING RATIO (CONTINUED)

## APPENDIX 8: NET STABLE FUNDING RATIO AND ITEMS FOR THE SECOND QUARTER OF 2022 (CONTINUED)

(in millions of RMB unless otherwise stated)

| Serial Number |   | Unweighted value |                    |             |             | Weighted value |
|---------------|---|------------------|--------------------|-------------|-------------|----------------|
|               |   | No Maturity      | Less than 6 months | 6-12 months | Over 1 year |                |
| 28            | Assets posted as initial margin for derivative contracts and contributions to default funds of central counterparties |                  |                    |             | 12,413      | 10,551         |
| 29            | Net stable funding ratio derivative assets  |                  |                    |             | 56,153      | 16,662         |
| 30            | Net stable funding ratio derivative liabilities with additional requirements  |                  |                    |             | 39,491      | 7,898          |
| 31            | All other assets not included in the above  | 173,379          | 80,402             | 9,933       | 56,278      | 314,663        |
| 32            | Off-balance-sheet items   |                  |                    |             | 3,315,700   | 138,390        |
| 33            | Total required stable funding   |                  |                    |             |             | 6,766,230      |
| 34            | Net stable funding ratio (%)  |                  |                    |             |             | 109.02         |

## Notes:

1. The “no maturity” bucket mentioned in the table above include, but are not limited to, capital with perpetual maturity, non-maturity (demand) deposits, short positions, open maturity positions, non-high-quality liquid assets equities, and physical traded commodities.
2. The unweighted value of item 30 “Net stable funding ratio derivative liabilities with additional requirements” is the net stable funding ratio derivative liabilities before the deduction of the variation margin, without differentiation of maturity, and not included in the unweighted value of item 26 “Other assets”.

## APPENDIX I FINANCIAL STATEMENTS

### (I) Unaudited Interim Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

*(All amounts presented in millions of RMB except when otherwise indicated)*

|   | Nine months ended 30 September |                |
|---|--------------------------------|----------------|
|   | 2022                           | 2021           |
| Interest income   | 309,244                        | 279,879        |
| Interest expense  | (181,217)                      | (160,635)      |
| <b>Net interest income</b>  | <b>128,027</b>                 | <b>119,244</b> |
| Fee and commission income   | 38,278                         | 39,574         |
| Fee and commission expense  | (3,546)                        | (3,425)        |
| <b>Net fee and commission income</b>  | <b>34,732</b>                  | <b>36,149</b>  |
| Net gains arising from trading activities   | 15,596                         | 17,286         |
| Net gains arising from financial investments  | 556                            | 1,030          |
| <i>Including: Net gains on derecognition of financial assets measured at amortised cost</i> | <i>63</i>                      | <i>45</i>      |
| Share of profits of associates and joint ventures   | 164                            | 170            |
| Insurance business income   | 15,980                         | 13,306         |
| Other operating income  | 15,292                         | 13,025         |
| <b>Net operating income</b>   | <b>210,347</b>                 | <b>200,210</b> |
| Credit impairment losses  | (51,460)                       | (52,428)       |
| Other assets impairment losses  | (699)                          | (418)          |
| Insurance business expense  | (16,809)                       | (13,607)       |
| Other operating expenses  | (70,426)                       | (64,338)       |
| <b>Profit before tax</b>  | <b>70,953</b>                  | <b>69,419</b>  |
| Income tax expense  | (2,933)                        | (3,927)        |
| <b>Net profit for the period</b>  | <b>68,020</b>                  | <b>65,492</b>  |

(All amounts presented in millions of RMB except when otherwise indicated)

**Nine months ended 30 September**

**2022**

**2021**

**Other comprehensive income, net of tax**

**Items that may be reclassified subsequently to profit or loss:**

Changes in fair value of debt instruments measured at fair value through other comprehensive income

|  |                |              |
|--|----------------|--------------|
| <i>Amount recognised in equity</i>           | <b>(9,304)</b> | <b>3,120</b> |
| <i>Amount reclassified to profit or loss</i> | <b>(591)</b>   | <b>(571)</b> |

Expected credit losses of debt instruments measured at fair value through other comprehensive income

|  |            |              |
|--|------------|--------------|
| <i>Amount recognised in equity</i>           | <b>644</b> | <b>(509)</b> |
| <i>Amount reclassified to profit or loss</i> | <b>–</b>   | <b>–</b>     |

Effective portion of gains or losses on hedging instruments in cash flow hedges

|  |            |              |
|--|------------|--------------|
| <i>Amount recognised in equity</i>           | <b>730</b> | <b>952</b>   |
| <i>Amount reclassified to profit or loss</i> | <b>169</b> | <b>(640)</b> |

Translation differences for foreign operations **9,388** **(1,463)**

Others **140** **4**

Subtotal **1,176** **893**

**Items that will not be reclassified subsequently to profit or loss:**

Actuarial losses on pension benefits **(35)** **63**

Changes in fair value of equity investments designated at fair value through other comprehensive income **(386)** **(802)**

Changes in fair value attributable to changes in the credit risk of financial liability designated at fair value through profit or loss **(141)** **(45)**

Others **2** **2**

Subtotal **(560)** **(782)**

*(All amounts presented in millions of RMB except when otherwise indicated)*

|   | <b>Nine months ended 30 September</b> |                      |
|---|---------------------------------------|----------------------|
|   | <b>2022</b>                           | 2021                 |
| Other comprehensive income, net of tax  | <u>616</u>                            | <u>111</u>           |
| <b>Total comprehensive income for the period</b>  | <b><u>68,636</u></b>                  | <b><u>65,603</u></b> |
| <b>Net profit attributable to:</b>  |                                       |                      |
| Shareholders of the parent company  | 67,883                                | 64,360               |
| Non-controlling interests   | <u>137</u>                            | <u>1,132</u>         |
|   | <b><u>68,020</u></b>                  | <b><u>65,492</u></b> |
| <b>Total comprehensive income attributable to:</b>  |                                       |                      |
| Shareholders of the parent company  | 68,086                                | 64,594               |
| Non-controlling interests   | <u>550</u>                            | <u>1,009</u>         |
|   | <b><u>68,636</u></b>                  | <b><u>65,603</u></b> |
| <b>Basic and diluted earnings per share for profit attributable to the shareholders of the parent company (in RMB yuan)</b> | <b><u>0.83</u></b>                    | <b><u>0.80</u></b>   |



## (II) Unaudited Interim Condensed Consolidated Statement of Financial Position

*(All amounts presented in millions of RMB except when otherwise indicated)*

|   | As at<br>30 September<br>2022 | As at<br>31 December<br>2021 |
|---|-------------------------------|------------------------------|
| <b>ASSETS</b>   |                               |                              |
| Cash and balances with central banks  | 788,506                       | 734,728                      |
| Due from and placements with banks and<br>other financial institutions              | 687,951                       | 632,708                      |
| Derivative financial assets   | 107,173                       | 39,220                       |
| Loans and advances to customers   | 7,046,335                     | 6,412,201                    |
| Financial investments at fair value through profit or loss                          | 683,955                       | 638,483                      |
| Financial investments at amortised cost   | 2,324,085                     | 2,203,037                    |
| Financial investments at fair value through other<br>comprehensive income (“FVOCI”) | 671,635                       | 681,729                      |
| Investments in associates and joint ventures  | 7,760                         | 5,779                        |
| Property and equipment  | 188,729                       | 171,194                      |
| Deferred tax assets   | 41,639                        | 32,061                       |
| Other assets  | 145,435                       | 114,617                      |
| <b>Total assets</b>   | <b>12,693,203</b>             | <b>11,665,757</b>            |
| <b>LIABILITIES AND EQUITY</b>   |                               |                              |
| <b>LIABILITIES</b>  |                               |                              |
| Due to and placements from banks and other financial<br>institutions                | 1,910,678                     | 1,947,768                    |
| Financial liabilities at fair value through profit or loss                          | 65,102                        | 50,048                       |
| Derivative financial liabilities  | 88,908                        | 36,074                       |
| Deposits from customers   | 7,887,813                     | 7,039,777                    |
| Certificates of deposits issued   | 945,991                       | 892,020                      |
| Income taxes payable  | 6,718                         | 4,725                        |
| Debt securities issued  | 537,269                       | 503,525                      |
| Deferred tax liabilities  | 3,080                         | 1,889                        |
| Other liabilities   | 235,207                       | 212,695                      |
| <b>Total liabilities</b>  | <b>11,680,766</b>             | <b>10,688,521</b>            |

(All amounts presented in millions of RMB except when otherwise indicated)

|   | As at<br>30 September<br>2022 | As at<br>31 December<br>2021 |
|---|-------------------------------|------------------------------|
| <b>EQUITY</b>   |                               |                              |
| Share capital   | 74,263                        | 74,263                       |
| Other equity instruments  | 174,790                       | 174,790                      |
| <i>Including: Preference shares</i>   | 44,952                        | 44,952                       |
| <i>Perpetual bonds</i>  | 129,838                       | 129,838                      |
| Capital surplus   | 111,429                       | 111,428                      |
| Other reserves  | 367,693                       | 346,092                      |
| Retained earnings   | 271,622                       | 258,074                      |
| <b>Equity attributable to shareholders of the<br/>parent company</b>            | <b>999,797</b>                | <b>964,647</b>               |
| Equity attributable to non-controlling interests of<br>ordinary shares          | 9,139                         | 9,424                        |
| Equity attributable to non-controlling interests of other<br>equity instruments | 3,501                         | 3,165                        |
| <b>Non-controlling interests</b>  | <b>12,640</b>                 | <b>12,589</b>                |
| <b>Total equity</b>   | <b>1,012,437</b>              | <b>977,236</b>               |
| <b>Total equity and liabilities</b>   | <b>12,693,203</b>             | <b>11,665,757</b>            |

### (III) Unaudited Interim Condensed Consolidated Statement Of Cash Flows

*(All amounts presented in millions of RMB except when otherwise indicated)*

|   | Nine months ended 30 September |          |
|---|--------------------------------|----------|
|   | 2022                           | 2021     |
| <b>Cash flows from operating activities:</b>                              |                                |          |
| Profit before tax:  | 70,953                         | 69,419   |
| Adjustments for:  |                                |          |
| Provision for credit impairment losses                                    | 51,460                         | 52,428   |
| Provision for other assets impairment losses                              | 699                            | 418      |
| Provision for insurance contracts reserve                                 | 11,395                         | 12,426   |
| Depreciation and amortization   | 12,019                         | 11,028   |
| Provision/(reversal) for outstanding litigation and unsettled obligation  | 69                             | (221)    |
| Net gains on the disposal of property, equipment and other assets         | (652)                          | (351)    |
| Interest income on financial investments                                  | (71,724)                       | (65,429) |
| Fair value net losses/(gains)   | 9,120                          | (264)    |
| Net gains on investments in associates and joint ventures                 | (164)                          | (170)    |
| Net gains on financial investments  | (556)                          | (1,030)  |
| Interest expense on debt securities issued                                | 11,636                         | 12,277   |
| Interest expense on lease liabilities                                     | 138                            | 154      |
|   | <hr/>                          | <hr/>    |
| Operating cash flows before movements in operating assets and liabilities | 94,393                         | 90,685   |
|   | <hr/>                          | <hr/>    |
| Net increase in balances with central banks                               | (54,761)                       | (11,114) |

(All amounts presented in millions of RMB except when otherwise indicated)

|  | Nine months ended 30 September |                  |
|--|--------------------------------|------------------|
|  | 2022                           | 2021             |
| Net decrease/(increase) in due from and placements with banks and other financial institutions | 74                             | (99,070)         |
| Net increase in loans and advances to customers  | (637,981)                      | (653,577)        |
| Net increase in financial assets at fair value through profit or loss                          | (43,530)                       | (102,458)        |
| Net increase in other assets   | (35,799)                       | (11,601)         |
| Net (decrease)/increase in due to and placements from banks and other financial institutions   | (46,247)                       | 36,479           |
| Net (decrease)/increase in financial liabilities at fair value through profit or loss          | (1,044)                        | 3,157            |
| Net increase in deposits from customers and certificates of deposit issued                     | 800,180                        | 550,276          |
| Net increase in other liabilities  | 25,441                         | 66,574           |
| Net (decrease)/increase in value-added tax and other taxes payable                             | (748)                          | 1,464            |
| Income taxes paid  | (10,676)                       | (6,833)          |
| <b>Net cash flows generated/(used) in operating activities</b>                                 | <b>89,302</b>                  | <b>(136,018)</b> |
| <b>Cash flows from investing activities:</b>   |                                |                  |
| Cash payment for investment in subsidiaries, associated ventures and joint ventures            | (1,857)                        | (863)            |
| Cash payments for financial investments  | (748,565)                      | (739,800)        |
| Proceeds from disposal or redemption of financial investments                                  | 649,928                        | 655,069          |
| Dividends received   | 3,231                          | 2,763            |
| Interest received from financial investments   | 67,659                         | 64,661           |
| Acquisition of intangible assets and other assets  | (1,015)                        | (1,308)          |
| Cash received from the sale of intangible assets and other assets                              | 652                            | 388              |
| Acquisition of property, equipment   | (16,563)                       | (10,639)         |
| Cash received from disposal of property, equipment   | 6,108                          | 3,066            |
| <b>Net cash flows used in investing activities</b>   | <b>(40,422)</b>                | <b>(26,663)</b>  |

(All amounts presented in millions of RMB except when otherwise indicated)

|   | Nine months ended 30 September |                 |
|---|--------------------------------|-----------------|
|   | 2022                           | 2021            |
| <b>Cash flows from financing activities:</b>                                  |                                |                 |
| Proceeds from issue of other equity instruments                               | –                              | 41,498          |
| Proceeds from issue of debt securities  | 86,892                         | 93,349          |
| Repayment of principal and interest of lease liabilities                      | (1,893)                        | (1,791)         |
| Repayment of principals of debt securities issued                             | (64,955)                       | (17,693)        |
| Payment of interest on debt securities  | (10,650)                       | (7,996)         |
| Dividends paid  | (32,647)                       | (28,351)        |
| Dividends paid to non-controlling interests                                   | (150)                          | (556)           |
|   | <hr/>                          | <hr/>           |
| <b>Net cash flows (used)/generated from financing activities</b>              | <b>(23,403)</b>                | <b>78,460</b>   |
| <b>Effect of exchange rate fluctuations on cash and cash equivalents held</b> | <b>5,014</b>                   | <b>(1,374)</b>  |
|   | <hr/>                          | <hr/>           |
| <b>Net increase/(decrease) in cash and cash equivalents</b>                   | <b>30,491</b>                  | <b>(85,595)</b> |
| <b>Cash and cash equivalents at the beginning of the period</b>               | <b>194,308</b>                 | <b>307,120</b>  |
|   | <hr/>                          | <hr/>           |
| <b>Cash and cash equivalents at the end of the period</b>                     | <b>224,799</b>                 | <b>221,525</b>  |
|   | <hr/>                          | <hr/>           |
| <b>Net cash flows from operating activities include:</b>                      |                                |                 |
| Interest received   | 237,723                        | 216,761         |
| Interest paid   | (142,692)                      | (130,588)       |
|   | <hr/>                          | <hr/>           |

**ISSUER**

**Bank of Communications Co., Ltd. Hong Kong Branch**

20 Pedder Street  
Central  
Hong Kong

**AUDITORS OF THE BANK**

*for the years ended 31 December 2019, 2020 and 2021*

**PricewaterhouseCoopers**

Certified Public Accountants  
Registered Public Interest Entity Auditor  
22/F, Prince's Building  
10 Chater Road  
Central  
Hong Kong

**AUDITORS OF THE BANK**

*for the year ending 31 December 2022*

**KPMG**

Registered Public Interest Entity Auditor  
8/F, Prince's Building  
10 Chater Road  
Central  
Hong Kong

**FISCAL AGENT AND PAYING AGENT**

**Bank of Communications Co., Ltd.**

Hong Kong Branch  
20 Pedder Street  
Central  
Hong Kong

**REGISTRAR AND TRANSFER AGENT IN RESPECT OF THE CNY NOTES**

**Bank of Communications Co., Ltd.**

Hong Kong Branch  
20 Pedder Street  
Central  
Hong Kong

**CMU LODGING AND PAYING AGENT**

**Bank of Communications Co., Ltd.**

Hong Kong Branch  
20 Pedder Street  
Central  
Hong Kong

**REGISTRAR AND TRANSFER AGENT IN RESPECT OF THE USD NOTES**

**Bank of Communications Co., Ltd.**

Hong Kong Branch  
20 Pedder Street  
Central  
Hong Kong

## LEGAL ADVISERS

*To the Issuer  
as to English law*

**Linklaters**  
11th Floor  
Alexandra House  
Chater Road  
Hong Kong

*To the Issuer  
as to PRC law*

**King & Wood Mallesons**  
17th Floor, One ICC  
Shanghai International Commerce Center  
999 Middle Huai Hai Road  
Xuhui District  
Shanghai 200031  
PRC

*To the Joint Lead Managers  
as to English law*

**Allen & Overy**  
9th Floor  
Three Exchange Square  
Central  
Hong Kong

*To the Joint Lead Managers  
as to PRC law*

**JunHe LLP**  
20th Floor  
8 Jianguomenbei Avenue  
Beijing 100005  
PRC

**Appendix 3**  
**Pricing Supplements dated 22 November 2022**



**Singapore SFA Product Classification** – In connection with Section 309B of the Securities and Futures Act 2001 of Singapore, as modified or amended from time to time (the “SFA”) and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the “CMP Regulations 2018”), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are prescribed capital markets products (as defined in the CMP Regulations 2018) and are Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendation on Investment Products).

**Pricing Supplement dated 22 November 2022**

**Bank of Communications Co., Ltd. Hong Kong Branch**

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

**Legal Entity Identifier of Bank of Communications Co., Ltd.: 549300AX1UM10U30HK09**

**Issue of U.S.\$200,000,000 4.75 per cent. Notes due 2025 (the “Notes”)  
under the U.S.\$12,000,000,000 Medium Term Note Programme (the “Programme”)**

This document constitutes the Pricing Supplement relating to the issue of Notes described herein. Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the offering circular dated 7 March 2022 (the “**Original Offering Circular**”) and the supplemental offering circular dated 22 November 2022 (the “**Supplemental Offering Circular**”, together with the Original Offering Circular, the “**Offering Circular**”).

This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Offering Circular. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of the Offering Circular and this Pricing Supplement.

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

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

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

The Managers and their respective officers, employees, affiliates, advisors and agents have not independently verified the information contained herein (financial, legal or otherwise) and, to the fullest extent permitted by law, none of the Managers or their respective officers, employees, affiliates, advisors or agents accepts any responsibility for the contents of this Pricing Supplement or for any other statement, made or purported to be made by the Managers or on their behalf in connection with the Issuer, the Bank, the Group, the Programme or the issue and offering of the Notes under the

Programme. The Managers and their respective officers, employees, affiliates, advisors or agents accordingly disclaim all and any liability whether arising in tort or contract or otherwise (save as referred to above) which might otherwise have in respect of this Pricing Supplement or any such statement.

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

|    |  |   |
|----|--|---|
| 1  | Issuer:  | Bank of Communications Co., Ltd. Hong Kong Branch   |
| 2  | (i) Series Number:   | 43  |
|    | (ii) Tranche Number:   | 01  |
|    | (iii) Date on which the Notes will be consolidated and form a single Series: | Not Applicable  |
| 3  | Specified Currency or Currencies:  | U.S. Dollar (" <b>U.S.\$</b> ")   |
| 4  | Aggregate Nominal Amount:  | U.S.\$200,000,000   |
| 5  | Issue Price:   | 99.592 per cent. of the Aggregate Nominal Amount  |
|    | Gross Proceeds:  | U.S.\$199,184,000   |
| 6  | Use of Proceeds:   | The net proceeds of the issue of the Notes will be used for the Issuer's working capital and general corporate purposes |
| 7  | (i) Specified Denominations:   | U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof   |
|    | (ii) Calculation Amount:   | U.S.\$1,000   |
| 8  | (i) Issue Date:  | 30 November 2022  |
|    | (ii) Interest Commencement Date:   | Issue Date  |
| 9  | Maturity Date:   | 30 November 2025  |
| 10 | Interest Basis:  | 4.75 per cent. Fixed Rate<br>(further particulars specified below)  |
| 11 | Redemption/Payment Basis:  | Redemption at par   |
| 12 | Change of Interest or Redemption/ Payment Basis:                             | Not Applicable  |
| 13 | Put/Call Options:  | Not Applicable  |
| 14 | (i) Status of the Notes:   | Senior Notes  |
|    | (ii) Regulatory approval for issuance of Notes obtained:                     | Quota approval from the National Development and Reform Commission of the PRC obtained on 28 September 2022             |

|    |                                 |  |
|----|---------------------------------|--|
| 15 | Listing:                        | The Stock Exchange of Hong Kong Limited on 1 December 2022 |
| 16 | Method of distribution:         | Syndicated   |
| 17 | Private Bank Rebate/Commission: | Not Applicable   |

#### **PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

|    |  |   |
|----|--|---|
| 18 | Fixed Rate Note Provisions   | Applicable  |
|    | (i) Rate of Interest:  | 4.75 per cent. per annum payable semi-annually in arrear  |
|    | (ii) Interest Payment Date(s):   | 30 May and 30 November in each year, up to and including the Maturity Date. The first Interest Payment Date will be 30 May 2023 |
|    | (iii) Fixed Coupon Amount(s):  | U.S.\$23.75 per Calculation Amount  |
|    | (iv) Broken Amount:  | Not Applicable  |
|    | (v) Day Count Fraction (Condition 5(j)):   | 30/360  |
|    | (vi) Determination Date(s) (Condition 5(j)):   | Not Applicable  |
|    | (vii) Other terms relating to the method of calculating interest for Fixed Rate Notes: | Not Applicable  |
| 19 | Floating Rate Note Provisions  | Not Applicable  |
| 20 | Zero Coupon Note Provisions  | Not Applicable  |
| 21 | Index Linked Interest Note Provisions  | Not Applicable  |
| 22 | Dual Currency Note Provisions  | Not Applicable  |

#### **PROVISIONS RELATING TO REDEMPTION**

|    |   |                                    |
|----|---|------------------------------------|
| 23 | Call Option   | Not Applicable                     |
| 24 | Put Option  | Not Applicable                     |
| 25 | Final Redemption Amount of each Note  | U.S.\$1,000 per Calculation Amount |
| 26 | Early Redemption Amount   |                                    |
|    | (i) Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons (Condition 6(c)) or Event of Default (Condition 10) and/or the method of calculating the same (if required or if different from that set out in the Conditions): | U.S.\$1,000                        |

#### **GENERAL PROVISIONS APPLICABLE TO THE NOTES**

|    |                |                  |
|----|----------------|------------------|
| 27 | Form of Notes: | Registered Notes |
|----|----------------|------------------|

|    |   |  |
|----|---|--|
|    |   | Global Certificate exchangeable for Definitive Certificates in the limited circumstances specified in the Global Certificate |
| 28 | Financial Centre(s) (Condition 7(h)) or other special provisions relating to payment dates:   | Not Applicable   |
| 29 | Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):   | No   |
| 30 | Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment: | Not Applicable   |
| 31 | Details relating to Instalment Notes:   | Not Applicable   |
| 32 | Redenomination, renominatisation and reconventioning provisions:  | Not Applicable   |
| 33 | Consolidation provisions:   | Not Applicable   |
| 34 | Other terms or special conditions:  | Not Applicable   |

## DISTRIBUTION

|    |                                       |  |
|----|---------------------------------------|--|
| 35 | (i) If syndicated, names of Managers: | <u>Joint Global Coordinators, Joint Lead Managers and Joint Bookrunners</u><br>Bank of Communications Co., Ltd. Hong Kong Branch<br>Agricultural Bank of China Limited Hong Kong Branch<br>ABCI Capital Limited<br>Bank of China Limited<br>Bank of China (Hong Kong) Limited<br>BOCOM International Securities Limited<br>China CITIC Bank International Limited<br>China Construction Bank (Asia) Corporation Limited<br>China Construction Bank Corporation, Singapore Branch<br>China Everbright Bank Co., Ltd., Hong Kong Branch<br>China International Capital Corporation Hong Kong Securities Limited<br>CLSA Limited<br>CMBC Securities Company Limited |
|----|---------------------------------------|--|

|    |   |   |
|----|---|---|
|    |   | CMB International Capital Limited   |
|    |   | CNCB (Hong Kong) Capital Limited  |
|    |   | Crédit Agricole Corporate and Investment Bank                                     |
|    |   | Guotai Junan Securities (Hong Kong) Limited                                       |
|    |   | The Hongkong and Shanghai Banking Corporation Limited                             |
|    |   | ICBC International Securities Limited   |
|    |   | Industrial and Commercial Bank of China Limited, Dubai (DIFC) Branch              |
|    |   | Industrial and Commercial Bank of China Limited, Singapore Branch                 |
|    |   | Industrial Bank Co., Ltd. Hong Kong Branch  |
|    |   | Shanghai Pudong Development Bank Co., Ltd., Hong Kong Branch                      |
|    |   | Standard Chartered Bank   |
|    | (ii) Stabilisation Manager (if any):          | Any of the Managers appointed and acting in its capacity as stabilisation manager |
| 36 | If non-syndicated, name of Dealer:            | Not Applicable  |
| 37 | U.S. Selling Restrictions                     | Reg. S Category 1; TEFRA Not Applicable   |
| 38 | Additional selling restrictions:              | Not Applicable  |
| 39 | Prohibition of Sales to EEA Retail Investors: | Not Applicable  |
| 40 | Prohibition of Sales to UK Retail Investors:  | Not Applicable  |

#### **OPERATIONAL INFORMATION**

|    |   |   |
|----|---|---|
| 41 | ISIN Code:  | XS2559584888  |
| 42 | Common Code:  | 255958488   |
| 43 | CMU Instrument Number:  | Not Applicable  |
| 44 | Any clearing system(s) other than Euroclear, Clearstream and the CMU and the relevant identification number(s): | Not Applicable  |
| 45 | Delivery:   | Delivery against payment                                    |
| 46 | Additional Paying Agents (if any):  | Not Applicable  |
| 47 | Rating:   | The Notes to be issued are expected to be rated:<br>S&P: A- |

#### **GENERAL**

|    |  |                |
|----|--|----------------|
| 48 | Translation of the aggregate principal amount of Notes issued: | Not Applicable |
|----|--|----------------|

- |    |   |                |
|----|---|----------------|
| 49 | In the case of Registered Notes, specify the location of the office of the Registrar if other than Hong Kong: | Not Applicable |
| 50 | In the case of Bearer Notes, specify the location of the office of the Fiscal Agent if other than London:     | Not Applicable |

#### **HONG KONG SFC CODE OF CONDUCT**

- |    |   |   |
|----|---|---|
| 51 | Contact email addresses of the Overall Coordinators where underlying investor information in relation to omnibus orders should be sent: | dcm@bankcomm.com.hk<br>abchk.dcm@abchina.com.hk<br>abcic.dcm@abci.com.hk<br>dcmhk@bocgroup.com<br>dcm@bochk.com<br>ccba_dcm@asia.ccb.com<br>dcm.cebhk@cebbank.com.hk<br>haoyang.zhang@cicc.com.cn<br>ib.dcm.fig@clsa.com<br>dcm@cmbccap.com<br>ProjectGoldenII@cmbi.com.hk<br>HKG-Syndicate@ca-cib.com<br>Project.GoldenII@ca-cib.com<br>hk_syndicate_omnibus@hsbc.com.hk<br>lixx@dxb.icbc.com.cn<br>rsaraf@dxb.icbc.com.cn<br>ongmingjie@dxb.icbc.com.cn<br>xizi.chen@sg.icbc.com.cn<br>lijun.tan@sg.icbc.com<br>cmd_dcm@cibhk.com<br>spdbhk.dcm@spdb.com.cn<br>SYNHK@sc.com |
|----|---|---|

#### **LISTING APPLICATION**

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

#### **STABILISATION**

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

conducted by the relevant Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) in accordance with all applicable laws and regulations.

#### **MATERIAL ADVERSE CHANGE STATEMENT**

Except as disclosed in the Offering Circular, there has been no significant change in the financial or trading position of the Issuer or of the Group since 30 June 2022 and no material adverse change in the financial position or prospects of the Issuer or of the Group since 31 December 2021.

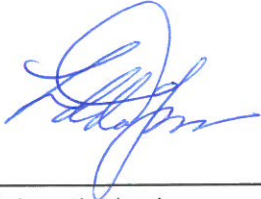
#### **RESPONSIBILITY**

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

Signed on behalf of

**BANK OF COMMUNICATIONS CO., LTD. HONG KONG BRANCH**

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



By:

\_\_\_\_\_

Duly authorised



**Singapore SFA Product Classification** – In connection with Section 309B of the Securities and Futures Act 2001 of Singapore, as modified or amended from time to time (the “SFA”) and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the “CMP Regulations 2018”), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are prescribed capital markets products (as defined in the CMP Regulations 2018) and are Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendation on Investment Products).

**Pricing Supplement dated 22 November 2022**

**Bank of Communications Co., Ltd. Hong Kong Branch**

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

**Legal Entity Identifier of Bank of Communications Co., Ltd.: 549300AX1UM10U30HK09**

**Issue of CNY1,420,000,000 3.05 per cent. Notes due 2024 (the “Notes”)  
under the U.S.\$12,000,000,000 Medium Term Note Programme (the “Programme”)**

This document constitutes the Pricing Supplement relating to the issue of Notes described herein. Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the offering circular dated 7 March 2022 (the “**Original Offering Circular**”) and the supplemental offering circular dated 22 November 2022 (the “**Supplemental Offering Circular**”, together with the Original Offering Circular, the “**Offering Circular**”).

The parties have agreed to enter into a fourth supplemental fiscal agency agreement dated on or about 30 November 2022 in respect of the Notes, which makes certain modifications to the existing fiscal agency agreements between Bank of Communications Co., Ltd. Hong Kong Branch, Bank of Communications Co., Ltd. Hong Kong Branch as initial Fiscal Agent, CMU Lodging and Paying Agent, Registrar and the other agents named in it relating to the Programme.

This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Offering Circular. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of the Offering Circular and this Pricing Supplement.

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

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

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

The Managers and their respective officers, employees, affiliates, advisors and agents have not independently verified the information contained herein (financial, legal or otherwise) and, to the fullest extent permitted by law, none of the Managers or their respective officers, employees, affiliates, advisors or agents accepts any responsibility for the contents of this Pricing Supplement or for any other statement, made or purported to be made by the Managers or on their behalf in connection with the Issuer, the Bank, the Group, the Programme or the issue and offering of the Notes under the Programme. The Managers and their respective officers, employees, affiliates, advisors or agents accordingly disclaim all and any liability whether arising in tort or contract or otherwise (save as referred to above) which might otherwise have in respect of this Pricing Supplement or any such statement.

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

|    |  |   |
|----|--|---|
| 1  | Issuer:  | Bank of Communications Co., Ltd. Hong Kong Branch   |
| 2  | (i) Series Number:   | 44  |
|    | (ii) Tranche Number:   | 01  |
|    | (iii) Date on which the Notes will be consolidated and form a single Series: | Not Applicable  |
| 3  | Specified Currency or Currencies:  | Renminbi ("CNY")  |
| 4  | Aggregate Nominal Amount:  | CNY1,420,000,000  |
| 5  | Issue Price:   | 100.00 per cent. of the Aggregate Nominal Amount  |
|    | Gross Proceeds   | CNY1,420,000,000  |
| 6  | Use of Proceeds:   | The net proceeds of the issue of the Notes will be used for the Issuer's working capital and general corporate purposes |
| 7  | (i) Specified Denominations:   | CNY1,000,000 and integral multiples of CNY10,000 in excess thereof  |
|    | (ii) Calculation Amount:   | CNY10,000   |
| 8  | (i) Issue Date:  | 30 November 2022  |
|    | (ii) Interest Commencement Date:   | Issue Date  |
| 9  | Maturity Date:   | Interest Payment Date falling in or nearest to 30 November 2024   |
| 10 | Interest Basis:  | 3.05 per cent. Fixed Rate<br>(further particulars specified below)  |
| 11 | Redemption/Payment Basis:  | Redemption at par   |
| 12 | Change of Interest or Redemption/ Payment Basis:                             | Not Applicable  |

|    |  |   |
|----|--|---|
| 13 | Put/Call Options:  | Not Applicable  |
| 14 | (i) Status of the Notes:                                 | Senior Notes  |
|    | (ii) Regulatory approval for issuance of Notes obtained: | Quota approval from the National Development and Reform Commission of the PRC obtained on 28 September 2022 |
| 15 | Listing:   | The Stock Exchange of Hong Kong Limited on 1 December 2022  |
| 16 | Method of distribution:                                  | Syndicated  |
| 17 | Private Bank Rebate/Commission:                          | Not Applicable  |

#### **PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

|    |  |  |
|----|--|--|
| 18 | Fixed Rate Note Provisions   | Applicable   |
|    | (i) Rate of Interest:  | 3.05 per cent. per annum payable semi-annually in arrear   |
|    | (ii) Interest Payment Date(s):   | 30 May and 30 November in each year, commencing on 30 May 2023 until the Maturity Date, adjusted in accordance with the Modified Following Business Day Convention   |
|    | (iii) Fixed Coupon Amount(s):  | Each Fixed Coupon Amount shall be calculated by multiplying the product of the Rate of Interest and the Calculation Amount by the Day Count Fraction and rounding the resultant figure to the nearest CNY0.01 (CNY0.005 being rounded upwards) |
|    | (iv) Broken Amount:  | Not Applicable   |
|    | (v) Day Count Fraction (Condition 5(j)):   | Actual/365 (Fixed)   |
|    | (vi) Determination Date(s) (Condition 5(j)):   | Not Applicable   |
|    | (vii) Other terms relating to the method of calculating interest for Fixed Rate Notes: | Not Applicable   |
| 19 | Floating Rate Note Provisions  | Not Applicable   |
| 20 | Zero Coupon Note Provisions  | Not Applicable   |
| 21 | Index Linked Interest Note Provisions  | Not Applicable   |
| 22 | Dual Currency Note Provisions  | Not Applicable   |

#### **PROVISIONS RELATING TO REDEMPTION**

|    |                                      |                                  |
|----|--------------------------------------|----------------------------------|
| 23 | Call Option                          | Not Applicable                   |
| 24 | Put Option                           | Not Applicable                   |
| 25 | Final Redemption Amount of each Note | CNY10,000 per Calculation Amount |

- 26 Early Redemption Amount
- (i) Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons (Condition 6(c)) or Event of Default (Condition 10) and/or the method of calculating the same (if required or if different from that set out in the Conditions): CNY10,000

#### GENERAL PROVISIONS APPLICABLE TO THE NOTES

- 27 Form of Notes: Registered Notes  
Global Certificate exchangeable for Definitive Certificates in the limited circumstances specified in the Global Certificate
- 28 Financial Centre(s) (Condition 7(h)) or other special provisions relating to payment dates: Not Applicable
- 29 Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature): No
- 30 Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment: Not Applicable
- 31 Details relating to Instalment Notes: Not Applicable
- 32 Redenomination, renominatisation and reconventioning provisions: Not Applicable
- 33 Consolidation provisions: Not Applicable
- 34 Other terms or special conditions: Refer to Schedule 1

#### DISTRIBUTION

- 35 (i) If syndicated, names of Managers: Joint Global Coordinators, Joint Lead Managers and Joint Bookrunners  
Bank of Communications Co., Ltd. Hong Kong Branch  
Agricultural Bank of China Limited Hong Kong Branch  
Agricultural Bank of China Limited, Singapore Branch  
Bank of China (Hong Kong) Limited  
China CITIC Bank International Limited

|    |   |   |
|----|---|---|
|    |   | China Minsheng Banking Corp., Ltd., Hong Kong Branch                              |
|    |   | Crédit Agricole Corporate and Investment Bank                                     |
|    |   | The Hongkong and Shanghai Banking Corporation Limited                             |
|    |   | Industrial Bank Co., Ltd. Hong Kong Branch  |
|    |   | Standard Chartered Bank   |
|    | (ii) Stabilisation Manager (if any):          | Any of the Managers appointed and acting in its capacity as stabilisation manager |
| 36 | If non-syndicated, name of Dealer:            | Not Applicable  |
| 37 | U.S. Selling Restrictions                     | Reg. S Category 1; TEFRA Not Applicable   |
| 38 | Additional selling restrictions:              | Not Applicable  |
| 39 | Prohibition of Sales to EEA Retail Investors: | Not Applicable  |
| 40 | Prohibition of Sales to UK Retail Investors:  | Not Applicable  |

#### OPERATIONAL INFORMATION

|    |   |   |
|----|---|---|
| 41 | ISIN Code:  | HK0000892338  |
| 42 | Common Code:  | 255935658   |
| 43 | CMU Instrument Number:  | BCMKN22030  |
| 44 | Any clearing system(s) other than Euroclear, Clearstream and the CMU and the relevant identification number(s): | Not Applicable  |
| 45 | Delivery:   | Delivery against payment                                    |
| 46 | Additional Paying Agents (if any):  | Not Applicable  |
| 47 | Rating:   | The Notes to be issued are expected to be rated:<br>S&P: A- |

#### GENERAL

|    |   |                      |
|----|---|----------------------|
| 48 | The aggregate principal amount of Notes issued has been translated into US dollars at the rate of CNY7.1388 = U.S.\$1.00, producing a sum of (for Notes not denominated in US dollars): | U.S.\$198,912,982.57 |
| 49 | In the case of Registered Notes, specify the location of the office of the Registrar if other than Hong Kong:   | Not Applicable       |
| 50 | In the case of Bearer Notes, specify the location of the office of the Fiscal Agent if other than London:   | Not Applicable       |

## HONG KONG SFC CODE OF CONDUCT

- 51 Contact email addresses of the Overall Coordinators where underlying investor information in relation to omnibus orders should be sent:
- dcm@bankcomm.com.hk  
abchk.dcm@abchina.com.hk  
dcmsg@abchina.com  
dcm@bochk.com  
HKG-Syndicate@ca-cib.com  
Project.GoldenII@ca-cib.com  
hk\_syndicate\_omnibus@hsbc.com.hk  
cmd\_dcm@cibhk.com  
SYNHK@sc.com

## LISTING APPLICATION

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

## STABILISATION

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

## MATERIAL ADVERSE CHANGE STATEMENT

Except as disclosed in the Offering Circular, there has been no significant change in the financial or trading position of the Issuer or of the Group since 30 June 2022 and no material adverse change in the financial position or prospects of the Issuer or of the Group since 31 December 2021.

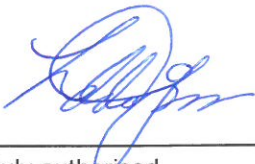
## RESPONSIBILITY

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

Signed on behalf of the Issuer:

**BANK OF COMMUNICATION CO., LTD. HONG KONG BRANCH**

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

By:   
Duly authorised

## SCHEDULE 1

This Appendix sets out the special conditions referred to in Item 34 (*Other terms or special conditions*):

### 1. Payments and Talons

Condition 7(a) and 7(b) shall be amended and restated as follows with respect to the Notes:

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

- (i) in the case of Notes denominated in a currency other than Renminbi, at the specified office of any Paying Agent outside the United States by a cheque payable in the relevant currency drawn on, or, at the option of the holder, by transfer to an account denominated in such currency with, a Bank;
- (ii) in the case of Notes denominated in Renminbi, by transfer to a Renminbi account maintained by or on behalf of the Noteholder with a bank in Hong Kong; and
- (iii) In this Condition 7(a), “Bank” means a bank in the principal financial centre for such currency or, in the case of euro, in a city in which banks have access to the TARGET System.

*Payments of principal and interest in respect of Bearer Notes held in the CMU will be made to the CMU for their distribution to the person(s) for whose account(s) interests in the relevant Bearer Note are credited as being held with the CMU in accordance with the CMU Rules (as defined in the Agency Agreement) at the relevant time and payment made in accordance thereof shall discharge the obligations of the Issuer in respect of that payment.*

(a) **Registered Notes:**

- (i) Payments of principal (which for the purposes of this Condition 7(b) shall include final Instalment Amounts but not other Instalment Amounts) in respect of Registered Notes shall be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in paragraph (ii) below.
- (ii) Interest (which for the purpose of this Condition 7(b) shall include all Instalment Amounts other than final Instalment Amounts) on Registered Notes shall be paid to the person shown on the Register at the close of business on the fifth (in the case of Notes denominated in Renminbi) and fifteenth (in the case of Notes denominated in a currency other than Renminbi) day before the due date for payment thereof (the “Record Date”). Payments of interest on each Registered Note shall be made:
  - (A) in the case of Notes denominated in a currency other than Renminbi, in the relevant currency by cheque drawn on a Bank and mailed to the holder (or to the first-named of joint holders) of such Note at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a Bank; and



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

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

*Payments of principal and interest in respect of Registered Notes held in the CMU will be made to the person(s) for whose account(s) interests in the relevant Registered Note are credited as being held with the CMU in accordance with the CMU Rules at the relevant time and payment made in accordance thereof shall discharge the obligations of the Issuer in respect of that payment.”*