Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, 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 announcement.

*This announcement is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities. This announcement does not constitute or form a part of any offer or solicitation to purchase or subscribe for securities in the United States. The securities have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), or the securities laws of any state of the United States or any other jurisdiction, and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Programme (as defined below) is being offered and sold only outside the United States in offshore transactions in compliance with Regulation S under the Securities Act. This announcement and the information contained herein are not for distribution, directly or indirectly, in or into the United States. No public offer of the securities referred to herein is being or 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 confirms that the Notes (as defined below) are intended for purchase by professional investors (as defined in Chapter 37 of the Listing Rules) only and will be listed on The Stock Exchange of Hong Kong Limited on that basis. Accordingly, the Issuer confirms that the Notes is not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.*

兴业银行
INDUSTRIAL BANK CO.,LTD.

INDUSTRIAL BANK CO., LTD.

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

(THE "ISSUER")

U.S.$5,000,000,000 MEDIUM TERM NOTE PROGRAMME (THE "PROGRAMME")

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

Reference is made to the notice of listing of the Programme on The Stock Exchange of Hong Kong Limited dated 2 June 2021 published by the Issuer.

The offering circular dated 2 June 2021 (the "**Offering Circular**") in relation to the Programme is appended to this announcement. As disclosed in the Offering Circular, any notes to be issued under the Programme (the "**Notes**") will be intended for purchase by Professional Investors (as defined in Chapter 37 of the Listing Rules) only and the Programme has been listed on the Hong Kong Stock Exchange on that basis.

Hong Kong, 3 June 2021

As at the date of this announcement, the directors of Industrial Bank Co., Ltd. are Mr. Chen Yichao, Mr. Fu Anping, Mr. Han Jingwen, Mr. Xi Xinghua, Mr. Lin Tengjiao, Mr. Tao Yiping, Mr. Chen Jinguang and Mr. Chen Xinjian; the independent directors are Mr. Su Xijia, Mr. Lin Hua, Mr. Paul M. Theil, Mr. Zhu Qing and Mr. Liu Shiping.

Appendix 1 — Offering Circular dated 2 June 2021

IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE ADDRESSEES PURCHASING THE SECURITIES OUTSIDE THE UNITED STATES IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT (AS DEFINED BELOW) AND, IN CERTAIN CIRCUMSTANCES, ARE NON-U.S. PERSONS (AS DEFINED BELOW)

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 IN BEARER FORM ARE SUBJECT TO U.S. TAX LAW REQUIREMENTS. THE SECURITIES MAY NOT BE OFFERED, SOLD OR (IN THE CASE OF SECURITIES IN BEARER FORM) DELIVERED WITHIN THE UNITED STATES OR (IN THE CASE OF AN OFFERING OR SALE IN RELIANCE ON CATEGORY 2 OF REGULATION S UNDER THE SECURITIES ACT) TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND ALL APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES AND ANY OTHER JURISDICTION.

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 U.S. ADDRESS OR TO ANY U.S. PERSON. 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 Industrial Bank Co., Ltd. Hong Kong Branch and Citigroup Global Markets Limited (the "**Arrangers**" or "**Dealers**") and Industrial Bank Co., Ltd. or such branch of Industrial Bank Co., Ltd. as specified 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 by 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 Dealers or any affiliate of the Dealers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Dealers 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, the Dealers and the Agents (as defined in the Offering Circular), 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 Arrangers or the Dealers.

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.

兴业银行
INDUSTRIAL BANK CO.,LTD.

INDUSTRIAL BANK CO., LTD.

(a joint stock company incorporated in the People's Republic of China with limited liability)
(Shanghai Stock Exchange Stock Code: 601166)

US$5,000,000,000
Medium Term Note Programme

Under the US$5,000,000,000 Medium Term Note Programme described in this Offering Circular (the "**Programme**"), Industrial Bank Co., Ltd. (the "**Bank**") or such branch of the Bank as specified in the applicable Pricing Supplement (as defined in "Summary of the Programme") (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 US$5,000,000,000 (or the equivalent in other currencies), subject to increases of the programme size made in accordance with the terms of an amended and restated dealer agreement dated 2 June 2021 (the "**Amended and Restated Dealer Agreement**").

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

Investing in the Notes involves certain risks. See "Risk Factors" beginning on page 18.

Where applicable for a relevant Tranche (as defined in "Summary of the Programme") of Notes, registration will be completed by the Bank pursuant to the Circular on Promoting the Reform of the Administrative System on the Issuance by Enterprises of Foreign Debt Filings and Registrations (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知 (發改外資 [2015]2044 號) (the "**NDRC Circular**") issued by the National Development and Reform Commission of the People's Republic of China (the "**NDRC**") on 14 September 2015 which came into effect on the same day, as set forth in the relevant Pricing Supplement. After the issuance of such relevant Tranche of Notes, the Bank intends to provide the requisite information on the issuance of the Notes to the NDRC within the time period prescribed by the NDRC Circular.

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

Notice to Hong Kong investors: With respect to Notes to be listed on the SEHK, each Issuer and the Bank confirm that the Notes are intended for purchase by Professional Investors only and will be listed on the SEHK on that basis. Accordingly, each 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.

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

The relevant Pricing Supplement in respect of the issue of any Notes will specify whether or not such Notes will be listed on the SEHK (or listed, traded or quoted on or by any other competent authority, other exchange or quotation system). Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of the Notes, the issue price of the Notes and any other terms and conditions not contained herein which are applicable to each Series (as defined in "Summary of the Programme") will be set out in the Pricing Supplement which, with respect to Notes to be listed on the SEHK, will be delivered to the SEHK, on or before the date of issue of such Series of Notes.

Each Tranche of Notes in bearer form ("**Bearer Notes**") will be represented on issue by a temporary global note in bearer form (each a "**Temporary Global Note**") or a permanent global note in bearer form (each a "**Permanent Global Note**" and, together with any Temporary Global Notes, the "**Global Notes**"). Notes in registered form ("**Registered Notes**") will be evidenced by certificates (each a "**Certificate**"), one Certificate being issued in respect of each Noteholder's entire holding of Registered Notes of one Series. The Global Notes and Certificates may be deposited on the relevant issue dates (a) in the case of a Series intended to be cleared through Euroclear Bank SA/NV ("**Euroclear**") and/or Clearstream Banking S.A. ("**Clearstream**"), with a common depositary on behalf of Euroclear and Clearstream or with a sub-custodian for the Central Moneymarkets Unit Service (the "**CMU**"), operated by the Hong Kong Monetary Authority, 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(s).

The Notes 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 of the United States, and the Notes may include Bearer Notes that are subject to U.S. tax law requirements. 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 under the Securities Act, to, or for the account or the benefit of, U.S. persons (as defined in Regulation S under the Securities Act), except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and 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".

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

The Programme is expected to be rated "Baa2" by Moody's Investors Service, Inc. ("**Moody's**"). Tranches of Notes 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 rating 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.

Arrangers and Dealers

Industrial Bank Co., Ltd.
Hong Kong Branch

Citigroup

The date of this Offering Circular is 2 June 2021

NOTICE TO INVESTORS

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

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 any Issuer, the Bank or any of the Arrangers or the Dealers 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 any Issuer, the Bank, any Arranger, any 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 and the Bank. 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 Bank, any Arranger, any 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 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 Bank 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 each Issuer, the Bank, the Arrangers, the Dealers or the Agents to inform themselves about and to observe any such restriction.

The Notes have not been and will not be registered under the Securities Act or the securities laws of any state of the United States or other jurisdiction of the United States, and the Notes may include Bearer Notes that are subject to U.S. tax law requirements. The Notes are being offered and sold outside the United States in reliance on Regulation S and 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 under the Securities Act, to, or for the account or the benefit of, U.S. persons, except pursuant to an exemption from, or a transaction not subject to, the registration requirements of the Securities Act. 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".

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 Bank, any Arranger, any Dealer and 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 Bank, the Arrangers, the Dealers and 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 any Issuer, the Bank, the Arrangers, the Dealers or the Agents 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 "**EEA**"), the United Kingdom (the "**UK**"), Hong Kong, Singapore, the People's Republic of China and Japan. See "Subscription and Sale".

To the fullest extent permitted by law, none of the Arrangers, the Dealers and the Agents accepts 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 any Issuer, the Bank or the issue and offering of the Notes. Each Arranger, each Dealer 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 Offering Circular or any such statement. Neither this Offering Circular nor any financial statements of the Bank or the Group is intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Issuers, the Bank, the Arrangers, the Dealers or the Agents that any recipient of this Offering Circular or any financial statements of the Bank 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. The Arrangers, the Dealers and the Agents do not make any representation, warranty or undertaking, express or implied, as to the accuracy or completeness of the information contained herein. None of the Arrangers, the Dealers and the Agents undertakes to review the financial condition or affairs of the Issuers, the Bank 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 Arrangers, the Dealers and the Agents.

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

The Arrangers, the Dealers or certain of their respective affiliates may purchase 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, the Bank and the terms of the Notes being offered, including the merits and risks involved. The Issuers, the Bank, the Arrangers, the Dealers 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 the issue of any Tranche of Notes, one or more of the Dealers (or any person acting on behalf of any Stabilisation Manager(s)) 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 any person acting on behalf of any Stabilisation Manager(s)) in the applicable Pricing Supplement may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilisation Manager(s) (or any person acting on behalf of any Stabilisation Manager(s)) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilisation Manager(s) (or any person acting on behalf of any Stabilisation Manager(s)) in accordance with all applicable laws and rules.

In the Offering Circular, unless otherwise specified, references to "**Hong Kong**" or "**HK**" are to the Hong Kong Special Administrative Region of the People's Republic of China; references to the "**PRC**" or "**China**" are to the People's Republic of China and, for the purpose of this Offering Circular, excluding Taiwan, Hong Kong and the Macau Special Administration Region of the People's Republic of China; references to "**US$**" or "**U.S. dollars**" are to the lawful currency of the United States of America; references to "**Renminbi**" or "**RMB**" is to the lawful currency of the PRC; references to "**Hong Kong dollar**" or "**HK$**" are to the lawful currency of Hong Kong and references to "**Bank**" and "**Group**" are to Industrial Bank Co., Ltd. and, in the case of "**the Bank**" except as the context otherwise requires, the subsidiaries of Industrial Bank Co., Ltd.

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

Singapore SFA Product Classification: In connection with Section 309B of the Securities and Futures Act (Chapter 289) 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 persons (including 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).

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

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

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

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

Important – EEA Retail Investors – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; (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 – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the UK. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 ("**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 Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; or (iii) not a qualified investor as defined in Article 2 of the Prospectus Regulation as it forms part of domestic law by virtue of the EUWA (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.

Presentation of Financial Information

This Offering Circular contains the Bank's consolidated financial information as at and for the years ended 31 December 2018, 2019 and 2020. The Bank's consolidated financial information as at and for the year ended 31 December 2018 is derived from the Bank's audited consolidated financial statements as at and for the year ended 31 December 2018 (the "**2018 Audited Financial Statements**"). The Bank's consolidated financial information as at and for the years ended 31 December 2019 and 2020 is derived from the Bank's audited consolidated financial statements as at and for the year ended 31 December 2020 (the "**2020 Audited Financial Statements**", together with the 2018 Audited Financial Statements, the "**Audited Financial Statements**").

The Audited Financial Statements have been prepared and presented in accordance with the Accounting Standards for Business Enterprises in China ("**PRC GAAP**"). The Bank's 2018 Audited Financial Statements have been audited by Deloitte, in accordance with Auditing Standards for Certified Public Accountants in China. The Bank's 2020 Audited Financial Statements have been audited by KPMG, in accordance with Auditing Standards for Certified Public Accountants in China. PRC GAAP differs in certain respects from International Financial Reporting Standards ("**IFRS**"). See "Summary of Certain Differences Between PRC GAAP and IFRS".

The Audited Financial Statements have been prepared in Chinese. The English translation of the Audited Financial Statements (the "**Financial Statements Translation**") has been prepared and included in this Offering Circular for reference only. The Financial Statements Translation does not itself constitute audited or reviewed financial statements. Neither the Arrangers, the Dealers, the Agents nor any of their respective affiliates, directors and advisers has independently verified or checked the accuracy of the Financial Statements Translation and can give no assurance that the information contained in the Financial Statements Translation is accurate, truthful or complete. Potential investors must exercise caution when using such financial information to evaluate the Group's financial condition and results of operations.

Solely for convenience, this Offering Circular contains translations of certain Renminbi amounts into U.S. dollar amounts at specified rates. Unless indicated otherwise, the translation of Renminbi amounts into U.S. dollar amounts has been made at the rate of RMB6.525 to US$1.00, the noon buying rate in New York City for cable transfers payable in Renminbi as certified for customs purposes by the Federal Reserve Bank of New York on 31 December 2020 as set forth in the H.10 statistical release of the Federal Reserve Board. Investors should not construe these translations as representations that the Renminbi amounts could actually be converted into any U.S. dollar at the rates indicated or at all.

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

Documents Incorporated by Reference

This Offering Circular should be read and construed in conjunction with each relevant Pricing Supplement and all amendments and supplements from time to time to this Offering Circular, which shall be deemed to be incorporated in, and to form part of, this Offering Circular and which shall be deemed to modify or supersede the contents of this Offering Circular to the extent that a statement contained in any such document is inconsistent with such contents.

The Issuer incorporates by reference the documents listed below:

- The auditor's report dated 28 April 2020 and the Company's audited consolidated financial statements as at and for the year ended 31 December 2019 (together with the notes thereto) included in the Company's annual report (Chinese version) published on the Shanghai Stock Exchange's website (**http://www.sse.com.cn**) on 29 April 2020.

- The auditor's report dated 30 March 2021 and the Company's audited consolidated financial statements as at and for the year ended 31 December 2020 (together with the notes thereto) included in the Company's annual report (Chinese version) published on the Shanghai Stock Exchange's website (**http://www.sse.com.cn**) on 31 March 2021.

The information incorporated by reference is considered to be a part of this Offering Circular. Each document incorporated by reference is current only as of the date of such document, and the incorporation by reference of such documents shall not create any implication that there has been no change in the Group's affairs since the date thereof or that the information contained therein is current as of any time subsequent to its date.

Any documents 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 (except Saturday, Sunday and public holidays) from the specified offices of the Bank and of the Fiscal Agent (as defined below) set out at the end of this Offering Circular.

Supplemental Offering Circular

The Bank has given an undertaking to the Arrangers and the Dealers that if it has notified the Arrangers or the Dealers 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 financial position, results of operation and prospects of the Bank, any relevant Issuer and/or of the rights attaching to the Notes, it shall (i) prepare and publish an amendment or supplement to the Offering Circular (the "**Supplemental Offering Circular**"), (ii) advise the Arrangers and the Dealers promptly of any proposal to amend or replace the Offering Circular, (iii) advise the Arrangers and the Dealers promptly of any proposal to supplement the Offering Circular and (iv) provide the Arrangers and the Dealers with a copy of any such proposed amendment, supplement or replacement immediately prior to its publication.

Forward-looking Statements

Certain statements in this Offering Circular constitute "forward-looking statements". 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), and any statement preceded by followed, by or including "believe", "expect", "plan", "anticipate", "schedule", "estimate", "may", "will", "would", "could", "aim", "intend", "project", "potential", "future", "seek", "should" and similar words or expressions, or the negative thereof, 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.

Important factors that could cause the actual performance or achievements of the Group to differ materially from those in the forward-looking statements include, among others, the following:

- the Group's business plan, strategies, objectives and goals and its ability to successfully implement these strategies;
- future developments, trends and conditions in the industry and markets in which the Group operates;
- the competitive markets for the Group's products and the actions and development of its competitors;
- general political and economic conditions, including those related to the PRC;
- the regulatory environment of the PRC and the industry in which the Group operates;
- the Group's ability to reduce costs;
- fluctuations in the Group's commissions and fees;
- the Group's dividend policy;
- exchange rate fluctuations and developing legal systems, in each case pertaining to the PRC and the industry and markets in which the Group operates;
- changes to the Group's expansion plans and estimated capital expenditures; and

- macroeconomic measures taken by the PRC government to manage economic growth.

Each Issuer and the Bank expressly disclaims any obligation or undertaking to release any updates or revisions to any forward-looking statements contained herein to reflect any change in each Issuer's, the Bank's or the Group's expectations with regard thereto or any change of events, conditions or circumstances, on which any such statements were based. This Offering Circular discloses, under "*Risk Factors*" and elsewhere, important factors that could cause actual results to differ materially from the Bank's expectations. All subsequent written and forward-looking statements attributable to any Issuer or the Bank or persons acting on behalf of any Issuer or the Bank are expressly qualified in their entirety by such cautionary statements.

TABLE OF CONTENTS

DEFINITIONS AND CONVENTIONS

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

"Additional Tier 1 Capital"	has the meaning given to Additional Tier 1 Capital (其他一級資本) (or any equivalent or successor term) in the Capital Management Rules
"Basel III"	the latest Basel Capital Accord promulgated in December 2010 and January 2011
"Capital Adequacy Measures"	the Administrative Measures on the Capital Adequacy Ratio of Commercial Banks (商業銀行資本充足率管理辦法), which was promulgated by the CBIRC on 23 February 2004, became effective on 1 March 2004 and was repealed on 1 January 2013
"Capital Adequacy Ratio"	has the meaning given to it in the Capital Management Rules
"Capital Management Rules"	the Measures on Capital Management of Commercial Banks (Trial) (商業銀行資本管理辦法 (試行)) issued by the CBIRC on 7 June 2012, which became effective on 1 January 2013 (as amended from time to time)
"CBIRC"	China Banking and Insurance Regulatory Commission (中國銀行業監督管理委員會), a regulatory authority formed via the merger of the CBRC and CIRC according to the Notice of the State Council regarding the Establishment of Organisations (國務院關於機構設置的通知) (Guo Fa [2018] No. 6) issued by the State Council on 24 March 2018, and, if the context requires, includes its predecessors, namely the CBRC and CIRC
"CBRC"	China Banking Regulatory Commission (中國銀行業監督管理委員會), which was merged with the CIRC to form the CBIRC according to the Notice of the State Council regarding the Establishment of Organisations (國務院關於機構設置的通知) (Guo Fa [2018] No. 6) issued by the State Council on 24 March 2018
"China" or the "PRC"	the People's Republic of China but, for the purpose of this Offering Circular only and except where the context requires, references in this Offering Circular to "China" and the "PRC" do not include Hong Kong, the Macau Special Administrative Region and the region of Taiwan
"CIRC"	China Insurance Regulatory Commission (中國保險業監督管理委員會), which was merged with the CBRC to form the CBIRC according to the Notice of the State Council regarding the Establishment of Organisations(國務院關於機構設置的通知)(Guo Fa [2018] No. 6) issued by the State Council on 24 March 2018
"Clearstream"	Clearstream Banking S.A.
"Core Tier 1 Capital"	has the meaning given to Core Tier 1 Capital (核心一級資本) (or any equivalent or successor term) in the Capital Management Rules

"Core Tier 1 Capital Adequacy Ratio"	as at any date has the meaning given to Core Tier 1 Capital Adequacy Ratio (核心一級資本充足率) (or any equivalent or successor term) in the Capital Management Rules, being the ratio of Core Tier 1 Capital of the Bank as of such date to the Risk Weighted Assets of the Bank as of the same date, expressed as a percentage
"CSRC"	China Securities Regulatory Commission (中國證券監督管理委員會)
"Deloitte"	Deloitte Touche Tohmatsu Certified Public Accountants LLP
"Equator Principles"	a risk management framework, adopted by financial institutions, for determining, assessing and managing environmental and social risk in project finance
"Euroclear"	Euroclear Bank SA/NV
"FDI"	Foreign Direct Investment
"FSMA"	Financial Services and Markets Act 2000 of the United Kingdom
"GDP"	gross domestic product
"HIBOR"	the Hong Kong Interbank Offered Rate, a daily reference rate published by the Hong Kong Association of Banks
"HKMA"	Hong Kong Monetary Authority
"KPMG"	KPMG Huazhen LLP
"Large Commercial Banks"	Agricultural Bank of China Limited, Bank of China Limited, Bank of Communications Co., Ltd., China Construction Bank Corporation, and Industrial and Commercial Bank of China Limited, collectively
"MOFCOM"	Ministry of Commerce of the PRC (中華人民共和國商務部)
"Moody's"	Moody's Investors Service Limited
"Nationwide Joint-Stock Commercial Banks"	China CITIC Bank Corporation Limited, China Everbright Bank Co., Ltd., Huaxia Bank Co., Limited, China Guangfa Bank Co., Ltd., Ping An Bank Co., Ltd. (formerly named as Shenzhen Development Bank Co., Ltd.), China Merchants Bank Co., Ltd., Shanghai Pudong Development Bank Co., Ltd., Industrial Bank Co., Ltd., China Minsheng Bank Corp., Ltd., Evergrowing Bank Co., Ltd., Zheshang Bank Co. Ltd. and China Bohai Bank Co., Ltd., collectively
"NDRC"	the National Development and Reform Commission (中華人民共和國國家發展和改革委員會)
"PBOC"	People's Bank of China (中國人民銀行), the central bank of the PRC
"QDII(s)"	qualified domestic institutional investor(s) in the PRC, which are licensed by the CSRC to invest in foreign securities markets

"QFII(s)"	qualified foreign institutional investor(s) licensed by the CSRC to invest in Renminbi-denominated shares listed on China's domestic securities exchanges
"Regulation S"	Regulation S under the Securities Act
"SAFE"	State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (as amended from time to time)
"SHIBOR"	the Shanghai Interbank Offered Rate
"State Council"	the State Council of the PRC (中華人民共和國國務院)
"WTO"	the World Trade Organisation

SUMMARY OF THE BANK

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

OVERVIEW

The Bank is an established, strongly competitive, nationwide joint-stock commercial bank incorporated on 22 August 1988 with its headquarters in Fujian Province, China. It was among the first batch of commercial banks approved by the State Council and PBOC at the state level. Through its nationwide and diversified distribution channels, the Bank provides a wide range of wholesale and personal banking and other financial products and services to its corporate and personal customers. In 2020, the Bank ranked 21st in terms of Tier 1 Capital and 27th in terms of total assets and, in 2021, the Bank was ranked 24th in terms of brand value among "Top 500 Global Bank Brands in 2021" by the British magazine "*The Banker*". The Bank was listed on the Shanghai Stock Exchange under stock code "601166" since February 2007.

Over the past few decades, the Bank has developed a comprehensive and universal banking platform and is licensed to provide traditional banking, trust, futures, financial leasing, fund management, financing research and consultation services to its customers. The Bank believes that its strong capability to offer a broad range of comprehensive services to customers nationwide has transformed it from a regional bank into a national commercial bank with significant asset scale. As at 31 December 2018, 2019 and 2020, the Bank had total assets of RMB6,711,657 million, RMB7,145,681 million and RMB7,894,000 million, respectively, and its loans and advances to customers totalled RMB2,838,445 million, RMB3,345,180 million and RMB3,867,321 million, respectively. According to the annual financial information as at and for the year ended 31 December 2020 published by China Banking Association, the Bank was ranked ninth among all PRC commercial banks in terms of core tier 1 capital as at 31 December 2020.

The Bank serves its customers through its nationwide and diversified distribution channels, comprising physical branches and outlets and digital platforms. As at 31 December 2020, the Bank had 45 branches, including the Hong Kong Branch, 2,003 outlets and 4,937 ATMs in the PRC. In addition to its domestic presence, the Bank had more than 1,180 correspondence banks across approximately 97 countries and regions. Leveraging its advanced information technology, the Bank has established an e-Banking network to provide all-time access to its services around the globe.

The Bank is dedicated to developing innovative financial services and products to adapt to the evolving market environment and to meet the changing needs of its customers. The Bank has introduced a number of "first-of-its-kind" financial products that have received positive responses from its corporate and personal customers. In addition to traditional banking products and services, the Bank develops and provides green financing for its customers in renewable energy, carbon emission reduction, water resource utilisation and protection and wastewater treatment industries. In 2021, the Bank was awarded the "2020 China Outstanding Enterprise Award for Social Responsibility" (2020中國社會責任傑出企業獎) by the 2020 China Corporate Social Responsibility Cloud Summit. The Bank was awarded the "Best Green Finance Bank of the Year" (年度最佳綠色金融銀行獎) by *Asiamoney* in 2020. In 2019, the Bank was awarded the "Largest Green Bond Offering in Emerging Countries" by *The Climate Bonds Initiative*. Furthermore, the Bank places significant emphasis on social responsibilities and was awarded the "Annual Best Financial Institution with Social Responsibility" (年度最具社會責任金融機構獎) for seven consecutive years from 2011 to 2017.

The Bank is dedicated to establishing and improving its risk management capabilities to monitor, assess and manage credit, market, liquidity and operational risks. The Bank has set up a three-level risk management structure, comprising its business departments, functional and risk management department and internal audit office. In addition, the Bank has established procedures for independent credit assessment, approval and monitoring to identify and reduce its exposure to high credit risk areas and to improve the quality of its loan portfolio. As at 31 December 2020, the Bank's non-performing loan ratio was 1.25 per cent., which was lower than the average non-performing loan ratio of 1.92 per cent. of all PRC commercial banks reported by CBIRC.

With its international expansion strategy, the Bank established its Hong Kong Branch in January 2014. The Hong Kong Branch is positioned as the Bank's primary offshore investment and financing platform offering comprehensive financial services to overseas and local Hong Kong customers. The Hong Kong Branch currently provides financial services including settlement of cross-border transactions, offshore merger and acquisition financing, syndicated loans and private banking services.

The Bank's financial performance and strengths have steadily developed over the past decades. For the years ended 31 December 2018, 2019 and 2020, the Bank's net profit was RMB61,245 million, RMB66,702 million and RMB67,681 million, respectively. The Bank's total assets and net profit attributable to equity holders have more than doubled during the period from 2011 to 2020.

The tables below set forth certain key financial indicators of the Bank as at and for the periods ended at the indicated dates:

	Year ended 31 December		
	2018	**2019**	**2020**
	(RMB in million, except for percentage)		
Net Profit	61,245	66,702	67,681
Return on average total assets (per cent.)[(1)]	0.93	0.96	0.90
Return on average equity (per cent.)[(2)]	14.27	14.02	12.62
Non-interest income to operating income (per cent.)[(3)]	39.57	32.55	29.35
Cost to income ratio (per cent.)[(4)]	26.89	26.03	24.16

Notes:

(1) Return on average total assets = net profit for the period/average total assets. Average total assets = (total assets at the beginning of the period + total assets at the end of the period)/2.

(2) Return on average equity = net profit attributable to ordinary shareholders of the Bank for the period/average equity attributable to ordinary shareholders of the Bank.

(3) Non-interest income to operating income = non-interest income/operating income.

(4) Cost to income ratio = (total operating expenses — business tax and levies — impairment loss)/operating income.

	As at 31 December		
	2018	**2019**	**2020**
	(RMB in million, except for percentage)		
Total assets	6,711,657	7,145,681	7,894,000
Total liabilities	6,239,073	6,596,029	7,269,197
Gross loans and advances to customers	2,934,082	3,441,451	3,965,674
Tier 1 Capital Adequacy Ratio (per cent.)	9.85	10.56	10.85
Core Tier 1 Capital Adequacy Ratio (per cent.)	9.30	9.47	9.33
Non-performing loan ratio	1.57	1.54	1.25
Provision coverage ratio	207.28	199.13	218.83

AWARDS

Over the years, the Bank and its financial services have received numerous honours and awards, including, among others:

2021

- "Sustainable Development and Inclusion Award" awarded by *CAIJING,* an influential magazine in China;
- "2020 China Outstanding Enterprise Award for Social Responsibility" awarded by the 2020 China Corporate Social Responsibility Cloud Summit;
- Ranked 24th in terms of brand value among "Top 500 Global Bank Brands in 2021" by *The Banker*;
- "Best Service Custodian Bank of the Year 2020" by *The China Times*; and
- "Outstanding Digital Bank" awarded by FinTech Index Forum.

2020

- Ranked fourth in terms of comprehensive indicators including growth rate, profitability, cost-to-income ratio and asset quality among "Top Performance PRC Banks" by *The Banker*;
- Ranked 57th among "Forbes Global 2000" by *Forbes*;
- Ranked seventh in terms of core Tier-1 Capital among "Top 100 PRC Banks" by China Banking Association;
- "Best Supply Chain Finance Bank" and "Best Green Finance Bank" awarded by *Asia Money*;
- "Best Sustainable Bank in China" among Finance Asia's Country Awards by *FinanceAsia*;
- Ranked first among 2020 Green Debt Financing Instrument Investors by the China Interbank Dealers Association;
- "Best Innovative Poverty Alleviation Organisation in 2020" awarded by *Tencent News*;
- Ranked 27th in terms of total assets by *The Banker*;
- Ranked 21st in terms of capital by *The Banker*; and
- "Enterprise of the Year" awarded by *People's Daily*.

2019

- Ranked 55th among "Forbes Global 2000" by *Forbes*;
- Ranked seventh among "China Top 100 Banks" by China Banking Association;
- "Best Performance Private Bank" by *The Banker* and *Professional Wealth Management*;
- "Best Green Finance Commercial Bank" and "Best Green Bond Bank" by *Asia Money*;
- "Best Joint-Stock Commercial Bank" by *Financial Times*;
- Ranked 28th in terms of total assets by *The Banker*;

- Ranked 23rd in terms of capital by *The Banker*; and
- "Best Green Bank in China" and "Best Retail Bank in China" by *Global Banking & Finance Review*.

2018

- Ranked 26th in terms of Tier 1 Capital and 28th in terms of total assets by *The Banker*;
- Ranked 62nd among "China Top 500" and 237th among "Global Top 500" by *Fortune*;
- Ranked 62nd among "Forbes Global 2000" by *Forbes*;
- Ranked 20th among "2018 Global Brand Finance 500" by *The Banker*;
- "Model Enterprise of Sustainable Development" awarded by *China Business*;
- "Green Finance Prize" and "Outstanding Transactional Bank" awarded by *National Business Daily*;
- "2018 Best Asset Management Bank", "2018 Outstanding Fin-Tech Bank" and "2018 Annual Payment Technology Innovation Prize" awarded by *21st Century Business Herald*;
- "Annual Best Green Financial Bank" awarded by *Asia Money*;
- "Annual People's Enterprise Social Responsibility" awarded by *People's Daily*;
- "Best Social Responsibility Management Prize", "Best Green Finance Prize" and "Best Social Responsibility Special Contribution Branch" awarded by the China Banking Association;
- "2018 China Excellent Trust Company" and "2018 China Excellent Financial Leasing Company Jun Ding Award" awarded by *Securities Times*; and
- "Top 10 Fin-Tech Product Innovation Prize" and "Top 10 Banking Intelligence Network Innovation Prize" awarded by *The Banker*.

2017

- "Outstanding Social Responsibility Financial Brand for the Year" awarded by *The Financial Times*;
- The then chairman of the Bank, Gao Jianping, was selected as one of "China's Outstanding Financial Brand Figures" by *The Financial Times*; and
- "Universal Bank Investment Bank Jun Ding Award", "Financial Adviser Bank Jun Ding Award" and "Cross-border Financing Bank Jun Ding Award" awarded by *Securities Times*.

HISTORY AND MILESTONES

The following are the milestone events in the history of the Bank:

Year	Milestone
1988	The Bank was established with the approval of the State Council and PBOC at the state level under the name "Fujian Industrial Bank".
1996	The Bank set up branches in Shanghai, Shenzhen, Changsha, Beijing and Hangzhou under stock code "601166".
2003	The Bank was officially renamed as "Industrial Bank".
2004	Three international strategic investors, namely Hang Seng Bank Limited, International Finance Corporation and Tetrad Ventures Pte Ltd., invested in the Bank.
2007	The Bank was listed on the Shanghai Stock Exchange under stock code "601166".
2010	The Bank completed an RMB17.86 billion A-share placing, the largest placing in the PRC at that time. The Bank obtained the approval to establish Industrial Bank Financial Leasing Co., Ltd.
2011	The Bank acquired Union Trust Limited and renamed it "China Industrial International Trust Limited".
2013	The Bank set up CIB Fund Management Co., Ltd., China Industrial Guoxin Asset Management Co., Ltd. and Industrial Wealth Asset Management Co., Ltd.
2014	The Bank set up the Hong Kong Branch to implement its international business expansion.
	The Bank issued its first tranche of preference shares in a total amount of RMB13 billion in the PRC.
	The Bank issued Tier 2 Capital bonds in a total principal amount of RMB20 billion in the PRC.
2015	Industrial Digital Financial Service Co., Ltd. and Industrial Economy Research Consultation Co., Ltd. were established.
	The Bank issued its second tranche of preference shares in a total principal amount of RMB13 billion in the PRC.
2016	The Bank issued Tier 2 Capital bonds in a total principal amount of RMB30 billion in the PRC.
	The Bank established a US$5,000,000,000 Medium Term Note Programme in September 2016. The Bank issued US$700 million 2.000 per cent. notes due 2019 and US$300 million 2.375 per cent. notes due 2021 under this MTN Programme.
2017	The Bank issued 1.72 billion in A-shares totalling a principal amount of RMB26.0 billion in April 2017.
2018	The Bank renewed its MTN Programme in February 2018.

Year	Milestone
2019	Industrial Bank Wealth Management Co., Ltd. was established. The Bank was one of the first banks signing the Principles for Responsible Banking issued by the United Nations Environment Programme. The Bank entered into a green development cooperation agreement with Yunnan Provincial Government to provide green financing services to enterprises in Yunnan Province.
2020	The Bank entered into a green finance strategic cooperation agreement with Fujian Provincial Governmental Ecology and Environmental Bureau to provide indicative financing credits to the environmental protection industry of Fujian Province. The Bank received approval from relevant authorities to set up its London branch to implement its international business expansion. The Bank issued Tier 1 Capital bonds in a total principal amount of RMB30 billion in the PRC. As at the date of this Offering Circular, the Bank had issued US$3.35 billion, €550 million and HK$3 billion notes under this MTN Programme in 10 tranches, including US$700 million 2.00 per cent. notes due 2019, US$300 million 2.375 per cent. notes due 2021, US$600 million 3.50 per cent. notes due 2021, US$250 million 3.75 per cent. notes due 2023, US$500 million floating rate notes due 2023, €250 million floating rate notes due 2021, US$600 million floating rate notes due 2021, €300 million floating rate notes due 2021, US$450 million 1.125 per cent. notes due 2023 and HK$3 billion 1.1 per cent. notes due 2022.

COMPETITIVE STRENGTHS

The Bank believes that the following represents its competitive strengths:

- An established and strongly competitive national commercial bank with innovation capabilities;
- A universal banking platform providing comprehensive modern financial services and synergy to grow its business and improve its profitability;
- A leader in providing services to financial institutions;
- A bank with strong cost control capability;
- A bank with prudent and comprehensive risk management and solid asset quality;
- Significant business growth and solid capital base with strong support from its largest shareholder;
- An experienced management team; and
- A bank with a clear strategic objective.

BUSINESS STRATEGIES

The Bank aims to transform itself into a modern financial services institution with its comprehensive financial licenses. The Bank aims to strengthen its risk management and focus on business innovation to attain sustainable development to realise increased profitability and solid asset quality. The Bank intends to achieve these through the following strategies:

- Enhancing intra-bank synergy to satisfy customers' increasingly diversified needs for integrated financial services;

- Adhering to the Bank's globalisation strategy;
- Continuing to improve business and operating model to achieve sustainable growth;
- Proactively addressing customers' need by continuing its focus on product and business model innovation;
- Continuing to strengthen the risk management system to maintain solid asset quality;
- Continuing to invest in information technology infrastructure and to utilise advanced technology to support the Bank's growing business; and
- Effectively allocating strategic resources and advance key components of the Bank's business.

RECENT DEVELOPMENTS

Unaudited Quarterly Results of the Group

The Bank published the unaudited condensed consolidated results of the Group ("**Unaudited Quarterly Results**") for the three months ended 31 March 2021 ("**3M 2021**") together with the comparative figures for the corresponding period in 2020 ("**3M 2020**") on the Shanghai Stock Exchange on 30 April 2021. The Unaudited Quarterly Results relate only to selected unaudited key performance indicators of the Group and are based on the Group's internal records and management accounts. For the three months ended 31 March 2021, the Group's total operating income increased significantly as compared to the corresponding period in 2020, mainly attributable to increased interest income due to the Group's expanded loan portfolio with high interest yield as well as increased fees and commission due to the Group's steady growth in the bank card business and wealth management business. The substantial increase in total operating income for the three months ended 31 March 2021 was partially offset by a decrease in the Group's investment income for the corresponding period due primarily to decreased income from bond trading activities.

The Unaudited Quarterly Results have not been reviewed or audited by independent auditors and should not be relied upon by investors to provide the same quality of information associated with information that has been subject to an audit or review. None of the Issuer, the Bank, the Arrangers, the Dealers and the Agents, nor any person who controls any of them, nor any director, officer, employee, nor agent of any of them, or affiliate of any such person makes any representation, warranty or undertaking, express or implied of, or accepts any responsibility or liability with respect to the Unaudited Quarterly Results. The Unaudited Quarterly Results are historical in nature and past performance is not a guarantee of future performance. The Unaudited Quarterly Results are not included in and do not form part of this Offering Circular. See also "*Risks relating to the Bank's Business — Pursuant to applicable PRC regulatory rules, the Bank publishes periodic financial information in the PRC which may differ from future audited or reviewed financial information.*".

Proposed Issuance of Onshore Convertible Debt Securities

Pursuant to the resolutions of the board of the directors of the Bank dated 13 May 2021, the board reviewed and passed a resolution in relation to the public issuance of RMB50 billion A-share convertible corporate bonds. The proposed issuance shall be effected upon the approvals from the shareholders at the annual general meeting, the CBIRC and the CSRC have been obtained, and is subject to amendments in accordance with any comments the CBIRC and the CSRC may have. The details of the proposed issuance can be accessed through the website of the Shanghai Stock Exchange.

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 Bank	Industrial Bank Co., Ltd.
Issuer	The Bank, or such branch of the Bank as specified in the applicable pricing supplement (a "**Pricing Supplement**").
Description	Medium Term Note Programme.
Size	Up to US$5,000,000,000 (or the equivalent in other currencies at the date of issue) aggregate nominal amount of Notes outstanding at any one time. The Bank may increase the amount of the Programme in accordance with the terms of the Amended and Restated Dealer Agreement.
Risk Factors	Investing in Notes issued under the Programme involves certain risks. There are certain factors that may affect the Bank and any Issuer's ability to fulfil its obligations under Notes issued under the Programme, as well as certain factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme, which are set out under the "Risk Factors" section below. The Notes may not be a suitable investment for all investors, certain risks relating to the structure of particular Series of Notes, certain market risks and, among others, certain risks relating to the Bank and the markets where its businesses are conducted are also discussed under the "Risk Factors" section below.
Arrangers	Industrial Bank Co., Ltd. Hong Kong Branch and Citigroup Global Markets
Dealers	Industrial Bank Co., Ltd. Hong Kong Branch and Citigroup Global Markets Limited The Bank may from time to time terminate the appointment of any dealer under the Programme or appoint one or more additional dealers either in respect of one or more Tranches or in respect of the whole Programme. The Issuer may from time to time appoint one or more additional dealers in respect of one or more Tranches. References in this Offering Circular to "Permanent Dealers" are to the persons listed above as Dealers and to such additional persons that are appointed as dealers in respect of the whole Programme (and whose appointment has not been terminated) and to "Dealers" are to all Permanent Dealers and all persons appointed as a dealer in respect of one or more Tranches.
Paying Agent	Citibank, N.A., London Branch.
Transfer Agent	Citibank, N.A., London Branch.
Calculation Agent	To be appointed on a per series basis.
Registrar	Citibank, N.A., London Branch.

Fiscal Agent and CMU Lodging and Paying Agent	Citigroup International Limited.
Method of Issue	The Notes may be issued on a syndicated or non-syndicated basis. The Notes may be issued in series (each a "**Series**") having one or more issue dates (each tranche within such Series, a "**Tranche**"), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. 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 the Pricing Supplement.
Issuer Price	Notes may be issued at their nominal amount or at a discount or premium to their nominal amount. Partly Paid Notes may be issued, the issue price of which will be payable in two or more instalments.
Form of Notes	Notes may be issued in bearer form ("**Bearer Notes**") or in registered form ("**Registered Notes**"). Registered Notes will not be exchangeable for Bearer Notes and vice versa. Each Tranche of Bearer Notes will initially be in the form of either a Temporary Global Note or a Permanent Global Note, in each case as specified in the relevant Pricing Supplement. Each Global Note will be deposited on or around the relevant issue date with a common depositary or sub-custodian for Euroclear, Clearstream and/or, as the case may be, the CMU and/or any other relevant clearing system. Each Temporary Global Note will be exchangeable for a Permanent Global Note or, if so specified in the relevant Pricing Supplement, for definitive Notes. If the TEFRA D Rules are specified in the relevant Pricing Supplement as applicable, certification as to non-U.S. beneficial ownership will be a condition precedent to any exchange of an interest in a Temporary Global Note or receipt of any payment of interest in respect of a Temporary Global Note. Each Permanent Global Note will be exchangeable for definitive Notes in accordance with its terms. Definitive Notes will, if interest-bearing, have Coupons attached and, if appropriate, a Talon for further Coupons. Each Tranche of Registered Notes will be evidenced by Certificates, one Certificate being issued in respect of each Noteholder's entire holding of Registered Notes of one Series. Certificates evidencing Registered Notes that are registered in the name of a nominee for one or more clearing systems are referred to as "Global Certificates". Registered Notes sold in an "offshore transaction" within the meaning of Regulation S will initially be evidenced by a Global Certificate.

Clearing Systems	Clearstream, Euroclear, the CMU and, in relation to any Tranche, such alternative clearing system as may be agreed between the Issuer, the Fiscal Agent and the relevant Dealers and, as applicable, the Registrar.
Initial Delivery of Notes	On or before the issue date for each Tranche, the Global Note representing Bearer Notes or the Global Certificate evidencing 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 alternative clearing system or may be delivered outside any clearing system provided that the method of such delivery has been agreed in advance by the Issuer, the Fiscal Agent and the relevant Dealers and, as applicable, the Registrar. Registered Notes that are to be credited to one or more clearing systems on issue will be registered in the name of, or in the name of nominees or a common nominee for, such clearing systems.
Currencies	Subject to compliance with all relevant laws, regulations and directives, Notes may be issued in any currency agreed between the Issuer and the relevant Dealers.
Maturities	Subject to compliance with all relevant laws, regulations and directives, any maturity.
Specified Denomination	Notes will be in such denominations as may be specified in the relevant Pricing Supplement, subject to compliance with all relevant laws, regulations and directives.
Interest	Notes may be interest-bearing or non-interest bearing. Interest (if any) may accrue at a fixed rate or a floating rate or other variable rate or be index-linked and the method of calculating interest may vary between the issue date and the maturity date of the relevant Series. All such information will be set out in the relevant Pricing Supplement.
Redemption and Redemption Amounts	The relevant Pricing Supplement will specify the basis for calculating the redemption amounts payable. Unless permitted by then current laws and regulations, Notes (including Notes denominated in pound 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 Issuer in the UK or whose issue would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 must have a minimum redemption amount of £100,000 (or its equivalent in other currencies).
Optional Redemption	The Pricing Supplement issued in respect of each issue of Notes will state whether such Notes may be redeemed prior to their stated maturity at the option of the Issuer (either in whole or in part) and/or the holders and, if so, the terms applicable to such redemption.

Status of the Notes	The Notes constitute direct, unconditional, unsubordinated and unsecured obligations of the Bank and shall at all times rank pari passu and without any preference among themselves. The payment obligations of the Issuer under the Notes shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4(a), at all times rank at least equally with all other unsecured and unsubordinated indebtedness and monetary obligations of the Issuer, present and future.
Events of Default	See "Terms and Conditions of the Notes — Events of Default".
Cross Default	See the relevant sub-condition under "Terms and Conditions of the Notes — Events of Default".
Ratings	The Programme is expected to be rated "Baa2" by Moody's. Series of Notes will be rated or unrated. Where a Series of Notes is to be rated, such rating will be specified in the relevant Pricing Supplement. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.
Early Redemption	Except as provided in "Optional Redemption" above, Notes will be redeemable at the option of the Issuer prior to maturity only for tax reasons. See "Terms and Conditions of the Notes — Redemption, Purchase and Options".
Withholding Tax	All payments of principal and interest in respect of the Notes will be made free and clear of withholding taxes of the PRC and, if a branch of the Bank is the Issuer, its jurisdiction, subject to customary exceptions, all as described in "Terms and Conditions of the Notes — Taxation".
Governing Law	English law.
Listing	Application has been made to the SEHK for the listing of the Programme, under which Notes may be issued by way of debt issues to Professional Investors only during the 12-month period after the date of this Offering Circular on the SEHK. 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 to be listed on the SEHK will be traded on the SEHK 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 EEA, the UK, Hong Kong, Singapore, the PRC and Japan, see "Subscription and Sale" below.

SUMMARY HISTORICAL FINANCIAL INFORMATION OF THE BANK

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

The Bank's consolidated financial information as at and for the years ended 31 December 2018, 2019 and 2020 was derived from the Audited Financial Statements which have been prepared and presented in accordance with PRC GAAP. The Bank's 2018 Audited Financial Statements have been audited by Deloitte, in accordance with Auditing Standards for Certified Public Accountants in China. The Bank's 2020 Audited Financial Statements have been audited by KPMG, in accordance with Auditing Standards for Certified Public Accountants in China. The Bank's summary consolidated financial information as at and for the years ended 31 December 2018, 2019 and 2020 should be read in conjunction with the Financial Statements Translation and the notes thereto included elsewhere in this Offering Circular. PRC GAAP differs in certain respects from IFRS. See "Summary of Certain Differences Between PRC GAAP and IFRS".

Summary Consolidated Statements of Comprehensive Income

	Year ended 31 December		
	2018	**2019**	**2020**
	(RMB in million)	**(RMB in million)** *(restated[1])*	**(RMB in million)**
Interest income	270,578	288,978	303,478
Interest expense	(174,921)	(166,689)	(159,963)
Net interest income	**95,657**	**122,289**	**143,515**
Fee and commission income	47,062	34,333	42,477
Fee and commission expense	(4,084)	(3,955)	(4,767)
Net fee and commission income	**42,978**	**30,378**	**37,710**
Investment (losses) income	26,482	24,992	26,154
Gains (losses) from changes in fair values	2,919	1,622	(6,267)
Foreign exchange gains (losses)	(11,298)	851	813
Income from disposal of assets	19	38	3
Other income	**637**	**363**	**510**
Other operating income	893	775	699
Operating income	**158,287**	**181,308**	**203,137**
Operating expenses	(90,373)	(107,042)	(126,590)
Operating profit	**67,914**	**74,266**	**76,547**
Non-operating income	335	368	295
Non-operating expenses	(172)	(131)	(205)
Profit before tax	**68,077**	**74,503**	**76,637**
Income tax expense	(6,832)	(7,801)	(8,956)
Net profit	**61,245**	**66,702**	**67,681**
Attributable to:			
— Equity holders of the Bank	60,620	65,868	66,626
— Minority interests	625	834	1,055

Note:

(1) From the year ended 31 December 2020, the Group reclassified its credit card instalment business income from fee and commission income to interest income. The relevant financial figures in 2019 have been restated and the relevant 2018 financial figures remain unchanged.

Summary Consolidated Statements of Financial Position

	As at 31 December		
	2018	2019	2020
	(RMB in million)	(RMB in million)	(RMB in million)
Assets:			
Cash and balances with Central Bank	475,781	486,444	411,147
Deposits from banks and other financial institutions	53,303	87,260	95,207
Precious metals	3,350	401	4,947
Placements with banks and other financial institutions	98,349	231,475	191,939
Trading assets	459,598	—	—
Derivative financial assets	42,092	32,724	59,396
Financial assets held under resale agreements	77,083	41,861	123,350
Loans and advances to customers	2,838,445	3,345,180	3,867,321
Financial investment:			
Trading assets	—	652,034	823,927
Debt investments	—	1,444,176	1,550,131
Other debt investments	—	599,382	516,368
Other equity investments	—	1,929	2,388
Available-for-sale financial assets	647,102	—	—
Held-to-maturity investments	395,142	—	—
Debt securities classified as receivables	1,387,150	—	—
Finance lease receivables	104,253	106,273	100,616
Long-term equity investments	3,224	3,413	3,549
Fixed assets	17,658	24,641	26,414
Construction in progress	7,872	3,463	1,935
Intangible assets	602	647	712
Goodwill	532	532	532
Deferred tax assets	32,317	40,799	45,513
Other assets	67,804	43,047	68,608
Total assets	**6,711,657**	**7,145,681**	**7,894,000**
Liabilities:			
Borrowing from Central Bank	268,500	168,259	290,398
Deposits from banks and other financial institutions	1,344,883	1,233,937	1,487,079
Placements from banks and other financial institutions	220,831	192,310	180,171
Trading liabilities	2,594	4,214	16,062
Derivative financial liabilities	38,823	31,444	61,513
Financial assets sold under repurchase agreements	230,569	193,412	123,567
Deposits from customers	3,303,512	3,794,832	4,084,242
Employee benefits payable	15,341	17,738	20,204
Tax payable	11,297	14,476	12,304
Provisions	—	6,253	5,397
Debt securities issued	717,854	899,116	947,393
Deferred tax liabilities	—	—	74
Other liabilities	84,869	40,038	40,793
Total liabilities	**6,239,073**	**6,596,029**	**7,269,197**
Shareholders' equity:			
Share capital	20,774	20,774	20,774
Other equity instruments	25,905	55,842	85,802
Including: preferred stock	25,905	55,842	55,842
Capital reserve	75,011	74,914	74,914
Other comprehensive income	2,356	3,232	(749)
Surplus reserve	10,684	10,684	10,684
General reserve	73,422	78,525	87,535
Retained earnings	257,801	297,389	336,626
Equity attributable to equity holders of the Bank	465,953	541,360	615,586
Non-controlling interests	6,631	8,292	9,217
Total shareholders' equity	**472,584**	**549,652**	**624,803**
Total liabilities and shareholders' equity	**6,711,657**	**7,145,681**	**7,894,000**

Capital Ratio Data of the Bank

	As at 31 December		
	2018	2019	2020
Capital Adequacy Indicators			
Calculated in accordance with the Capital Regulations: (1)			
Capital Adequacy Ratio (per cent.)	12.20	13.36	13,47
Tier 1 Capital Adequacy Ratio (per cent.)	9.85	10.56	10.85
Core Tier 1 Capital Adequacy Ratio (per cent.)	9.30	9.47	9.33

Note:

(1) Ratios as at 31 December 2018, 2019 and 2020 are calculated in accordance with the Capital Management Rules and other relevant regulations. See "Banking Regulation and Supervision in the PRC".

Other Financial Indicators (1)

	As at 31 December			
	Regulatory standard	2018	2019	2020
Loan-to-deposit ratio (converted to RMB) (2)	≤75	83.90	85.76	92.54
Liquidity ratio (converted to RMB)	≥25	66.52	75.07	67.39
Percentage of loans to the largest single customer (3)	≤10	1.59	1.38	1.67
Percentage of loans to the top 10 customers (4)	≤50	10.99	11.00	10.61
Migration ratio of pass loans	—	2.10	2.38	2.07
Migration ratio of special mention loans	—	43.90	38.81	31.23
Migration ratio of substandard loans	—	61.36	79.55	62.42
Migration ratio of doubtful loans	—	21.22	36.12	18.03

Notes:

(1) Data in this table are those before consolidation, and data of Industrial Bank Financial Leasing Co., Ltd., China Industrial International Trust Limited, CIB Fund Management Co., Ltd. and Industrial Consumer Finance Co., Ltd. are not included in this table. Data in this table are calculated based on data reported to regulatory authorities. Pursuant to Document YJF [2010] No. 112 issued by the CBRC, starting from 2011, the regulatory minimum daily average loan-to-deposit ratio per month increased. The Bank's daily average loan-to-deposit ratio per month during the relevant periods has met the regulatory requirements.
(2) Calculated by dividing total loans and advances to customers by due to customers.
(3) Calculated by dividing loans and advances to the 10 largest customers by net capital base.
(4) Calculated by dividing loans to top 10 customers by net capital base.

RISK FACTORS

Prior to making any investment decision, prospective investors should consider carefully all of the information contained in this Offering Circular, including the risks and uncertainties described below. The Bank's business, financial condition or results of operations could be materially adversely affected by any of these risks. The Bank believes that the following factors may affect its ability to fulfil its obligations under the Notes. Additional considerations and uncertainties not presently known to the Bank or which the Bank currently deem immaterial may also have an adverse effect on an investment in the Notes. All of these factors are contingencies which may or may not occur and the Bank is not in a position to express a view on the likelihood of any such contingency occurring.

Factors which the Bank believes may be material for the purpose of assessing the market risks associated with the Notes are described below. The Bank believes that the factors described below represent the principal risks inherent in investing in the Notes, but its inability to repay principal, pay interest (if any) or other amounts or fulfil other obligations on or in connection with the Notes may occur for other reasons and it does not represent that the statements below regarding the risks of holding the Notes are exhaustive.

RISKS RELATING TO THE BANK'S LOAN PORTFOLIO

The Bank has a concentration of loans to certain industries, regions and customers and, if the conditions of these regions or these industries, or the financial conditions of these customers deteriorate significantly, the Bank's asset quality, financial condition and results of operations may be materially and adversely affected.

As at 31 December 2020, the Bank's loans to China's (i) manufacturing, (ii) leasing and commercial services, (iii) real estate and (iv) retail and wholesale industries represented approximately 9.4 per cent., 9.0 per cent., 8.0 per cent. and 6.3 per cent., respectively, of its total loans. Any significant downturn in these industries may lead to a significant increase in the non-performing loans of the Bank, and negatively affect the level of new lending or refinancing of existing loans to borrowers in those industries. This may in turn materially and adversely affect the Bank's asset quality, financial condition and results of operations. As China has experienced a slowdown in its manufacturing industry and economic growth in recent years, the Bank's non-performing loan ratio to the manufacturing industry and the retail and wholesale industry have fluctuated. As at 31 December 2018, 2019 and 2020, the Bank's ratio of non-performing loans to the retail and wholesale industries was 6.98 per cent., 6.87 per cent. and 3.74 per cent., respectively. Continued deterioration in the performance of these two industries may further increase the Bank's non-performing loan ratio and adversely affect its overall asset quality.

In recent years, the PRC central and local governments have introduced a large number of policies and measures to control the over-development of certain industries with excess capacity, such as wind power equipment, steel, cement, coal, chemical and flat glass. Many enterprises operating in these industries have experienced increasing financial stress or difficulty due to their deteriorating financial condition and cash flow and increasing industry competition. Although the Bank closely monitors its lending to companies in the relevant industries, there is no guarantee that the Bank's overall asset quality will not be affected.

The Bank's overall asset quality is also affected by the performance of the PRC's real estate market due to its home mortgages and other loans secured by real property collateral granted to real estate developers and retail property purchasers. As at 31 December 2020, the Bank's loans to the real estate industry, which were primarily granted to real estate developers represented 8.0 per cent., of its total loans and its non-performing ratio of these loans was 0.92. As at 31 December 2020, the Bank's home mortgage loans represented 61.42 per cent. of its outstanding balance of personal loans. Any measures imposed by the PRC government aimed at cooling down the PRC real estate market may adversely affect the growth and quality of the Bank's loans to the real estate industry and the Bank's home mortgage loans. On the other hand, a downturn in the PRC's real estate market may materially and adversely affect the quality of the Bank's existing loans and its ability to generate new loans, which in turn could have a material adverse effect on the Bank's asset quality, financial condition and results of operations.

As at 31 December 2020, 25.8 per cent. of the Bank's total outstanding loans originated in Western and Central China. Although the Bank believes that these regions currently benefit from favourable government policies, the economic conditions in these regions are poorer as compared to those in the coastal regions of Eastern China and Southern China, and their economic growth has been slower compared to other regions in China. These favourable economic policies may change or discontinue in the future and they may not be as effective as the Bank anticipates. Any significant economic downturn in any of these regions, or any inaccurate assessment or failure in the management of the credit risks relating to loans granted to borrowers located or operating in such regions, whether due to changes in government policies or otherwise, may materially and adversely affect the Bank's asset quality, particularly its non-performing loans, and thus its financial condition and results of operations.

As at 31 December 2020, the Bank's loans to its top 10 customers totalled RMB71.1 billion, which represented 1.80 per cent. of its total loan portfolio and these loans were classified as performing. If any of the performing loans to the top 10 customers deteriorates or becomes non-performing, the Bank's asset quality, financial condition and results of operations may be materially and adversely affected.

Furthermore, the Bank also provides loans to small and medium-sized enterprises ("**SMEs**"). The loans to SMEs are, compared to its other loans, generally more vulnerable to the adverse impact of certain factors such as natural disasters and economic slowdown. The Bank adopted a number of measures to manage these risks, such as imposing stricter requirements on approving credit applications and charging higher interest rates, but there can be no assurance that these measures will effectively reduce or eliminate the risks relating to such customers. If the Bank's loans to SMEs deteriorate, its asset quality, financial condition and results of operations may be materially and adversely affected.

If the Bank is unable to effectively maintain the quality of its loan portfolio, its financial condition and results of operations may be materially and adversely affected.

As at 31 December 2018, 2019 and 2020, the Bank's non-performing loans amounted to RMB46.1 billion, RMB53.0 billion and RMB49.7 billion, respectively, and the Bank's non-performing loan ratio was 1.57 per cent., 1.54 per cent. and 1.25 per cent., respectively. From 2018 to 2019, the general increase in the Bank's non-performing loans and non-performing loan ratio was primarily due to an increase in its loans and advances to its customers and an adverse change in the macroeconomic economic conditions in the PRC which the Bank believes affected its customers' ability to repay its loans. For the year ended 31 December 2020, the Bank's non-performing loans and non-performing loan ratio decreased due to the Bank's adoption of a number of measures to manage risks, including imposing heightened monitoring of asset quality and establishing asset control system for risky projects.

The quality of the Bank's loan portfolio may deteriorate in the future due to various reasons, including factors beyond the Bank's control, such as reform of the PRC economy, the PRC government's initiative to control overcapacity in certain industries, a slowdown in the PRC or global economies, a relapse of the global credit crisis, adverse macroeconomic trends in China and other parts of the world and the occurrence of natural disasters, all of which could impair the ability of the Bank's borrowers to service their outstanding debt. Inflation in China may cause rising costs and negatively impact the profitability of the Bank's corporate customers, which in turn may lead to significant increases in the Bank's allowance made for impaired loans. Any actual or perceived deterioration in creditworthiness of counterparties, declines in property prices in many third- and fourth-tier cities in China and resulting reduction in collateral values, higher unemployment rates or reduced profitability of corporate borrowers may also cause the Bank's asset quality to deteriorate and in turn lead to significant increases in allowance made for impaired loans. If the Bank's non-performing loans or the allowance made for impaired loans increase in the future, the results of its operations and financial condition may be materially and adversely affected. In addition, the Bank's ability to maintain its growth also depends largely on its ability to effectively manage its credit risk and maintain or improve the quality of its loan portfolio. There is no assurance that the Bank's credit risk management policies, procedures and systems are effective or free from deficiency. Failure of the Bank's credit risk management policies, procedures and systems may result in an increase in its non-performing loans and adversely affect the quality of its loan portfolio.

The Bank's allowance for impairment losses may not be sufficient to cover the actual losses on its loan portfolio in the future.

As at 31 December 2018, 2019 and 2020, the Bank's allowance for impairment losses on loans was RMB95.6 billion, RMB105.6 billion and RMB108.7 billion, respectively. For the same periods, the ratio of its allowance for impairment losses to total loans was 3.3 per cent., 3.1 per cent. and 2.7 per cent., respectively and the ratio of its allowance for impairment losses to non- performing loans was 207.28 per cent., 199.13 per cent. and 218.83 per cent., respectively. The allowance for impairment losses is based on the Bank's current assessment of, and expectations concerning, various factors affecting the quality of its loan portfolio. These factors include, among other things, borrowers' financial condition, repayment ability and repayment intention, the realisable value of any collateral, the ability of the guarantors of the borrowers to fulfil their obligations and the implementation of the Bank's credit policies, as well as China's economy, macroeconomic policies, interest rates, exchange rates, and legal and regulatory environments. Many of these factors are beyond the Bank's control, and therefore its assessment and expectations on these factors may differ from future developments. The adequacy of the Bank's allowance for impairment losses depends on the reliable application of its risk assessment system to estimate these potential losses, as well as its ability to accurately collect, process and analyse the relevant statistical data. If the Bank's assessment of, and expectations concerning, the factors that affect the quality of its loan portfolio differ from actual developments, the Bank's allowance for impairment losses may not be adequate to cover its actual losses and the Bank may need to make additional provisions for impairment losses, which may reduce its profit and therefore materially and adversely affect its asset quality, financial conditions and results of operations.

The collateral and guarantees securing the Bank's loans may not be sufficient, and the Bank may be unable to realise the full value of the collateral and guarantees in a timely manner or at all.

A significant portion of the Bank's loans is secured by collateral or guarantees. As at 31 December 2020, 39.68 per cent. and 7.99 per cent. of its total loans were secured by mortgages and pledges, respectively, and 20.49 per cent. of its total loans were guaranteed.

The pledged collateral securing the Bank's loans includes, among other things, bonds or equity securities. The mortgages securing the Bank's loans primarily comprise real properties and other assets located in China. The value of the collateral securing its loans may significantly fluctuate or decline due to factors beyond the Bank's control, including macroeconomic factors affecting the PRC economy. For example, a downturn in China's real estate market may result in a decline in the value of the real properties securing the Bank's loans to levels significantly below the outstanding principal and interest balances of such loans. Any decline in the value of such collateral may reduce the amounts the Bank can recover from such collateral and increase its impairment losses.

Some of the Bank's loans were guaranteed by the borrowers' affiliates. A significant deterioration in the financial condition of the guarantors could significantly decrease the amounts the Bank recovers under the relevant guarantees. Moreover, a court or other judicial or governmental authorities may declare a guarantee to be invalid or otherwise decline or fail to enforce such guarantees. The Bank is therefore exposed to the risk that it may not be able to recover all or any part of the amounts guaranteed in respect of its loans.

In China, the procedures for liquidating or otherwise realising the value of collateral in the form of non-monetary assets may be protracted and it may be difficult to enforce claims in respect of such collateral. For example, in accordance with Provisions of the Supreme People's Court on Several Issues Concerning the Handling of Enforcement Opposition and Reconsideration Cases by People's Courts (最高人民法院關於人民法院辦理執行異議和復議案件若干問題的規定), effective from 5 May 2015, the PRC courts cannot evict a borrower or his or her dependents from his or her residence during the three-month grace period after a court approves a bank's petition to foreclose. In addition, under certain circumstances, the Bank's rights to the collateral securing its loans may have lower priority than certain other rights.

As a result, it may be difficult and time-consuming for the Bank to take control of or liquidate the collateral securing non-performing loans. If the Bank is unable to liquidate the assets of borrowers and guarantors or if guarantors fail to fully perform their guarantee obligations on a timely basis, its business, financial condition and results of operations may be materially and adversely affected.

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

The Bank classifies its loans using a five-category loan classification system in accordance with the guidelines set forth by the PRC regulators. The five categories are normal, special mention, substandard, doubtful and loss. The Bank assesses its loans for impairment, determines a level of allowance for impairment losses and recognises any related provisions made in a year using the five-category classification system. In making relevant assessments, the Bank determines and recognises provisions by using the concept of impairment under China Accounting Standard 22 (the "**CAS 22**") prior to 1 January 2019, since when, the Bank has started to apply Revised CAS 22 — Recognition and Measurement of Financial Instruments issued by the Ministry of Finance of the PRC in March 2017 (the "**Revised CAS 22**") in determining provisions. The Bank is required to apply a new expected credit loss impairment model under the Revised CAS 22, which, as compared to the incurred loss model in CAS 22, uses more forward-looking information instead of objective evidence of impairment as a precondition for recognising credit losses. Although the Bank's loan classification criteria are in compliance with the guidelines set forth by the CBIRC, certain aspects of its loan classification criteria may not be the same as those adopted by other PRC commercial banks. As a result, the Bank's loan classification and impairment provisioning policies may differ from those reported by international banks incorporated in those countries or regions.

If the Bank does not maintain the growth of its loan portfolio, its business, prospects, financial condition and results of operations may be materially and adversely affected.

The Bank's gross loans and advances to customers have grown significantly in the past few years, increasing to RMB3,965.7 billion as at 31 December 2020 from RMB3,441.5 billion as at 31 December 2019 and RMB2,934.1 billion as at 31 December 2018. The growth in the Bank's loan portfolio during the period was primarily attributable to its efforts to expand corporate and retail banking businesses. The growth of its loan portfolio may also be affected by various factors, such as China's macroeconomic policies and capital constraints. Therefore, there can be no assurance that the Bank will be able to maintain the growth rate of its loan portfolio in the future. In addition, in response to the constraints from the amount of its regulatory capital, the Bank may adopt strategies to reduce its reliance on its loan portfolio and expand its activities in other businesses that require relatively lower capital. Any of the foregoing factors could impact the growth of its loan portfolio and thereby materially and adversely affect its business, prospects, financial condition and results of operations.

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

Loans extended to the financing vehicles of local governments in China have been a part of the loan portfolio for China's commercial banks. According to the CBIRC, local government financing vehicles consist primarily of government-led vehicles and vehicles whose shares are controlled by the government. These vehicles primarily engage in infrastructure and urban development projects, economic development zones, industrial parks and other government investment related projects, of which the risks are highly correlated with the financial strength of the local governments. The Bank extends loans primarily to local government financing vehicles for infrastructure and urban development projects as well as those vehicles relating to land reserve centres, economic development zones, industry parks or state asset management companies Within China's administrative division system, the recipients of these loans generally rank at or above the district city level. The Bank primarily issues loans to local government financing vehicles that have completed market-based restructuring in accordance with relevant PRC regulations. The loans are mainly invested in developed domestic economic regions or key development regions, such as the Yangtze River Delta, Fujian, Sichuan and Chongqing.

Recently, with the aim of reinforcing the risk management of loans to local government financing vehicles, the 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 vehicles.

While the Bank has taken various measures to reduce the risks of default such as setting clear thresholds for its loans to local government financing vehicles and enhancing the mortgages and guarantees on such loans, 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 local government financing vehicles, which may in turn materially and adversely affect the Bank's asset quality, financial condition and results of operations.

The Revised CAS 22 may require the Bank to change its provisioning practice.

The Bank historically assessed its loans and investment assets for impairment under CAS 22. The Ministry of Finance of the People's Republic of China (the "**MOF**"), which is responsible for developing and revising accounting standards under PRC GAAP, issued the revised CAS 22 recognition and measurement of Financial Instruments in March 2017 that, among others, introduced an expected loss impairment model. The new standard, which became effective on 1 January 2019 for an A-share listed company, requires an entity to change the accounting for financial liabilities if it elects to measure under the fair value option. With that change, gains and losses resulting from an entity's own credit risk will be recognised outside of profit or loss. The new standard also requires an entity to recognise expected credit losses at all times and to update the amount of expected credit losses recognised at each reporting date to reflect changes in the credit risk of financial instruments. It is not practicable to provide a reasonable estimate of the effect or quantify the impact on the Bank's operating results and financial position until it makes a detailed assessment as the new standard requires changes to systems and processes to collect necessary data. As an A-share listed company, the Bank applied the Revised CAS 22 to its reporting periods starting from 1 January 2019. The Revised CAS 22 has changed the Bank's current provisioning practice and may, as a result, adversely affect the Bank's business, financial condition and results of operations.

RISKS RELATING TO THE BANK'S BUSINESS

The Bank faces certain risks relating to its operational reform initiatives.

The Bank continues to develop and implement a number of operational reform initiatives in an effort to become more competitive and customer-oriented, including those relating to re-engineering its business process and organisational structure. For example, (i) the Bank has revamped its corporate banking products and services, targeting growth in value-added products and services such as asset management, cash management and investment banking business; (ii) it has prioritised the development of retail banking business, through implementing operational reform of branch outlets, streamlining business procedures and increasing investments in the distribution channels and IT system; and (iii) it has focused on product innovations in order to achieve greater customer satisfaction. There can be no assurance that the Bank will be able to achieve the results it expects in the future due to a number of factors, including:

- it may not have sufficient experience or expertise to successfully manage and continue implementing these operational reform initiatives;

- it may not have sufficient and effective management systems and information technology systems to support the implementation of these operational reform initiatives according to its contemplated schedule or at all; and

- changes in government policies or banking regulations may adversely affect the schedule for implementing, or the Bank's ability to implement, these operational reform initiatives.

There is no assurance that the Bank is able to successfully implement these reform initiatives or, if implemented, these initiatives will achieve the benefits or within its schedule as expected, if at all. If the Bank is unable to control these risks associated with its reform initiatives, the Bank's business, prospects, financial condition and results of operations could be materially and adversely affected.

If the Bank is not effective in implementing enhanced risk management and internal control policies and procedures and introducing certain information technology systems to assist with its risk management and internal control, its business and prospects may be materially and adversely affected.

The Bank has in the past suffered from credit-quality problems, lapses in credit approval and control processes, internal control deficiencies and operational problems as a result of weaknesses in its risk management controls. 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 enhance its internal control. However, there can be no assurance that the Bank's risk management and internal control policies and procedures will adequately control, or protect it against, all credit and other risks. Some of these risks are yet to be identified by the Bank, and may be unforeseeable or higher than what it originally expected or the historical level. In addition, given the short history of certain aspects of its risk management and internal control policies and procedures, the Bank will require additional time to implement these policies and procedures and fully measure the impact of, and evaluate the compliance with, these policies and procedures. Moreover, the Bank's staff will require time to adjust to these policies and procedures and there is no assurance that its employees will be able to consistently comply with or correctly apply these policies and procedures.

The Bank's risk management capabilities are limited by the information, tools or technologies available to it. For example, it may not be able to effectively monitor credit risk due to limited information resources or tools. In recent years, the Bank has introduced or refined certain risk management tools and systems to assist it in better managing risks, including the internal credit rating system, the assets and liabilities management system, the internal funds transfer pricing system, the treasury trading and risk management system and the Bank's credit management system. However, its ability to operate such systems and to monitor and analyse the effectiveness of such systems is still subject to continuous testing. The Bank is also still in the process of further developing information systems to manage certain aspects of risk management, such as automated systems for the collection of certain information relating to connected party transactions and group lending.

If the Bank is not effective in improving its risk management and internal control policies, procedures and systems, or if the intended results of such policies, procedures or systems are not achieved in a timely manner or to the full extent, its asset quality, business, financial condition and results of operations may be materially and adversely affected.

The Bank's expanding range of products, services and business activities exposes it to new risks.

The Bank has been increasing its product development efforts and expanding the range of its products and services to meet the needs of its customers and to enhance its competitiveness.

Expansion of its business activities exposes the Bank to a number of risks and challenges, including:

- insufficient experience or expertise in certain new products and services, which may prevent it from effectively competing in these areas;

- imitation or replication of its new products and services by its competitors;

- failure of its new products and services to be accepted by its customers or meet the expected targets;

- inability to hire additional qualified personnel or to hire personnel on commercially reasonable terms;

- insufficient financial, operational, management and other human resources to support its expanded range of products and services;

- inability to obtain regulatory approvals for its new products or services; and

- unsuccessful attempts to enhance its risk management and internal control capabilities and information technology systems to support a broader range of products and services.

If the Bank is not able to successfully expand into or grow new products, services and related business areas due to these risks or to achieve the intended results with respect to the new products and services, its business, financial condition and results of operations may be materially and adversely affected.

The Bank may face difficulties in meeting regulatory requirements relating to capital adequacy.

The Bank is required by the PRC Commercial Banking Law promulgated by the CBIRC to maintain a minimum Capital Adequacy Ratio of 8 per cent., and under the Measures on Capital Management Rules, the Bank's minimum common equity Core Tier 1 Capital Adequacy Ratio and Tier 1 Capital Adequacy Ratio are 5 per cent. and 6 per cent., respectively. In accordance with the Measures on Capital Management of Commercial Banks (Trial) (商業銀行資本管理辦法 (試行)), the Bank's Core Tier 1 Capital Adequacy Ratio, Tier 1 Capital Adequacy Ratio and Capital Adequacy Ratio were 9.33 per cent., 10.85 per cent. and 13.47 per cent., respectively, as at 31 December 2020.

In recent years, the CBIRC has issued several regulations and guidelines governing capital adequacy requirements applicable to commercial banks in the PRC. Currently, the CBIRC is actively pushing forward the implementation of Basel III, the revised Based Capital Accord promulgated in December 2010. In April 2011, the CBIRC promulgated the Guideline Concerning the Implementation of New Regulatory Standards for the PRC Banking Industry (關於中國銀行業實施新監管標準的指導意見) to clarify the direction for future regulations and the requirement for prudent regulatory requirements. On 7 June 2012, the CBIRC promulgated the Capital Management Rules, which came into effect on 1 January 2013. The Capital Management Rules clarified and refined the categorisations and methods of measurement in respect of the capital instruments of commercial banks. According to the Capital Management Rules, the regulatory requirements on the capital adequacy ratio of commercial banks shall cover the requirements on the minimum capital, reserve capital and counter-cyclical capital, additional capital for systematically important banks, as well as second pillar capital, which shall be reached by commercial banks by the end of 2018. In order to smoothly implement the Capital Management Rules, on 30 November 2012, the CBIRC promulgated the *Notice of Transitional Arrangement for the Implementation the Measures on Capital Management of Commercial Banks (Trial)* (中國銀監會關於實施《商業銀行資本管理辦法(試行)》過渡期安排相關事項的通知) (the "**Notice of Transitional Arrangement**"), pursuant to which commercial banks shall reach the minimum capital requirement by 1 January 2013. Within the transitional period for reaching required targets, the Capital Management Rules and the Notice of Transitional Arrangement require commercial banks to formulate and implement feasible plans for reaching capital adequacy ratio targets step by step, and submit the same to the CBIRC for approval.

Although the Bank is currently in compliance with the requirement for capital adequacy, new requirements and regulations may adversely affect the Bank's compliance with capital adequacy ratios requirements, and it is possible that the Bank may face difficulties in meeting the requirement of the regulations regarding capital adequacy and that new requirements and regulations will also affect the Bank's funding needs.

In addition, some regulatory developments may affect the Bank's ability to continually comply with capital adequacy requirements, including the raising of minimum capital adequacy ratios by the CBIRC and the changes in calculations of capital adequacy ratios by the CBIRC. If any of these circumstances occurs, the Bank may be unable to comply with the regulatory requirements of the CBIRC.

In order to support its steady growth and development, the Bank may need to raise more capital to ensure that its capital complies with or exceeds the minimum regulatory requirement. In its future plans to raise capital, the Bank may issue any share securities that can contribute towards core capital or any debt securities that can contribute towards supplementary capital. The Bank's capital-raising ability may be restricted by the Bank's future business, financial condition and results of operations, the Bank's credit rating, necessary regulatory approvals and overall market conditions, including Chinese and global economic, political and other conditions at the time of capital raising.

There is no assurance that the Bank will be able to detect money-laundering and other illegal or improper activities on a timely basis.

The Bank is required to comply with applicable anti-money laundering and anti-terrorism laws and regulations in the jurisdictions where it has operations, primarily the PRC and Hong Kong. These laws and regulations require the Bank to adopt and implement "know-your-customer" policies and procedures and to report suspicious and large transactions to the regulatory authorities under relevant regulatory regimes. The Bank has adopted and implemented certain policies and procedures with an aim to detect and prevent the use of its business platforms to facilitate money-laundering activities and terrorist acts. Given the complexity of money-laundering activities and other illegal or improper activities and evolution of applicable regulatory regimes, there is no assurance that those policies and procedures can effectively ensure the Bank's compliance under applicable anti-money laundering and anti-terrorism laws and regulations at all times or in a timely manner. As the Bank implements its international business expansion, it expects that it will need to comply with additional and more stringent regulations in the jurisdictions into which it expects to expand. To the extent that the Bank fails to fully comply with such laws and regulations or if the policies and measures the Bank puts in place fail to promptly detect illegal or improper activities in a timely manner, the relevant regulatory authorities may impose fines, other penalties and punishments on the Bank.

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

Fraud and other misconduct by employees or third parties may be difficult to detect and prevent and could subject the Bank to financial losses and sanctions imposed by governmental authorities and seriously harm its reputation. Types of possible misconduct by third parties against the Bank may include, among other things, fraud, theft and robbery. Types of misconduct by the Bank's employees in the past have included, among other things, improper extension of credit, unauthorised business transactions, business process in breach of the Bank's internal policies and procedures, inappropriate accounting treatment, theft, embezzlement or misappropriation of customer funds, fraud and bribery. In addition, the Bank's employees may commit errors or take improper actions that could subject the Bank to financial claims as well as regulatory actions. There can be no assurance that all of the employees of the Bank will comply with its risk management and internal control policies and procedures and it is not always possible to detect or prevent such activities. In addition, there can be no assurance that fraud or other misconduct, whether involving past acts that have gone undetected or future acts, will not have a material adverse effect on the reputation, results of operations and business prospects of the Bank, or that all of the employees of the Bank will comply with its risk management and internal control policies and procedures.

If the Bank fails to maintain the growth rate in its customer deposits or if there is a significant decrease in customer deposits, its business operations and liquidity may be materially and adversely affected.

Customer deposits are the Bank's primary source of funding. As at 31 December 2018, 2019 and 2020, the Bank's total customer deposits amounted to RMB3,303.5 billion, RMB3,794.8 billion and RMB4,084.2 billion, respectively. Although the Bank's customer deposits have been growing steadily since 2018, many factors affect the growth of deposits, some of which are beyond the Bank's control, such as economic and political conditions, availability of investment alternatives and retail customers' changing perceptions toward savings. For example, with the continuing development of China's capital markets, customers of the Bank may reduce their deposits and increase their investment in securities for a higher return. If the Bank fails to maintain the growth rate in its deposits or if a substantial portion of its depositors withdraw their deposits or do not roll over their time deposits upon maturity, the Bank's liquidity position, financial condition and results of operations may be materially and adversely affected. In such events, the Bank may need to seek more expensive sources of funding and there can be no assurance that it will be able to obtain additional funding on commercially reasonable terms as and when required.

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

The Bank depends on its information technology systems to process transactions on an accurate and timely basis, and to store and process its business and operating data. The proper functioning of the Bank's financial control, risk management, credit analysis and reporting, accounting, customer service and other information technology systems, as well as the communication networks between its branches and main data processing centres, are critical to its business and ability to compete effectively. The Bank has built a dual disaster backup system with backup data recoverable from both the same and a different city. The Bank satisfies the internationally recognised standards and the requirements of the PBOC in relation to disaster recovery. The Bank's business activities would be materially disrupted if there is a partial or complete failure of any of the information technology systems or communication networks. Such failure can be caused by various reasons, including natural disasters, extended power outages, breakdown of key hardware systems and computer viruses. The proper functioning of the information technology systems of the Bank also depends on accurate and reliable data input and other sub-system installation, which are subject to human errors. Any failure or delay in recording or processing its transaction data could subject it to claims for losses and regulatory fines and penalties.

In addition, the secure transmission of confidential information is critical to the Bank's operations. Its networks and systems may be vulnerable to unauthorised access and other security problems. There can be no assurance that its existing security measures are able to prevent unforeseeable security breaches, including break-ins and viruses, or other disruptions such as those caused by defects in hardware or software and errors or misconduct of operators. Persons that circumvent the security measures could use the Bank's or its clients' confidential information wrongfully. Any material security breach or other disruptions could expose the Bank to risk of loss and regulatory actions and harm its reputation.

The competitiveness of the Bank would to some extent depend on its ability to upgrade its information technology systems on a timely and cost-effective basis. In addition, the information available to and received by it through the existing information technology systems may not be timely or sufficient for the Bank to manage risks and prepare for, and respond to, market changes and other developments in the current operating environment. Any substantial failure to improve or upgrade the information technology systems effectively or on a timely basis could materially and adversely affect the competitiveness, financial condition and results of operations of the Bank.

The Bank is subject to credit risk with respect to certain off-balance sheet commitments.

In the normal course of its business, the Bank makes commitments which, under applicable accounting principles, are not reflected as liabilities on the Bank's consolidated statement of financial position, including bank acceptances, loan commitments, guarantees and letters of credit to guarantee the performance of the customers. The Bank is subject to credit risks associated with these off-balance sheet commitments and is required to provide funds when its customers are unable to honour their obligations. If a customer of letters of guarantee fails to fulfil its obligations as stated in the letters of guarantee to the beneficiaries of such guarantees, the Bank will be obliged to make payments in respect of such letters of guarantee. If the Bank is unable to recover payment from its customers in respect of the commitments that it is called upon to fulfil, the financial condition and results of operations of the Bank could be materially and adversely affected.

The Bank's investment assets may suffer significant losses or experience sharp declines in their returns, which could have a material adverse effect on the Bank's business, financial condition and results of operations.

Apart from its businesses of taking deposits, providing loans, granting credit and providing financial services, the Bank also engages in a range of investment activities, such as investments in investment products under trust schemes, investment products managed by securities companies, wealth management products issued by other PRC commercial banks and other debt securities issued by financial institutions. The Bank's returns on investment securities and other financial assets, and its profitability, may be materially and adversely affected by interest rates, foreign exchange rates, credit and liquidity conditions, asset values and macroeconomic and geopolitical conditions. Any significant deterioration in one or more of these factors could reduce the value of, and the gains generated from, the Bank's investment securities and other financial assets portfolio and could have a material adverse effect on its business, financial condition and results of operations. As the derivatives market in China is not as mature as that in some developed countries, there are limited risk management tools available to the Bank to reduce market risks relating to its investment portfolio.

If any of the issuers of investment securities or other financial assets or guarantors goes bankrupt, has poor operating performance, or becomes unable to service their debts for any other reasons, or if such investment securities or other financial assets lacks liquidity, or if there are adverse changes in macroeconomic environment and other factors, the value of such investment securities and other financial assets may decrease substantially. As a result, the Bank's asset quality, financial condition and results of operations may be materially and adversely affected.

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

The Bank is subject to the requirements and guidelines set forth by the PRC regulatory authorities. Its Hong Kong Branch is also subject to Hong Kong laws and regulations.

The PRC regulatory authorities include the MOF, the PBOC, the CBIRC, the CSRC, State Administration of Taxation of the PRC ("**SAT**"), National Audit Office of the PRC ("**NAO**"), State Administration for Market Regulation of the PRC ("**SAMR**"), the SAFE and Commission for Discipline Inspection of the Communist Party of China. These regulatory authorities carry out periodic supervision and spot checks of the Bank's compliance with laws, regulations and guidelines.

The Bank is subject to various PRC and Hong Kong regulatory requirements, and the PRC and Hong Kong regulatory authorities conduct periodic inspections, examinations and inquiries in respect of its compliance with such requirements. The Bank has in the past failed to meet certain requirements and guidelines set by the PRC regulatory authorities, and has been subjected to fines and other penalties in relation to its non-compliance. For example, a few branches of the Bank were subject to several administrative penalties and fines by PBOC, SAMR and CBIRC in the past three years. Such administrative penalties received by the Bank mainly focused on the service fees charged by the Group, incompliance with regulatory rules, misappropriation of funds, incompliance with settlement management regulations and unfair competition. There can be no assurance that the Bank will be able to meet all the applicable regulatory requirements and guidelines, or comply with all the applicable regulations at all times, or that it will not be subject to sanctions, fines or other penalties in the future as a result of non-compliance. If sanctions, fines and other penalties are imposed on the Bank for failing to comply with applicable requirements, guidelines or regulations, the business, reputation, financial condition and results of operations of the Bank may be materially and adversely affected.

The uncertainties in the Chinese and global economies and the financial markets could materially and adversely affect the financial condition and results of operations of the Bank.

After emerging from the global financial crisis, some countries have started to withdraw or decrease the stimulus packages previously executed and to implement more moderate monetary policies. China has started to withdraw its economic stimulus plan implemented during the financial crisis, returning to its normal policy direction. The PRC government implemented stricter controlling measures on the real estate market, regulated the local government financing vehicles, cancelled the export tax refund policies for certain commodities and restarted the reform of Renminbi exchange rate.

The UK withdrew from the European Union (the "**EU**") on 31 January 2020 ("**Brexit**"), but continued to participate in certain EU organizations (such as the customs union) during a transition period that ended on 31 December 2020. With Brexit taking full effect, there remains uncertainty about the future relationship between the UK and the EU. Although a new trade and cooperation agreement between the UK and EU was agreed upon on 24 December 2020 and formally entered into effect on 1 May 2020, it is unclear how Brexit would ultimately affect the fiscal, monetary and regulatory landscape within the UK, the EU and the rest of the world. The outlook for the world economy and financial markets remains uncertain. Any volatility in the global markets and negative economic developments could, in turn, materially adversely affect the Bank's business, prospects, financial condition or results of operations. In addition, this could adversely affect the Bank's access to the international debt capital markets and may increase the Bank's funding costs, having a negative impact on the Bank's revenue and financial conditions. See "*Risks Relating to China — The slowdown of the PRC's economy caused in part by the recent challenging global economic conditions may adversely affect the Bank*" for further information. Any volatility or deterioration in the economic conditions in the United States, the UK, the EU, the PRC or elsewhere may have and may adversely affect the Group's business, financial condition and the results of its operations and its ability to access the capital markets. The uncertainties in the global economy coupled with uncertainties in China's economy may adversely affect the Bank's financial condition and results of operations in many ways, including, among other things:

- during a period of economic slowdown, there is a greater likelihood that more of the Bank's customers or counterparties could become delinquent in respect of their loan repayments or other obligations to the Bank, which, in turn, could result in a higher level of non-performing loans, allowance for impairment losses and write-offs, all of which would adversely affect its financial condition and results of operations;

- the increased regulation and supervision of the financial services industry in response to the financial crisis in certain jurisdictions where the Bank operates may restrict its business flexibility and increase its compliance costs, which may adversely affect its business operations;

- the value of the Bank's investments in the debt securities issued by overseas governments and financial institutions may significantly decline, which may adversely affect its financial condition;

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

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

There can be no assurance that China's economy or the global economy will maintain sustainable growth. If further economic downturn occurs or continues, the business, financial condition and results of operations of the Bank could be materially and adversely affected.

Any force majeure events, including natural disasters or outbreaks of contagious diseases in China, including the COVID-19 pandemic, may have a material adverse effect on the Bank's business operations, financial condition and results of operations.

Any future force majeure events, such as natural disasters or outbreaks of health epidemics and contagious diseases, may materially and adversely affect the Bank's business and results of operations. An outbreak of a health epidemic or contagious disease could result in a widespread health crisis and restrict the level of business activity in affected areas, which may in turn adversely affect the Bank's business. An outbreak of a health epidemic or contagious disease, including the outbreak of COVID-19 across China and around the world, could result in a widespread health crisis and restrict the level of business activity in affected areas, which may in turn adversely affect the Bank's business. At the early stages of the COVID-19 pandemic, stringent measures, including mandatory quarantines and travel restrictions, were imposed in numerous regions across the PRC in an effort to contain the outbreak, causing a noticeable reduction in regional and national economic activities, especially in the manufacturing, wholesale and retail sector, which may have in turn heightened some of the Bank's customers' credit risks and affected the value of collateral securing the Bank's loans. The Bank's business operations, asset quality and financial condition may be materially and adversely affected due to deteriorating market outlook and sentiments, slowdown in regional and national economic growth, weakened liquidity and financial condition of the Bank's customers (especially micro and small enterprises), or other factors that are unforeseeable.

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

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

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

Moreover, China has experienced natural disasters such as earthquakes, floods and droughts in the past few years. For example, in May 2008 and April 2010, China experienced earthquakes with reported magnitudes of 8.0 and 7.1 on the Richter scale in Sichuan Province and Qinghai Province, respectively, resulting in the death of tens of thousands of people. In 2020, there were severe floods in various parts of China, resulting in significant economic losses in these areas. Any future occurrence of severe natural disasters in China may adversely affect its economy and in turn the Bank's business, particularly in light of the substantial portion of the Bank's banking business in counties that are more vulnerable to natural disasters. There is no guarantee that any future natural disasters or outbreaks of contagious diseases, or the response measures taken by the PRC government or other countries, will not seriously interrupt the Bank's operations or those of its customers, which may have a material and adverse effect on the Bank's results of operations.

The Bank may be involved in legal and other disputes from time to time arising out of its operations and may face potential liabilities as a result.

The Bank is often involved in legal and other disputes for various reasons, which generally arise because it seeks to recover outstanding amounts from borrowers or because customers or other claimants bring actions against it. The majority of these cases arise in the ordinary course of the Bank's business. Where the Bank assesses that there is a probable risk of loss, it is the Bank's policy to make provisions for such loss. The Bank has made provisions with respect to pending legal proceedings and other disputes against it.

However, there can be no assurance that the judgements in any of the litigation in which the Bank is involved would be favourable to it or that it has made adequate provisions to cover the losses arising from legal proceedings or other disputes. In addition, if the Bank's assessment of the risk changes, its view on provisions will also change. It is expected that the Bank will continue to be involved in various legal and other disputes going forward in the ordinary course of its business, which may subject it to additional risks and losses. These disputes may relate to, among other things, the amount of the unpaid obligations of the relevant borrowers, the terms for such borrowers to perform their obligations and the application of statute of limitations. In addition, the Bank may have to advance legal costs associated with such disputes, including fees relating to appraisal, notarisation, auction, execution and counsel's legal services. These and other disputes may lead to legal, administrative or other proceedings and may result in damage to the reputation of the Bank, additional operational costs and a diversion of resources and management's attention from its core business operations. There can be no assurance that the outcome of future or current disputes or proceedings will not materially and adversely affect the business, reputation, financial condition and results of operations of the Bank.

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 it currently has foreign currency forward and swap arrangements and interest rate swap arrangements with a number of domestic and international banks, other financial institutions and other entities. While the Bank believes that the overall credit quality of its counterparties is satisfactory, there can be no assurance that the Bank's counterparties with significant exposures will not face difficulty in paying the amounts on derivative contracts when due, which may result in financial losses to the Bank.

Changes in accounting standards applicable to the Bank's business and changes in judgements and assumptions in applying these accounting standards may have a material impact on the Bank's results of operation and financial position.

The Audited Financial Statements have been prepared and presented in accordance with the Accounting Standards for Business Enterprises in China. PRC GAAP differs in certain respects from International Financial Reporting Standards. See "Summary of Certain Differences Between PRC GAAP and IFRS". Accounting standards applicable to the Bank's business may be changed or amended in the future from time to time. Any changes in these accounting standards may result in changes in the recognition, measurement and/or classification of the Bank's revenue, expenses, assets and liabilities, which could have a material impact on the Bank's results of operation and financial position. In addition, in applying these accounting standards, the Bank is required to make judgements, estimates and assumptions with respect to revenue, expenses, assets, liabilities and other factors that the Bank considers to be relevant.

In addition, PRC GAAP may be revised and the interpretation on the application of PRC GAAP will also continue to develop. These factors may require the Bank to adopt new accounting policies in the future from time to time. The adoption of new accounting policies in the future could have a significant impact on our financial position and results of operations.

The Bank's historical financial information may not be directly comparable with its future financial information.

The historical financial information of the Bank is sometimes adjusted or restated to address subsequent changes in the Bank's accounting policies, accounting standards, and/or applicable laws and regulations with retrospective impact on the Bank's financial reporting, correction of an error recorded in the previous period or to reflect the comments provided by the Bank's independent auditors during the course of their audit or review in subsequent financial periods. Such adjustment or restatement may cause discrepancies between the financial information with respect to a particular period or date contained in the Bank's historical financial statements and that contained in its future financial statements.

For example, pursuant to the "Notice on the Strict Implementation of Enterprise Accounting Standards to Effectively Strengthen the Annual Report of Enterprises in 2020 (Caikuai [2021] No.2)" issued by the MOF on 27 January 2021, the Bank reclassified its income from credit card instalment business from fee and commission income to interest income. As a result, the financial figures related to fee and commission income and interest income for the year ended 31 December 2019 have been restated. As such, the Bank's financial figures related to fee and commission income and interest income for the year ended 31 December 2019 may not be directly comparable with its historical financial information.

The Bank has expanded its business in Hong Kong and expects to expand its business in other jurisdictions, which has increased and will continue to further increase the complexity of the risks that it faces.

The Hong Kong Branch of the Bank was established in January 2014 and the Bank plans to establish more overseas branches in the future. The expansion into other jurisdictions outside of the PRC exposes the Bank to a new variety of regulatory and business challenges and risks and has increased the complexity of risks in a number of areas, including currency risk, interest rate risk, regulatory and compliance risk, reputational risk and operational risk. Adverse market conditions in other jurisdictions may result in mark-to-market and realised losses on the investment assets held by the overseas branches 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 it operates, there may be incidences of failure to comply with the regulations in certain jurisdictions. Overseas regulators may 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 its licenses, cease and desist orders, fines, civil penalties, criminal penalties or other disciplinary actions. In addition, the regulatory changes in various jurisdictions, including those in which the Bank has or plans to have operations in, could have an adverse impact on its growth, capital adequacy and profitability. If the Bank is unable to manage the risks resulting from its expansion outside the PRC, its business, reputation, financial condition and results of operations may be materially and adversely affected.

The Bank may be affected by political and economic risks in Hong Kong.

The Bank operates a branch in Hong Kong. As a result, its results of operations and financial condition may be influenced by the political situation in Hong Kong and by the general state of the Hong Kong economy. On 1 July 1997, the administration of Hong Kong was transferred from the UK to the PRC, and Hong Kong became a Special Administrative Region of the PRC.

As provided in the Sino-British Joint Declaration on the Question of Hong Kong and the Basic Law, which is Hong Kong's constitution, Hong Kong has a high degree of autonomy except in foreign and defence affairs. Under the Basic Law, Hong Kong has its own legislative, legal and judicial systems and full economic autonomy for 50 years from 1997. Nevertheless, there can be no assurance that such policies, including the interpretation and implementation of such policies, will not be significantly altered prior to 2047.

On 30 June 2020, the Standing Committee of the PRC National People's Congress passed the Law of the People's Republic of China on Safeguarding National Security in the HKSAR (the "**HK National Security Law**"). The law defines the duties and the government bodies of the HKSAR for the safeguarding of national security, categories of offences and their corresponding penalties. This law may change the way Hong Kong has been governed since the handover in 1997 and may have an adverse impact on the Bank's ability to conduct business as previously conducted. Moreover, on 14 July 2020, then U.S. President Donald Trump signed into law the Hong Kong Autonomy Act, or HKAA, authorising the U.S. administration to impose blocking sanctions against individuals and entities determined to "materially contribute" to the erosion of Hong Kong's autonomy. HKAA further authorises secondary sanctions, including the imposition of blocking sanctions, against foreign financial institutions that knowingly conduct a significant transaction with foreign persons sanctioned under this authority. HKAA may cause substantial market uncertainties, which could adversely affect the price of the Notes, and it is difficult to predict the full impact of HKAA on the Bank's operations and business at this stage.

Civil unrest and an uncertain political environment may impact the Hong Kong economy and result in an economic slowdown. For example, protests, demonstrations or rioting causing disruption to businesses and transportation, such as the protests in 2020 in anticipation of the HK National Security Law, may have a negative impact on the local economy, including the banking sector. Civil unrest is outside the control of the Bank and there can be no assurance that further large-scale protests will not occur in the future or as to the authorities' reactions to any such protests if they recur and the effect on the stability of the political and economic conditions of Hong Kong. Future economic, political and social developments in the PRC could also have significant effects on Hong Kong, which could materially adversely affect the Bank's business, results of operations and financial condition.

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

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

Pursuant to applicable PRC regulatory rules, the Bank publishes periodic financial information in the PRC which may differ from future audited or reviewed financial information.

According to applicable PRC securities regulations and Shanghai stock exchange listing rules, listed companies must publish their annual financial information (audited), semi-annual financial information (reviewed or audited) and quarterly financial information (no audit or review is required). In addition, listed companies can also publish financial information such as preliminary results on a voluntary basis. Quarterly financial information and preliminary results published by the Bank in the PRC are derived from the Bank's management accounts which have not been audited or reviewed by its independent auditors, and therefore do not provide the same quality of information as reviewed or audited financial information and may deviate from any future audited information covering the same period. Investors should therefore not rely on the Bank's unaudited and unreviewed financial information from time to time published in the PRC when making their investment decision.

RISKS RELATING TO THE BANKING INDUSTRY IN CHINA

The Bank faces intense competition in China's banking industry as well as competition from alternative corporate financing and investment channels.

The Bank faces competition from other commercial banks and financial institutions in all of its principal areas of business. It competes primarily with other Large Commercial Banks, Nationwide Joint-Stock Commercial Banks, city commercial banks and foreign banks in China.

Additionally, following the removal of regulatory restrictions on their geographical presence, customer base and operating license in China in December 2006 as part of China's WTO accession commitments, the Bank has experienced increased competition from foreign-invested commercial banks. Furthermore, the Mainland and Hong Kong Closer Economic Partnership Arrangement and the Mainland and Macau Closer Economic Partnership Arrangement and the Cross-Straits Economic Co-operation Framework Agreement which permit Hong Kong, Macau and Taiwan banks to operate in China, have also increased competition in China's banking industry.

Moreover, the PRC government has, in recent years, implemented a series of measures designed to further liberalise the banking industry, including, among others, with respect to interest rates and non-interest-based products and services, which are changing the basis on which the Bank competes with other banks for customers.

The Bank competes with many of its competitors for substantially the same loan, deposit and fee-based business customers. Such competition may adversely affect the Bank's business and future prospects by, for example:

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

The Bank may also face competition from direct corporate financing, such as the issuance of securities in the domestic and international capital markets. The domestic securities markets have experienced, and are expected to continue to experience, expansion and growth. If a substantial number of its customers choose alternative financing to fund their capital needs, the Bank's business, financial condition and results of operations may be adversely affected.

Moreover, the Bank may face competition from other forms of investment alternatives as the PRC capital markets continue to develop. As the PRC equity and bond markets continue to develop and become more viable and attractive investment alternatives, the Bank's deposit customers may elect to transfer their funds into equity and bond investments, which may reduce its deposit base and adversely affect its business, financial condition and results of operations.

The Bank's business and operations are highly regulated, and its business, financial condition, results of operations and future prospects may be materially and adversely affected by regulatory changes or other governmental policies, including their interpretation and application.

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 it can engage in specific businesses, as well as changes in other governmental policies. Since its establishment as the primary banking industry regulator assuming the majority of the bank regulatory functions from the PBOC in 2003, the CBIRC has promulgated a series of banking regulations and guidelines. The banking regulatory regime in China is currently undergoing significant changes, most of which are applicable to the Bank and may result in additional costs or restrictions on its activities.

For instance, in March 2011, the CBIRC, the PBOC and the NDRC jointly issued a notice stipulating the cancellation of 34 service fees classified under 11 categories of domestic commercial banks effective from 1 July 2011. In February 2014, the NDRC and the CBIRC jointly issued the *Measures for the Administration of the Service Prices of Commercial Banks* (the "**Measure**"). According to the Measure, the prices of basic banking services that are widely used by clients and have significant influence on China's economic development shall be subject to the guidance or determination of the government. The NDRC and the CBIRC also jointly issued the *Circular on Printing and Distributing the Catalogue of Government-guided and Government-determined Prices for Services Provided by Commercial Banks* (the "**Catalogue**"). According to the Catalogue, the prices of the basic financial services provided by commercial banks for bank clients shall be subject to the government guided-prices and government pricing. Such basic financial services include parts of commercial banks' service items, such as wire transfer, remittance by cash, encashment and bills, and specific charge items and charging standards. On 27 September 2016, the CBIRC issued the *Banking Institutions Overall Risk Management Guidelines* (the "**Guidelines**"), which aimed to enhance overall risk management of PRC commercial banks. On 8 February 2021, the CBIRC issued the *Measures for the Administration of Reputational Risk of Banking and Insurance Institutions (Trial)* (銀行保險機構聲譽風險管理辦法(試行)), in order to improve the reputational risk management of banking and insurance institutions, effectively prevent and resolve reputational risk, and maintain financial stability and market confidence. On 23 March 2021, the *Measures for the Liabilities Quality Management of Commercial Banks* (商業銀行負債質量管理辦法) formulated by the CBIRC aimed to prompt commercial banks to improve the management of liabilities and safeguard the safe and sound operation of the banking system.

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 the Bank give any assurance that it 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 impact on its business, financial condition and results of operations.

The Bank is subject to changes in interest rate and other market risks, and the Bank's ability to hedge market risks is limited.

Similar to other commercial banks, a majority of the Bank's operating income is interest income derived from granting of loans and advances to its customers. For the years ended 31 December 2018, 2019 and 2020, the Bank's net interest income represented 60.4 per cent., 67.4 per cent. and 70.6 per cent., respectively, of its operating income. Interest rates of bank loans historically were highly regulated in China. In recent years, the PRC government has published a number of policies with an aim to increase the liberalisation of its monetary policies and the interest rates of bank loans of commercial banks. Under existing PBOC regulations, commercial banks in China cannot set interest rates above 150 per cent. of the relevant PBOC benchmark rate for Renminbi-denominated deposits. There used to be restrictions with respect to the lower limit of the interest rates for Renminbi-denominated deposits. However, the PBOC promulgated the Notice on Further Promoting the Market-oriented Reform of Interest Rates on 19 July 2013, eliminating such restriction on Renminbi-denominated loans, other than home mortgage loans. On 24 October 2015, the PBOC announced that it would no longer set a floating ceiling deposit interest rate for commercial banks, signifying the further liberalisation of controls on interest rates. In August 2019, the PBOC announced the reform of the mechanism used to establish the loan prime rate ("**LPR**"). The new LPR quotations will be published on a monthly basis based on rates of open market operations, primarily the PBOC's medium term lending facility. According to the PBOC, commercial banks must set interest rates on new loans by mainly referring to the LPR and use LPR as the benchmark for setting floating loan interest rates.

Furthermore, as a crucial step for liberalising interest rates in China, the Deposit Insurance Regulation was published on 17 February 2015 and came into effect on 1 May 2015. Under the Deposit Insurance Regulation, deposit insurance is subject to a certain reimbursement limit, with the maximum reimbursement limit set at RMB500,000. Where a depositor's total principal and interest in all insured deposit accounts at the same insured institution, calculated on a consolidated basis, is within the maximum reimbursement limit, such total amount will be reimbursed in full. Banks are required to pay premiums for the deposit insurance program, which may increase its operating costs and adversely affect its financial condition and results of operations.

As a result of the gradual liberation of interest rates, commercial banks will have to make forecasts and judgements of interest rate fluctuation with higher precision. There can be no assurance that the Bank will be able to promptly adjust the composition of its asset and liability portfolios and its pricing mechanism to effectively respond to further liberalisation of interest rates. In addition, interest rate liberalisation may intensify competition in the PRC banking industry, as PRC commercial banks may seek to make loans and take deposits with more attractive interest rates, which could narrow the net interest margin of PRC commercial banks, thereby materially and adversely affecting the Bank's results of operations.

Any adjustments by the PBOC in the benchmark interest rates on loans or deposits may adversely affect the Bank's financial condition and results of operations in different ways. For example, changes in the PBOC benchmark interest rates could affect the average yield on the Bank's interest-earning assets differently from the average cost on its interest-bearing liabilities and therefore may narrow its net interest margin and reduce its net interest income, which may materially and adversely affect its financial condition and results of operations. An increase in interest rates may result in increases in the finance costs of the Bank's customers and thus reduce overall demand for loans, and, accordingly, adversely affect the growth of the Bank's loan portfolio, as well as increase the risk of customer default. In a rising interest rate environment, the Bank's ability to adjust upwards the interest rates that it receives on its interest-bearing assets, mainly loans, may be limited, whether due to competition or other factors as the Bank's customers may repay existing loans prior to their maturity through other refinancing that may bear lower rates of interest. How the Bank manages interest rate volatility generally will determine, to a certain extent, the impact of such volatility on the Bank's net interest and dividend income, and there is no assurance that the Bank will be able to manage such volatility in a manner that does not adversely affect its business, financial conditions and results of operations.

The Bank also undertakes trading and investment activities involving certain financial instruments both in China and abroad. The Bank's income from these activities is subject to volatility caused by, among other things, changes in interest rates and foreign currency exchange rates. For example, increases in interest rates generally have an adverse effect on the value of the Bank's fixed rate securities portfolio, which may materially and adversely affect its financial condition and results of operations. Furthermore, as the derivatives market has yet to mature in China, there are limited risk management tools available to enable the Bank to reduce market risks.

The Bank is subject to PRC government controls on currency conversion and risks relating to fluctuations in exchange rates.

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

The value of the Renminbi against the U.S. dollar and other currencies fluctuates and is affected by, among other things, changes in China's and international political and economic conditions and the PRC government's fiscal and currency policies. Any appreciation of the Renminbi against the U.S. dollar or any other foreign currencies may result in the decrease in the value of the Bank's foreign currency-denominated assets. As at 31 December 2020, 5.1 per cent. of the Bank's financial assets and 5.9 per cent. of its financial liabilities were denominated in foreign currencies. The Bank recorded a net foreign exchange gain of RMB813 million for the year ended 2020. Although the Bank seeks to reduce its exchange rate risk through currency derivatives, there can be no assurance that it will be able to reduce its foreign currency risk exposure relating to its foreign currency-dominated assets. In addition, there are limited instruments available to the Bank to reduce its foreign currency risk exposure at reasonable costs. Any appreciation of the Renminbi against the U.S. dollar or any other foreign currencies may materially and adversely affect the financial conditions of certain of the Bank's customers, particularly those deriving substantial income from exporting products or engaging in related businesses, and in turn affect their abilities to service their obligations to the Bank. Furthermore, the Bank is also currently required to obtain SAFE approval before converting significant sums of foreign currencies into Renminbi. All of these factors could materially and adversely affect the Bank's financial condition, results of operations and compliance with capital adequacy ratios and operational ratios.

The growth rate of China's banking industry may not be sustainable.

The Bank expects the banking industry in China to continue to grow as a result of anticipated growth in China's economy, increases in household income, further social welfare reforms, demographic changes and the opening of China's banking industry to foreign participants. However, it is not clear how certain trends and events, such as the pace of China's economic growth, China's implementation of its commitment to WTO accession, the development of the domestic capital and insurance markets and the ongoing reform of the social welfare system will affect China's banking industry. In addition, there can be no assurance that the banking industry in China is free from systemic risks. Consequently, there can be no assurance that the growth and development of China's banking industry will be sustainable.

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

The information infrastructure in China is relatively undeveloped. PRC national individual and corporate credit information databases developed by the PBOC commenced operation in 2006. However, due to their relative short operating history, these databases can often only provide limited information. Therefore, the Bank's assessment of the credit risk associated with a particular customer may not be based on complete, accurate or reliable information. Until these nationwide credit information databases become more fully developed, the Bank has to rely on other publicly available resources and its internal resources, which are not as extensive nor as effective as a unified nationwide credit information system. As a result, the Bank's ability to effectively manage its credit risk and in turn, its asset quality, financial condition and results of operations may be materially and adversely affected.

There can be no assurance of the accuracy or comparability of facts, forecasts and statistics contained in this Offering Circular with respect to China, its national or local economies or its banking industry.

Facts, forecasts and statistics in this Offering Circular relating to China, its national or local economies and financial conditions and its banking industry, including the Bank's market share information, are derived from various sources which are generally believed to be reliable.

However, the Bank cannot guarantee the quality and reliability of such sources. In addition, these facts, forecasts and statistics have not been independently verified by the Bank and may not be consistent with the information available from other sources, and may not be complete or up to date. The Bank has taken reasonable caution in reproducing or extracting the information from such sources. However, because of potentially flawed methodologies, discrepancies in market practice and other problems, these facts, forecasts and other statistics may be inaccurate or may not be comparable from period to period or to facts, forecasts or statistics of other economies.

RISKS RELATING TO CHINA

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

A substantial part of the Bank's revenue is derived from the PRC. The Bank relies, to a significant degree, on its domestic operations to achieve revenue growth. Domestic demand for banking services is materially affected by growth of private consumption and overall economic growth in the PRC. The global crisis in financial services and credit markets in 2008 caused a slowdown in the economic growth in many countries, including the PRC. Although the PRC's economic growth has increased compared to its level immediately after the global financial crisis, it has displayed signs of slowdown as evidenced by a decrease in the growth rate of the PRC's GDP in recent years. This was caused by a combination of factors most of which are beyond the Bank's control, such as global economic conditions, governmental policies and changes in market dynamics globally and regionally. According to the National Statistics Bureau of the PRC, the annual growth rate of China's GDP in 2015 slowed down to 6.9 per cent. on a year-on-year basis compared to 7.4 per cent. in 2014, and it further decreased to 6.7 per cent. in 2016 on a year-on-year basis. There was a slight increase to 6.9 per cent. in 2017 but the GDP growth rate decreased again to 6.6 per cent. in 2018 and it further decreased to 6.1 per cent. in 2019, representing the slowest growth in the past 20 years. According to an announcement by the National Statistics Bureau of the PRC on 17 April 2020, China's GDP for the first quarter of 2020 contracted by 6.8 per cent. compared to the same period in 2019, the first such decline since quarterly GDP records began in 1992. China's eventual GDP growth rate for 2020 was 2.3 per cent. Given the continuous spread of COVID-19 globally and the evolving impact of the pandemic on the global economy, the full recovery of PRC economic growth still remains uncertain. Although the PRC government has recently taken several measures and actions with an aim to increase investors' confidence in the PRC economy, there can be no assurance that those measures will be effective.

Further, China's economic growth may also slow down due to weakened exports as a result of tariffs and trade tensions caused by the U.S.-China trade war. In 2018 and 2019, the U.S. government imposed several rounds of tariffs on cumulatively US$550 billion worth of Chinese products. In retaliation, the Chinese government responded with tariffs on cumulatively US$185 billion worth of U.S. products. In addition, in 2019, the U.S. government restricted certain Chinese technology firms from exporting certain sensitive U.S. goods. The Chinese government lodged a complaint in the World Trade Organisation against the U.S. over the import tariffs in the same year. The trade war created substantial uncertainties and volatilities to the PRC export trading business. On 15 January 2020, the U.S. and Chinese governments signed the U.S.-China Economic and Trade Agreement (the "**Phase I Agreement**"). Under the Phase I Agreement, the U.S. agreed to cancel a portion of tariffs imposed on Chinese products, China promised additional purchases of U.S. goods and services, and both parties expressed a commitment to further improving various trade issues. Despite this reprieve, however, it remains to be seen whether the Phase I Agreement will be abided by both governments and successfully reduce trade tensions, in particular with respect to the recent pandemic-triggered disagreement among China and the U.S. If either government violates the Phase I Agreement, it is likely that enforcement actions will be taken and trade tensions will escalate. Furthermore, additional concessions are needed to reach a comprehensive resolution of the trade war. The roadmap to the comprehensive resolution remains unclear, and the lasting impact the trade war may have on China's economy and the industries in which the Bank operates remains uncertain.

There are uncertainties relating to the overall prospects for the global and the PRC economies this year and beyond, which may have a material adverse impact on the Bank's business, prospects, financial conditions and results of operations.

Turmoil in the financial markets could increase the Bank's cost of borrowing and impede access to or increase the cost of financing its operations and investments.

The Bank is significantly influenced by levels of investor confidence. Any factors that may affect market confidence could affect the costs or availability of funding for the Bank. Historically, challenging market conditions have resulted in reduced liquidity, widening of credit spreads, lack of price transparency in credit markets, a reduction in available financing and a tightening of credit terms. In 2015, the PRC stock markets experienced significant turmoil and disruption. Throughout June and early July of 2015, the Shanghai Composite Index experienced significant declines and many PRC-listed companies were subject to trading suspensions on major stock exchanges. In 2018, the Shanghai Composite Index experienced significant declines compared to 2017. Furthermore, on 3 February 2020, the Shanghai Composite Index experienced the biggest daily drop in the past four years, which came after global markets were rattled by the pandemic. The PRC government responded by cutting interest rates, suspending initial public offerings and starting investigations into market manipulation in an effort to stabilise the market. Significant fluctuations in financial markets could cause substantial adverse effects on the Bank's business operations and investments as a whole.

China's economic, political and social conditions, as well as government policies, could affect the Bank's business, financial condition and results of operations.

A substantial majority of the Bank's businesses, assets and operations are located in China. Accordingly, the Bank's business, prospects, financial condition and results of operations are, to a significant degree, affected by economic, political and legal developments in China. China's economy differs from the economies 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 was previously a planned economy, and a substantial portion of productive assets in China is still owned by the PRC government. The government also exercises significant control over China's economic growth by allocating resources, setting monetary policy and providing preferential treatment to particular industries or companies. Although the government has implemented economic reform measures to introduce market forces and establish sound corporate governance in business enterprises, such economic reform measures may be adjusted, modified or applied inconsistently from industry to industry, or across different regions of the country. As a result, the Bank may not benefit from such measures. The PRC government has the power to implement macroeconomic control measures affecting China's economy. The government has implemented various measures in an effort to increase or control the growth rate and adjust the structure of certain industries. For example, in response to a decreased growth rate in part as a result of the global financial crisis and economic slowdown, beginning in September 2008, the PRC government began to implement a series of macroeconomic measures and the moderately loose monetary policy, which included announcing an economic stimulus package and reducing benchmark interest rates. Since 2010, the PRC government has begun to implement a number of macroeconomic measures and moderately tight monetary policies to curb inflation in China. The PRC government may continue to implement such policies to control inflation, which may in turn affect the Bank's ability to make loans to its customers. As a result, the Bank's business, prospects, financial condition and results of operations may be materially and adversely affected.

Certain of the PRC government's macroeconomic measures may materially and adversely affect the Bank's financial condition, results of operations and asset quality. For example, the decreases in the PBOC benchmark interest rates in the second half of 2008 have resulted in the narrowing of the Bank's net interest margin and a decrease in its net interest income in 2009 compared to 2008, which adversely affected its profitability. In addition, the PRC government has imposed macroeconomic control measures aimed at tempering the real estate market. In November 2009, the PRC government shortened the period in which the real estate developers make payments for the land premiums and increased the relevant down payment requirement on the real estate developers. In April 2010, the PRC government raised the down payment requirements for people buying their second homes to a minimum of 50 per cent. of the property value from 40 per cent. and this threshold was further raised to 60 per cent. in January 2011. Down payment requirements on first homes of more than 90 square metres rose to a minimum of 30 per cent. of the property value from 20 per cent. In addition, the lowest interest rate that commercial banks are permitted to charge in respect of second-home mortgage loans has increased from 90 per cent. to 110 per cent. of the applicable PBOC benchmark rate. Pursuant to the Circular on Issues concerning Adjusting the Individual Housing Loan Policies issued by the PBOC and the CBIRC on 1 February 2016 which came into effect on the same day, in the cities without restrictive measures for house purchase, the minimum down payment for the purchase shall, in principle, be 25 per cent. of the house price with regard to the commodity residential housing loans to each resident household for the first-time purchase of ordinary residential properties, and the said percentage may be decreased by 500 basis points; with respect to resident households that own a residential property with outstanding purchase loans and apply for commodity residential housing loans again to purchase ordinary residential properties for improving living conditions, the minimum down payment for the purchase shall be at least 30 per cent. of the purchase price.

In the cities with restrictive measures for house purchase, the individual housing loans shall be subject to existing restrictions. In early 2011, individual housing property tax was introduced in Shanghai and Chongqing on a trial basis. The PRC government's measures to cool down the housing market may adversely affect the growth and quality of the Bank's loans related to real estate and could also have a significant impact on its business, financial condition and results of operations.

China has been one of the world's fastest growing economies, as measured by GDP growth, in recent years. However, China may not be able to sustain such a growth rate. If China's economy experiences a decrease in growth rate or a significant downturn, the unfavourable business environment and economic condition for the Bank's customers could negatively impact their ability or willingness to repay the Bank's loans and reduce their demand for the Bank's banking services. The Bank's financial condition, results of operations and business prospects may be materially and adversely affected.

There exist uncertainties with respect to the interpretation and enforcement of PRC laws and regulations, and the PRC legal system could limit the legal protection available to investors.

The Bank is organised under the laws of the PRC. The PRC legal system is based on written statutes. The PRC government has promulgated laws and regulations dealing with economic matters as the issuance and trading of securities, shareholder rights, foreign investment, corporate organisation and governance, commerce, taxation and trade. However, many of these laws and regulations continue to evolve, may be subject to different interpretation and may be inconsistently enforced. In addition, there is only a limited volume of published court decisions which may be cited for reference, but such cases have limited precedential value as they are not binding on subsequent cases. These uncertainties relating to the interpretation of PRC laws and regulations can affect the legal remedies and protection that are available to investors and can adversely affect the value of an investment.

For example, on 14 September 2015, the NDRC promulgated the NDRC Circular. According to the NDRC Circular, if a PRC enterprise or an offshore enterprise controlled by a PRC enterprise wishes to issue bonds outside of the PRC with a maturity of more than one year, such enterprise must, in advance of issuing such bonds, file certain prescribed documents with the NDRC and procure a registration certificate from the NDRC in respect of such issue (the "**pre-issuance registration**"). The enterprise must also notify certain details of the bonds to the NDRC within 10 business days of the completion of the bond issue (the "**post-issuance notification**"). As at the date of this Offering Circular, the Bank has received a registration certificate from the NDRC in respect of the overseas bond issuances on 4 August 2020, including the proposed issue of the Notes, and the Bank intends to comply with the post-issuance notification requirements of the NDRC Circular. As the NDRC Circular is a new regulation, it is still uncertain how the NDRC will interpret, implement and enforce the NDRC Circular. There is a risk that such post-issuance notification cannot be completed in time or at all, as a result of such uncertainty. The NDRC Circular does not set forth the legal consequences of non-compliance with the pre- issuance registration requirement and the post-issuance notification. Additional guidance has been issued by the NDRC (the "**NDRC Circular Guidelines**") in December 2015, which states that companies, investment banks, law firms and other intermediaries involved in debt securities issuance which do not comply with the registration requirement under the NDRC Circular will be subject to a blacklist and sanctions. The NDRC Circular Guidelines does not set forth as to how such blacklist will be implemented or the exact sanctions that will be enacted by the NDRC. There is no assurance that the Bank will not be subject to any penalties if it fails to (including for reasons outside of the Bank's control) complete the post-issuance notification within the required timeframe. On 15 June 2018, the officer from the NDRC answered questions regarding the implementation of the NDRC Circular, which states that the NDRC will further strengthen the punishment to the enterprise failing to comply with the NDRC Circular and will work with relevant departments to strengthen the construction of the credit system in the field of corporate foreign debts issuance. In addition, the "three-warning system" will be implemented for the illegal overseas debt-issuing enterprises and related intermediaries: (i) if it is found for the first time that the enterprise has issued foreign debts without prior registration and other violations of the relevant provisions of the NDRC Circular, the NDRC will interview with such enterprises and relevant intermediaries and issue relevant warning notices on the official website of the NDRC; (ii) if violations are found again, the NDRC will warn such enterprises and relevant intermediaries by publishing their real names in the official website of the NDRC; (iii) if the violations were discovered for the third time, the NDRC will sanction the relevant enterprises and intermediaries together with relevant departments, and suspend the registration of overseas bonds issuance of relevant enterprises and prohibit the relevant intermediary agencies from participating in the issuance of foreign debt.

The Bank is subject to the approval or filing requirements in relation to issue of Notes from respective authorities within the PRC.

On 11 January 2017, the PBOC published the Notice on Issues Relating to the Macro-prudential Management of Overall Cross-border Financing (the "**PBOC Notice**") (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), which came into effect on the date of promulgation and applies to cross-border financing activities by companies and financial institutions (including banks) incorporated in the mainland. According to the PBOC Notice, 27 mainland banks (including the Bank) are required to make filings with the PBOC in respect of their offshore bond offerings.

In addition, the Implementation Measures of the China Banking Regulatory Commission for the Administrative Licensing Items concerning Chinese-Funded Commercial Banks (the "**CBIRC Measures**") (中國銀監會中資商業銀行行政許可事項實施辦法) promulgated by CBIRC on 5 June 2015 and amended on 5 July 2017 and 17 August 2018 also provides an approval from CBIRC is required for financial bonds issuance by the joint-stock Chinese funded commercial banks (including the Bank). Besides, in accordance with Commercial Banking Law of the People's Republic of China (中華人民共和國商業銀行法) and the Catalogue of the People's Bank of China on Publishing Administrative Examination and Approval Items (中國人民銀行行政審批事項公開目錄) (collectively, the "**PBOC Catalogue**"), the issuance of overseas financial bonds by commercial banks shall be approved by the PBOC.

In connection with the update of the Programme or any issuance by an overseas branch, the Bank has not made and does not intend to make any filing with the PBOC under the PBOC Notice or application for approval from CBIRC and the PBOC under the CBIRC Measures and the PBOC Catalogue. As advised by the PRC legal advisors of the Bank, the update of the Programme (without any issuance hereunder) and the entering into of the contracts solely in connection with the update by the Bank does not amount to "cross-border financing activities" under the PBOC notice or "issuance of (overseas) financial bonds" under the CBIRC Measures and the PBOC Catalogue. Similarly, an issuance by an overseas branch where the proceeds will not be remitted into the mainland does not involve any "cross-border financing activities". Accordingly, none of the filing requirement under the PBOC Notice and the approval requirement under the CBIRC Measures and the PBOC Catalogue applies.

To the extent and if the Bank or any of its branches which are located within the PRC issues Notes under the Programme or any overseas bank intends to remit any proceeds from any Note issue under the Programme to the mainland, the Bank will make the requisite filing with the PBOC in compliance with the PBOC Notice and apply for CBIRC and PBOC's approval according to the CBIRC Measures and the PBOC Catalogue.

The PBOC has yet to publish any detailed implementation rules and guidance on the PBOC Notice. The aforementioned views are based on the PRC legal advisors' understanding and interpretation of the PBOC Notice, THE CBIRC Measures, the PBOC Catalogue and informal verbal enquiries with them. There is no assurance that PBOC and/or CBIRC would take the same view or the PBOC Notice, the

PBOC Catalogue and/or the CBIRC Measures would not be interpreted in a different way. If the PBOC and/or CBIRC takes a different view or any change will be made to such regulations, the Bank will comply with the requirements of such and any other regulatory authorities.

Investors may experience difficulties in effecting service of legal process and enforcing judgements against the Bank and the Bank's management.

The Bank is a company incorporated under the laws of the PRC, and a substantial majority of its business, assets and operations are located in China. In addition, a majority of its 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 not be possible for investors to effect service of process upon the Bank or those persons outside China.

Furthermore, China does not have treaties or agreements providing for the reciprocal recognition and enforcement of judgements awarded by courts of many jurisdictions, including Japan, the United States and the UK. Hence, the recognition and enforcement in China of judgements of a court in any of these jurisdictions in relation to any matter not subject to a binding arbitration provision may be difficult or even impossible.

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 SEHK, 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 is no assurance as to the development or liquidity of any trading market, or that disruptions will not occur, for any particular Tranche of Notes.

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 Issuer will pay principal and interest on the Notes in the currency specified in the relevant Pricing Supplement (the "**Specified Currency**"). This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the

"**Investor's Currency**") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Inventor's Currency relative to the Specified Currency would decrease (i) the Investor's Currency equivalent yield on the Notes, (ii) the Investor's Currency equivalent value of the principal payable on the Notes and 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. Investors 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 THE NOTES ISSUED UNDER THE PROGRAMME

The Notes are unsecured obligations of the Bank.

As the Issuer may be a branch of the Bank, the repayment of the Notes may be adversely affected if:

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

If any of these events were to occur, the Bank's assets may not be sufficient to pay amounts due under the Notes.

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.

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 judgements of the Hong Kong courts in respect of English law matters.

The Notes and the Amended and Restated Deed of Covenant are governed by English law, whereas parties to these documents have submitted to the exclusive jurisdiction of the Hong Kong courts.

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 currently have any legal effect until it is ratified by the PRC government. The PRC has not entered into treaties or arrangements providing for the reciprocal recognition and enforcement of judgments of courts with numerous countries, including Japan, the United States and the UK. Therefore, it may be difficult for Noteholders to enforce any judgments obtained from such foreign courts against the Bank, the Issuer, the Group or any of their respective directors or senior management in the PRC.

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

Notes issued under the Programme may be represented by one or more Global Notes or evidenced by Global Certificates. Such Global Notes or Global Certificates 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 or Global Certificates, 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 or Global Certificates, investors will be able to trade their beneficial interests only through the Clearing Systems and 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 or Global Certificate must rely on the procedures of the relevant Clearing System(s) to receive payments under the relevant Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes or Global Certificates. Holders of beneficial interests in the Global Notes or Global Certificates will not have a direct right to vote in respect of the relevant Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant Clearing System(s) to appoint appropriate proxies.

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

Notes may be issued with a minimum denomination. The Pricing Supplement of a Tranche of Notes may provide that, for so long as the Notes are represented by a Global Note or evidenced by Global Certificate 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 in certain circumstances such as 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.

FATCA withholding may affect payments on the Notes.

Whilst the Notes are in global form and held within Euroclear, Clearstream or the CMU, in all but the most remote circumstances, it is not expected that the U.S. Foreign Account Tax Compliance Act ("**FATCA**") will affect the amount of any payment received by the Clearing Systems. However, FATCA may affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also may affect payment to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose their custodians and intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA), provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. Investors should consult their own tax adviser to obtain a more detailed explanation of FATCA and how FATCA may affect them. The Issuer's obligations under the Notes are discharged once it has paid the common depositary for Euroclear and Clearstream or, as the case may be, the sub-custodian for the CMU (as registered holder of the Notes) and the Issuer has therefore no responsibility for any amount thereafter transmitted through hands of the Clearing Systems and custodians or intermediaries.

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

On 7 July 2017, the Financial Institutions (Resolution) Ordinance (Cap. 628) of Hong Kong (the "**FIRO**") came into operation. The FIRO provides for, among other things, the establishment of a resolution regime for authorised institutions and other within scope financial institutions in Hong Kong which may be designated by the relevant resolution authorities, which includes the Bank. 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, subject to certain safeguards, 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.

Risks related to Notes which are linked to "benchmarks", especially LIBOR.

The London Interbank Offered Rate ("**LIBOR**"), the Euro Interbank Offered Rate ("**EURIBOR**") and the Hong Kong inter-bank offered rate ("**HIBOR**") and other interest rate or other types of rates and indices which are deemed to be benchmarks are the subject of ongoing national and international regulatory discussions and proposals for reform. Some of these reforms are already effective whilst others are still to be implemented.

Regulation (EU) 2016/1011 (the "**Benchmarks Regulation**") and Regulation (EU) No. 2016/1011 as it forms part of domestic law of the UK by virtue of the EUWA (the "**UK Benchmarks Regulation**") apply to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark, within the EU and the UK, respectively. The EU Benchmark Regulation and UK Benchmark Regulation could have a material impact on any Notes linked to LIBOR, EURIBOR, HIBOR or another benchmark rate or index, in particular, if the methodology or other terms of the benchmark are changed in order to comply with the terms of the EU Benchmark Regulation or UK Benchmark Regulation, and such changes could (amongst other things) have the effect of reducing or increasing the rate or level, or affecting the volatility of the published rate or level, of the benchmark. More broadly, any of the international, national or other proposals for reform, 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. Such factors may have the effect of discouraging market participants from continuing to administer or contribute to certain "benchmarks", trigger changes in the rules or methodologies used in certain "benchmarks" or lead to the discontinuance or unavailability of quotes of certain "benchmarks".

As an example of such benchmark reforms, on 27 July 2017, the United Kingdom Financial Conduct Authority (the "**FCA**") announced that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark after 2021 (the "**FCA Announcement**"). The FCA Announcement indicated 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 the 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).

On 21 September 2017, the European Central Bank announced that it would be part of a new working group tasked with the identification and adoption of a "risk free overnight rate" which can serve as a basis for an alternative to current benchmarks used in a variety of financial instruments and contracts in the Euro area. On 13 September 2018, the working group on Euro risk-free rates recommended the new Euro short-term rate ("**€STR**") as the new risk-free rate for the Euro area. The €STR was published for the first time on 2 October 2019. Although EURIBOR has been reformed in order to comply with the terms of the Benchmark Regulation, it remains uncertain as to how long it will continue in its current form, or whether it will be further reformed or replaced with €STR or an alternative benchmark.

The elimination of LIBOR or any other benchmark, or changes in the manner of administration of any benchmark, could result in adverse consequences to holders of any Notes linked to such benchmark (including Floating Rate Notes whose interest rates are linked to LIBOR, EURIBOR or any other such benchmark that is subject to reform). Furthermore, even prior to the implementation of any changes, uncertainty as to the nature of alternative reference rates and as to potential changes to such benchmark may adversely affect such benchmark during the term of the relevant Notes, the return on the relevant Notes and the trading market for securities (including the Notes) based on the same benchmark.

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

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

The elimination of the LIBOR benchmark or any other benchmark, or changes in the manner of administration of any benchmark, could require or result in an adjustment to the interest calculation provisions of the Conditions (as further described in Condition 5(b)(v) (*Benchmark Discontinuation*)), or result in adverse consequences to holders of any Notes linked to such benchmark (including Floating Rate Notes whose interest rates are linked to LIBOR, EURIBOR or any other such benchmark that is subject to reform). Furthermore, even prior to the implementation of any changes, uncertainty as to the nature of alternative reference rates and as to potential changes to such benchmark may adversely affect such benchmark during the term of the relevant Notes, the return on the relevant Notes and the trading market for securities (including the Notes) based on the same benchmark.

The "Terms and Conditions of the Notes" provide for certain fallback arrangements in the event that a published benchmark, such as LIBOR (including any page on which such benchmark may be published (or any successor service)), becomes unavailable, unlawful or unrepresentative, including the possibility that the rate of interest could be set by reference to a successor rate or an alternative rate and that such successor rate or alternative reference rate may be adjusted (if required) in accordance with the recommendation of a relevant governmental body or in order to reduce or eliminate, to the extent reasonably practicable in the circumstances, any economic prejudice or benefit (as applicable) to investors arising out of the replacement of the relevant benchmark, although the application of such adjustments to the Notes may not achieve this objective.

Any such changes may result in the Notes performing differently (which may include payment of a lower interest rate) than if the original benchmark continued to apply. In certain circumstances the ultimate fallback 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. In addition, due to the uncertainty concerning the availability of successor rates and alternative reference rates and the involvement of an Independent Adviser (as defined in the Conditions), the relevant fallback provisions may not operate as intended at the relevant time.

Any such consequences could have a material adverse effect on the value of and return on any such Notes.

RISKS RELATING TO THE STRUCTURE OF A PARTICULAR ISSUE OF NOTES

Unless in the case of any particular Tranche of Notes the relevant Pricing Supplement specifies otherwise, in the event that the Issuer would be obliged to increase the amounts payable in respect of any Notes due to any withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Hong Kong, PRC 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. A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of certain such features:

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

An optional redemption feature is likely to limit the market value of Notes. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This may also be true prior to any redemption period. The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At 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.

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

- 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.

The Issuer may issue Notes 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 Issuer may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. The Issuer's ability to convert the interest rate will affect the secondary market and the market value of such Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate, the spread on the fixed 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 Issuer converts from a floating rate to a fixed rate, the fixed rate may be lower than the then prevailing rates on its Notes.

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

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

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

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

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 RENMINBI-DENOMINATED NOTES

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

As a result of the restrictions by the government of 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 is limited.

There are restrictions imposed by the PBOC on Renminbi business participating banks in respect of cross-border Renminbi settlement, such as those relating to direct transactions with PRC enterprises. Furthermore, Renminbi business participating banks do not have direct Renminbi liquidity support from the PBOC. The Renminbi Clearing Banks only have access to onshore liquidity support from the PBOC for the purpose of squaring open positions of participating banks for limited types of transactions and are not obliged to square for participating banks any open positions resulting from other foreign exchange transactions or conversion services. In such cases, the participating banks will need to source Renminbi from outside the PRC to square such open positions.

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

The Renminbi is not freely convertible and there are significant restrictions on remittance of Renminbi into and outside the PRC.

Renminbi is not freely convertible at present. The PRC government continues to regulate conversion between Renminbi and foreign currencies, including the Hong Kong dollar.

However, there has been a significant reduction in control by the PRC government in recent years, particularly over trade transactions involving import and export of goods and services as well as other frequent routine foreign exchange transactions. These transactions are known as current account items.

On the other hand, remittance of Renminbi by foreign investors into the PRC for the settlement of capital account items, such as capital contributions, is generally only permitted upon obtaining specific approvals from, or completing specific registrations or filings with, the relevant authorities on a case-by-case basis and is subject to a strict monitoring system. Regulations in the PRC on the remittance of Renminbi into the PRC for settlement of capital account items are being developed.

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

Investment in the Renminbi Notes is subject to exchange rate risks.

The value of Renminbi against 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 many other factors. Recently, the PBOC implemented changes to the way it calculates the Renminbi's daily mid-point against the U.S. dollar to take into account market-maker quotes before announcing such daily mid-point. This change, and others that may be implemented, may increase the volatility in the value of the Renminbi against foreign currencies. All payments of interest and principal will be made in Renminbi with respect to Renminbi Notes 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 the value of Renminbi depreciates against another foreign currency, the value of the investment made by a holder of the Renminbi Notes in that foreign currency will decline.

Investment in the Renminbi Notes is subject to interest rate risks.

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

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

Payments for the Notes denominated in Renminbi will only be made to investors in the manner specified in the Notes.

All payments to investors in respect of Notes denominated in Renminbi will be made solely (i) for so long as such Notes are represented by Global Notes or Global Certificates, by transfer to a Renminbi bank account maintained in Hong Kong in accordance with prevailing rules and procedures of the relevant clearing system, or (ii) for so long as such 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 Issuer cannot be required to make payment by any other means (including in any currency or by transfer to a bank account in the PRC).

Gains on the transfer of the Notes may become subject to income taxes under PRC tax laws.

Under the PRC Enterprise Income Tax Law, the PRC Individual Income Tax Law and the relevant implementing rules, as amended from time to time, any gain realised on the transfer of Notes by non-PRC resident enterprise or individual Holders may be subject to PRC enterprise income tax ("**EIT**") or PRC individual income tax ("**IIT**") if such gain is regarded as income derived from sources within the PRC. The PRC Enterprise Income Tax Law levies EIT at the rate of 20 per cent. of the gains derived by such non-PRC resident enterprise Holder from the transfer of Notes but its implementation rules have reduced the enterprise income tax rate to 10 per cent. The PRC Individual Income Tax Law levies IIT at a rate of 20 per cent. of the gains derived by such non-PRC resident or individual Holder from the transfer of Notes.

However, uncertainty remains as to whether the gain realised from the transfer of Notes by non-PRC resident enterprise or individual Holders would be treated as income derived from sources within the PRC and become subject to the EIT or IIT. This will depend on how the PRC tax authorities interpret, apply or enforce the PRC Enterprise Income Tax Law, the PRC Individual Income Tax Law and the relevant implementing rules. According to the arrangement between the PRC and Hong Kong, for the avoidance of double taxation, Holders who are residents of Hong Kong, including enterprise Holders and individual Holders, will not be subject to EIT or IIT on capital gains derived from a sale or exchange of the Notes.

Therefore, if non-PRC enterprise or individual resident Holders are required to pay PRC income tax on gains derived from the transfer of Notes, unless there is an applicable tax treaty between PRC and the jurisdiction in which such non-PRC enterprise or individual resident holders of Notes reside that reduces or exempts the relevant EIT or IIT, the value of their investment in Notes may be materially and adversely affected.

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 the relevant Pricing Supplement, shall be applicable to the Notes in definitive form (if any) issued in exchange for the Global Note(s) representing or the Global Certificate evidencing each Series. Either (i) the full text of these terms and conditions together with the relevant provisions 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 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 Industrial Bank Co., Ltd. (the "**Bank**") or the relevant branch of the Bank as specified hereon (the "**Issuer**") and are issued pursuant to an amended and restated agency agreement (as amended or supplemented as at the date of issue of the Notes (the "**Issue Date**"), the "**Amended and Restated Agency Agreement**") dated 2 June 2021 between the Bank and Citicorp International Limited as fiscal agent and the other agents named in it and with the benefit of an amended and restated deed of covenant (as amended or supplemented as at the Issue Date, the "**Amended and Restated Deed of Covenant**") dated 2 February 2018 executed by the Bank in relation to the Notes. The fiscal agent, the CMU lodging and paying agent, the other paying agents, the registrar, the transfer agents and the calculation agent(s) appointed under the Amended and Restated Agency Agreement 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 Central Moneymarkets Unit Service, operated by The Hong Kong Monetary Authority ("**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 (the "**Receiptholders**") are deemed to have notice of all the provisions of the Amended and Restated Agency Agreement applicable to them.

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

Copies of the Amended and Restated Agency Agreement and the Amended and Restated 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 will be evidenced by registered certificates ("**Certificates**") and, save as provided in Condition 2(c), each Certificate shall evidence 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 relevant register that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Amended and Restated 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 evidencing 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

Subject to Condition 2(f), 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 evidencing 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 Bank), 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 evidenced 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 relevant Register will be made subject to the detailed regulations concerning transfers of Notes scheduled to the Amended and Restated Agency Agreement. The regulations may be changed by the Bank, 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 evidenced 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 evidencing the enlarged holding shall only be issued against surrender of the Certificate evidencing 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 Amended and Restated 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 Record Date.

3 Status

The Notes and the Receipts and the Coupons relating to them constitute direct, unconditional, unsubordinated and unsecured obligations of the Bank 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 and subject to Condition 4(a), at all times rank at least equally with all other unsecured and unsubordinated indebtedness and monetary obligations of the Issuer, present and future.

4 Certain Covenants

(a) Negative Pledge

So long as any Note remains outstanding (as defined in the Amended and Restated Agency Agreement), the Bank will not, and will ensure that none of its Subsidiaries will create, or have outstanding, any mortgage, charge, lien, pledge or other security interest (other than a Permitted Security Interest), upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness, or to secure any guarantee or indemnity in respect of any Relevant Indebtedness, without at the same time or prior thereto according to the Notes the same security as is created or subsisting to secure any such Relevant Indebtedness, guarantee or indemnity or such other security as shall be approved by an Extraordinary Resolution (as defined in the Amended and Restated Agency Agreement) of the Noteholders.

(b) Rating Maintenance

If specified hereon, for so long as any Note remains outstanding, save with the approval of an Extraordinary Resolution of the Noteholders, the Bank and the Issuer shall maintain a rating on the Notes by a Rating Agency.

(c) Financial Statements

So long as any Note remains outstanding, the Bank shall make publicly available and send to the Fiscal Agent and, upon request, to any Noteholder and Couponholder:

(i) as soon as practicable after their date of publication and in any event not more than 150 days after the end of each Relevant Period, a copy of the Audited Financial Reports prepared in accordance with the Accounting Standards for Business Enterprises in the PRC ("**PRC GAAP**") (audited by an internationally recognised firm of independent accountants);

(ii) as soon as practicable after their date of publication and in any event not more than 90 days after the end of each Relevant Period, a copy of the Semi-Annual Reviewed Financial Reports prepared in accordance with PRC GAAP (reviewed by a internationally recognised firm of independent accountants); and

if such statements referred to in Condition 4(c)(i) or 4(c)(ii) above shall be in the Chinese language, together with an English translation of the same translated by (aa) an internationally recognised firm of accountants or (bb) a professional translation service provider, and checked by an internationally recognised firm of independent accountants.

(d) Notification to PRC Authorities

Where the NDRC Circular and/or the PBOC Circular apply to any Note to be issued in accordance with these Conditions and the Amended and Restated Agency Agreement, the Bank and the Issuer undertake to provide or cause to be provided a notification to the NDRC and/or PBOC of the requisite information and documents within the prescribed timeframe in accordance with the NDRC Circular and/or the PBOC Circular.

In this Condition 4:

"**Asset-Backed Securities**" means any Relevant Indebtedness that:

(i) by the terms of such indebtedness it is expressly provided that recourse by the holders of such indebtedness is limited to the properties or assets of the issuer of such indebtedness or the revenue to be generated by the operation of, or loss of or damage to, such properties or assets, for repayment of the moneys advanced and payment of interest thereon; and

(ii) such indebtedness is not guaranteed by the Bank or any of its Subsidiaries.

"**Audited Financial Reports**" means annual audited consolidated financial statements of the Bank, which comprise the consolidated balance sheet, the consolidated income statement, the consolidated cashflow statement and the consolidated statement of changes in owners' equity of the Bank together with the auditors' audit report and notes to the financial statements;

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

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

"**PBOC**" means the People's Bank of China;

"**PBOC Circular**" means the Circular on Matters relating to the Macro-prudential Management Policy of Overall Cross-border Financing (中国人民银行关于全口径跨境融资宏观审慎管理有关事宜的通知 (银发[2017]9号) issued by the PBOC and which came into effect on 12 January 2017, and any implementation rules or applicable policies as issued by the PBOC from time to time;

"**Permitted Security Interest**" means any mortgage, charge, lien, pledge or other security interest over any undertaking, assets or revenues (including any uncalled capital) of the Bank and/or any of its Subsidiary of the Bank to secure credit-linked debt securities, equity-linked debt securities or Asset-Backed Securities issued by the Bank and/or any of its Subsidiary, or any guarantee or indemnity in respect of such securities;

"**Rating Agency**" means (a) S&P Global Ratings, and its successors ("**S&P**"), (b) Moody's Investors Service, Inc., a subsidiary of Moody's Corporation, and its successors ("**Moody's**"), or (c) Fitch (Hong Kong) Limited and its successors ("**Fitch**"); and (d) if one or more of S&P, Moody's or Fitch shall not make a rating of the Notes publicly available, any internationally recognised securities rating agency or agencies, as the case may be, selected by the Bank, which shall be substituted for S&P, Moody's or Fitch or any combination thereof, as the case may be;

"**Relevant Indebtedness**" means any indebtedness which is in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock or other securities with a maturity of more than one year which for the time being are, or are intended to be or capable of being, quoted, listed or dealt in or traded on any stock exchange or over-the-counter or other securities market outside mainland China (for the avoidance of doubt, "mainland China" shall not include the Hong Kong and Macau Special Administrative Regions or Taiwan);

"**Relevant Period**" means, (i) in relation to each of the Audited Financial Reports, each period of twelve months ending on the last day of their respective financial year (being December 31 of that financial year) and (ii) in relation to each of the Semi-Annual Reviewed Financial Reports, each period of six months ending on the last day of their respective first half financial year (being June 30 of that financial year);

"**Semi-Annual Reviewed Financial Reports**" means semi-annual unaudited and reviewed consolidated financial statements of the Bank, which comprise the consolidated balance sheet, the consolidated income statement, the consolidated cashflow statement and the consolidated statement of changes in owners' equity of the Bank together with the auditors' review report and notes to the financial statements; and

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

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 in the case of CNH HIBOR, 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 2.30 p.m. (Hong Kong time) on the Interest Determination Date in question, in each case 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).

(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.

(v) Benchmark Discontinuation

(A) ***Independent Adviser***

If a Benchmark Event occurs in relation to an Original Reference Rate when any Rate of Interest (or any component part thereof) remains to be determined by reference to such Original Reference Rate the Issuer shall use its reasonable endeavours to appoint an Independent Adviser, as soon as reasonably practicable, to determine a Successor Rate, failing which an Alternative Rate (in accordance with Condition 5(b)(v)(B)) and, in either case, an Adjustment Spread and any Benchmark Amendments (in accordance with Condition 5(b)(v)(D)). In making such determination, Independent Adviser appointed pursuant to this Condition 5(b)(v) shall act in good faith and in a commercially reasonable manner as an expert. In the absence of bad faith or fraud, the Independent Adviser shall have no liability whatsoever to the Issuer, the Fiscal Agent, the Paying Agents, the Noteholders, the Receiptholders or the Couponholders for any determination made by it, pursuant to this Condition 5(b)(v).

If (i) the Issuer is unable to appoint an Independent Adviser; or (ii) the Independent Adviser appointed by it fails to determine a Successor Rate or, failing which, an Alternative Rate in accordance with this Condition 5(b)(v)(A) prior to the date which is 10 business days prior to the relevant Interest Determination Date, the Rate of Interest applicable to the next succeeding Interest Accrual Period shall be determined using the Original Reference Rate last displayed on the relevant Screen Page prior to the relevant Interest Determination Date. 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 shall be substituted in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period. For the avoidance of doubt, this paragraph shall apply to the relevant next succeeding Interest Accrual Period only and any subsequent Interest Accrual Periods are subject to the subsequent operation of, and to adjustment as provided in, the first paragraph of this Condition 5(b)(v)(A).

(B) ***Successor Rate or Alternative Rate***

If the Independent Adviser, determines that:

(x) there is a Successor Rate, then such Successor Rate and the applicable Adjustment Spread shall subsequently be used in place of the Original Reference Rate to determine the Rate of Interest (or the relevant component part thereof) for all future payments of interest on the Notes (subject to the operation of this Condition 5(b)(v)); or

(y) there is no Successor Rate but that there is an Alternative Rate, then such Alternative Rate and the applicable Adjustment Spread shall subsequently be used in place of the Original Reference Rate to determine the Rate of Interest (or the relevant component part thereof) for all future payments of interest on the Notes (subject to the operation of this Condition 5(b)(v)).

(C) ***Adjustment Spread***

The Adjustment Spread (or the formula or methodology for determining the Adjustment Spread) shall be applied to the Successor Rate or the Alternative Rate (as the case may be). If the Independent Adviser is unable to determine the quantum of, or a formula or methodology for determining, such Adjustment Spread, then the Successor Rate or Alternative Rate (as applicable) will apply without an Adjustment Spread.

(D) ***Benchmark Amendments***

If any Successor Rate or Alternative Rate and, in either case, the applicable Adjustment Spread is determined in accordance with this Condition 5(b)(v) and the Independent Adviser, determines (i) that amendments to these Conditions and/or the Agency Agreement are necessary to ensure the proper operation of such Successor Rate or Alternative Rate and/or (in either case) the applicable Adjustment Spread (such amendments, the "**Benchmark Amendments**") and (ii) the terms of the Benchmark Amendments, then the Issuer shall, subject to giving notice thereof in accordance with Condition 5(b)(v)(E), without any requirement for the consent or approval of Noteholders, vary these Conditions and/or the Agency Agreement to give effect to such Benchmark Amendments with effect from the date specified in such notice.

Notwithstanding any other provision of this Condition 5(b)(v), the Calculation Agent or any Paying Agent is not obliged to concur with the Issuer or the Independent Adviser in respect of any changes or amendments as contemplated under this Condition 5(b)(v) to which, in the sole opinion of the Calculation Agent or the relevant Paying Agent, as the case may be, would impose more onerous obligations upon it or expose it to any additional duties, responsibilities or liabilities or reduce or amend the protective provisions afforded to the Calculation Agent or the relevant Paying Agent (as applicable) in the Agency Agreement and/or these Conditions.

In connection with any such variation in accordance with this Condition 5(b)(v)(D), the Issuer shall comply with the rules of any stock exchange on which the Notes are for the time being listed or admitted to trading.

Notwithstanding any other provision of this Condition 5(b)(v), no Successor Rate or Alternative Rate will be adopted, nor will the applicable Adjustment Spread be applied, nor will any Benchmark Amendments be made, if and to the extent that, in the determination of the Issuer, the same could reasonably be expected to prejudice the qualification of the Notes as Tier 2 Capital and/or eligible liabilities or loss absorbing capacity instruments for the purposes of the Loss Absorption Regulations.

(E) ***Notices, etc.***

Any Successor Rate, Alternative Rate, Adjustment Spread and the specific terms of any Benchmark Amendments determined under this Condition 5(b)(v) will be notified at least 10 business days prior to the relevant Interest Determination Date by the Issuer to the Fiscal Agent, the Calculation Agent and the Paying Agents. In accordance with Condition 14, notice shall be provided to the Noteholders promptly thereafter. Such notice shall be irrevocable and shall specify the effective date of the Benchmark Amendments, if any.

No later than notifying the Noteholders of the same, the Issuer shall deliver to the Fiscal Agent, the Calculation Agent and the Paying Agents a certificate signed by two authorised signatories of the Issuer:

(x) confirming (i) that a Benchmark Event has occurred, (ii) the Successor Rate or, as the case may be, the Alternative Rate, (iii) the applicable Adjustment Spread and (iv) the specific terms of the Benchmark Amendments (if any), in each case as determined in accordance with the provisions of this Condition 5(b)(v); and

(y) certifying that the Benchmark Amendments (if any) are necessary to ensure the proper operation of such Successor Rate or Alternative Rate and (in either case) the applicable Adjustment Spread.

The Fiscal Agent shall display such certificate at its offices, for inspection by the Noteholders at all reasonable times during normal business hours.

Each of the Fiscal Agent, the Calculation Agent and the Paying Agents shall be entitled to rely on such certificate (without liability to any person) as sufficient evidence thereof. The Successor Rate or Alternative Rate and the Adjustment Spread and the Benchmark Amendments (if any) specified in such certificate will (in the absence of manifest error or bad faith in the determination of the Successor Rate or Alternative Rate and the Adjustment Spread and the Benchmark Amendments (if any) and without prejudice to the Fiscal Agent's or the Calculation Agent's or the Paying Agents' ability to rely on such certificate as aforesaid) be binding on the Issuer, the Fiscal Agent, the Calculation Agent, the Paying Agents and the Noteholders.

Notwithstanding any other provision of this Condition 5(b)(v), if following the determination of any Successor Rate, Alternative Rate, Adjustment Spread or Benchmark Amendments (if any), in the Calculation Agent's opinion there is any uncertainty between two or more alternative courses of action in making any determination or calculation under this Condition 5(b)(v), the Calculation Agent shall promptly notify the Issuer thereof and the Issuer shall direct the Calculation Agent in writing as to which alternative course of action to adopt. If the Calculation Agent is not promptly provided with such direction, or is otherwise unable (other than due to its own gross negligence, willful default or fraud) to make such calculation or determination for any reason, it shall notify the Issuer thereof and the Calculation Agent shall be under no obligation to make such calculation or determination and (in the absence of such gross negligence, willful default or fraud) shall not incur any liability for not doing so.

(F) ***Survival of Original Reference Rate***

Without prejudice to the obligations of the Issuer under Condition 5(b)(v)(A), (B), (C) and (D), the Original Reference Rate and the fallback provisions provided for in Condition 5(b)(iii) will continue to apply unless and until a Benchmark Event has occurred.

(G) ***Definitions***:

As used in this Condition 5(b)(v):

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

(x) in the case of a Successor Rate, is formally recommended in relation to the replacement of the Original Reference Rate with the Successor Rate by any Relevant Nominating Body; or (if no such recommendation has been made, or in the case of an Alternative Rate);

(y) the Independent Adviser determines, is customarily applied to the relevant Successor Rate or the Alternative Rate (as the case may be) in international debt capital markets transactions to produce an industry-accepted replacement rate for the Original Reference Rate; or (if Independent Adviser determines that no such spread is customarily applied);

(z) the Independent Adviser determines is recognised or acknowledged as being the industry standard for over-the-counter derivative transactions which reference the Original Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Rate (as the case may be).

"**Alternative Rate**" means an alternative benchmark or screen rate which the Independent Adviser determines in accordance with Condition 5(b)(v)(B) is customarily applied in international debt capital markets transactions for the purposes of determining rates of interest (or the relevant component part thereof) in the same Specified Currency as the Notes.

"**Benchmark Amendments**" has the meaning given to it in Condition 5(b)(v)(D).

"**Benchmark Event**" means:

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

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

(3) a public statement by the supervisor of the administrator of the Original Reference Rate as a consequence of which the Original Reference Rate will be prohibited from being used either generally, or in respect of the Notes; or

(4) the making of a public statement by the supervisor of the administrator of the Original Reference Rate that, with effect from a date after 31 December 2021, the Original Reference Rate will be (or will be deemed by such supervisor to be) no longer representative of its relevant underlying market; or

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

provided that the Benchmark Event shall be deemed to occur (a) in the case of sub-paragraphs (2) and (3) above, on the date of the cessation of publication of the Original Reference Rate or the discontinuation of the Original Reference Rate, as the case may be, (b) in the case of sub-paragraph (4) above, on the date of the prohibition of use of the Original Reference Rate and (c) in the case of sub-paragraph (5) above, on the date with effect from which the Original

Reference Rate will no longer be (or will be deemed by the relevant supervisor to no longer be) representative of its relevant underlying market and which is specified in the relevant public statement, and, in each case, not the date of the relevant public statement.

The occurrence of a Benchmark Event shall be determined by the Issuer and promptly notified to the Fiscal Agent, the Calculation Agent and the Paying Agents. For the avoidance of doubt, neither the Fiscal Agent, the Calculation Agent nor the Paying Agents shall have any responsibility for making such determination.

"**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 Calculation Agent.

"**Independent Adviser**" means an independent financial institution of international repute or an independent financial adviser with appropriate expertise appointed by the Issuer under Condition 5(b)(v)(A).

"**Original Reference Rate**" means the originally-specified benchmark or screen rate (as applicable) used to determine the Rate of Interest (or any component part thereof) on the Notes.

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

(i) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable); or

(ii) 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 benchmark or screen rate (as applicable) relates, (b) any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable), (c) a group of the aforementioned central banks or other supervisory authorities or (d) the Financial Stability Board or any part thereof.

"**Successor Rate**" means a successor to or replacement of the Original Reference Rate which is formally recommended by any Relevant Nominating Body.

(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 each Interest Determination Date, or such other time 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, the Bank, 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 the earlier of (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) 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 unless the rules of any stock exchange on which the Notes are listed or any other relevant authority otherwise requires. 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 or payable in euro, a day on which the TARGET System is operating (a "**TARGET Business Day**"); and/or

(iii) in the case of Notes denominated or payable 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; and

(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:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

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

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

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

where:

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

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

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

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

"**Interest Amount**" means:

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

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

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

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

"**Interest Period**" means the period beginning on and including the Interest Commencement Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date unless otherwise 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. 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 hereon, 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 Bank 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 Tax Amounts as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws or regulations 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 Tax 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) a certificate signed by two duly authorised signatories of the Issuer stating that the obligation referred to in (i) above cannot be avoided by the Issuer taking reasonable measures available to it and (B) an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such Additional Tax 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 evidencing 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 Amended and Restated 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, the Bank and the Bank's Subsidiaries (as defined in Condition 4) 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, the Bank or any of the Bank's 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 evidencing 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

(i) In relation to Bearer Notes not held in the CMU, 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:

(x) 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.

(y) 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.

(ii) In this Condition 7(a) and in Condition 7(b), "**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.

(iii) In relation to Bearer Notes held in the CMU, payments of principal and interest in respect of Bearer Notes held in the CMU will be made 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 Amended and Restated Agency Agreement) at the relevant time.

(b) Registered Notes

(i) In relation to Registered Notes not held in the CMU, 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) In relation to Registered Notes not held in the CMU, 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 relevant 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 relevant 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 this Condition 7(b), "**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 relevant Register at the close of business on the fifth business day before the due date for payment.

(iv) In relation to Registered Notes held in the CMU, 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.

(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 applicable fiscal or other laws, regulations and directives 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 through 1474 of the U.S. Internal Revenue Code of 1986, any regulations or agreements thereunder, any 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 Bank and their respective specified offices are listed below. The Fiscal Agent, the CMU Lodging and Paying Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent(s) act solely as agents of the Bank and do not assume any obligation or relationship of agency or trust for or with any Noteholder or Couponholder. The Bank 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, any 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) the 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, (iv) one or more Calculation Agent(s) where the Conditions so require, (v) Paying Agents having specified offices in at least two major European cities and (vi) such other agents as may be required by any other stock exchange on which the Notes may be listed.

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

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

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

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

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

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

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

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

(vi) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Bearer Note representing or Certificate evidencing 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 representing or Certificate evidencing 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 of any of the Relevant Jurisdictions.

Where such withholding or deduction is made by the Issuer by or within the PRC up to and including the rate applicable on the Issue Date (the "**Applicable Rate"**), the Issuer will increase the amounts paid by it to the extent required, so that the net amount received by Noteholders and Couponholders equals the amounts which would otherwise have been received by them had no such withholding or deduction been required.

If the Issuer is required to make a deduction or withholding in respect of (i) PRC tax in excess of the Applicable Rate and/or (ii) any tax in a Relevant Jurisdiction other than the PRC, it shall pay such additional amounts ("**Additional Tax 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 Tax Amounts shall be payable with respect to any Note, Receipt or Coupon:

(a) to, or to a third party on behalf of, a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note, Receipt or Coupon by reason of his 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) presented (or in respect of which the Certificate evidencing it is presented) for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on presenting it for payment on the thirtieth day.

As used in these Conditions:

(a) "**PRC**" means the People's Republic of China excluding the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan;

(b) "**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

(c) "**Relevant Jurisdiction**" means the PRC, and if the Issuer is a branch of the Bank, the jurisdiction where that branch is located, 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, 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 unless such event of default shall have been remedied prior to the receipt of such notice by the Fiscal Agent:

(a) **Non-Payment**: the Issuer fails to pay (i) the principal of the Notes when due; or (ii) any interest on any of the Notes within 14 days after the due date for such payment; or

(b) **Breach of Other Obligations**: the Bank or the Issuer does not perform or comply with any one or more of its other obligations in the Notes or the Amended and Restated Deed of Covenant which default is incapable of remedy or, is not remedied within 45 days; or

(c) **Cross-Acceleration**: (i) any other present or future indebtedness for monies borrowed or raised by the Bank, or any of the its Subsidiaries for or in respect of moneys borrowed or raised becomes due and payable prior to its stated maturity by reason of any actual or potential default, event of default or the like (howsoever described), or (ii) any such indebtedness is not paid when due or, as the case may be, within any originally applicable grace period, or (iii) the Bank or any of its Subsidiaries fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised provided that the aggregate amount of the relevant indebtedness, guarantees and indemnities 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) **Enforcement Proceedings**: a distress, attachment, execution or other legal process is levied, enforced or sued out on or against a material part of the property, assets or revenues of the Bank, the Issuer or any of the Bank's Material Subsidiaries and is not discharged or stayed within 60 days; or

(e) **Security Enforced**: any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Bank, the Issuer or any of the Bank's Material Subsidiaries in respect of all or a material part of its assets becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, manager, administrator or other similar person) and is not discharged for 60 days; or

(f) **Insolvency**: the Bank or any of its Material Subsidiaries is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, stops, suspends or threatens to stop or suspend payment of all or a material part of (or of a particular type 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 any material part of (or of a particular type of) the debts of the Bank or any of its Material Subsidiaries; or

(g) **Winding-up**: an order is made or an effective resolution passed for the winding-up or dissolution of the Bank or any of its Material Subsidiaries (except for a voluntary solvent winding-up of any Material Subsidiary), or the Bank or any of its Material Subsidiaries ceases or threatens to cease 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 Amended and Restated Agency Agreement) of the Noteholders or (ii) in the case of a Material Subsidiary, whereby the undertaking and assets of such Material Subsidiary are transferred to or otherwise vested in the Bank or another of its Subsidiaries; or

(h) **Illegality**: it is or will become unlawful for the Bank or the Issuer to perform or comply with any one or more of its obligations under any of the Notes or the Amended and Restated Deed of Covenant; or

(i) **Analogous Events**: any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs of this Condition 10.

In these Conditions:

"**Material Subsidiary**" means a Subsidiary of the Bank:

(a) whose gross revenue (consolidated in the case of a Subsidiary which itself has consolidated Subsidiaries) or whose gross assets (consolidated in the case of a Subsidiary which itself has consolidated Subsidiaries) or whose gross profit (consolidated in the case of Subsidiary which itself has consolidated Subsidiaries) represents not less than five per cent. of the consolidated gross revenue, the consolidated gross assets, or, as the case may be, the consolidated gross profit of the Bank and its Subsidiaries taken as a whole, all as calculated respectively by reference to the latest audited or reviewed financial statements (consolidated or, as the case may be, unconsolidated) of the Subsidiary and the then latest audited or reviewed consolidated financial statements of the Bank, provided that:

    (i) in the case of a Subsidiary acquired after the end of the financial period to which the then latest audited or reviewed consolidated financial statements of the Bank relate for the purpose of applying each of the foregoing tests, the reference to the Bank's latest audited or reviewed consolidated financial statements shall be deemed to be a reference to such audited or reviewed financial statements as if such Subsidiary had been shown therein by reference to its then latest relevant audited or reviewed financial statements, adjusted as deemed appropriate by the auditor for the time being, after consultation with the Bank;

(ii) if at any relevant time in relation to the Bank or any Subsidiary no financial statements are prepared and audited, its gross revenue, gross assets and gross profit (consolidated, if applicable) shall be determined on the basis of pro forma consolidated financial statements (consolidated, if applicable) prepared for this purpose; and

(iii) if the financial statements of any Subsidiary (not being a Subsidiary referred to in proviso (i) above) are not consolidated with those of the Bank, then the determination of whether or not such Subsidiary is a Material Subsidiary shall be based on a pro forma consolidation of its financial statements (consolidated, if appropriate) with the consolidated financial statements (determined on the basis of the foregoing) of the Bank; or

(b) to which is transferred all or substantially all of the business, undertaking and assets of another Subsidiary which immediately prior to such transfer is a Material Subsidiary, whereupon (i) in the case of a transfer by a Material Subsidiary, the transferor Material Subsidiary shall immediately cease to be a Material Subsidiary and (ii) the transferee Subsidiary shall immediately become a Material Subsidiary, provided that on or after the date on which the relevant financial statements for the financial period current at the date of such transfer are published, whether such transferor Subsidiary or such transferee Subsidiary is or is not a Material Subsidiary shall be determined pursuant to the provisions of sub-paragraph (a) above.

"**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; and

"**Subsidiary**" shall have the meaning set out in Condition 4 above.

11 Meeting of Noteholders and Modifications

(a) Meetings of Noteholders

The Amended and Restated 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 Amended and Restated 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, (vi) to vary the currency or currencies of payment or denomination of the Notes, or (vii) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass the Extraordinary Resolution, in which case the necessary quorum shall be two or more persons holding or representing not less than 75 per cent., or at any adjourned meeting not less than 25 per cent., in 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 Amended and Restated 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 the Amended and Restated Agency Agreement

The parties to the Amended and Restated Agency Agreement may agree to modify any provision thereof, but the Bank or 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 interest of the Noteholders.

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

If a Note, Certificate, Receipt, Coupon or Talon is mutilated, defaced or is alleged to have been lost stolen, 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, Receiptholders or Couponholders create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with an outstanding Series. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Notes.

14 Notices

Notices to the holders of Registered Notes shall be mailed to them at their respective addresses in the relevant 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 (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. Receiptholders or 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 any non-contractual obligations arising out of or in connection with them ("**Proceedings**") may be brought in such courts. The Bank and the Issuer irrevocably submit to the exclusive jurisdiction of the courts of Hong Kong and waive 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) Service of Process

Each of the Bank and the Issuer irrevocably agrees to receive service of process at the place of business of the Bank in Hong Kong registered in accordance with the Companies Ordinance (Cap. 622) of Hong Kong at 12/F, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong in any Proceedings in Hong Kong. Such service shall be deemed completed on delivery to such process agent (whether or not it is forwarded to and received by the Bank or the Issuer). If due to any reason the Bank shall cease to have a place of business in Hong Kong, each of the Bank and the Issuer irrevocably agrees to appoint a substitute process agent acceptable to the Dealers and shall immediately notify the Arrangers on behalf of the Dealers of such appointment. Nothing shall affect the right to serve process in any manner permitted by law.

(d) Waiver of immunity

To the extent that the Bank or 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 Bank or the relevant Issuer, or its assets or revenues, each of the Bank and the relevant 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 GLOBAL NOTES EVIDENCED BY GLOBAL CERTIFICATES

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 evidenced by 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 evidenced by such 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 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 evidenced by such 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 evidenced by such 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 TEFRA 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 Amended and Restated Agency Agreement for interests in a Permanent Global Note or, if so provided in the relevant Pricing Supplement, for definitive Notes.

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

Permanent Global Notes

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

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

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

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

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, 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 Instalment 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 Amended and Restated 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 for 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.

Global Certificates

If the relevant Pricing Supplement states that the Notes are to be evidenced 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; or

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

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.

Amendment to Conditions

The Temporary Global Notes, Permanent Global Notes and Global Certificates contain provisions that apply to the Notes that they represent or evidence, 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 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 Amended and Restated the Agency Agreement. All payments in respect of Notes represented by a Global Note (except with respect to a 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. Condition 7(e)(vii) and Condition 8(c) will apply to definitive Notes only.

All payments in respect of Notes evidenced 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 representing Notes held through the CMU, any payments of principal, interest (if any) or any other amounts shall be made to the person(s) for whose account(s) interests in the relevant Global Note or Global Certificate are credited (as set out in the records of the CMU) 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 evidenced by a Global Certificate shall 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.

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 evidenced by a Global Certificate may only be purchased by the Issuer, the Bank or any of the Bank's respective subsidiaries if they are purchased together with the rights to receive all future payments of interest and Instalment 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 evidenced by a 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 the certificate numbers of Notes drawn 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 are evidenced by a 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 evidenced 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 or Certificates with an

Agent set out in the Conditions substantially in the form of the notice available from any such 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 are evidenced by a Global Certificate and such Global Note or Global Certificate is held on behalf of (i) Euroclear and/or Clearstream or any other clearing system (except as provided in (ii) below), notices to the holders of Notes of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions or by delivery of the relevant notice to the holder of the Global Note or Global Certificate or (ii) the CMU, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to the CMU in substitution for publication as required by the Conditions or by delivery of the relevant notice to the holder of the Global Note or Global Certificate, and any such notice shall be deemed to have been given to the Noteholders on the day on which such notice is deliverable to the CMU.

Partly Paid Notes

The provisions relating to Partly Paid Notes are not set out in this Offering Circular, but will be contained in the relevant Pricing Supplement and thereby in the Global Notes or Global Certificates. While any instalments of the subscription moneys due from the holder of Partly Paid Notes are overdue, no interest in a Global Note representing or Global Certificate evidencing 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:

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

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

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

This document 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 Bank and the Issuer. The Bank and the Issuer accept full responsibility for the accuracy of the information contained in this document and confirms, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.]

[**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 (the "**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of [Directive 2014/65/EU (as amended, "**MiFID II**")][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**"]).][(1)] 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**"); or (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (the "**FSMA**") and any rules or regulations made under the FSMA to implement 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 Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the EUWA.][(1)] 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. [*Consider any negative target market*] 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]/[EUWA] ("**UK MiFIR**"); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. [*Consider any negative target market*] Any [person subsequently offering, selling or recommending the Notes (a "**distributor**")][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.]

[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-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendation on Investment Products.][(2)]

Pricing Supplement dated

Industrial Bank Co., Ltd. [Branch]

Issue of [*Aggregate Nominal Amount of Tranche*] [*Title of Notes*]
under the US$5,000,000,000 Medium Term Note Programme of Industrial Bank Co., Ltd.

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 (the "**Conditions**") set forth in the Offering Circular dated 2 June 2021. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Offering Circular [and the supplemental Offering Circular dated [date]]. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of this Pricing Supplement and the Offering Circular.

[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], save in respect of the Conditions which are extracted from the Offering Circular dated [original date] and are attached hereto.]

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

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

1	Issuer:	[Industrial Bank Co., Ltd.] *[Insert relevant Issuer]* (The Issuer's legal entity identifier number is .)
2	[(i)] Series Number:	
	[(ii) Tranche Number (If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible.)]	
3	Specified Currency or Currencies:	
4	Aggregate Nominal Amount:	
	[(i)] Series:	
	[(ii) Tranche:	]
5	[(i)] Issue Price:	per cent. of the Aggregate Nominal Amount [plus accrued interest from [*insert date*] *(in the case of fungible issues only, if applicable)*]
	[(ii) Net proceeds:	*(Required only for listed issues)*]
	[(iii) Use of proceeds:	]

6	(i)	Specified Denominations:	[3]
	(ii)	Calculation Amount[6]:	
7	(i)	Issue Date:	
	(ii)	Interest Commencement Date:	[*Specify*/Issue date/Not Applicable]
	(iii)	Trade Date:	
8		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*][4]
9		Interest Basis:	[per cent. Fixed Rate] [*specify reference rate*] +/- per cent. Floating Rate] [Zero Coupon] [Index Linked Interest] [Other (*specify*)] (further particulars specified below)
10		Redemption/Payment Basis:	[Redemption at par] [Index Linked Redemption] [Dual Currency] [Partly Paid] [Instalment] [Other (*specify*)]
11		Change of Interest or Redemption/Payment Basis:	*[Specify details of any provision for convertibility of Notes into another interest or redemption/payment basis]*
12		Put/Call Options:	[Put] [Call] [(further particulars specified below)]
13		Status of the Notes:	Senior Notes
14		Listing:	/Other (*specify*)/None]
15		Method of distribution:	[Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

16		Fixed Rate Note Provisions	[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(i)	Rate [(s)] of Interest:	per cent. per annum [payable [annually/semi- annually/quarterly/monthly] in arrear]
	(ii)	Interest Payment Date(s):	in each year[5] [adjusted in accordance with *[specify Business Day Convention and any applicable Business Centre(s) for the definition of "Business Day"]*/not adjusted]
	(iii)	Fixed Coupon Amount[(s)]:	per Calculation Amount[6]

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

(ix)	ISDA Determination (Condition 5(b)(iii)(A)):	
	— Floating Rate Option:	
	— Designated Maturity:	
	— Reset Date:	
	— ISDA Definitions: (if different from those set out in the Conditions)	[2000/2006]
(x)	Margin(s):	[+/-] per cent. per annum
(xi)	Minimum Rate of Interest:	per cent. per annum
(xii)	Maximum Rate of Interest:	per cent. per annum
(xiii)	Day Count Fraction (Condition 5(j)):	[Actual/Actual or Actual/Actual (ISDA) Actual/365(Fixed) Actual/365(Sterling) Actual/360 30/360, 360/360 or Bond Basis 30E/360 or Eurobond Basis 30E/360 (ISDA) Other]
(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:	

18	Zero Coupon Note Provisions	[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i) Amortisation Yield (Condition 6(b)):	per cent. per annum
	(ii) Day Count Fraction (Condition 5(j)):	
	(iii) Any other formula/basis of determining amount payable:	
19	Index Linked Interest Note Provisions	[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i) Index/Formula:	[*Give or annex details*]
	(ii) Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the [Agent]):	
	(iii) Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable:	
	(iv) Interest Period(s):	

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

PROVISIONS RELATING TO REDEMPTION

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

	(ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	per Calculation Amount
	(iii) Notice period:	
23	Final Redemption Amount of each Note	per Calculation Amount
24	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(a) or 10(b)) 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

25	Form of Notes:	[Bearer Notes/Registered Notes] *[Delete as appropriate]* [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note] [Temporary Global Note exchangeable for Definitive Notes on days' notice] [Permanent Global Note exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note] [Permanent Global Note exchangeable for Definitive Notes on days' notice/at any time] [Permanent Global Certificate exchangeable for Definitive Certificates in the limited circumstances specified in the Permanent Global Certificate] [Permanent Global Certificate exchangeable for Definitive Certificates on days' notice/at any time] (8) (9)
26	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 16(ii), 17(iv) and 19(vii) relate*]
27	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*]

28	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*]
29	Details relating to Instalment Notes:	[Not Applicable/*give details*]
	(i) Instalment Amount(s):	
	(ii) Instalment Date(s):	
	(iii) Minimum Instalment Amount:	
	(iv) Maximum Instalment Amount:	
30	Redenomination, renominalisation and reconventioning provisions:	[Not Applicable/The provisions annexed to this Pricing Supplement apply]
31	Consolidation provisions:	[Not Applicable/The provisions annexed to this Pricing Supplement apply]
32	Other terms or special conditions:	[Not Applicable/*give details*][(10)]

DISTRIBUTION

33	(i) If syndicated, names of Managers:	[Not Applicable/*give names*]
	(ii) Stabilisation Manager (if any):	[Not Applicable/*give name*]
34	If non-syndicated, name of Dealer:	[Not Applicable/*give name*]
35	U.S. Selling Restrictions	[Reg. S Category 1/2; TEFRA D/TEFRA C/TEFRA Not Applicable]
36	Additional selling restrictions:	[Not Applicable/*give details*]

OPERATIONAL INFORMATION

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

GENERAL

43	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/US$]

44	In the case of Registered Notes, specify the location of the office of the Registrar if other than Hong Kong:	[Not Applicable/Luxembourg]
45	In the case of Bearer Notes, specify the location of the office of the Fiscal Agent if other than London:	[Not Applicable/Hong Kong]
46	Private Bank Rebate/Commission:	[Applicable/Not Applicable]
47	Regulatory Approval/Registration:	
	[(i)] NDRC pre-issue registration obtained	
	[(ii) PBOC pre-issue approval obtained	]
	[(iii) CBIRC pre-issue approval obtained	]
	[(iv) *Specify any other regulatory approval/registration required*	]

[LISTING APPLICATION

This Pricing Supplement comprises the final terms required to list the issue of Notes described herein pursuant to the US$5,000,000,000 Medium Term Note Programme of Industrial Bank Co., Ltd.]

[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 over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no obligation on the Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager) to do this. Such stabilisation if commenced 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 be ended at any time, and must be brought to an end after a limited period. Such stabilisation shall be in compliance with all applicable laws, regulations and rules.]

[MATERIAL ADVERSE CHANGE STATEMENT

[Except as disclosed in this document, there/There][(10)] has been no significant change in the financial or trading position of the Issuer or of the Group since *[insert date of last audited accounts or interim accounts (if later)]* and no material adverse change in the financial position or prospects of the Issuer or of the Group since *[insert date of last published annual accounts]*.]

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement. Signed on behalf of the Issuer:

By: ____
Duly authorised

Notes:

(1) Paragraph (iii) is not required where the Notes have a denomination of at least €100,000 or equivalent.

(2) 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.

(3) 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).

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".

(4) 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.

(5) 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."

(6) 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."

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

(8) If the Global Note/Certificate is exchangeable for Definitive Notes/Certificates 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) Only applicable if permitted by the rules of the relevant clearing system. The limited circumstances in which exchange is permitted are set out under the section "Summary of Provisions Relating to Notes while Represented or Evidenced by Global Notes or Global Certificates — Exchange" in the Offering Circular.

(10) 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.

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

CAPITALISATION AND INDEBTEDNESS

The following table sets forth the consolidated indebtedness and capitalisation of the Bank as at 31 December 2020. Investors should read this table in conjunction with the Financial Statements Translation and the notes thereto as at and for the year ended 31 December 2020 included elsewhere in this Offering Circular.

	As at 31 December 2020	
	(RMB in million)	(US$ in million) [(1)]
Debt		
Debt securities issued	947,393	145,194
Other borrowings [(2)]	6,321,804	968,859
Total debt	**7,269,197**	**111,405**
Equity		
Share capital	20,774	3,184
Preference stock	55,842	8,558
Capital reserve	74,914	11,481
Other comprehensive income	(749)	(115)
Surplus reserves	10,684	1,637
General risk reserve	87,535	13,415
Retained earnings	336,626	51,590
Equity attributable to equity holders of the Bank	615,586	94,343
Minority interests	9,217	1,413
Total equity	**624,803**	**95,755**
Total capitalisation [(2)]	**7,894,000**	**1,209,808**

Notes:

(1) For convenience only, all translations from Renminbi into U.S. dollars are made at the rate of RMB6.525 to US$1.00, based on the noon buying rate as set forth in the H.10 statistical release of the Board of Governors of the Federal Reserve Bank System on 31 December 2020.

(2) Calculated as the difference between total debt and debt securities issued.

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

Except as disclosed above, there has not been any material change in the consolidated indebtedness and capitalisation of the Bank since 31 December 2020.

USE OF PROCEEDS

The net proceeds of any Notes issued under the Programme (after deduction of underwriting fees, discounts and commission and other expenses incurred by the Bank and the relevant Issuer in connection with the Programme and Notes to be issued under the Programme) will be used for the purpose of replenishing working capital and funding for implementing the Bank's strategies for overseas business expansion or such purposes as may be specified in the applicable Pricing Supplement.

DESCRIPTION OF THE HONG KONG BRANCH

The Hong Kong Branch was established as the Bank's first overseas branch on 10 January 2014 with CBIRC's approval obtained in September 2012. The establishment of the Hong Kong Branch was an important step to implementing the Bank's overseas business expansion strategy. The Hong Kong Branch currently possesses the banking license issued by HKMA and is fully qualified to engage in the banking business under the laws of Hong Kong. The Hong Kong Branch has obtained licenses to carry out Type 1 regulated activities (Dealing in Securities) and Type 4 regulated activities (Advising on Securities) as set out in Schedule 5 to the Securities and Futures Ordinance of Hong Kong.

Business Activities

The Bank positions the Hong Kong Branch as its primary offshore investment and financing platform with a strategic vision to develop it into an offshore platform to offer comprehensive financial services to the Bank's overseas customers. To date, the Hong Kong Branch primarily provides the following financial services to overseas and Hong Kong local customers:

- settlement of cross-border transactions;
- corporate financing relating to offshore merger and acquisition financing and syndicated loans;
- comprehensive financing solutions; and
- private banking services.

Since its establishment, the Hong Kong Branch has achieved stable growth. As at the date of this Offering Circular, the Hong Kong Branch has established cooperative relationships with more than 380 financial institutions in China, Hong Kong, the United States, Europe, Japan and Australia to conduct treasury operations, such as inter-bank money market activities, foreign exchange transactions, forwards, futures transactions and interest rate swaps. Among the corporate customers of the Hong Kong Branch are many large "blue chip" enterprises in China, Hong Kong and overseas.

As at 31 December 2018, 2019 and 2020, the Hong Kong Branch's total assets were RMB201,373 million, RMB189,899 million and RMB176,329 million, respectively. For the years ended 31 December 2018 and 2019, the net profit of the Hong Kong Branch was RMB1,857 million and RMB155 million, respectively. For the year ended 31 December 2020, the net loss of the Hong Kong Branch was RMB1,246 million.

Senior Management of the Hong Kong Branch

Mr. Guo Ming (郭明) has been the chief executive of the Hong Kong Branch since September 2019. Mr. Guo previously served as the president of the Xi'an Branch, Tianjin Branch and Shenzhen Branch of the Bank. Mr. Guo holds a doctoral degree in finance from Xi'an Jiaotong University.

Hong Kong Regulatory Guidelines

The banking industry in Hong Kong is regulated by and subject to the provisions of the Banking Ordinance and to the powers and functions ascribed by the Banking Ordinance to HKMA. The Banking Ordinance provides that only banks which have been granted a banking license ("**license**") by HKMA, may carry on the 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 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. HKMA supervises licensed banks through, among others, a regular information gathering process, the main features of which are as follows:

- each licensed bank must submit a monthly return to 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. HKMA has the right to allow returns to be made at less frequent intervals;

- 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 to be submitted 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 HKMA may require. HKMA may also require a report by the licensed bank's auditors (approved by 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 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 HKMA immediately when they are likely to become unable to meet their obligations;

- HKMA may direct a licensed bank to appoint an auditor to report to 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 HKMA may reasonably require; and

- 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 HKMA on a regular basis.

DESCRIPTION OF THE BANK

OVERVIEW

The Bank is an established, strongly competitive, nationwide joint-stock commercial bank incorporated on 22 August 1988 with its headquarters in Fujian Province, China. It was among the first batch of commercial banks approved by the State Council and PBOC at the state level. Through its nationwide and diversified distribution channels, the Bank provides a wide range of wholesale and personal banking and other financial products and services to its corporate and personal customers. In 2020, the Bank ranked 21st in terms of Tier 1 Capital and 27th in terms of total assets and, in 2021, the Bank was ranked 24th in terms of brand value among the "Top 500 Global Bank Brands in 2021" by the British magazine "*The Banker*". The Bank was listed on the Shanghai Stock Exchange under stock code "601166" in February 2007.

Over the past few decades, the Bank has developed a comprehensive and universal banking platform licensed to provide traditional banking, trust, futures, financial leasing, fund management, financing research and consultation services to its customers. The Bank believes that its strong capability to offer a broad range of comprehensive services to customers nationwide has transformed it from a regional bank into a national commercial bank with significant asset scale. As at 31 December 2018, 2019 and 2020, the Bank had total assets of RMB6,711,657 million, RMB7,145,681 million and RMB7,894,000 million, respectively, and its loans and advances to customers totalled RMB2,838,445 million, RMB3,345,180 million and RMB3,867,321 million, respectively. According to the annual financial information as at and for the year ended 31 December 2020 published by China Banking Association, the Bank was ranked ninth in terms of core tier 1 capital as at 31 December 2020.

The Bank serves its customers through its nationwide and diversified distribution channels, comprising physical branches and outlets and digital platforms. As at 31 December 2020, the Bank had 45 branches, including the Hong Kong Branch, 2,003 outlets and 4,937 ATMs in the PRC. In addition to its domestic presence, the Bank had more than 1,180 correspondence banks across approximately 97 countries and regions. Leveraging its advanced information technology, the Bank established an e-Banking network to provide all-time access to its services around the globe.

The Bank values innovation and is dedicated to developing innovative financial services and products to adapt to the evolving market environment and to meet the changing needs of its customers. The Bank has introduced a number of "first-of-its-kind" financial products that have received positive responses from its corporate and personal customers. In addition to traditional banking products and services, the Bank develops and provides green financing for its customers in renewable energy, carbon emission reduction, water resource utilisation and protection and wastewater treatment industries. In 2021, the Bank was awarded the "2020 China Outstanding Enterprise Award for Social Responsibility" (2020中國社會責任杰傑出企業獎) by the 2020 China Corporate Social Responsibility Cloud Summit. The Bank was awarded the "Best Green Finance Bank of the Year" (年度最佳綠色金融銀行獎) by *Asiamoney* in 2020. In 2019, the Bank was awarded the "Largest Green Bond Offering in Emerging Countries" by *The Climate Bonds Initiative*. Furthermore, the Bank places significant emphasis on social responsibility and was awarded the "Annual Best Financial Institution with Social Responsibility" (年度最具社會責任金融機構獎) for seven consecutive years from 2011 to 2017.

The Bank is dedicated to establishing and improving its risk management capabilities to monitor, assess and manage credit, market, liquidity and operational risks. The Bank has set up a three-level risk management structure, comprising its business departments, functional and risk management department and internal audit office. In addition, the Bank has established procedures for independent credit assessment, approval and monitoring to identify and reduce its exposure to high credit risk areas and to improve the quality of its loan portfolio. As at 31 December 2020, the Bank's non-performing loan ratio was 1.25 per cent., which was lower than the average non-performing loan ratio of 1.92 per cent. of all PRC commercial banks reported by CBIRC.

With its international expansion strategy, the Bank established its Hong Kong Branch in January 2014. The Hong Kong Branch is positioned as the Bank's primary offshore investment and financing platform offering comprehensive financial services to overseas and local Hong Kong customers. The Hong Kong Branch currently provides financial services including settlement of cross-border transactions, offshore merger and acquisition financing, syndicated loans and private banking services.

The Bank's financial performance and strengths have steadily developed over the past decades. For the years ended 31 December 2018, 2019 and 2020, the Bank's net profit was RMB61,245 million, RMB66,702 million, RMB67,681 million, respectively. The Bank's total assets and net profit attributable to equity holders have more than doubled from 2011 to 2020.

The tables below set forth certain key financial indicators of the Bank as at and for the periods ended as at the indicated dates:

	Year ended 31 December		
	2018	**2019**	**2020**
	(RMB in million, except for percentage)		
Net Profit	61,245	66,702	67,681
Return on average total assets (per cent.) (1)	0.93	0.96	0.90
Return on average equity (per cent.) (2)	14.27	14.02	12.62
Non-interest income to operating income (per cent.) (3)	39.57	32.55	29.35
Cost to income ratio (per cent.) (4)	26.89	26.03	24.16

Notes:

(1) Return on average total assets = net profit for the period/average total assets. Average total assets = (total assets at the beginning of the period + total assets at the end of the period)/2.

(2) Return on average equity = net profit attributable to ordinary shareholders of the Bank for the period/average equity attributable to ordinary shareholders of the Bank.

(3) Non-interest income to operating income = non-interest income/operating income.

(4) Cost to income ratio = (total operating expenses — business tax and levies — impairment loss)/operating income.

	As at 31 December		
	2018	**2019**	**2020**
	(RMB in million, except for percentage)		
Total assets	6,711,657	7,145,681	7,894,000
Total liabilities	6,239,073	6,596,029	7,269,197
Gross loans and advances to customers	2,934,082	3,441,451	3,965,674
Tier 1 Capital Adequacy Ratio (per cent.)	9.85	10.56	10.85
Core Tier 1 Capital Adequacy Ratio (per cent.)	9.30	9.47	9.33
Non-performing loan ratio	1.57	1.54	1.25
Provision coverage ratio	207.28	199.13	218.83

AWARDS

Over the years, the Bank and its financial services have received numerous honours and awards, including, among others:

2021

- "Sustainable Development and Inclusion Award" awarded by *CAIJING,* an influential magazine in China;

- "2020 China Outstanding Enterprise Award for Social Responsibility" awarded by 2020 China Corporate Social Responsibility Cloud Summit;

- Ranked 24th in terms of brand value among "Top 500 Global Bank Brands in 2021" by *The Banker*;
- "Best Service Custodian Bank of the Year 2020" *The China Times*; and
- "Outstanding Digital Bank" awarded by FinTech Index Forum.

2020

- Ranked fourth in terms of a combination of various indicators including growth rate, profitability, cost-to-income ratio and asset quality among "Top Performance PRC Banks" by *The Banker*;
- Ranked 57th among "Forbes Global 2000" by *Forbes*;
- Ranked seventh in terms of Core Tier-1 Capital among "Top 100 PRC Banks" by China Banking Association;
- "Best Supply Chain Finance Bank" and "Best Green Finance Bank" awarded by *Asia Money*;
- "Best Sustainable Bank in China" among the Finance Asia's Country Awards by *FinanceAsia*;
- Ranked first among 2020 Green Debt Financing Instrument Investors by the China Interbank Dealers Association;
- "Best Innovative Poverty Alleviation Organisation in 2020" awarded by *Tencent News*;
- Ranked 27th in terms of total assets by *The Banker*;
- Ranked 21st in terms of capital by *The Banker*; and
- "Enterprise of the Year" awarded by *People's Daily*.

2019

- Ranked 55th among "Forbes Global 2000" by *Forbes*;
- Ranked seventh among "China Top 100 Banks" by China Banking Association;
- "Best Performance Private Bank" by *The Banker* and *Professional Wealth Management*;
- "Best Green Finance Commercial Bank" and "Best Green Bond Bank" by *Asia Money*;
- "Best Joint-Stock Commercial Bank" by *Financial Times*;
- Ranked 28th in terms of total assets by *The Banker*;
- Ranked 23rd in terms of capital by *The Banker*; and
- "Best Green Bank in China" and "Best Retail Bank in China" by *Global Banking & Finance Review*.

2018

- Ranked 26th in terms of Tier 1 Capital and 28th in terms of total assets by *The Banker*;
- Ranked 62nd among "China Top 500" and 237th among "Global Top 500" by *Fortune*;
- Ranked 62nd among "Forbes Global 2000" by *Forbes*;

- Ranked 20th among "2018 Global Brand Finance 500" by *The Banker*;

- "Model Enterprise of Sustainable Development" awarded by *China Business*;

- "Green Finance Prize" and "Outstanding Transactional Bank" awarded by *National Business Daily*;

- "2018 Best Asset Management Bank", "2018 Outstanding Fin-Tech Bank" and "2018 Annual Payment Technology Innovation Prize" awarded by *21st Century Business Herald*;

- "Annual Best Green Financial Bank" awarded by *Asia Money*;

- "Annual People's Enterprise Social Responsibility" awarded by *People's Daily*;

- "Best Social Responsibility Management Prize", "Best Green Finance Prize" and "Best Social Responsibility Special Contribution Branch" awarded by the China Banking Association;

- "2018 China Excellent Trust Company" and "2018 China Excellent Financial Leasing Company Jun Ding Award" awarded by *Securities Times*; and

- "Top 10 Fin-Tech Product Innovation Prize" and "Top 10 Banking Intelligence Network Innovation Prize" awarded by *The Banker*.

2017

- "Outstanding Social Responsibility Financial Brand for the Year" awarded by *The Financial Times*;

- The then chairman of the Bank, Gao Jianping, was selected as one of "China's Outstanding Financial Brand Figures" by *The Financial Times*; and

- "Universal Bank Investment Bank Jun Ding Award", "Financial Adviser Bank Jun Ding Award" and "Cross-border Financing Bank Jun Ding Award" awarded by *Securities Times*.

HISTORY AND MILESTONES

The following are the milestone events in the history of the Bank:

Year	Milestone
1988	The Bank was established with the approval of the State Council and PBOC at the state level under the name "Fujian Industrial Bank".
1996	The Bank set up branches in Shanghai, Shenzhen, Changsha, Beijing and Hangzhou under stock code "601166".
2003	The Bank was officially renamed as "Industrial Bank".
2004	Three international strategic investors, namely Hang Seng Bank Limited, International Finance Corporation and Tetrad Ventures Pte Ltd., invested in the Bank.
2007	The Bank was listed on the Shanghai Stock Exchange under stock code "601166".
2010	The Bank completed RMB17.86 billion A-share placing, the largest placing in the PRC at that time. The Bank obtained the approval to establish Industrial Bank Financial Leasing Co., Ltd.
2011	The Bank acquired Union Trust Limited and renamed it "China Industrial International Trust Limited".

Year	Milestone
2013	The Bank set up CIB Fund Management Co., Ltd., China Industrial Guoxin Asset Management Co., Ltd. and Industrial Wealth Asset Management Co., Ltd.
2014	The Bank set up the Hong Kong Branch to implement its international business expansion.
	The Bank issued its first tranche of preference shares in a total amount of RMB13 billion in the PRC.
	The Bank issued Tier 2 Capital bonds in a total principal amount of RMB20 billion in the PRC.
2015	Industrial Digital Financial Service Co., Ltd. and Industrial Economy Research Consultation Co., Ltd. were established.
	The Bank issued its second tranche of preference shares in a total principal amount of RMB13 billion in the PRC.
2016	The Bank issued Tier 2 Capital bonds in a total principal amount of RMB30 billion in the PRC.
	The Bank established a US$5,000,000,000 Medium Term Note Programme in September 2016. The Bank issued a US$700 million 2.000 per cent. notes due 2019 and a US$300 million 2.375 per cent. notes due 2021 under this MTN Programme.
2017	The Bank issued 1.72 billion in A-shares totalling a principal amount of RMB26.0 billion in April 2017.
2018	The Bank renewed its MTN Programme in February 2018.
2019	Industrial Bank Wealth Management Co., Ltd. was established.
	The Bank was one of the first bank signing the Principles for Responsible Banking issued by the United Nations Environment Programme.
	The Bank entered into a green development cooperation agreement with Yunnan Provincial Government to provide green financing services to enterprises in Yunnan Province.
2020	The Bank entered into a green finance strategic cooperation agreement with Fujian Provincial Governmental Ecology and Environmental Bureau to provide indicative financing credits to the environmental protection industry of Fujian Province.
	The Bank received approval from relevant authorities to set up its London branch to implement its international business expansion. The Bank issued Tier 1 Capital bonds in a total principal amount of RMB30 billion in the PRC. As at the date of this Offering Circular, the Bank had issued US$3.35 billion, €550 million and HK$3 billion notes under this MTN Programme in 10 tranches, including US$700 million 2.00 per cent. notes due 2019, US$300 million 2.375 per cent. notes due 2021, US$600 million 3.50 per cent. notes due 2021, US$250 million 3.75 per cent. notes due 2023, US$500 million floating rate notes due 2023, €250 million floating rate notes due 2021, US$600 million floating rate notes due 2021, €300 million floating rate notes due 2021, US$450 million 1.125 per cent. notes due 2023 and HK$3 billion 1.1 per cent. notes due 2022.

COMPETITIVE STRENGTHS

The Bank believes that the following are its key competitive strengths:

An established and strongly competitive national commercial bank with innovation capabilities

The Bank is an established, strongly competitive, nationwide joint-stock commercial bank founded in August 1988 with its headquarters in Fujian Province, China. It was among the first batch of commercial banks approved by the State Council and PBOC at the state level. After decades of development, the Bank has established its strong competitiveness in the PRC banking industry. In 2020, the Bank ranked 21st in terms of Tier 1 Capital and 27th in terms of total assets and, in 2021, the Bank was ranked 24th in terms of brand value among "Top 500 Global Bank Brands in 2021" by the British magazine "*The Banker*". In 2019, the Bank ranked 55th among the "Forbes Global 2000" by *Forbes* and 213th among the "Global 500" by *Fortune*.

The Bank believes that its strong competitiveness and market position have been largely attributable to its strong innovation capabilities, with which the Bank has been able to improve its business model, products, distribution channels and information technologies.

- *Corporate culture emphasising innovation*. The Bank values innovation. It adopts a market-oriented principle and has been committed to research in the cutting-edge sectors of the banking industry, such as innovative financial services in response to China's urbanising and aging society. The Bank rolled out new products and explores the "internet + bank + platform" financing model to expand its customer base. See "— The Bank's Principal Business Activities — Corporate Banking Business — Small and Micro Enterprises Business". The Bank is the first bank to adopt the Equator Principles in China, which is a risk management framework for determining, assessing and managing environmental and social risk in project finance adopted by various financial institutions around the world. The adoption and implementation of the Equator Principles demonstrates the Bank's commitment to corporate social responsibility, including robust standards for indigenous peoples and labour standards. As at 31 December 2020, the Bank provided loans to 621 projects adopting the Equator Principles, which had a total investment amount of RMB2,916.1 billion.

- *Innovative products*. The Bank has introduced a number of "first-of-its-kind" financial products that are popular among customers, such as "Natural Life" (自然人生), "Contented Life" (安愉人生) and "Cosmopolitan Life" (寰宇人生), which are personal loan products targeting different groups of customers. In 2019, the Bank was awarded the "Top 10 Private Enterprise Innovative Financial Services Prize" and "Top 10 Innovative Wealth Management Prize" among PRC financial institutions by *The Banker*. It has leveraged its in-depth understanding of the market and needs of its customers, and has diversified its product portfolio to provide easily accessible financial services for small and micro enterprises. In recent years, the Bank further expanded into "green financing" to respond to the financing needs of enterprises operating in the renewable energy, carbon emission reduction, water resource utilisation and protection and wastewater treatment industries. The Bank actively promotes the branding of "Green Bank" and continues to expand its influences by providing financing to energy conservation and environmental protection projects. In 2020, the Bank underwrote the first "Green Anti-Epidemic Bond" in the market and the first corporate blue bond in the PRC. The Bank ranked first among 2020 Green Debt Financing Instrument Investors (2020年綠色債務融資工具投資人) organized by the China Interbank Dealers Association (中國銀行間交易商協會). The Bank was awarded the "Best Green Finance Bank of the Year" (年度最佳綠色金融銀行獎) by *Asiamoney* in 2020.

- *Innovative distribution channels*. With an aim to improving customer loyalty, the Bank has made significant investment in promoting its mobile banking, direct banking and online commerce platform and improved the quality and synchronisation of its "online-to-offline" banking services. The Bank believes that its diversified and innovative distribution channels facilitated by its advanced information technologies have provided an all-time remote access to its services to its customers around the globe. The Bank believes that its efforts have further improved customer experience and enabled it to expand its customer base and grow its business.

- *Advanced information technology*. The Bank's advanced information technology has enabled it to maintain a competitive position in product innovation. Since its establishment, the Bank has focused on implementing its "technology driven" development strategy. The Bank believes that it is one of the few PRC banks that possesses proprietary technologies and intellectual property rights for its core operating system, especially its back office operating systems.

A universal banking platform providing comprehensive modern financial services and synergy to grow its business and improve its profitability

The Bank believes that its established market position and strong brand awareness are to a large extent attributable to its record of providing customers with diversified modern financial services. As at the date of this Offering Circular, the Bank is one of the few PRC commercial banks that has obtained a majority of the principal financial licenses that allow it to engage in banking, trust, futures, financial leasing, fund management, consumer finance, asset management, wealth management, research and consultation and digital finance. It has proactively developed licensed non-banking financial businesses, such as fund management, trust management, asset management, consumer finance, internet finance, financial leasing and financial search and consultation with a view to satisfying its customers' increasingly diversified needs for integrated financial services. The Bank believes that its suite of financial licenses have created a universal banking platform that provides it with the capabilities to offer a broad range of financial services to customers. By operating as an integrated financial group, the Bank believes that resource sharing among its different business segments and cross selling efforts have given and will continue to give the Bank opportunities to grow its business and improve its profitability.

A leader in providing services to financial institutions

The Bank believes that it has established a leading position in the provision of financial services to financial institutions. The Bank has established long-standing co-operative relationships with more than 1,000 domestic and overseas commercial banks, securities firms, funds, insurance companies, trust investment companies, finance companies affiliated to business corporations, financial leasing companies and other financial institutions. The Bank's third-party depositary system connected with 102 securities companies as at 31 December 2020, while it has also established co-operative relationships with 68 trust companies. In addition, the Bank is one of the pioneering banks providing agency settlement services in the PRC and is an associate member of the Insurance Asset Management Association of China as well as a member of the Shanghai Clearing House.

The Bank has introduced the "Bank-to-Bank Platform" (銀銀平台), an integrated service system providing comprehensive "online-and-offline" financial services to various collaborating banks covering wealth management, payment and settlement, technological management output, training services, financing services and capital restructuring. As at 31 December 2018, 2019 and 2020, the Bank had 1,906, 2,022 and 1926 contracted customers of its "Bank-to-Bank Platform", respectively. In addition, as at 31 December 2020, the Bank worked together with 389 commercial banks to establish a banking information system, which the Bank believes is one of the largest information systems for commercial banks in the PRC. The "Bank-to-Bank Platform" has won awards from many authoritative media, such as sina.com, *Shanghai Securities News* and 21st *Century Business*.

A bank with strong cost control capability

For the year ended 31 December 2020, the Bank achieved net profit of RMB67,681 million, making the Bank one of the most profitable nationwide joint-stock commercial banks in China. The Bank believes that its strong cost control capability has enabled it to achieve increasing income and profitability, and has been key to the Bank's success in competing with other commercial banks in the PRC. As at 31 December 2018, 2019 and 2020, the cost-to-income ratio of the Bank was 26.89 per cent., 26.03 per cent. and 24.16 per cent., respectively. The Bank increased its income by optimising its capital structure, strengthening its business structure and capital base, innovating its business model and financial products, enhancing the synergies within the Group and expanding its distribution channels. In addition, the Bank strives to control its costs by developing an internal fund transfer pricing system, internal accounting management system and key performance indicator system to better control its cost and restrict its investment in low efficiency resources.

A bank with prudent and comprehensive risk management and solid asset quality

The Bank is committed to establishing and improving its risk management structure, procedures, tools and technology to monitor, assess and manage credit, market, liquidity and operational risks. The Bank has formulated an annual credit policy, implemented a differential credit policy of "assuring supply, control and stock compression", actively supported the development of the economy and optimised the allocation of credit resources. The Bank also actively implements green credit policies and prioritises supporting green industries. The Bank has established exposure limits on certain restricted industries with high energy consumption, high pollution or overcapacity (兩高一剩). The Bank has implemented independent credit assessment, approval and monitoring procedures, and rationalised its loan asset portfolio by establishing procedures to identify and limit its exposure to high credit risk areas. The Bank uses advanced market risk and liquidity risk monitoring and analysis tools in order to identify, measure and manage liquidity risk and market risk. The Bank seeks to cultivate a culture of prudent and comprehensive risk management across its business.

The Bank has set up "three lines of defence" for its risk management structure, consisting of its business departments, functional and risk management department, and internal audit office. The Bank's business departments, as the first line of defence of its management system, are directly responsible for risk management. The functional and risk management department at the Bank's head office, as the second line of defence, is responsible for establishing risk management policies and procedures, and co-ordinating, supporting, supervising and reporting risk management. The internal audit office, as the third line of defence, is responsible for evaluating the adequacy and effectiveness of its risk management policies and procedures.

The Bank believes that its advanced technologies provide strong support for implementing its risk management system and measures. The Bank is one of the first PRC commercial banks to establish an integrated emergency back-up system, comprising main data centres, local emergency back-up centres and cross-regional emergency back-up centres. In addition, the Bank is one of the first PRC commercial banks that have been accredited to meeting the international five-level emergency back-up standards as well as the emergency back-up standards published by the PBOC. Prudent risk management enables the Bank to maintain solid asset quality. As at 31 December 2020, the Bank's non-performing loan ratio was 1.25 per cent., which was lower than the average non-performing loan ratio of 1.92 per cent. of all PRC commercial banks reported by CBIRC.

Significant business growth and solid capital base with strong support from its largest shareholder

The Bank enjoys strong support from its largest shareholder, Fujian Provincial Department of Finance (福建省財政廳). As a publicly listed and national bank headquartered in Fujian Province, the Bank believes that it benefits and will continue to benefit substantially from the support of the Fujian Provincial Government. The Fujian Provincial Department of Finance provides strong, stable and continuous support to the Bank by participating in the Bank's capital replenishment. The Fujian Provincial Department of Finance increased its capital investment in the Bank by an amount of RMB3,744 million in 2010 and subscribed for preference shares of RMB2.5 billion when the Bank issued its RMB13 billion preference shares in 2014.

The Bank strives to maintain a strong capital base to strengthen its risk management capabilities. It issued the first tranche of RMB13 billion preference shares and the second tranche of RMB13 billion preference shares in the PRC in 2014 and 2015, respectively, and issued Tier 2 Capital securities in the amount of RMB20 billion and RMB30 billion in 2014 and 2016, respectively. In April 2019, the Bank further issued RMB30 billion preference shares in the PRC to supplement its Core Tier 1 Capital as approved by CSRC. The Bank also issued RMB30 billion Tier 2 Capital bonds and RMB20 billion Tier 2 Capital bonds in August 2019 and September 2019, respectively. The Bank further issued RMB30 billion Tier 1 Capital bonds in October 2020. As a result, the Bank's Core Tier 1 Capital Adequacy Ratio, Tier 1 Capital Adequacy Ratio and Capital Adequacy Ratio was 9.33 per cent., 10.85 per cent. and 13.47 per cent. as at 31 December 2020, respectively.

With the support from its largest shareholder, the Bank's financial performance and strengths have significantly developed over the past few decades. As at 31 December 2018, 2019 and 2020, the Bank had total assets of RMB6,711,657 million, RMB7,145,681 million and RMB7,894,000 million, respectively, and its gross loans and advances to customers totalled RMB2,934,082 million, RMB3,441,451 million and RMB3,965,674 million, respectively. For the years ended 31 December 2018, 2019 and 2020, the Bank's net profit for the period was RMB61,245 million, RMB66,702 million and RMB67,681 million, respectively.

An experienced management team

The Bank's senior management team has extensive experience in the PRC commercial banking industry. The president of the Bank, Mr. Tao Yiping, has more than 30 years of experience in the PRC banking industry. The Bank's senior management possesses long-term strategic vision and keen insights in the PRC banking industry. Under their leadership, the Bank has actively responded to changes in the external environment, continued its product development and business innovation and established powerful information technology systems. The Bank's senior management team has led its transformation from one of the leading traditional banks to a large provider of diverse, comprehensive financial services.

Although the Bank faces adverse external conditions caused by the liberalisation of interest rates as well as increasing competition in the banking industry, the Bank has continued its prudent operations, accelerated its business transformation and maintained smooth and steady development under the leadership of its management team. The Bank believes that its experienced management team will be able to lead it in maintaining its competitive advantages in the future, laying a solid foundation for its long-term sustainable growth.

A bank with a clear strategic objective

The Bank has developed a clear strategic objective to service its customers while mitigating financial risks. The clear strategic objective enables the Bank to implement its business strategies and serve the customers with efficiency and achieve outstanding operational results over the years while minimising risks for customers and investors. Adhering to the strategic objective, the Bank has been able to capture the developmental trends in the financial markets, realise market integration and diversification, and allocate its abundant resources to formulate its business plan and maximizing profit. The Bank is determined to be a "customer-oriented, business-oriented and investment-oriented" institution that enjoys global recognition. For example, the Bank ranked 24th in terms of brand value among "Top 500 Global Bank Brands in 2021" by *The Banker* and was awarded "Best Service Custodian Bank of the Year 2020" by *The China Times*, which are testaments to its outstanding operational results and its dedication to customer service.

BUSINESS STRATEGIES

The Bank aims to transform itself into a modern financial services institution with its comprehensive financial licenses. It aims to strengthen its risk management and focus on business innovation to attain sustainable development and realise increased profitability and solid asset quality. The Bank intends to achieve these goals through the following strategies:

Enhancing intra-bank synergy to satisfy customers' increasingly diversified needs for integrated financial services

The Bank is one of the few PRC commercial banks that has obtained a majority of the principal financial licenses that allow it to engage in banking, trust, futures, financial leasing, fund management, financing research and consultation, and third-party payment operations. This business combination has created a universal banking platform that provides the Bank with the ability to offer a broad range of financial products and services and enables it to establish stronger relationships with strategically targeted customers and strengthen customer loyalty. By operating as an integrated financial group, the Bank believes that its resources sharing among the Bank's different business segments and cross selling efforts have given and will continue to enhance its external synergy.

Intra-bank synergy promotes cost effectiveness and helps the Bank to generate a higher profit margin. The Bank has built up uniform key performance indicator review system and realised uniform management of risk management policies and risk preferences. The Bank continues to promote synergies among members of the Group by cooperating with its subsidiaries to conduct financial leasing, fund management and consumer financial businesses. The Bank will continue to improve its efficiency in internal operations management by connecting office systems, centralising the management of office building leasing, standardising financial management and sharing IT systems and infrastructure within the Group.

While the Bank promotes synergies within the Group, the Bank centralises strategic planning and development at the group level and enhances brand management to enable the Bank to benefit from economies of scale and brand recognition, as well as to improve efficiency of resource utilisation.

Adhering to the Bank's globalisation strategy

The Hong Kong Branch was established as the Bank's first overseas branch in January 2014. The establishment of the Hong Kong Branch is an important step to implementing the Bank's strategy of international expansion. The Bank positions the Hong Kong Branch as its primary offshore investment and financing platform with a strategic vision to develop it into an offshore platform which is able to offer comprehensive financial services to the Bank's overseas customers. See "*Description of the Hong Kong Branch*".

With the globalisation of its "Bank-to-Bank Platform" (銀銀平台), cross-border Renminbi transactions, and increasing demand for overseas financial services from its private banking customers and the preparation for the incorporation of an international financial holding company, the Bank aims to provide comprehensive financial services to its customers all over the world.

Continuing to improve business and operating model to achieve sustainable growth

The Bank believes that its sustainable business growth in the future to a large extent relies on, and will continue to benefit from, a business and operating model that is able to respond to the changing market dynamics and competition landscape in an effective and timely manner. The Bank will continue to strategically transform its business and operations from the traditional model primarily driven by lending and deposit to one that focuses on provision of quality intermediary services, such as settlement, investments and treasury operations. In the meantime, it plans to make significant investments in wholesale banking, business solutions, retail banking and asset management as well as international business expansion, thereby improving its capital structure and further enhance its competitive strengths. Furthermore, the Bank will focus on exploring potential cross selling opportunities and synergies across different business segments, offices, PRC domestic and overseas markets, and online and offline markets.

Proactively addressing customers' needs by continuing its focus on product and business model innovation

The Bank aims to optimise its business operations by focusing on new businesses with large-growth potential, including individual loans, trade finance and loans to SMEs, as well as high-growth industries, such as service sectors and environmental industries of renewable energy, to further develop its customer base and targeted markets. In addition, the Bank continues to focus on innovation of off-balance sheet businesses to diversify its revenue sources.

The development of mobile and electronic banking through innovation is a key strategy of the Bank to be at the forefront of a rapidly changing market. The advanced technological strengths have provided the Bank with a solid advantage in the Bank's internet banking business. The Bank was able to realise its advantage through accurately and promptly identifying customers' increasing needs for a digital and borderless banking service platform and utilise its technological strength to build a digital infrastructure that improves user experience and enhances the value of the Bank's service. For example, the Bank launched the "Bank-to-Bank Platform" providing online and offline financial services to other collaborative banks by offering comprehensive financial solutions relating to wealth management, payment and settlement, training services, financing services and capital restructure. In addition, the Bank introduced "QianDa Money Manager" (錢大掌櫃), which is an online financial platform providing comprehensive asset management products issued by commercial banks, trusts, funds and insurance companies. As at 31 December 2020, "QianDa Money Manager" had approximately 14.9 million registered users.

Focusing on increasing the synergy between the Bank's domestic operations and overseas operations to create additional business opportunity, the Bank seeks to diversify its product portfolio and increase overall profitability. The Bank settled cross-border transactions in an aggregate amount of US$227.7 billion for the year ended 31 December 2020.

Continuing to strengthen the risk management system to maintain solid asset quality

The Bank believes effective risk management and solid asset quality are essential components of its overall business strategy. The Bank plans to continue to align its risk management and internal control capabilities. The Bank intends to continue to implement enhanced risk management procedures for credit exposures, such as improving its risk warning and early identification and prevention capabilities. The Bank is also instituting changes to further strengthen the independence of its internal control functions and to improve its bank-wide internal control systems. The Bank also seeks to continue to improve its risk management capabilities by enhancing its asset and liability management capabilities and by further centralising its risk management.

Continuing to invest in information technology infrastructure and to utilise advanced technology to support the Bank's growing business

The Bank aims to further invest in information technology infrastructure and to apply data analytics, cloud computing and mobile internet technologies in areas such as marketing and sales, customer services, product innovation and risk control in order to support its business. The Bank intends to use the technology at its disposal to gain more insight into its customers' demands, to increase its risk management capabilities and effectiveness, to strengthen dynamic risk assessment and real time alert controls and to develop an integrated platform combining online and offline services for its customers.

Effectively allocating strategic resources and advance key components of the Bank's business

The Bank aims to improves its quality of service and development by allocating strategic resources to its key products, key regions, key industries and key customers. The Bank intends to prioritise and upgrade the shortcomings of its existing key products and consolidate its competitiveness in the market and support the growth of cross-regional development in the most vibrant regions in China, such as the Greater Bay Area which includes Guangzhou, Hong Kong, Macau, and other cities along the Pearl River Delta. Furthermore, the Bank intends to invest in advanced manufacturing and strategic emerging industries and facilitate the connection between real economy and virtual economy. Lastly, the Bank aims to prioritise the user experience of its key customers by providing customised services and targeted marketing.

RECENT DEVELOPMENTS

Unaudited Quarterly Results of the Group

The Bank published the unaudited condensed consolidated results of the Group ("**Unaudited Quarterly Results**") for the three months ended 31 March 2021 ("**3M 2021**") together with the comparative figures for the corresponding period in 2020 ("**3M 2020**") on the Shanghai Stock Exchange on 30 April 2021. The Unaudited Quarterly Results relate only to selected unaudited key performance indicators of the Group and are based on the Group's internal records and management accounts. For the three months ended 31 March 2021, the Group's total operating income increased significantly as compared to the corresponding period in 2020, mainly attributable to increased interest income due to the Group's expanded loan portfolio with high interest yield as well as increased fees and commission due to the Group's steady growth in the bank card business and wealth management business. The substantial increase in total operating income for the three months ended 31 March 2021 was partially offset by a decrease in the Group's investment income for the corresponding period primarily due to decreased income from bond trading activities.

The Unaudited Quarterly Results have not been reviewed or audited by independent auditors and should not be relied upon by investors to provide the same quality of information associated with information that has been subject to an audit or review. None of the Issuer, the Bank, the Arrangers, the Dealers and the Agents, nor any person who controls any of them, nor any director, officer, employee, nor agent of any of them, or affiliate of any such person makes any representation, warranty or undertaking, express or implied of, or accepts any responsibility or liability with respect to the Unaudited Quarterly Results. The Unaudited Quarterly Results are historical in nature and past performance is not a guarantee of future performance. The Unaudited Quarterly Results are not included in and do not form part of this Offering Circular. See also "*Risks relating to the Bank's Business — Pursuant to applicable PRC regulatory rules, the Bank publishes periodic financial information in the PRC which may differ from future audited or reviewed financial information.*".

Proposed Issuance of Onshore Convertible Debt Securities

Pursuant to the resolutions of the board of the directors of the Bank dated 13 May 2021, the board reviewed and passed a resolution in relation to the public issuance of RMB50 billion A-share convertible corporate bonds. The proposed issuance shall be effected upon the approvals from the shareholders at the annual general meeting, the CBIRC and the CSRC have been obtained, and is subject to amendments in accordance with any comments the CBIRC and the CSRC may have. The details of the proposed issuance can be accessed through the website of the Shanghai Stock Exchange.

THE BANK'S PRINCIPAL BUSINESS ACTIVITIES

The Bank's principal lines of business consist of corporate banking, personal banking and treasury operations. The Bank has historically conducted its business activities in China and Hong Kong. In January 2014, the Bank established its first overseas branch in Hong Kong, which was positioned as its major operating and investment platform outside China. The following table sets forth a geographical analysis of the operating profit of the Bank in China for the periods indicated:

	Year ended 31 December		
	2018	2019	2020
	(RMB in million)		
Head office	35,915	32,165	24,675
Fujian	8,201	7,841	10,940
Beijing	4,243	5,050	1,337
Shanghai	3,714	1,533	3,872
Guangdong	4,069	6,575	7,848
Zhejiang	659	4,150	3,636
Jiangsu	2,768	7,606	7,767
Northeast and other regions of China	(1,856)	(5,641)	1,545
Western China	4,829	7,675	6,571
Central China	5,372	7,312	8,356
Total	**67,914**	**74,266**	**76,547**

The Bank's operating income comprises net interest income and non-interest income. The following table sets forth the details of the operating income for the periods indicated:

	Year ended 31 December		
	2018	**2019**	**2020**
	(RMB in million)	**(RMB in million)** *(restated[(1)])*	**(RMB in million)**
Interest income	270,578	288,978	303,478
Interest expense	(174,921)	(166,689)	159,963
Net interest income	**95,657**	**122,289**	**143,515**
Fee and commission income	47,062	34,333	42,477
Fee and commission expense	(4,084)	(3,955)	(4,767)
Net fee and commission income	**42,978**	**30,378**	**37,710**
Investment (losses) income	26,482	24,992	26,154
Gains (losses) from changes in fair values	2,919	1,622	(6,267)
Foreign exchange gains (losses)	(11,298)	851	813
Income from disposal of assets	19	38	3
Other income	637	363	510
Other operating income	893	775	699
Operating income	**158,287**	**181,308**	**203,137**

(1) From the year ended 31 December 2020, the Group reclassified income from its credit card instalment business from fee and commission income to interest income. The relevant financial figures in 2019 have been restated and the relevant 2018 financial figures remain unchanged.

For the year ended 31 December 2020, the Bank recorded net interest income of RMB143,515 million, representing 70.6 per cent. of its total operating income. The following tables set forth the details of interest income and interest expenses for the periods indicated:

	Year ended 31 December		
	2018	**2019**	**2020**
	(RMB in million)	**(RMB in million)** *(restated[(1)])*	**(RMB in million)**
Interest income:			
Balances with central bank	6,545	6,209	5,731
Amount due from banks and other financial institutions	2,949	2,209	1,659
Placements with banks and other financial institutions	2,707	4,792	6,849
Financial assets held under resale agreements	2,824	2,676	2,712
Loans and advances to customers	124,819	172,454	198,197
Bonds and other investment	123,781	94,976	82,999
Finance Lease	5,717	5,291	5,159
Other	1,236	371	172
Subtotal	**270,578**	**288,978**	**303,478**

	Year ended 31 December		
	2018	2019	2020
	(RMB in million)	(RMB in million)	(RMB in million)
Interest expenses:			
Amount due to central bank	(8,639)	(7,215)	(5,485)
Amount due to banks and other financial institutions	(55,205)	(34,548)	(30,631)
Placements with banks and other financial institutions	(8,899)	(6,289)	(4,463)
Financial assets sold under repurchase agreements	(4,259)	(3,888)	(2,843)
Amount due to customers	(69,985)	(86,691)	(88,617)
Debt securities issues	(27,707)	(27,812)	(27,757)
Others	(227)	(246)	(167)
Subtotal	**(174,921)**	**(166,689)**	**(159,963)**
Net interest income	**95,657**	**122,289**	**143,515**

Corporate Banking Business

Overview

The Bank provides its corporate banking customers with diversified financial products and services, including corporate loans, corporate deposits, bill discounting, clearing and settlement, industrial finance, green financial service, trade finance, cash management, investment banking, small and micro enterprises business and institutional banking business. The Bank's major corporate banking customers include state-owned enterprises, private enterprises, governmental departments and other institutional customers in China. The corporate banking business is a major source of the Bank's operating income. As at 31 December 2020, the Bank had approximately 930,700 corporate financial customers. The Bank delivers its corporate finance products and services through a combination of its branch network, service centres and online banking platform.

Corporate Loans

Corporate loans have historically constituted the largest component of the Bank's loan portfolio. The Bank's corporate loans consist of short-term loans and medium and long-term loans. As at 31 December 2018, 2019 and 2020, the Bank had RMB1,608.2 billion, RMB1,796.1 billion and RMB2,043.5 billion of corporate loans, respectively.

Short-term Loans

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

Medium and Long-term Loans

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

Consistent with its focus on credit quality and diversification, the Bank lends to corporate borrowers in a wide range of industry sectors and across all geographic regions of the PRC. The Bank's corporate loans as at 31 December 2020 were mainly concentrated in four industries, including manufacturing, leasing and commercial services, real estate and wholesale and retail which collectively accounted for 32.7 per cent. of total loans.

Corporate Deposits

The Bank offers interest-bearing demand deposits and time deposits in Renminbi and major foreign currencies to its corporate customers. Demand deposits accrue interest that is paid out on a quarterly basis, and account holders may withdraw their funds at any time. Time deposits require that the customer maintain a deposit for a fixed term, during which interest accrues at a fixed rate. Account holders may withdraw funds prior to maturity with interest payments calculated based on the demand deposit interest rate. The Bank provides other deposit products, including deposit agreements, negotiated deposits and call deposits. As at 31 December 2018, 2019 and 2020, the Bank's corporate deposits amounted to RMB2,543.3 billion, RMB2,805.7 billion and RMB3,002.0 billion, respectively. Under existing PRC regulations, interest rates on the Renminbi-denominated demand and regular time deposits granted by PRC commercial banks, such as the Bank, cannot be higher than 150 per cent. of the relevant PBOC benchmark rate.

Bill Discounting

The Bank offers bill discounting by providing its customers with cash for their unmatured bills of exchange, as a source of short-term financing. The Bank charges varying interest rates for bill discounting based on the creditworthiness of the customers and the prevailing market conditions of bill discounting. The Bank may have these instruments re-discounted with the PBOC or other financial institutions authorised to conduct bill discounting business, providing it with liquidity and income. In addition to bank acceptance bills, the Bank also purchases commercial acceptance bills issued by certain major entities with high credit ratings. As at 31 December 2020, the Bank had RMB207,703 million in outstanding discounted bills, representing 5.24 per cent. of its gross loans and advances to customers.

Clearing and Settlement

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

Green Financial Service

The Bank caters to the financial needs of enterprises in environmental industries involving renewable energy, carbon emission reduction, water resource utilisation and protection and wastewater treatment. The Bank has actively promoted the branding of the "Green Bank" and continued to expand its influence by providing financing to energy conservation and environmental protection projects. As at 31 December 2020, the Bank had granted RMB2,859.8 billion of green finance in total to more than 29,829 customers. The Bank was awarded the "Best Green Finance Bank of the Year" (年度最佳綠色金融銀行獎) by *Asiamoney* in 2020. In 2019, the self-developed green finance platform of the Bank was awarded with the second prize of "Science and Technology Development Award" by PBOC and ranked first among the "Top 10 Financial Innovation Projects in Fujian Province" by the 17th China — Strait Project Fair (中國•海峽項目成果交易會).

In January 2016, the Bank successfully issued the first domestic green bonds in China. In addition, the Bank registered and issued the first-ever green Chinese medium term notes on the National Association of Financial Market Institutional Investors. In November 2018, the Bank issued its US$600 million green bonds and €300 million green bonds under the MTN Programme. In October 2020, the Bank further issued its US$450 million blue bonds and HK$3 billion COVID-19 bonds under the MTN Programme.

In 2020, the Bank underwrote the first "Green Anti-Epidemic Bond" in the market and the first corporate blue bond in the PRC. The Bank was the first financial institution in China to sign the Statement by Financial Institutions on Energy Efficiency and was ranked first among 2020 Green Debt Financing Instrument Investors (2020年綠色債務融資工具投資人) organised by the China Interbank Dealers Association (中國銀行間交易商協會).

Trade Finance

The Bank provides domestic and international trade finance services to its customers and adheres to the national "One Belt, One Road" strategy and the construction of free trade zones.

The Bank's trade finance primarily involves financing services for companies engaging in the procurement of commodities or sale of goods, or operating import and export businesses. The Bank's domestic and international trade finance products and services include packaged loans, import/export bill purchase, domestic/international forfaiting, import financing collection, import/export remittance financing, export invoice financing, import and export factoring, export factoring financing, bill purchase by the buyer/seller, letter of credit negotiation, payment on behalf of others under letter of credit, risk participation under letter of credit, domestic factoring and chattel mortgage. The Bank actively utilised international factoring to help small and medium-sized foreign trade enterprises to avoid the risks from exported exchange collections and provide financing facilities.

Cash Management

In order to meet the growing demand of the Bank's corporate customers for centralised cash management services, the Bank provides customers with collection, payment, account management and working capital position management services.

Investment Banking

The Bank's investment banking business consists primarily of debt financing, underwriting of corporate debt financing instruments such as commercial paper, medium-term notes and financial bonds, merger and acquisition financing and consultancy, syndicated loan arrangement and management services, financial consulting and advisory services and asset securitisation. Over the past few years, due to the continuous innovation of its investment banking business, the Bank has successfully completed a number of significant deals in the PRC.

In recent years, the Bank has adopted the following measures to promote the stable growth and structural optimisation of its investment banking business:

- the Bank accelerated the exploration of capital-based financing services by focusing on merger and acquisition financing and consultancy;
- the Bank promoted innovative services and products such as perpetual bonds;
- the Bank actively led and participated in syndicated loan projects; and
- the Bank optimised the investment banking business system and broadened its sales channel.

In 2018, 2019 and 2020, the Bank underwrote the issuance of debt financing instruments by non-financial institutions with an aggregate principal amount of RMB476.3 billion. RMB520.9 billion and RMB654.6 billion, respectively, and underwrote the issuance of offshore bonds with an aggregate principal amount of US$37.3 billion, US$41.7 billion and US$5.2 billion, respectively. In 2018, 2019 and 2020, the Bank completed six issues of asset-backed securities with an aggregate principal amount of RMB46.3 billion, six issues of asset-backed securities with an aggregate principal amount of RMB46.5 billion and 12 issues of asset-backed securities with an aggregate principal amount of RMB49.0 billion. The Bank was ranked first among the Nationwide Joint-Stock Commercial Banks in terms of total debt financing instruments underwritten for consecutive six years from 2012 to 2017. The Bank was ranked first among PRC commercial banks in terms of total amount of debt financing instruments underwritten in 2018,2019 and 2020.

The Bank continues to innovate financial products for its customers to satisfy their diversified demands. The Bank acted as the market maker for the first credit asset securitisation product in inter-bank bond market and invested in the first domestic green asset-backed securities issued by a non-listed company. In addition, the Bank created the first super short-term securitisation product in the market and invested in the PRC collateralised loan obligation through QFII in China, the first time, successfully.

Small and Micro Enterprises Business

The Bank's corporate finance business for small and micro enterprises effectively satisfies the needs for financing, settlement, cash management and wealth management for these enterprises.

In line with the PRC government's policies to support the development of SMEs, the Bank is dedicated to diversifying its financial services to cater to small and micro enterprises and seeks to provide professional, efficient and convenient financial services to SMEs. In recent years, the Bank has implemented the following measures to promote its SME business:

- the Bank promoted its specialised operations to target SMEs and increased the number of employees qualified for SME credit business;

- the Bank accelerated the introduction of new products and promoted financing products for SMEs such as the " Three Micro Loan Services" (小微三劍客)" consisting of the" Easy and Fast Loan" (易速貸), the" Consecutive Loan" (連連貸) and the" Transaction Loan" (交易貸);

- the Bank launched online financing products for SMEs consisting of "Fast and Easy Loan (快易貸)" and "Fast and Pledge Loan (快押貸)" and online risk control system for loan approval;

- the Bank provided a one-stop financial solutions to small and micro enterprises with equity financing service, debt financing service, settlement management and consultancy service; and

- the Bank explored the "internet + bank + platform" financing model to expand its customer base.

As at 31 December 2018, 2019 and 2020, the Bank had RMB92.0 billion, RMB126.1 billion and RMB203.3 billion, respectively, of outstanding loans to SME corporate customers.

Institutional Banking Business

In recent years, the Bank has carried out various strategic initiatives to enhance the sustainable development of its institutional banking business. The Bank offers diversified financial services to institutional customers covering assets, liabilities and intermediary services. The Bank has improved financial services relating to the livelihood of its customers, such as social insurance, housing allowance, finance, education and medical care. Furthermore, the Bank improved its diversified financial services package, initiated inter-bank co-operation and effectively consolidated partnership with customers. As at 31 December 2018, 2019 and 2020, the Bank had 26,850, 29,242 and 33,879 institutional customers, respectively, with daily average deposits of RMB693.0 billion, RMB841.4 billion and RMB932.4 billion, respectively.

Personal Banking Business

Overview

The Bank offers a wide range of products and services to personal customers, including personal loans, personal deposits, debit cards, credit cards, private banking, personal wealth management business and other agency services. As at 31 December 2018, 2019 and 2020, the Bank had approximately 68.6 million, 77.9 million and 79.6 million personal customers, respectively.

Personal Loans

The Bank's personal loans primarily include personal residential and business mortgage loans, personal business loans, and credit cards. The Bank also provides other personal loan products, including automobile loans and personal consumption loans.

The table below sets forth a breakdown of the Bank's personal loans by product type as at the dates indicated:

	As at 31 December					
	2018		2019		2020	
	Amount	Per cent. of total	Amount	Per cent. of total	Amount	Per cent. of total
	(RMB in million, except percentages)					
Personal residential and business mortgage loans	749,360	64.3	910,879	62.8	1,053,059	61.4
Personal business loans	63,978	5.5	85,612	5.9	140,837	8.2
Credit cards	271,960	23.3	349,312	24.1	409,826	23.9
Others [(1)]	81,106	6.9	103,744	7.2	110,749	6.5
Total	**1,166,404**	**100.0**	**1,449,547**	**100.0**	**1,714,471**	**100.0**

Note:

(1) Others primarily include personal consumption loans and automobile loans.

Although personal loans represent a smaller portion of the Bank's overall loan business as compared to corporate loans, personal loans (including credit cards) increased by RMB264.9 billion, or 18.3 per cent., from RMB1,449.5 billion as at 31 December 2019 to RMB1,714.5 billion as at 31 December 2020. The Bank strives to build its branding in personal loans, with "Contented Life" (安愉人生) for older customers to manage their wealth and "Cosmopolitan Life" (寰宇人生) for the provision of overseas financing services. The Bank actively develops online financing and electronic channels for personal loans in order to enhance customer service quality.

Personal Deposits

The Bank offers two principal deposit products to its personal customers, namely, interest-bearing demand deposits and time deposits. The Bank offers these deposit products in Renminbi and other major foreign currencies. As at 31 December 2018, 2019 and 2020, the Bank had RMB525.6 billion, RMB661.7 billion and RMB726.4 billion in personal deposits, respectively, representing 15.9 per cent., 17.4 per cent. and 17.8 per cent., respectively, of its total customer deposits. In recent years, the Bank has continued its efforts to develop innovative products in its deposit business in order to meet the diverse needs of its customers. In addition, the Bank has promoted its distribution channels by establishing community outlets to facilitate its customers.

Bank Card Business

Debit Card Business

The Bank offers debit card services under the brand name "Natural Life" (自然人生). The "Natural Life" debit card is the first family-oriented debit card in China which aims to facilitate family money management service by providing various benefits to the family members of cardholders. The Bank's debit card services include the "Qing Chun" (青春) card series and standard card series. The "Qing Chun" card series target young users to diversify its product coverage. The Bank issues different categories of standard cards, including silver, gold, platinum and black card based on the Bank's customers' financial assets under management.

Debit cardholders are allowed to have deposits in different currencies such as Renminbi, Hong Kong Dollar, U.S. Dollar, Japanese Yen and Euro. The Bank also allows debit cardholders to handle multiple accounts under one single card such as wealth management product, fund, and collective asset management plan. Furthermore, the Bank provides several value-added services to its cardholders such as in-advance booking on hotel and air tickets, access to golf courses, and airport VIP lounge services.

Credit Card Business

In recent years, as a result of the development of internet technology, internet financing and online payment, the Bank has further improved its credit card products structure and enhanced the functions and services of its credit card products, providing unique, innovative and comprehensive services to its customers. As at 31 December 2018, 2019 and 2020, the Bank had issued a total of approximately 42,712,800, 51,928,000 and 56,622,800 credit cards, respectively.

The revenue of the Bank's credit card business mainly derives from the transactional service fees that the Bank charges the merchants and the interest, annual fees, instalment payments and other fees that the Bank charges the cardholders. For the years ended 31 December 2018, 2019 and 2020, the total transaction volume of credit cards issued by the Bank was RMB1,518.5 billion, RMB1,972.0 billion, RMB2,310.7 billion, respectively.

Private Banking

The Bank provides a wide range of products and services to its private banking customers, including asset management, product selection, alternate investments, family trust, legal consultancy, taxation planning, financial management, cross-border financial services, wealth succession and other value-added services. The Bank has in recent years increased its investments by expanding its network of private banking business and diversifying its product portfolios, forming a nationwide coverage network for high net-worth customers. The Bank expanded its wealth management product lines to meet the diverse needs of its clients, introducing a variety of financial products in recent years, including the family trust management. The Bank established and further improved the offering of its advisory service and information platform so as to broaden its range of value-added services and improved its expertise and service capabilities for middle and high-end customers.

As at 31 December 2018, 2019 and 2020, the Bank had 30,590, 40,191 and 48,560 private banking customers, respectively. As at 31 December 2019 and 2020, the average monthly balance of asset under management ("**AUM**") of the Bank's private banking customers amounted to RMB529.2 billion and RMB633.7 billion, respectively.

Personal Wealth Management Business

The Bank provides diversified wealth management products and services to retail banking customers primarily under the "Wanlibao" (萬利寶), "Fenglibao" (豐利寶) and "Zhiyingbao" (智盈寶) series. The Bank's personal wealth management products provide customers with various choices of investments that have good returns.

Furthermore, the maintenance of its existing customers and the development of its competitive wealth management products helps it explore external customer groups to enhance its competitiveness. As at 31 December 2020, the Bank's assets under management, or AUM of personal wealth management amounted to RMB2,610 billion, representing an increase of 22.87 per cent. from 31 December 2019.

Agency services

The Bank's agency services mainly include fund distribution, agency sales of insurance products, agency sales of precious metal and agency sales of wealth management products.

Treasury Operations

Overview

The Bank's treasury operations consist primarily of (i) money market activities, (ii) investment and trading activities, (iii) institutional financial service, (iv) inter-bank co-operation business, (v) asset management and (vi) asset custody. In conducting its treasury operations, the Bank seeks to ensure its liquidity and achieves a balance between returns and risks on its investment portfolio, taking into consideration various factors including the market and macroeconomic conditions.

Money Market Activities

The Bank's money market activities primarily consist of (i) inter-bank money market activities, repurchase and reverse repurchase transactions and (ii) public market bidding, including bidding for repurchase and reverse repurchase transactions by the PBOC, PBOC bills and national treasury cash administration. The securities underlying the Bank's inter-bank repurchase and reverse repurchase transactions are predominantly Renminbi denominated PRC government and policy bank bonds, bank acceptance bills and PBOC bills, with a portion of foreign currency-denominated bonds primarily issued by foreign governments and agencies.

The Bank was one of the first banks to be approved by the PBOC to provide SHIBOR quotes. As one of the SHIBOR-quoting banks, the Bank provides daily quotes based on its own liquidity and capital supply and demand. The Bank is one of the most active market makers in the Renminbi foreign exchange market, spot transactions, forward, swap and forward transactions of the standard bond market. In June 2016, the Bank started its business in inter-bank money market activities and conducted foreign exchange transaction as foreign exchange dealers in the Shanghai Free-Trade Zone.

Investment and Trading Activities

As at 31 December 2020, the Bank's net investment in securities and other financial assets amounted to RMB2,896.4 billion.

The following table sets forth, at the dates indicated, the distribution of the Bank's investment securities and other financial assets by its investment intention.

	As at December 31					
	2018		2019		2020	
	Amount	Per cent. of total	Amount	Per cent. of total	Amount	Per cent. of total
	(RMB in million, except percentages)					
Financial assets at fair value through profit or loss	459,598	15.9	—	—	—	—
Available-for-sale financial assets	647,192	22.4	—	—	—	—
Investment classified as receivables	1,387,150	48.0	—	—	—	—
Held-to-maturity investments	395,142	13.7	—	—	—	—
Trading assets	—	—	652,034	24.1	823,927	28.4
Debt investments	—	—	1,444,176	53.5	1,550,131	53.5
Other debt investments	—	—	599,382	22.2	516,368	17.8
Other equity investments	—	—	1,929	0.1	2,388	0.08
Long-term equity investment	3,224	0.1	3,413	0.1	3,549	0.12
Total	**2,892,216**	**100.0**	**2,700,934**	**100.0**	**2,896,363**	**100.0**

Investment Activities

The Bank sets the target returns on available-for-sale financial assets, held-to-maturity investments and debt securities classified as receivables, debt investments and other debt and equity investments principally based on its assessment of the interest rate, exchange rate, credit, liquidity, macroeconomic trends and other risks associated with the investment. In the domestic market, the Bank primarily invests in debt securities issued by the PRC government, PBOC bills, debt securities issued by the policy banks and, to a lesser extent, debt securities issued by other financial institutions and non-financial institutions. In light of the volatile global macroeconomic environment, a substantial portion of the Bank's debt securities denominated in foreign currencies are short-term.

Trading Activities

The Bank purchases and sells various highly-liquid debt securities and bills for trading purposes, from which the Bank seeks to obtain short-term profits. The Bank primarily invests in debt securities issued by the PRC government, PBOC bills and debt securities issued by foreign governments. The Bank classifies such trading securities as financial assets at fair value through profit or loss, and the Bank employs strict stop-loss and other limits for such trading transactions.

The Bank has obtained the futures margin depository qualification of the four major futures exchanges in China, namely, the Shanghai Futures Exchange, China Financial Futures Exchange, Dalian Commodity Exchange and Zhengzhou Commodity Exchange. In addition, the Bank actively participates in precious metal trading on the Shanghai Future Exchange and Shanghai Gold Exchange.

The Bank hedges its investment risks through the purchase of derivative financial instruments, such as interest rate swap contracts.

Institutional Financial Service

The Bank places great effort in developing the financial factor market. The Bank is determined to be the leading player in domestic institutional banking and the professional provider of banking service in capital markets. With its professional banking service and innovative financial products, the Bank has been consistently expanding its institutional customer base, widening its service scope, extending its means of co-operation and increasing its profit.

The Bank has established long-standing co-operation relationships with more than 1,000 domestic and overseas financial institutions, including commercial banks, securities firms, fund firms, insurance companies, trust investment companies, finance companies affiliated to business corporations, financial leasing companies and other financial institutions.

The Bank is one of the first batch of banks to provide agency settlement service in the PRC and is an associate member of the Insurance Asset Management Association of China and a member of the Shanghai Clearing House.

Inter-bank Co-operation Business

The Bank-to-Bank Platform (銀銀平台) is an integrated service system providing comprehensive online-and offline financial services to other collaborative banks covering wealth management, payment and settlement, technological management output, training services, financing services and capital restructure. As at 31 December 2020, the Bank had 2,177 contracted customers of its Bank-to-Bank Platform. For the year ended 31 December 2020, the Bank settled transactions in a total amount of RMB7,060 billion and sold financial products in a total amount of RMB696.7 billion through the Bank-to-Bank Platform.

"QianDa Money Manager" is an online financial platform providing comprehensive asset management products issued by commercial banks, trusts, funds and insurance companies. As at 31 December 2020, "QianDa Money Manager" had introduced wealth management products from 59 commercial banks and has a total of 14.9 million customers.

The Bank's inter-bank co-operative services and products have won many awards. "QianDa Money Manager" and the Bank-to-Bank Platform have won awards from various authoritative media platforms, such as sina.com, Shanghai Securities News and 21st Century Business. One of the Bank's projects, entitled "the construction and promotion of application of financial cloud service platform designed for banking and financial firms (面向銀行業金融機構的金融雲服務平台建設及應用推廣項目)", was listed as a national strategic emerging industrial project and was granted a subsidy from the MOF in 2014.

Asset Management Business

The Bank offers comprehensive asset management services to different types of clients, including individuals, corporate clients, private banking clients and institutions. In recent years, the Bank optimised its procedures for wealth management product development, investment management and risk management and promoted the standardised, sustainable and orderly development of the business. In addition, the Bank adapted its products in order to meet the demands of various types of customers with different risk-reward features and investments in different types of markets.

The Bank's wealth management business emphasises innovative products, low risk, high efficiency and sustainability. The Bank launched total return swap products and QDII asset management products in the market. The wealth management business of the Bank complies strictly with regulatory requirements. In order to promote the steady growth of its wealth management business, the Bank conducted a comprehensive study of the market, divided customers into more specific categories, and strengthened the innovation of wealth management products and the expansion of sales channels.

As at 31 December 2020, the outstanding balance of the Bank's wealth management products (non-principal guaranteed) was RMB1,475.7 billion.

Asset Custody Services

The Bank provides a range of custody services to securities investment funds, enterprise annuity, the National Council for Social Security Fund of the PRC, insurance companies, commercial banks, QFII, QDII and other bank customers, including assets custody, investment clearing, accounting, asset valuation, transaction monitoring, collective payment and information disclosure services.

The Bank actively markets to quality customers and continuously promotes product innovation, delivering growth in the Bank's custody and fund distribution business. In recent years, the Bank further reinforced co-operation with key customers including fund management companies, securities companies and other commercial banks. The Bank also boosted custody service levels and information technology capabilities and enhanced its overall customer relationship management performance.

As at 31 December 2018, 2019 and 2020, the Bank had 22,771, 26,585 and 26,787 online asset custody products, deriving a total income of RMB11,606.6 billion, RMB12,384.0 billion and RMB13,006.0 billion, respectively.

PRICING

Under the regulatory regime of the PRC banking industry, the Bank has established a competitive product pricing mechanism based on risk-adjusted returns. The Bank takes various factors into consideration to determine or adjust its prices, such as the capital cost, management cost, risk, expected return and prices guided by government and regulatory bodies. The Bank also considers the overall market conditions as well as prices of similar products and services offered by its competitors.

The Bank's Renminbi lending interest rate is subject to regulations of the PBOC. There has been no upper limit on interest rates for Renminbi-denominated loans since October 2004. The lower limit of 70 per cent. of the PBOC's benchmark rate was removed in July 2013. With respect to interest rates of home mortgage loans, the lowest interest rate the Bank may charge is 70 per cent. of the relevant PBOC benchmark rate. Pursuant to the current PBOC rules, the Bank may set loan interest rate other than individual housing mortgage loans through commercial negotiations.

The Bank prices its products and service based on various criteria such as the borrower's financial position and credit rating, nature and value of collateral, loan maturity, current market conditions, as well as capital cost, expected rate of return, risks and its internal capital pricing standard. Based on these considerations, the Bank seeks to have a pricing mechanism that can match risks with return and can generally charge higher interest rates for customers with relatively high-risk profile.

The Bank also sets differentiated prices for corporate loans based on the borrower's business scale and contribution, guarantees and industry. For example, the Bank has greater pricing power for small and micro enterprises than large corporate customers. The Bank adopts risk adjustment principle to price personal loans, and usually applies higher interest rates to personal business loans and unsecured personal loans than compared to other types of personal loans.

DISTRIBUTION CHANNELS

The Bank provides services through a variety of distribution channels, consisting of physical outlets, self-service banking centres and its E-banking network. The Bank has built an integrated distribution system that enables online and offline integration, making the system available to its customers through any single point of access. The Bank continues to improve the layout of physical outlets, self-service banking centres and its E-banking network.

Physical Outlets

The Bank provides comprehensive financial products and services to its customers via its distribution channel consisting of 45 branches and 2,003 outlets as at 31 December 2020.

The Bank improved the layout of physical outlets and moderately expanded its channel network in key regions and areas identified as having significant potential and emerging markets. As at 31 December 2018, 2019 and 2020, the Bank had a total of 2,032, 2,019 and 2,003 outlets, respectively. Moreover, the Bank reinforced co-ordination and resource allocation as well as service collaboration between self-service banking and physical outlets. The Bank plans to continue to open new branches and sub-branches in other cities and counties in China, and further expand the distribution network, business territory and customer base.

Self-service Banking

The Bank intensified its efforts in improving its self-service banking and providing better and more efficient service to its customers. The Bank optimised the transaction process of self-service terminals and increased the amount of transactions through ATMs. As at 31 December 2018, 2019 and 2020, the Bank owned 2,322, 2,126 and 2,111 self-service banking centres, respectively, and 6,527, 6,008 and 4,937 ATMs, respectively.

Internet Banking

The Bank provides internet banking services through its official website "http://www.cib.com.cn" to its corporate and personal customers. The Bank attaches special importance to the security of internet banking services by using multilayer security mechanisms and measures from system technology, security regulations, functional design, business management and other perspectives. As at 31 December 2020, the Bank had 504,700 corporate internet banking customers and 14.1 million personal internet banking customers.

The Bank has further enriched its internet banking services, such as cost management, group client fund management, corporate finance, virtual sub-account, bulk payment, corporate community and other featured services for corporate internet banking customers and real-time interbank transfer, Unicom fund, CIB e-Card and other featured services for retail internet banking customers.

Telephone Banking

The Bank provides telephone banking service 24 hours a day and 365 days a year through "95561", accessible in all areas of the PRC, and "4008895561", a special line for VIPs. Customers can choose automated voice services or staff services. The Bank's services primarily include account inquiries, transfer service, self-service payment, loss report, password service and credit card business.

Mobile Banking

The Bank enriched business features of its mobile banking services, launching Apple Pay application service, HCE (host-card emulation) cloud flash payment and other cutting-edge services. The Bank also carried forward the establishment of various near-field payment methods, such as UnionPay POS payment and bracelet payment. The Bank also upgraded the safety of mobile banking products, optimised user interactive interface and improved customer experience. As at 31 December 2020, the Bank had 37.0 million mobile banking customers. For the year ended 31 December 2020, the total number of the Bank's mobile banking transactions was 274.2 million.

WeChat Banking

The Bank launched WeChat banking, which features a function that enables users to remotely open a banking account, among other features. New clients can submit account opening applications through the WeChat banking platform and then the client's identity will be verified by customer service staff through WeChat video call.

E-commerce Financial Services Platform

The Bank launched a direct banking platform through "http://directbank.cib.com.cn", which focuses on four core functions which include electronic accounts, sales of wealth management products, investments and agency sales of funds. In addition, the Bank launched an online commerce platform through "http://shop.cib.com.cn", enabling users to purchase gold, wine and procure other agency services such as car rental.

Online and Offline Integration

The Bank explored online-to-offline business modes and online and offline channels to provide integrated services for customers whenever and wherever possible. The Bank has since strengthened collaboration of its online and offline services.

The Bank established the interactive "Service Booking Platform" customer service platform, which provides appointments through mobile banking and advance filing of forms via web browser, tablet, mobile and WeChat services. The Bank launched Virtual Teller Machines, connecting its customer service centre to physical branches, achieving integrated services through one platform.

The Bank continues to promote the application of pioneering technologies and innovative service models in the field of e-finance. The Bank's customer service centre provides seamless integrated services to its customers. It continues to improve its core operations, specialised management and standardised services. Across channels including mobile, e-mail, online service, video service and WeChat banking, the Bank seeks to provide its customers with constantly accessible and interactive services with voice-to-voice, text-to-text and face-to face interactive features, in its continuous pursuit to improving customer experience.

CONTROLLED SUBSIDIARIES OF THE GROUP

Industrial Bank Financial Leasing Co., Ltd. (興業金融租賃有限責任公司)

Industrial Bank Financial Leasing Co., Ltd. ("**Industrial Leasing**") is a wholly-owned subsidiary of the Bank with a registered capital of RMB9.0 billion as at 31 December 2020. As at 31 December 2020, Industrial Leasing's total assets reached RMB127.5 billion and the balance of financing leasing assets was RMB115.9 billion. It generated a net profit of RMB2,008 million for the year ended 31 December 2020.

Industrial Leasing focused on building the green leasing brand and expanding the green leasing business. As at 31 December 2020, the balance of green leasing assets of Industrial Leasing was RMB40.4 billion. Industrial Leasing has established a comprehensive financial leasing product system with eight product series: industrial emission, green travel, energy intensification, clean energy, water treatment, soil remediation, solid waste treatment and biomass energy.

China Industrial International Trust Limited (興業國際信託有限公司)

China Industrial International Trust Limited ("**Industrial Trust**") is a subsidiary of the Bank with a registered capital of RMB10.0 billion and 73.0 per cent. of its equity interest held by the Group as at 31 December 2020. The business scope of Industrial Trust is the management of fund investment trust, personal property investment trust, real estate investment trust, marketable securities investment trust, other property or property right investment trust and other businesses stipulated by laws and regulations or approved by the China banking regulatory agencies. As at 31 December 2020, the total assets of Industrial Trust was RMB62.4 billion. The total asset under management of Industrial Trust was RMB460.4 billion. For the year ended 31 December 2020, Industrial Trust recorded operating revenue of RMB5.3 billion and net profits of RMB1,765 million.

Industrial Trust has obtained the qualification of conducting foreign exchange trust business and is registered as a private equity fund manager by the China Asset Management Association. The integrated operations of Industrial Trust includes asset management, futures business, securities service, financial research and corporate financial management. In addition, Industrial Trust cooperated with Bank of China to launch non-performing loan asset backed securities in China.

Industrial Guoxin Asset Management Co., Ltd. ("**Industrial Guoxin Asset Management**") (興業國信資產管理有限公司) is a wholly-owned subsidiary of Industrial Trust. The outstanding balance of Industrial Guoxin Asset Management's wealth management products was RMB82.0 billion as at 31 December 2020.

Industrial Futures Co., Ltd. (the "**Industrial Futures**") (興業期貨有限公司) is a subsidiary of Industrial Trust. As at 31 December 2020, Industrial Futures had total assets of RMB9.5 billion and assets under management of RMB13.2 billion.

CIB Fund Management Co., Ltd. (興業基金管理有限公司)

CIB Fund Management Co., Ltd. ("**CIB Fund Management**") is a subsidiary of the Bank with a registered capital of RMB1.2 billion and 90.0 per cent. of its equity interest is held by the Bank as at 31 December 2020. In November 2015, CIB Fund Management obtained the QDII qualification by the CSRC. As at 31 December 2020, CIB Fund Management had total assets of RMB3.9 billion and assets under management of RMB319.9 billion. For the year ended 31 December 2020, CIB Fund Management recorded operating revenue of RMB1,047 million and net profits of RMB445 million.

CIB Fund Management has established four branches in China and a wholly-owned subsidiary, CIB Wealth Management Co., Ltd. (興業財富資產管理有限公司).

Industrial Bank Wealth Management Co., Ltd. (興銀理財有限責任公司)

Industrial Bank Wealth Management Co., Ltd. ("**Industrial Wealth Management**") is a wholly-owned subsidiary of the Bank with a registered capital of RMB5 billion as at 31 December 2020. It provides wealth management products and services to eligible investors. As at 31 December 2020, the outstanding balance of wealth management products of Industrial Wealth Management was RMB685.9 billion, including RMB652.3 billion public wealth management products and RMB33.6 billion private wealth management products. For the year ended 31 December 2020, Industrial Wealth Management recorded operating income of RMB1,951 million and net profits of RMB1,345 million.

Industrial Consumer Finance Co., Ltd. (興業消費金融股份公司)

Industrial Consumer Finance Co., Ltd. ("**Industrial Consumer Finance**") is a subsidiary of the Bank with a registered capital of RMB1.9 billion and 66.0 per cent. of its equity interest was held by the Bank as at 31 December 2020. As at 31 December 2020, Industrial Consumer Finance had total assets of RMB44.6 billion. As at 31 December 2020, the outstanding balance of the loans granted by Industrial Consumer Finance was RMB40.9 billion.

Industrial Economy Research Consultation Co., Ltd. (興業經濟研究諮詢股份有限公司)

Industrial Economy Research Consultation Co., Ltd. ("**Industrial Consultation**") is a subsidiary of the Group with a registered capital of RMB60 million and 66.67 per cent. of its equity interest was held by Industrial Guoxin Asset Management as at 31 December 2020. Industrial Consultation was established in June 2015 and was the first professional research institution operated by a bank in the form of a corporation. Industrial Consultation had preliminarily established a research system, including macroscopic (including interest rate, exchange rate and commodity), industrial, credit, financial engineering product and data mining. Industrial Consultation provides services to the head office, branches, and subsidiaries of the Group, as well as other financial institutions and regulatory authorities. Industrial Consultation's research results follow the market trend and business requirements of the Group and has made a significant contribution to the business development of the Group. As at 31 December 2020, Industrial Consultation provided services to over 210 customers with a total contracted amount of RMB34.0 million.

INFORMATION TECHNOLOGY

The Bank's information technology systems are integral to many aspects of its business operations, including customer services, transaction processing, risk management and financial management. The Bank believes that the establishment of advanced information technology systems that complement its overall business strategies will greatly improve its efficiency, the quality of its customer service, as well as risk and financial management.

The Bank has invested heavily in its information technology systems, primarily covering business processing, channel services, management decision-making and modern office system. Highlights of its products and achievements include, among others: its independently researched and developed Pre-Authorised Debits Online Banking System, which enables the Bank to approve credit to its customers' loan application without the need to submit any paperwork; its recognised excellence in bank industry in terms of its key indicators including the transaction success rate relating to premium card holders; and its centralised electronic payment systems in Fujian, Hebei and Liaoning connecting the Bank and the provincial treasuries.

In addition, the Bank greatly values the continuing improvement of its risk management and information security. As a matter of strategy, the Bank requires full implementation of its internal control measures and enhanced information security control. The Bank was among the first batch of domestic banks which have reengineered a modern management system in accordance with the theory of Process Banking (流程銀行). The Bank is also one of the first banks to have built a dual disaster backup system with backup data recoverable from different cities. The Bank believes that it is one of the first banks to have satisfied the internationally recognised standards and the requirements of the PBOC in relation to disaster recovery.

The Bank's information technology department, with administrative centres and research and development centres in different levels, was established under the supervision of the business management committee and internal control committee. The Bank has strong research and development capabilities and is one of the few domestic banks that are able to independently develop its core banking systems and own the intellectual property rights. For example, the Bank has developed the Virtual Teller Machines, which are able to provide comprehensive teller services around the clock. The Bank has also independently researched and developed automatic loan machines, and owns the intellectual property rights to this product. Leveraging its professional customer service centre, the Bank has introduced its centralised hotline platform which features cross-selling and outsourced marketing services. The hotline platform is supported by the Watson system, a question-answering computer system utilising natural language processing, information retrieval, knowledge representation and machine learning, originally developed by IBM. The Bank expects to increasingly leverage on 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.

INTELLECTUAL PROPERTIES RIGHTS

The Bank conducts business under the brand names and logos of Industrial Bank. As at 31 December 2020, the Bank owned a total of 276 PRC registered trademarks and 29 overseas registered trademarks. The Bank is also the registered owner of the domain name "http://www.cib.com.cn".

As at 31 December 2020, the Bank had been awarded two patents in the PRC and two patents in Hong Kong, among which "a data processing method and system to achieve uninterrupted services" was granted invention patent in 2005, making the Bank the first commercial bank in the PRC which patented its business system and method.

COMPETITION

The Bank faces significant competition in its principal areas of business from other commercial banks and other financial institutions in China. The Bank currently competes primarily with the Large Commercial Banks and Nationwide Joint-Stock Commercial Banks. The Bank also faces increasing competition from other financial institutions, including city commercial banks and foreign banks operating in China. The Bank's competition with other commercial banks and financial institutions in China primarily focuses on the variety, pricing and quality of products and services, convenience of banking facilities, reach of distribution network and brand recognition as well as information technology capabilities. In addition, the Bank faces competition from internet finance companies, as well as non-banking institutions such as securities firms and insurance companies in providing financing services to the Bank's customers.

In response to such a competitive environment, the Bank intends to continue to implement its strategies to differentiate itself from its competitors and compete effectively in the PRC commercial banking industry.

EMPLOYEES

The Bank had approximately 55,473 full time employees as at 31 December 2020.

The Bank contributes to its employees' social insurance, provident housing fund and certain other employee benefits in accordance with PRC laws and regulations. The Bank provides training programmes to its employees to improve their professional competence and skills. The Bank has not experienced any strikes or other material labour activities that have interfered with its operations, and the Bank believes that it has maintained a good relationship with its employees.

LEGAL AND REGULATORY PROCEEDINGS

The Bank is involved in legal proceedings in the ordinary course of business. Most of the legal proceedings were initiated by the Bank for recovering non-performing loans, while some legal proceedings arose from customer disputes or others. The Bank does not anticipate any material adverse effect from these pending legal proceedings, individually or in aggregate, on its business, financial position and results of operations.

RISK MANAGEMENT

The Bank's core philosophy of risk management is to "create value through risk management", where the Bank is committed to enhancing its risk management, insists on a balanced development of quality, efficiency and business scale by placing emphasis on both business development and risk control and insists on maintaining moderate risk preferences in order to create value for its shareholders, customers and employees.

The Bank seeks to foster a good risk management culture and has established a sound risk management system, covering risk management policies and procedures, organisational structure and information system, providing appropriate processes and methodologies for the overall objectives of risk management. The Bank's business departments, functional and risk management department, and internal audit office constitute the "three lines of defence" for its risk management. The Bank has maintained close co-ordination and communications among its "three lines of defence", each also focusing on their own designated responsibilities. The Bank's business departments, as the first line of defence, are directly responsible for risk management. The functional and risk management department at the Bank's head office, being the second line of defence, are responsible for establishing risk management policies and procedures, and co-ordinating, supporting, supervising and reporting risk management. The internal audit office, as the third line of defence, is responsible for evaluating the adequacy and effectiveness of its risk management policies and procedures.

The Bank determines its overall risk management objectives based on its overall strategic goals. The Bank's overall risk management objectives are to build up comprehensive risk management system which covers all of its businesses and operational procedures and its departments and positions, to ensure that its risk management system is up-to-date, and to foster a good risk management culture.

- Aiming to establish comprehensive risk management system, addressing all primary types of risks the Bank is exposed to, including credit risk, market risk, operational risk, liquidity risk and compliance risk. The risk management system is overseen by its risk management department, and covers all of its products, businesses and operations. All of the Bank's identifiable risks are managed by staff assigned to clearly defined positions, thus making risk management part of the responsibilities for all staff and ensuring consistent implementation of risk management policies in different departments, business lines and products.

- The Bank continuously adjusts its risk management practices and methodologies based on changes in the macroeconomic conditions and business development requirements.

- The Bank has actively promoted and created a risk management culture to strengthen the staff's awareness of risk management and implemented various incentives to strengthen risk management.

CREDIT RISK MANAGEMENT

Credit risk refers to the risk of loss from the failure by an obligor or counterparty to meet its obligations in accordance with agreed upon terms. The Bank is exposed to credit risk primarily through its loan portfolio, investment portfolio, guarantees and other on and off-balance sheet credit risk exposures. The Bank's credit risk management objectives are to establish and continuously improve the credit risk management system, to enhance the specialisation and sophistication of credit risk management, to optimise credit flow and customer structure, to constantly reinforce risk management and control on the overall credit business process, to maintain the balance between risks and returns and to effectively control risks.

The board of directors and its risk management committee are responsible for approving the Bank's credit risk management strategies and significant credit risk management policies, and assessing the adequacy and effectiveness of the bank's credit management procedures, systems and internal control mechanisms. The Bank's senior management and its head office's risk management committee are responsible for implementing the credit risk management resolutions and requirements of the board of directors and its risk management committee, and making decisions on the Bank's credit risk management policies and major risk issues. The Bank's head office's internal control committee is responsible for implementing the resolutions and requirements of the board of directors and the committees thereunder for internal controls over credit risks, and overseeing the execution of the Bank's internal controls over risk management. The credit approval committee is responsible for approving credit business operations within the scope of its approval authority, while the credit accountability committee is responsible for identifying and pursuing obligations concerning relevant credit business operations. The Bank has established a risk management department, which is responsible for organising the implementation of risk management strategies and policies, setting up a basic credit risk management system for the specialised management, evaluation and guidance, inspection and supervision of the overall implementation of the Bank's risk management policies, for managing, taking the lead in organising and setting uniform standards for credit extension and for exercising overall control over credit risk management. The Bank has set up a risk management department and a specialised risk management counter in its three business lines, namely corporate banking, personal banking and treasury operation, which are responsible for the credit risk management of their own business lines or specialised business departments, formulating specific credit risk management policies and operational rules, and approving projects within the scope of their approval authority.

Identification and Assessment of Risk Management

Internal Credit Rating

The Bank has established an internal credit rating system for its clients, which conducts a comprehensive examination on the various factors and the existence of any trends which may affect the client's future solvency and evaluates the client's credit risk and credit standing with reference to qualitative and quantitative indicators. The result of the internal credit rating analysis is taken into account in formulating credit business operations policies, adjusting and optimising the customer structure on credit business operations, and in determining the credit policies applicable to each individual client.

Risks Classification and Sub-Classification

Pursuant to the Guidance for the Risk-based Classification of Loans (《貸款風險分類指引》) promulgated by the CBIRC, the Bank has formulated various guidelines, including the Implementation Rules for Credit Assets Risk Classification (《信貸資產風險分類實施辦法》) and Implementation Standards for Credit Assets Risk Classification (《信貸資產風險分類實施標準》), to guide branches to adjust the credit assets risk classification based on the actual risk profile of projects. Based on the five-category classification system established by the CBIRC, the Bank further classifies its credit assets into nine categories, namely normal 1, 2 and 3; special mention 1, 2 and 3; substandard, doubtful and loss, and implements different management policies for different categories of credit assets.

Credit Policy

The Bank formulates an annual credit policy setting forth credit extension guidelines for various regions, customer types and industries.

Industries Policies

The Bank has formulated an annual credit policy, implemented a differential credit policy of "assuring supply, control and stock compression", actively supported the development of the economy and optimised the allocation of credit resources. The Bank seeks to prioritise supporting the industries which are in line with national policies and with good market prospects (including emerging strategic industries and industries concerning infrastructure, people's livelihood and modern agriculture). The Bank also actively implements green credit policies and prioritises supporting green industries with social benefits, high technology and commercialised operations, and domestic livelihood consumption industries, such as those in the healthcare, education and telecommunications sectors. The Bank will maintain credit lines for traditional retail industries, such as department stores, electronic appliance stores and supermarkets with operating difficulties due to high costs, only after careful consideration. The Bank uses exposure limits on certain restricted industries with high energy consumption, high pollution or overcapacity (兩高一剩), such as the coal and chemical industries and the steel, cement, aluminium, plate glass, papermaking, and photovoltaic materials manufacturing industry.

Regional Policies

In selecting geographical regions, the Bank seeks to prioritise investing resources in reputable and robust economic regions with great potential for development. The Bank seeks to prioritise supporting rapidly growing regions with special support from national policies, such as free trade zones, industrial parks, pilot zones, by offering integrated financial services and instruments, such as investment products, trust funds and leases.

Client Policies

Based on the selection of industries, the Bank adheres to a policy of differential treatment and formulates clearly defined onboarding criteria for clients within the industry, which is subdivided into the categories of prioritised co-operation and prohibited credit extension. The onboarding criteria are the basic threshold for the business relationship between the bank and its clients. Encouraged clients are high-quality enterprises which are industry leaders and are highly resilient to risks, with high internal credit ratings and potential for sustainable development. Restricted clients do not satisfy the onboarding criteria, lack the requisite technology and competitiveness, have high policy and compliance risks and do not enjoy promising prospects. The Bank will no longer extend credit to restricted clients and will gradually reduce credit exposure to them until the termination of the business relationship.

Credit Risk Management

Uniform Management Policies on Credit Extension

The Bank has formulated the Measures on the Uniform Management of Credit Extension (《統一授信管理辦法》) and adheres to the principles of "uniform credit extension policies, differential treatment, process control and timely adjustment". The Bank implements uniform credit extension policies across the Bank and determines a uniform credit limit to clients. The Bank monitors its exposure limits and gives a total credit line to the companies in the same group. The Bank determines the credit extension limit to its clients based on the clients' business management levels, balance sheet position, repayment ability, credit profile, the market environment and their respective risk tolerance levels.

Credit Extension Management System

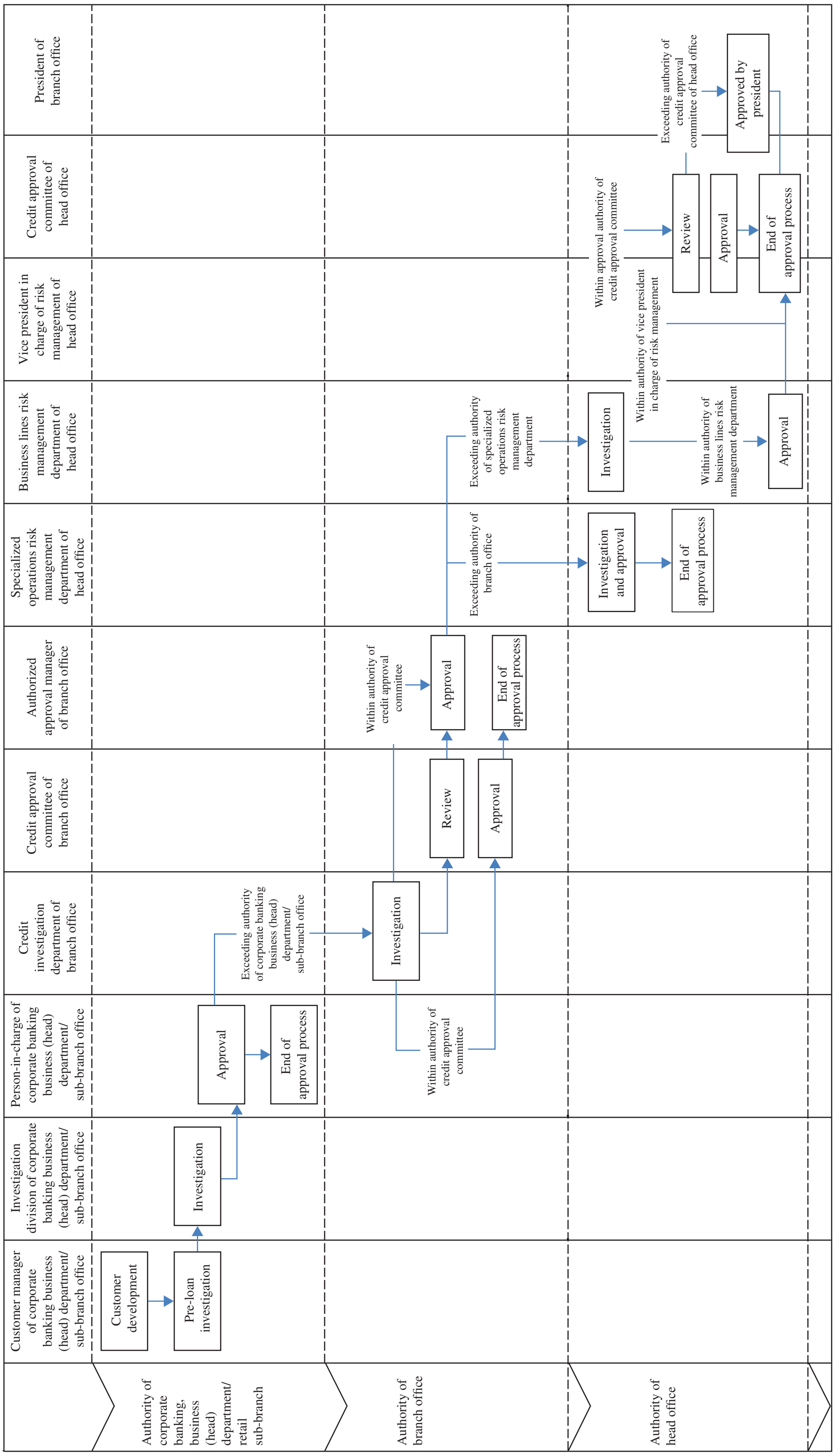
The risk management departments from each level of the Bank are responsible for formulating its credit policies and risk management systems, for managing and monitoring the risks in credit extension transactions. The credit assessment departments are responsible for the specialised assessment of credit extension transactions. The business departments of the headquarters and branches (including sub-branches) are responsible for developing credit extension businesses, for conducting due diligence on credit extension transactions and post-loan follow-up inspections and loan recovery, forming a credit extension management system with clearly defined responsibilities and effective checks and balances among different departments.

Authorisation of Credit Extension and Approval Mechanism

The Bank has formulated the Implementation Rules for the Authorisation and Delegation of Authority of Credit Extension (《信用業務授權及轉授權管理實施細則》) according to the principles of "limited authorisation, differential treatment, timely adjustment and parity of authority and responsibility". The scope of authority for each branch is determined and adjusted according to their business development progress, operational management levels, risk control capabilities and the region's economic development. Authorized persons may approve credit extension transactions within the scope of their authority, while matters exceeding the scope of such authority shall be reported to and approved by personnel with higher authority. The head offices and branches have set up credit approval committees, which are responsible for deliberating and approving credit transactions within certain limits. The committees review and vote on projects and the projects can only be approved with majority voting. The chairman of the credit approval committee has the power to veto and projects which have been previously rejected by the committee can only be reconsidered after the president's approval has been obtained.

Management of the Credit Extension Process

The Bank has prepared a Risk Management Booklet (《風險管理手冊》), which has formulated the due diligence systems for credit extension matters, ranging from the necessary regulatory compliance work for front desks and middle and back offices and the requirements for the different stages, including pre-loan reviews, credit review, credit approval, loan disbursements review, post-disbursement inspections, recovery and collection of non-performing loans, offsetting debts with assets and writing off loans to ensure a comprehensive risk management system with clear regulations, practice rules and risk prevention measures required at each stage. In particular, the Bank has centralised its management on loan disbursements review and has set up loan disbursement centres for conducting relevant reviews under the risk management departments of the branch offices, in ensuring that the approval opinion on credit business is executed effectively, lawful and compliant with relevant laws and regulations. For post-disbursement inspections, the Bank adheres to the principle of "centralised inspections with classified management", where the risk management department set up specialised post-disbursement inspection management divisions to conduct post-disbursement inspection and management based on the results of the post-disbursement inspection management divisions to conduct post-disbursement inspection and management based on the results of the post-disbursement inspection conducted by the credit business staff. Below is a flowchart illustrating the Bank's current entire credit extension process which consists of pre-loan due diligence, loan review and approval and loan disbursements review.



Credit Risk Monitoring and Alerts

The Bank has formulated the Measures on the Administration of Risk Alerts of Corporate Clients (《公司客戶信用風險預警處置管理辦法》) and the Measures on the Administration of Risk Alerts Concerning Credit Extension to Individuals (《個人授信業務風險預警管理辦法》) and established a risk alert mechanism for credit risk management to collect all kinds of risk credit information from both external and internal sources, notify credit risks and take corresponding preventive measures to defuse those risks. The Bank has developed an information system for credit management, which allows ongoing monitoring and real-time warnings, provides information and advice on management of the Bank and identifies credit risks in time for the Bank to take the necessary precautions.

Credit extension Risk Accountability System

To strengthen internal supervision, the Bank has formulated the Measures on the Administration of Credit Risk Accountability (《信用責任追究管理辦法》) which has clearly outlined and defined the staff members' responsibility in managing credit risk. The Bank penalises responsible personnel for any non-compliance or misconduct in managing credit businesses to instil a strong sense of responsibility in personnel responsible for credit extension and boost the staff's incentive in complying with the Bank's regulatory requirements in relation to credit extension.

Management of Non-performing Assets

The Bank has formulated documents, such as the Measures of Administration of Non-Performing Assets (《不良信貸資產管理辦法》) and has established an ongoing monitoring and analysis system for non-performing assets. The Bank seeks to maximise the value of non-performing assets by using innovative and effective disposal methods depending on the circumstances and risk profiles of the non-performing assets, including the distribution areas, industries, business types and risk mitigation measures.

The Bank has set up a special assets operation department independent of the business operations department in the Bank's head office, which would gradually specialise in the operation and management of non-performing assets to realise assets recovery and to increase the efficiency of non-performing assets disposal.

The Bank's annual budget for write-offs is proposed by the president and is approved by the board of directors after being reviewed by the Risk Management Committee. The write-off amount of bad debts would be approved by the president, the Strategic Planning Committee and the board of directors, respectively, according to the amount of the bad loans within the annual budget approved by board of directors.

All loan write-offs have to be reported to the head office for its approval and any related write-offs procedures would have to comply with the head office's approval opinion.

The Bank has formulated the Measures on Administration of Loan Write-offs (《呆賬核銷管理辦法》) which clearly sets out the standards required to be qualified as non-performing capital assets to be written off. Apart from projects where the creditor-debtor or the investor-investee relationship has terminated by operation of law, the Bank requires the records of written-off accounts for bad loans to be preserved and individual separate accounts to be set up for management and verification and has strengthened the file management system on written-off projects in accordance with national regulations. In addition, the Bank has formulated recovery strategies and plans for non-performing loans, aiming to recover non-performing loans through cash collection, foreclosure on collateral, legal proceedings and other actions to minimise loss.

LIQUIDITY RISK MANAGEMENT

Liquidity risk refers to the risk of failure to acquire sufficient funds in time or failure to acquire sufficient funds at a reasonable cost to fulfil payment obligations. Factors affecting the Bank's liquidity include the maturity mix of its assets and liabilities and changes to banking regulations, such as changes in the requirements relating to loan-to-deposit ratio and statutory deposit reserve ratio. The Bank is exposed to liquidity risk primarily in the funding of its lending, trading and investment activities, as well as in the management of its cash flow positions. The Bank's liquidity risk management objectives are to ensure the demand of payment, to improve the efficiency of utilisation of funds and to guarantee the rapid, healthy development of all businesses, and to realise the unification of security, liquidity and profitability and ensure liquidity risk indicators meet regulatory requirements through asset and liability management tools.

The Bank continues to place more emphasis on security and liquidity and based on its own circumstances and periodic changes in market liquidity. It continues to improve the liquidity risk management and organisational system and optimises its management techniques and strategies.

Firstly, a comprehensive organisational structure for liquidity risk management was set up, comprising of the board of directors, senior management and Asset-Liability Management Committee, monitoring liquidity risks on behalf of the head office and ensuring that liquidity risks are managed effectively, and the financial planning department of the head office is responsible for the implementations of policies.

Secondly, three lines of defences were built for liquidity risk management: the first line of defence is to strictly carry out all business lines in accordance with the indicators of asset-liability ratio determined by the head office to ensure a balanced development of assets and liabilities in the business departments. The second line of defence is to control the sources of funds for the current period and the amount of funds available for use and the term structure of funds through the use of funds transfer pricing. The third line of defence is for the treasurer and capital operations centre of the head office to carry out financing activities based on the amount of insufficiency and the market conditions through inter-bank market standardised borrowing and bonds repurchase to ensure liquidity security across the Bank.

Thirdly, during the course of business operations, the Bank has vigorously adjusted the insufficiency of cash flow by various means such as the making of a forward-looking analysis of market liquidity, the prompt adjustment of its business strategies and asset-liability policies, the increase of the intensity of stress test, the strengthening of the management of liquidity indicators and the use of price for funds to ensure that all the liquidity regulatory indicators meet the requisite standard.

MARKET RISK MANAGEMENT

Market risk is the risk of loss in on and off-balance-sheet positions arising from movements in market prices. Market risks arise from movements in market variables such as interest rates, exchange rates, stock prices, commodity prices and other market changes that affect market risk sensitive instruments. The Bank is exposed to market risks through its on-balance sheet assets and liabilities as well as its off-balance sheet commitments and guarantees. The principal types of market risks affecting the Bank's business are interest rate and exchange rate risk.

The Bank's market risk management objectives are to establish and continuously improve the market risk management system to be in alignment with risk management strategies and in satisfaction of the requirements of the new capital accord and regulatory requirements of market risk, to improve the market risk management structure, policies, processes and methods, and to promote the specialisation level of market risk management, realise centralised and unified management of market risks, and facilitate the sustainable and healthy development of relevant businesses with their risks under control.

Interest Rate Risk Management

According to changes in the market conditions, the Bank flexibly adjusts the interest rate risk management measures and ensures that the interest rate risks are kept under control. To adapt to the complicated and changing economic situation internationally and nationally as well as the intensified market interest rate fluctuations due to tight liquidity, the Bank has flexibly adjusted its assessment policy based on the state macroeconomic policies to guide branches in obtaining long-term fund sources, enhanced management on the interest rate spread between the cost of capital source and gains from use of funds, reinforced management on the matching of treasury business and adjusted the structure, duration and basis point value of bond portfolios for better control of maturity mismatch. In addition, the Bank has made use of the hedging activities in the financial derivatives market to effectively control interest rate risk, improved the pricing and valuation models and introduced guidelines on pricing and valuation management.

The Bank has managed interest rate risk of trading book mainly though constant improvements on the market risk indicator limit system and set exposure limits for different products under trading book. The Bank has also introduced a financial transaction and analysis system to implement dynamic revaluation of market value and manage trading process on interest rate products under trading book, so as to achieve real-time monitoring of interest rate risk exposures and stop-loss limits and ensure interest rate risk of trading book under control.

Exchange Rate Risk Management

The Bank has a centralised management on exchange rate risks. The exchange rate risk exposures arising from various businesses of all the branches were compiled and sent to the Financial Market Department of the head office in a timely manner for unified management. The Bank seeks to keep the adverse impact of exchange rate fluctuations within an acceptable range by setting exposure limits and adjusting the currency profile of its assets and liabilities. The Bank has enhanced its internal auditing functions in relation to the settlement, sale and payment of foreign exchange business and foreign exchange trading to ensure the implementation of its risk prevention measures and policies. The Financial Market Department has introduced financial transaction and analysis system to manage foreign exchange risks. The total exposure limit is relatively small compared to the size of the Bank's absolute assets and risk is controllable.

OPERATIONAL RISK MANAGEMENT

Operational risk refers to losses that may be incurred due to inadequate or failed internal procedures, personnel or information technology systems, or external events. The primary operational risk the Bank faces include internal and external fraud, worksite safety failures, business interruptions, damage of tangible assets and failure in its information technology system. The Bank's operational risk management objectives are to improve and perfect the operational risk management system that matches the degree of complexity of the Bank's business to reduce the frequency of operational risk events and control operational risk loss within the acceptable range to ensure that the business operations of offices at all levels are lawful and compliant so as to create a healthy operating environment for the business development of the Bank.

The Bank continues to strengthen the building of the "three lines of defences" for operational risk management. The Bank's organisational structure for operational risk management consists of its board of directors, the board of supervisors, senior management, the head office's audit office, legal and compliance department and various departments and sub-branches. The board of directors, the board of supervisors and senior management lead and supervise the Bank's operational risk management.

The Bank's key measures of managing operational risks are as follows: (i) the Bank has formulated a series of regulations on operational risk management to implement the new Basel Capital Accord (《巴塞爾新資本協議》) and regulatory requirements and the establishment of a complete operational risk management system which covers governance structure, organisational structure, management responsibilities, policies, regulations, procedures, tools, methods and systems; and has gradually increased its capital management capability as well as internal control and risk management standards to promote the sustainable, healthy development of the Bank's various businesses; (ii) the Bank has implemented a specialised operating system which would gradually become a specialised processing centre for loan disbursements, payment and settlement and other uses, so as to centralise and specialise its operations and the Bank has also set up a working capital centre, which is a specialised institution for capital operations directly subordinate to the head office, so as to specialise its capital operations; (iii) the Bank has introduced and updated its information management systems and systems for each type of business to identify and monitor operating risks through electronic means and minimise non-compliance activities.

COMPLIANCE RISK MANAGEMENT

Compliance risk refers to the risk of being subject to legal sanctions, regulatory penalties, significant financial loss and reputational loss as a result of failure to comply with laws, regulations and rules. The Bank continues to foster the development of a compliance culture and promote the effective implementation of compliance management for promoting the healthy and sustainable development of the Bank's business. The Bank's key measures on compliance risk management are as follows: firstly, the Bank makes full use of the evaluation management tools to enhance the culture of compliance operations where the Bank further optimises and improves compliance operations and internal control evaluation programme by setting up a multi-level evaluation system covering the business lines of domestic branches, Hong Kong Branch, subsidiaries and the head office, effectively carries out various compliance operations and internal control evaluation tasks, continues to facilitate the mutual promotion and integration of internal control and compliance operations with business development, and cultivates a good compliance operation culture to ensure the healthy and continued development of the Bank.

Secondly, the Bank establishes a sound internal supervision mechanism to strengthen the awareness of compliance operations. The Bank has further regulated the internal control inspection process, strengthened the mechanism for internal control inspection and management, continuously carried out in-depth self-assessment of internal control, strengthened the internal control supervisory system, established a daily management system for the inspection of data, compiled entries of non-compliance irregularities, improved the mechanism and structure of branches for compliance operations, and improved the mechanism for regulating the extraordinary transaction activities of employees and strengthened the accountability system for non-compliant employees.

Thirdly, the Bank made innovative management tools to enhance the overall quality and efficiency of anti-money laundering policies based on the regulatory focus. The Bank has established a bank-wide organisational structure for anti-money laundering and developed internal control systems and standard operation procedures in accordance with the PRC Anti-money Laundering Law (中華人民共和國反洗錢法) and other applicable rules and regulations promulgated by the PBOC. In accordance with the PRC Anti-money Laundering Law and other applicable rules and regulations promulgated by the PBOC, the Bank has formulated and implemented internal control systems and standard operation procedures concerning customer due diligence and identification, sanctions screening and transaction record retention, suspected terrorist financing monitoring, and large and suspicious transaction reporting. The Bank seeks to continue to improve its anti-money laundering capabilities through reinforcing the "know-your-customer" and customer risk assessment procedures, stepping up risk monitoring and early alert activities, and enhancing the functionality of anti-money laundering information system.

Fourthly, the Bank has continuously improved the contract management system to enhance the effectiveness and sensitivity to managing compliance risks. The Bank has enhanced the effectiveness of the relevant systems, continuously initiated review of contract templates and conducted post-evaluation work.

Fifthly, the Bank has continuously optimised lawful and compliant management methods to promote the healthy and sustainable development of all businesses. The Bank has promoted the standardisation and professionalisation of legal compliance services, engaged constructively in business innovation and product development and provided legal advice and constructive guidance for different business operations and management activities. The Bank has enhanced its knowhow database on external laws and regulations and case law precedents of the same industry and improved the supervision of compliance risks.

INFORMATION TECHNOLOGY RISK MANAGEMENT

Information technology risk refers to the operational, legal, reputational and other risks caused by natural factors, human factors, technical loopholes and flawed management in the course of its use of information technology. The Bank's objectives for information technology risk management are to identify, assess, monitor and control information technology risks by establishing an effective mechanism to operate its business in a safe, continuous and stable environment. The Bank seeks to operate its business in a safe and robust information technology environment and use advanced information technologies to drive business innovation. The Bank's organisational structure for information technology risk management consists of the information technology department, legal and compliance department, auditing department and other relevant departments of the head office.

The Bank's key measures in managing information technology include: (i) developing a system platform for information technology risk management; (ii) optimising the information technology risk management system; and (iii) placing emphasis on management and supervision of outsourcing risks by centralising management on outsourcing projects and evaluating risks on outsourcing projects and risks of suppliers.

REPUTATION AND COUNTRY RISK MANAGEMENT

Reputation Risk Management

Reputational risk refers to the risk of negative publicity and comments on its operations, management and other activities or external events. The Bank's objectives for reputational risk management are to identify, monitor, control and eliminate reputational risk by establishing a positive, reasonable and effective mechanism of reputational risk management to build and maintain its good corporate image and support its sustainable development. The board of directors and its risk management committee are responsible for approving strategic plans and basic policies for the Bank's reputation risk management as well as the responsibilities, authority limits and reporting lines of the senior management relating to reputation risk management; overseeing the implementation of various regulations by the management for reputation risk management; and periodically reviewing reputation risk management reports, the senior management and the head office's risk management committee are responsible for implementing the reputation risk management strategic plans and policies approved by the board of directors, assessing the bank's reputation risk management situation on a regular basis as well as monitoring and evaluating whether the reputation risk management of various departments is effective or not. The head office's risk management department is responsible for leading the drafting of the basic policies for reputation risk management, improving the risk management systems, incorporating the status of reputation risk management into the overall risk management reporting system and regularly reporting to the senior management, the head office's risk management committee and the board's risk management committee.

The Bank developed reputational risk plans and mechanisms regarding daily monitoring of public opinion, customer complaints and information disclosure, and initiated immediate corresponding contingency plans for incidents which may harm the Bank's reputation. The Bank has also incorporated reputation risk management into the comprehensive appraisal of branches, effectively facilitating and reinforcing the reputation risk management at basic operating units.

Country Risk Management

Country risk refers to the risk of borrower or debtor in a certain country or region failing or unwilling to repay debts to financial institutions in the banking industry, or the financial institutions in the banking industry in a country or region which has suffered losses or incurred other losses due to economic, political and social changes and incidents in such country or region. The Bank's country risk management objectives are to establish and continuously improve the Bank's country risk management system, to adopt proper measures, assessment and rating system for such risks to accurately identify and assess country risks relating to business activities and promote sustainable and healthy development of its business.

The board of directors and its risk management committee are responsible for approving the Bank's strategic plans and basic policies for country risk management, approving the responsibilities, authority limits and reporting lines of the senior management relating to country risk management, and supervising the senior management to implement various policies for country risk management. The senior management and the head office's risk management committee are responsible for implementing strategic plans and policies for country risk management approved by the board of directors, clearly outlining the division of responsibilities among all departments at each level across the head and branch offices and ensuring that the departments fulfil their corresponding responsibilities in relation to country risk management. Each operational department at each level is responsible for managing country risks within their authority by identifying, assessing, monitoring, controlling and reporting on country risks.

Country risks exist in business activities, such as credit extension, international capital markets business, establishing overseas organisations, communications with agency banks and outsourcing services offered by overseas service providers. The Bank has classified country risks into five grades: low, relatively low, moderate, relatively high and high based on the degree of risks, and has implemented corresponding management policies for different grades. With its development in internationalisation progress and the business size, the Bank will continue to improve country risk management and promote the sustainable and healthy development of its business.

SUBSTANTIAL SHAREHOLDERS

The table below sets forth the shareholding information on the 10 largest shareholders of the Bank as at 31 December 2020:

Name of shareholders	Approximate percentage of share capital	Number of shares held
Fujian Provincial Department of Finance (福建省財政部)	18.78	3,902,131,806
China National Tobacco Corporation (中國煙草總公司)	5.34	1,110,226,200
PICC Property and Casualty Company Limited — traditional — common insurance product (中國人民財產保險股份有限公司 — 傳統 — 普通保險產品)	4.56	948,000,000
PICC Life Insurance Company Limited — dividend — personal insurance (dividend) (中國人民人壽保險股份有限公司 — 分紅 — 個險分紅)	3.86	801,639,977
China Securities Finance Corporation Limited (中國證券金融股份有限公司)	3.00	622,235,652
Huaxia Life Insurance Co., Ltd. (華夏人壽保險股份有限公司)	2.74	569,179,245
Hong Kong Securities Clearing Co., Ltd. (香港中央結算有限公司)	2.74	569,115,819
Yango Holdings Company Limited (陽光控股有限公司)	2.39	496,688,700
PICC Life Insurance Company Limited — universal — personal insurance (universal) (中國人民人壽保險股份有限公司 — 萬能 — 個險萬能)	2.28	474,000,000
Fujian Tobacco Haisheng Investment Management Co., Ltd. (福建煙草海晟投資管理有限公司)	2.13	441,504,000

DIRECTORS

The Bank's board of directors consists of 13 members, including eight directors and five independent directors. The board of directors determines major matters of the Bank (such as operating plans and development proposals) and is responsible for hearing and deciding on matters reported by the various committees.

The following table sets forth the Bank's directors as at the date of this Offering Circular:

Name	Age	Position
Chen Yichao (陳逸超) . . .	70	Director
Fu Anping (傅安平)	58	Director
Han Jingwen (韓敬文). . .	62	Director
Xi Xinghua (奚星華). . . .	51	Director
Lin Tengjiao (林騰蛟) . . .	53	Director
Tao Yiping (陶以平)	58	Director
Chen Jinguang (陳錦光) .	59	Director
Chen Xinjian (陳信健) . .	53	Director
Su Xijia (蘇錫嘉)	66	Independent Director
Lin Hua (林華)	45	Independent Director
Paul M. Theil	67	Independent Director
Zhu Qing (朱青)	63	Independent Director
Liu Shiping (劉世平) . . .	58	Independent Director

Mr. Chen Yichao (陳逸超) has been a director of the Bank since July 2015. Mr. Chen previously served as a staff member of Fujian Provincial Department of Finance (福建省財政廳), a deputy director of the research institute of Fujian Provincial Department of Finance, a deputy governor on temporary assignment of Changting County(長汀縣), a supervisor of the information centre of Fujian Provincial Department of Finance, the chief of the integrated division of Fujian Provincial Department of Finance, and an executive deputy supervisor of the general office of Fujian Provincial Department of Finance. Mr. Chen holds a postgraduate degree.

Mr. Fu Anping (傅安平) has been a director of the Bank since June 2016. Mr. Fu previously served as a deputy chief of the insurance management division of the ministry of non-bank institutions of the People's Bank of China (中國人民銀行), the chief of the life insurance management division of the ministry of insurance of the People's Bank of China, a deputy supervisor and the chief of the life insurance supervision department of the China Insurance Regulatory Commission (中國保監會), a deputy chief of the Beijing general office of the China Insurance Regulatory Commission, a deputy director of the China Insurance Regulatory Commission Beijing Bureau (中國保險監督管理委員會北京保監局), a deputy team leader of the life insurance preparatory team of the People's Insurance Company of China Holdings Company (中國人民保險集團公司) and a vice president of People's Insurance Company of China Life Insurance Company Limited (中國人民人壽保險股份有限公司). Mr. Fu is currently a vice chairman of the board of directors, a president and a party committee secretary of People's Insurance Company of China Life Insurance Company Limited. Mr. Fu holds a doctoral degree and is a senior economist and a Chinese actuary.

Mr. Han Jingwen (韓敬文) has been a director of the Bank since February 2017. Mr. Han previously served as a deputy researcher in the Financial Management and Supervision Division (Audit Division), a deputy division chief, a division chief and a deputy inspector in the Comprehensive Division of the State Tobacco Monopoly Bureau (國家煙草專賣局) (China National Tobacco Corporation (中國煙草總公司)). Mr. Han holds a part-time master's degree.

Mr. Xi Xinghua (奚星華) has been a director of the Bank since February 2017. Mr. Xi previously served as a clerk of Land Bureau (國土局) in Sanmen County, Zhejiang, a macro researcher of Beijing Securities Co., Ltd. (北京證券有限公司), a deputy general manager of Zibohong Investment Company (紫博鴻投資公司), a general manager of Hengtai Changcai Securities Brokerage Co., Ltd. (恒泰長財證

券經紀有限公司), a deputy general manager of Hengtai Securities Co., Ltd. (恒泰證券有限責任公司), a general manager of Rongtong Fund Management Co., Ltd. (融通基金管理有限公司) and a deputy general manager and a deputy executive general manager of Huaxia Jiuying Asset Management Co., Ltd. (華夏久盈資產管理有限責任公司). Mr. Xi holds a master's degree.

Mr. Lin Tengjiao (林騰蛟) has been a director of the Bank since July 2017. Mr. Lin is a representative of the National People's Congress and also a member of the Standing Committee of China Youth Federation(全國青聯). Mr. Lin holds various positions in different organisations, namely a vice president of China Federation of Overseas Chinese Entrepreneurs (中國僑商聯合會), a vice president of The Chinese Association for Non-government Funded Education (中國民辦教育協會), a honorary president of Peking University Fujian Alumni Association (北京大學福建校友會) and a president of Fujian Chamber of Commerce in Shanghai (上海市福建商會). Mr. Lin is currently a vice chairman of Fujian Star-net Communication Co., Ltd. (福建星網銳捷通訊股份有限公司) and a chairman of board of directors of Yango Holdings Co., Ltd. (陽光控股有限公司). Mr. Lin graduated from Guanghua School of Management, Peking University and obtained an executive MBA degree.

Mr. Tao Yiping (陶以平) has been a director of the Bank since June 2016. Mr. Tao previously served as a director of the integrated planning division of the Fujian Branch of Bank of China (中國銀行福建省分行), a senior manager of the Office of Hong Kong and Macau Administration Office of the Bank of China Group (中銀集團港澳管理處辦公室), a senior manager of the China operation department of the Hong Kong Branch of Kincheng Banking Corporation (金城銀行), the head of the general office of the Fujian Branch of the Bank, an assistant to the president, a vice president and the president of the Fujian Branch of the Bank, the president of the Xiamen Branch and Fujian Branch of Bank of China, and the president of the Shandong Branch of the Bank of China. Mr. Tao holds a master's degree and is a senior economist.

Mr. Chen Jinguang (陳錦光) has been a director of the Bank since June 2016. Mr. Chen previously served as the president of the Pudong sub-branch of the Shanghai Branch of the Bank, a vice president of the Shanghai Branch of the Bank and the president of the Ningbo, Chengdu and Beijing branches of the Bank. Mr. Chen is currently a party committee member of the Bank. Mr. Chen holds a bachelor's degree and is an economist.

Mr. Chen Xinjian (陳信健) has been a director of the Bank since June 2016. Mr. Chen previously served as the chief of the finance division and external debt division of the Finance Bureau of Fujian Province(福建省財政廳), a vice president of the Shanghai Branch of the Bank, a vice president (in charge of overall management) and the president of the Xiamen Branch of the Bank and the president of the Nanjing and Beijing branches of the Bank. Mr. Chen is currently serving as a party committee member and secretary to the board of directors of the Bank. Mr. Chen holds a master's degree.

Mr. Su Xijia (蘇錫嘉) has been an independent director of the Bank since December 2016. Mr. Su previously served as a lecturer at the School of Accountancy of Shanghai University of Finance and Economics (上海財經大學) and an associate professor at the Department of Accountancy of the College of Business of the City University of Hong Kong (香港城市大學). Mr. Su is currently a professor of accounting at the China Europe International Business School (中歐國際工商學院) and an independent director of China Jinmao Holdings Group Limited (中國金茂集團), Opple Lighting Co., Ltd. (歐普照明股份有限公司) and Fujian Sanmu Group Co., Ltd. (福建三木集團股份有限公司). Mr. Su holds a doctoral degree.

Mr. Lin Hua (林華) has been an independent director of the Bank since July 2015. Mr. Lin previously served as the general manager of Jinyuan Capital Management (Xiamen) Co., Ltd. (金圓資本管理 (廈門) 有限公司), the general manager of Xiamen Venture Capital Co., Ltd. (Fund of Funds of Xiamen Municipal Government) (廈門市創業投資公司 (廈門市政府母基金)), the chief investment officer of the Capital Operations Department of China General Nuclear Power Group (中國廣東核電集團) and a senior modelling engineer and a project manager of the Department of Structuring under KPMG US LLP (美國畢馬威). Mr. Lin is currently the general manager of Beijing Huacheng Hanshi Technology Co., Ltd. (北京華城函式技術公司), the director of Beijing Zijin Intelligent Financial Research Institute (北京紫金智慧金融研究院), the chairman of Beijing Chainshare Digital Technology Research Institute Co., Ltd., (北京鏈證數科技術研究院有限公司), the executive director of Asset Securitization

Committee of China Insurance Asset Management Association (中國保險資產管理業協會資產證券化專業委員會), the head of Smart Contract Team of "Financial Distributed Ledger Technology Security Specification" of the Central Bank of China (央行《金融分散式帳本技術安全規範》智慧合約撰寫小組), a member of the editorial board of "Financial Accounting" magazine (《金融會計》雜誌編委會), a director of CGN Capital Holdings Limited (中廣核資本控股有限公司), the chairman of REITs Audit Committee of China Merchants Group (招商局集團), the director of asset audit committee of Generali China Life Insurance Co., Ltd. (中意人壽保險有限公司), an expert consultant of Asset Securitization Committee of China Securities Association (中國證券業協會資產證券化專業委員會) and a consultant of King & Wood Mallesons. Mr. Lin holds a doctoral degree.

Mr. Paul M. Theil has been an independent director of the Bank since December 2013. Mr. Theil previously served as a first secretary and a commercial counsellor of the United States Embassy in China (美國駐華使館) and an executive director of Morgan Stanley (摩根士丹利). Mr. Theil is currently the chairman of the board of directors of Shenzhen Zhong An Credit Venture Capital Co., Ltd. (深圳市中安信業創業投資有限公司), a director of Shenzhen Longgang Fudeng County Bank Co., Ltd. (深圳龍崗富登村鎮銀行有限責任公司), an independent director of Morgan Stanley Huaxin Fund Management Company Limited (摩根士丹利華鑫基金管理有限公司), a legal representative of Mohs Industrial Development (Shenzhen) Co., Ltd. (摩氏實業發展 (深圳) 有限公司), an independent director of Hengan International Group Company Limited (恒安國際集團有限公司), the director of Runhui Fund Management Co., Ltd. (潤暉基金管理有限公司) and Qinqin Foodstuffs Group (Cayman) Company Limited (親親食品集團(開曼)股份有限公司), the president of the Small Loans Industry Association of Shenzhen (深圳市小額貸款行業協會), the deputy president of China Micro-credit Companies Association (中國小額貸款公司協會), the deputy director of Shenzhen Start-up Investment Association (深圳市創業投資同業公會) and Shenzhen General Chamber of Commerce (深圳市商業聯合會) and a vice chairman of Shenzhen Venture Capital Association (深圳市創業投資同業公會). Mr. Theil holds a doctoral degree.

Mr. Zhu Qing (朱青) has been an independent director of the Bank since August 2014. Mr. Zhu previously served as a lecturer, an associate professor, a professor and a doctoral advisor at the School of Finance of Renmin University of China (中國人民大學財政金融學院) and had worked in the Budget Department and the Customs Department in the European Commission (歐盟委員會預算司和關稅司). Mr. Zhu is currently a director of the academic committee of the School of Finance of Renmin University of China, a professor and a doctoral advisor at Renmin University of China (中國人民大學), an executive director of the Chinese Finance Society (中國財政學會), an independent director of Zhejiang Jinlihua Electric Co., Ltd. (浙江金利華電氣股份有限公司), Zhongtai Trust Co., Ltd. (中泰信託有限責任公司) and Jiangsu Jiangyin Rural (江蘇江陰農村商業銀行股份有限公司), an external supervisor of China Trust Protection Fund Co., Ltd. (中國信託業保障基金有限責任公司), a deputy director of the Taxation Institute of China (中國稅務協會), an executive director of the China Social Insurance Association (中國社會保障學會) and the Society of Public Finance of China (中國財政學會), a distinguished professor at Yangzhou Tax Institute of the State Administration of Taxation (國家稅務總局揚州稅務進修學院), and an adjunct professor at the Beijing National Accounting Institute (北京國家會計學院) and Xiamen National Accounting Institute (廈門國家會計學院). Mr. Zhu holds a doctoral degree.

Mr. Liu Shiping (劉世平) has been an independent director of the Bank since August 2014. Mr. Liu previously served as the head of the data consulting team (global financial industry) of the service division of International Business Machines Corporation (IBM公司服務部全球金融行業數據挖掘諮詢組) and the chief advisor of the business intelligence division of International Business Machines Corporation. Mr. Liu is currently the chairman of the board of directors of the Global Business Intelligence Consulting (Beijing) Co., Ltd. (吉貝克資訊技術 (北京) 有限公司), a committee member of the Information Technology Committee of the China Association for Public Companies (中國上市公司協會資訊技術專業委員會), a professor and a doctoral advisor at the University of Chinese Academy of Sciences (中科院大學), a director of the Research Centre of Finance Sciences and Technology of the University of Chinese Academy of Sciences (中科院大學金融科技研究中心), an adjunct professor of Tongji University (同濟大學), a chief scientist of "Key Technologies and Demonstration of Internet of Things and Smart Cities" (物聯網和智慧城市關鍵技術及示範), the vice chairman of the execution committee of eXtensible Business Reporting Language China (XBRL 中國執行委員會), the vice chairman of National Next Generation Internet Industry Technology Innovation Strategy Alliance (國家

下一代互聯網產業技術創新戰略聯盟), a committee member of the China Accounting Informatization Committee (中國會計資訊化委員會) and Independent Board Committee of China Listed Companies Association (中國上市公司協會獨立董事會), the deputy chairman of Guangdong Financial Innovation Research Association (廣東省金融創新研究會), a honorary president of the Board of Directors of Guangdong Jinchuang Blockchain Research Institute (廣東省金創區塊鏈研究院), a senior consultant of People's Government of Qianjiang District, Chongqing (重慶市黔江區人民政府), a consultant of the Chengdu Municipal Government Technology Consulting Team (成都市人民政府科技顧問團), a committee member of the Advisory and Decision-making Committee of the People's Government of Yibin City, Sichuan Province (四川省宜賓市人民政府諮詢決策委員會), and an independent director of Zhejiang Tailong Commercial Bank (浙江泰隆商業銀行) and Aixin Life Insurance Co., Ltd. (愛心人壽保險股份有限公司). Mr. Liu holds a doctoral degree.

SUPERVISORS

The Bank's board of supervisors consists of eight members, including five supervisors and three external supervisors.

The board of supervisors is responsible for (1) monitoring the Bank's financial matters; (2) overseeing the actions of the board of directors and the senior management of the Bank; and (3) managing risks and carrying out internal control measures.

The following table sets forth the Bank's board of supervisors as at the date of this Offering Circular:

Name	Age	Position
Jiang Yunming (蔣雲明) .	55	Chairman of the board of supervisors
He Xudong (何旭東). . . .	43	Supervisor
Yuan Jun (袁俊)	37	Supervisor
Zhang Guoming(張國明)	55	Supervisor
Lai Furong (賴富榮)	52	Supervisor
Li Ruoshan (李若山). . . .	72	External supervisor
Ben Shenglin (賁聖林) . .	55	External supervisor
Xia Dawei (夏大慰)	68	External supervisor

Mr. Jiang Yunming (蔣雲明) has been the chairman of the board of supervisors of the Bank since February 2016. Mr. Jiang previously served as a manager of the publication department of the Bank, an assistant to the general manager of Industrial Securities Co., Ltd. (興業證券公司), a manager of the investment banking department of Industrial Securities Co., Ltd., a deputy general manager of the Bank's general office, the general manager of the board secretariat of the Bank, the president of the Beijing Branch of the Bank and a vice president and a director of the Bank. Mr. Jiang holds a doctoral degree and is a senior economist.

Mr. He Xudong (何旭東) has been a supervisor of the Bank since December 2016. Mr. He previously served as an employee of the Project Management Department of Zhejiang Electric Power Development Co., Ltd. (浙江電力開發公司), an employee in the Asset Operation Department of Zhejiang Provincial Energy Group Company Ltd. (浙江省能源集團有限公司) and the director of the Asset Operation Department and the director in the General Office of the Coal and Transportation Branch of Zhejiang Provincial Energy Group Co., Ltd. (浙江省能源集團有限公司煤炭及運輸分公司). Mr. He is currently a deputy director in the Asset Operation Department of Zhejiang Provincial Energy Group Co., Ltd. (浙江省能源集團有限公司) and a director of Jiangxi Ganzhe Energy Co., Ltd. (江西省贛浙能源有限公司), Zhonghai Zhejiang Ningbo LNG Co., Ltd. (中海浙江寧波液化天然氣有限公司), Zhejiang Zheneng Jiaxing Power Generation Co., Ltd. (浙江浙能嘉興發電有限公司), Zhejiang Zheneng Jiahua Power Generation Co., Ltd. (浙江浙能嘉華發電有限公司), Zhejiang Zheneng Leqing Power Generation Co., Ltd. (浙江浙能樂清發電有限責任公司), Zhejiang Zheneng Wenzhou Power Generation Co., Ltd. (浙江浙能溫州發電有限公司), Zhejiang Wenzhou Telulai Power Generation Co., Ltd. (浙江溫州特魯萊發電有限公司), Wenzhou Gas Turbine Power Generation Co., Ltd. (溫州燃機發電有限公司), Zhejiang Zheneng Changxing Power Generation Co., Ltd. (浙江浙能長興發電有限公司), Zhejiang Zheneng Qianqing Power Generation Co., Ltd. (浙江浙能錢清發電有限責任公司), Zhejiang Zheneng Xingyuan Power Reservation Technology Co., Ltd. (浙江浙能興源節能科技有限公司), Zhejiang Zheneng Lanxi

Power Generation Co., Ltd. (浙江浙能蘭溪發電有限責任公司), Zhejiang Zheneng Beilun Power Generation Co., Ltd. (浙江浙能北侖發電有限公司), Guodian Zhejiang Beilun Third Power Generation Co., Ltd. (國電浙江北侖第三發電有限公司), Zhejiang Zheneng China Coal Zhoushan Coal Power Co., Ltd. (浙江浙能中煤舟山煤電有限公司) and Zhejiang Zheneng Taizhou Second Power Generation Co., Ltd. (浙江浙能台州第二發電有限公司). Mr. He holds a bachelor's degree and is an economist.

Mr. Yuan Jun (袁俊) has been a supervisor of the Bank since May 2018. Mr. Yuan previously served as a deputy general manager of Longyan Huijin Asset Operation Development Company (龍岩市匯金資產經營發展公司) and as an assistant to operations manager of the Longyan Branch of Huafu Securities Corporation Limited (華福證券). Mr. Yuan is currently the general manager and director of Fujian Minxi Financial Holding Group Co., Ltd. (福建省閩西金控集團有限公司), the chief economist of Longyan Cultural Tourism Huijin Development Group Co. (龍岩文旅匯金發展集團有限公司) the director of Longyan Kaolin Clay Co., Ltd. (龍岩市高嶺土股份有限公司) and vice chairman of Third Committee of Longyan Youth Confederation Committee (龍岩市青年聯合會第三屆委員會). Mr. Yuan holds a master's degree and is a member of the China Democratic National Construction Association.

Mr. Zhang Guoming (張國明) has been a supervisor of the Bank since August 2018. Mr. Zhang previously served as a deputy director of the Cadre Management Office of the Fujian Provincial Disciplinary Inspection Commission (福建省紀委幹部管理室), a deputy secretary of the Party Committee of Fujian Provincial Disciplinary Inspection Commission (福建省紀委機關黨委), and a deputy director of the Inspection Office of the Fujian Provincial Party Committee (福建省委巡視辦). Mr. Zhang is currently a member of party committee and a secretary of the Disciplinary Inspection Commission of the Bank. Mr. Zhang holds a bachelor's degree.

Mr. Lai Furong (賴富榮) has been a supervisor of the Bank since October 2007. Mr. Lai previously served as the president and a vice president of the Jin'an sub-branch of the Fuzhou Branch of the Bank, a deputy general manager of the finance and accounting department of the Bank, a vice president of the Guangzhou Branch of the Bank and a deputy general manager of the financial planning department of the Bank. Mr. Lai is currently the general manager of the financial planning department of the Bank. Mr. Lai holds a bachelor's degree and is a senior accountant.

Mr. Li Ruoshan (李若山) has been an external supervisor of the Bank since December 2016. Mr. Li previously served as a deputy dean of the School of Economics of Xiamen University (廈門大學經濟學院), a deputy chief in the accounting department of the School of Economics of Xiamen University, and an associate dean of the Management School of Fudan University (復旦大學管理學院). Mr. Li is currently the academic dean, a professor and a doctoral advisor at the School of Management of Fudan University, an independent director of SAIC Motor Corporation Limited (上海汽車集團股份有限公司), Shanghai Zhangjiang Hi-Tech Park Development Co., Ltd. (上海張江高科技園區開發股份有限公司), Shanghai No. 1 Pharmacy Co., Ltd. (上海第一醫藥股份有限公司) and Shenzhen Yantian Port Co. (深圳鹽田港股份有限公司) and the director of Shanghai Xiangteng Investment Co., Ltd. (上海祥騰投資有限公司). Mr. Li holds a doctoral degree and is a professor and a non-practicing certified accountant.

Mr. Ben Shenglin (賁聖林) has been an external supervisor of the Bank since December 2016. Mr. Ben previously served as a senior vice president and general manager of Working Capital Business (China) of ABN AMRO Bank N.V. (荷蘭銀行), a director and the general manager of Industrial and Commercial Finance Business (China) of the Hongkong and Shanghai Banking Corporation Limited (香港上海滙豐銀行有限公司), the president of JP Morgan Chase Bank (China) Co., Ltd. (摩根大通銀行(中國)有限公司) and a member of the Global Leader Team of JP Morgan Chase Global Enterprise Bank (摩根大通環球企業銀行全球領導小組). Mr. Ben is currently a professor of Zhejiang University (浙江大學), the founding president of the Internet Academy of Finance, Zhejiang University (浙江大學互聯網金融研究院), an assistant to the dean of the School of Management and a director of the EMBA Centre of Zhejiang University, an executive head of the International Monetary Institute at Renmin University of China (中國人民大學國際貨幣研究所), a member of International committee of the All-China Federation of Industry and Commerce (中華全國工商業聯合會國際委員會), a member of Expert Group of Non-Party Intellectuals Consultations of the United Front Work Department (中共中央統一戰線工作部黨外知識份子建言獻策專家組), a standing committee member of Zhejiang Provincial Political Consultative Conference (浙江省政協), a counsellor of Zhejiang Provincial People's Government (浙江省人民政府), the chairman of Zhejiang Internet Finance Federation (浙江省互聯網金

融聯合會), an advisory member of Guangdong Financial Expert Advisory Committee (廣東金融專家顧問委員會), the executive chief editor of *China Finance* (《中國金融學》), an independent director of China International Capital Corporation Limited (中國國際金融有限公司), Zhejiang Material Industrial Zhongda Group Co., Ltd. (浙江物產中大集團公司) and Hunan Shengxiang Biotechnology Co., Ltd., (湖南聖湘生物科技有限公司) and a supervisor of China Construction Bank (中國建設銀行). Mr. Ben holds a doctoral degree and is a professor.

Mr. Xia Dawei (夏大慰) has been an external supervisor of the Bank since May 2016. Mr. Xia previously served as a dean of the School of International Business Administration, an assistant to the president and a vice president of Shanghai University of Finance and Economics (上海財經大學), and a dean of Shanghai National Accounting Institute (上海國家會計學院). Mr. Xia is currently the chief of the academic committee, a doctoral advisor and a professor at Shanghai National Accounting Institute, a vice president of the China Society of Industrial Economics (中國工業經濟學會), a deputy director of China Association of Chief Financial Officers (中國總會計師協會), the honorary professor of The Chinese University of Hong Kong (香港中文大學), an adjunct professor of School of Management of Fudan University, an independent director of Guotai Junan Securities Co., Ltd. (國泰君安證券股份有限公司), Lianhua Supermarket Holdings Co., Ltd. (聯華超市股份有限公司), Juneyao Airlines Co., Ltd. (吉祥航空股份有限公司) and Sunshine City Group Co., Ltd. (陽光城集團股份有限公司) and a director of Zhejiang Zheshang International Financial Asset Trading Centre Co., Ltd. (浙江浙商國際金融資產交易中心股份有限公司) and Shanghai Urban Innovation and Investment Management Co., Ltd. (上海城創投資股份有限公司). Mr. Xia holds a master's degree.

SENIOR MANAGEMENT

The Bank currently has one president and three vice presidents. The president is appointed by and reports to the board of directors. The president is primarily responsible for (1) making annual budgets; (2) making the Bank's annual business and investment plans; and (3) setting up the corporate governance structure and developing the detailed corporate regulations. The following table sets forth the Bank's senior management as at the date of this Offering Circular:

Name	Age	Position
Tao Yiping (陶以平)	58	President
Chen Jinguang (陳錦光) .	59	Vice President
Chen Xinjian (陳信健) . .	53	Vice President and Secretary of the board of directors
Sun Xiongpeng (孫雄鵬) .	54	Vice President

Mr. Tao Yiping (陶以平) has been the president of the Bank since April 2016. For Mr. Tao's biography, see "Directors" above.

Mr. Chen Jinguang (陳錦光) has been a vice president of the Bank since February 2013. For Mr. Chen's biography, see "Directors" above.

Mr. Chen Xinjian (陳信健) has been a vice president of the Bank since July 2014 and the secretary of the board of directors since November 2015. For Mr. Chen's biography, see "Directors" above.

Mr. Sun Xiongpeng (孫雄鵬) has been a vice president of the Bank since August 2016. Mr. Sun previously served as a deputy general manager of the international operation department of the Quanzhou Branch of the Bank, a manager of the national business department and the operation department of the Quanzhou Branch of the Bank, an assistant to the president and a vice president of the Quanzhou Branch of the Bank and the president of the Zhangzhou, Quanzhou and Xiamen branches of the Bank. Mr. Sun is currently a party secretary of the Bank. Mr. Sun holds a master's degree and is a senior economist.

The business address of the above directors, supervisors and senior management is No. 154, Hudong Road, Fuzhou, Fujian Province, People's Republic of China.

CORPORATE GOVERNANCE

The Bank has established and implemented an effective corporate governance structure. It has set up five committees: the Strategic Planning Committee, the Risk Management Committee, the Auditing and Related Party Transaction Supervision Committee, the Nomination Committee and the Remuneration and Evaluation Committee. The primary duties of these five committees are set forth as follows:

- The Strategic Planning Committee actively assists the board of directors in developing strategic plans, adjusting business plans and enhancing the management of capital of the Bank. The Committee is also responsible for conducting internal investigations and ensuring the Bank's compliance with the relevant rules and regulatory guidelines.

- The Risk Management Committee is responsible for analysing the risks of the Bank in its daily business operation and minimising any recognised risks involved.

- The Auditing and Related Party Transaction Supervision Committee is responsible for checking audit documents and reports and evaluating the external financial environment.

- The Nomination Committee is responsible for nominating qualified and appropriate persons as directors to ensure the quality of the directors, supervisors and senior management of the Bank; and

The Remuneration and Evaluation Committee is responsible for evaluating the performance of the board of directors and the senior management for the Bank's development.

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 and the PBOC. The CBIRC is responsible for supervising and regulating banking institutions, 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 operating within the PRC, including commercial banks, urban credit co-operatives, rural credit co-operatives, 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 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 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 CBIRC 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 CBIRC 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 CBIRC requirements:

$$\text{Capital Adequacy Ratio} = \frac{\text{Total capital} - \text{corresponding capital deductions}}{\text{Risk-weighted assets}} \times 100\%$$

$$\text{Tier 1 Capital Adequacy Ratio} = \frac{\text{Tier 1 Capital} - \text{corresponding capital deductions}}{\text{Risk-weighted assets}} \times 100\%$$

$$\text{Core Tier 1 Capital Adequacy Ratio} = \frac{\text{Core Tier 1 Capital} - \text{corresponding capital deductions}}{\text{Risk-weighted assets}} \times 100\%$$

Total Capital includes Core Tier 1 Capital, Additional Tier 1 Capital and Tier 2 capital. Tier 1 Capital includes both Core Tier 1 Capital and Additional Tier 1 Capital. Core Tier 1 Capital includes paid-in capital or common shares, capital reserve, surplus reserve, general reserve, retained earnings and applicable portions of minority shareholders' capital that may be included.

Further details regarding the basis of such calculations pursuant to the Capital Management Rules can be obtained from the official website of the CBIRC. The contents of the official website of CBIRC do not form a part of this Offering Circular.

On 29 November 2012, the CBIRC 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**"), 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 CBIRC; or (ii) a decision to make a public sector injection of capital or equivalent support, without which the commercial bank would have become nonviable, as determined by relevant authorities.

On 22 November 2019, the CBIRC issued *The Circular of the CBIRC on Issuing the Guiding Opinions on the Innovation of Capital Instruments of Commercial Banks (Revised)* (中國銀保監會關於印發〈關於商業銀行資本工具創新的指導意見(修訂)〉的通知), which provides that additional tier 1 capital instruments and tier 2 capital instruments issued by commercial banks shall conform to the relevant provisions of the Capital Management Rules and meet the relevant standards set forth in the Guiding Opinions in the ways agreed in specific contracts. Moreover, commercial banks shall submit their schemes for capital instrument issuance to the CBIRC or its local offices, which will confirm the nature of the capital instruments to be issued and perform the examination and approval procedures in accordance with pertinent laws and regulations.

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;
- 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 co-ordinate 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 Interdepartmental Co-ordination 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 CBIRC, 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.

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/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 medium and long-term international commercial loans.

The Circular 2044 abolished the approval requirement for offshore bond/loan issues, and replaced it with a pre-issuance/incurrence registration and post-issuance/incurrence registration system for "foreign debt", i.e. the issuer shall file with NDRC and obtain the Enterprise Foreign Debt Filing Certificate (企業發行外債備案登記證明) prior to the issuance of the offshore bond/loan, and report the issuance information to NDRC within 10 business days after the closing of the issuance.

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 their 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 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 "black list" 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.

As new regulations, the Circular 2044 and the Guideline 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 relevant Tranche of the Notes.

As the Issuer is an offshore controlled branch of Industrial Bank Co., Ltd., the Issuer has undertaken in the Amended and Restated Dealer Agreement to file with NDRC and obtain the Enterprise Foreign Debt Filing Certificate prior to the issuance of each Tranche of the Notes, and report the issuance information to NDRC within 10 business days after the closing of the issuance of each Tranche of the Notes.

TAXATION

The following summary of certain PRC, Hong Kong, the United States and European Union tax consequences 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 established within the PRC and 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.

However, there is no assurance that the Issuer established under the laws of foreign countries and regions 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 such Issuer is treated as a PRC tax resident enterprise, the interest payable by such 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 or is deemed to be a PRC tax resident enterprise by the PRC tax authorities in the future, such 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.

On 23 March 2016, the Ministry of Finance and the State Administration of Taxation issued the *Notice of Taxation on Full Launch of the Pilot Scheme on Levying Value-added Tax in Place of Business Tax*" (財政部、國家稅務總局關於全面推開營業稅改徵增值稅試點的通知) (the "**Circular 36**"), which introduced a new VAT from 1 May 2016. Under Circular 36, VAT is applicable where the entities or individuals provide services within the PRC. The operating income generated from the provision of taxable sale of services by entities and individuals, such as financial services, shall be subject to PRC VAT if the seller or buyer of the services is within PRC. In the event that foreign entities or individuals do not have a business establishment in the PRC, the purchaser of services shall act as the withholding agent. According to the Explanatory Notes to Sale of Services, Intangible Assets and Real Property attached to Circular 36, financial services refer to the business activities of financial and insurance operation, including loan processing services, financial services of direct charges, insurance services and the transfer of financial instruments, and the VAT rate is 6 per cent. Accordingly, if the issuer is established within the PRC, the interest and other interest like earnings received by a non-PRC resident Noteholder from the Issuer will be subject to PRC VAT at the rate of 6 per cent. Such Issuer will be obligated to withhold VAT of 6 per cent and certain surcharges on VAT for payments of interest and certain other amounts on the Notes paid by the Issuer to Noteholders that are non-resident enterprises or individuals. And as the withholding agent, such Issuer shall calculate the withholding tax according to the following formula: withholding tax = price paid by the purchaser ÷ (1 + tax rate) × tax rate. However, there is uncertainty as to whether gains derived from a sale or exchange of Notes consummated outside of the PRC between non-PRC resident Noteholders will be subject to PRC VAT. VAT is unlikely to be applicable to any transfer of Notes between entities or individuals located outside of the PRC and therefore unlikely to be applicable to gains realised upon such transfers of Notes, Circular 36 together with other laws and regulations pertaining to VAT are relatively new, the interpretation and enforcement of such laws and regulations involve uncertainties.

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 in Hong Kong in the following circumstances:

(a) interest on the Notes is derived from Hong Kong and is received by or accrues to corporation carrying on a trade, profession or business in Hong Kong; or

(b) 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; or

(c) 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

(d) 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 the Notes is registered under the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong, the issue of the 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, provided that 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 3.0 per cent. of the market value of the Bearer Notes at the time of issue.

No stamp duty will be payable on any subsequent transfer of Bearer Notes. No stamp duty is payable on the issue of Registered Notes.

Stamp duty may be payable on any transfer of Registered Notes if the relevant transfer is required to be registered in Hong Kong. Stamp duty will, however, not be payable on any transfer of Registered Notes provided that either:

(a) 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

(b) such Registered Notes constitute loan capital (as defined in the SDO).

If stamp duty is payable in respect of the transfer of Registered Notes it will be payable at the rate of 0.2 per cent. (of which 0.1 per cent. is payable by the seller and 0.1 per cent. is payable by the purchaser) normally by reference to the consideration or its value, whichever is higher. In addition, stamp duty is payable at the fixed rate of HK$5.00 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.

FATCA WITHHOLDING

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting or related requirements. The Issuer may be a foreign financial institution for these purposes. A number of jurisdictions (including Hong Kong and the PRC) have entered into, or have agreed in substance to, intergovernmental agreements with the U.S. to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply prior to the date that is two years after the date on which final regulations defining foreign passthru payments are published in the U.S. Federal Register, and Notes characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are issued on or prior to the date that is six months after the date on which final regulations defining "foreign passthru payments" are filed with the U.S. Federal Register generally would be grandfathered for purposes of FATCA withholding unless materially modified after such date (including by reason of a substitution of the Issuer). However, if additional notes (as described under "Terms and Conditions of the Notes — Further Issues") that are not distinguishable from previously issued Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Notes, including the Notes offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Holders should consult their own tax advisers 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.

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.

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 FDI into the PRC. The PBOC Circular applies to all non-financial Renminbi FDI 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 *Measures on Administration of the RMB Settlement in relation to Foreign Direct Investment* (外商直接投資人民幣結算業務管理辦法) (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 *Circular on Issues in relation to Cross-border Renminbi Foreign Direct Investment* (關於跨境人民幣直接投資有關問題的公告) (the "**MOFCOM RMB FDI Circular**"), which has become effective on 1 January 2014, to further facilitate FDI by simplifying and streamlining the applicable regulatory framework. Pursuant to the MOFCOM RMB FDI Circular, the competent counterpart of MOFCOM will grant written approval for each FDI and specify "Renminbi Foreign Direct Investment" and the amount of capital contribution in the approval. Unlike previous MOFCOM regulations on FDI, the MOFCOM RMB FDI Circular removes the approval requirement for changes in the relevant joint venture contract or the articles of association of the joint venture company where foreign investors change the currency of its existing capital contribution from a foreign currency to Renminbi. In addition, the MOFCOM RMB FDI Circular also clearly prohibits the FDI funds from being used for any direct or indirect investment in securities and financial derivatives (except for strategic investment in the PRC listed companies) or for entrustment loans in the PRC.

On 13 February 2015, the SAFE promulgated the *Circular of the State Administration of Foreign Exchange on Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies* (國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知) (the "**2015 SAFE Circular**"), which became effective on 1 June 2015. The 2015 SAFE Circular aims to deepen the reform of foreign exchange administration of capital accounts, promote and facilitate the capital operation of enterprises in making cross-border investments, regulate the direct investment-related foreign exchange administration business, improve the administration efficiency. The 2015 SAFE Circular set forth the following reformation: (i) cancel the Administrative Examination and Approval Procedures relating to the Foreign Exchange Registration Approval under Domestic Direct Investment and the Foreign Exchange Registration Approval under Overseas Direct Investment; (ii) cancel the requirements to provide the confirmation, and apply for the registration, of foreign investors' non-monetary contribution and provide the confirmation, and apply for the registration, of foreign investors' contribution to purchasing the equity held by the party incorporated in the PRC under domestic direct investment; (iii) the requirements to provide the confirmation, and apply for the registration, of foreign investors' monetary contribution has been replaced by the requirement to apply for a book-entry registration of domestic direct investment monetary contribution.

On 9 June 2016, the SAFE issued the *Notice on Reforming and Regulating the Policies for the Administration of Settlement of Foreign Exchange under Capital Accounts* (國家外匯管理局關於改革和規範資本專案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 including 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 31 December 2020, *Notice of Further Optimizing the Cross-border RMB Policies to Support the Stability of Foreign Trade and Foreign Investment* (關於進一步優化跨境人民幣政策 支持穩外貿穩外資的通知) was issued by the PBOC, NDRC, SAFE and other departments. The notice aims to further simplify the cross-border RMB settlement process and optimize the management of cross-border RMB investment and financing, facilitate cross-border RMB receipt and payment under individual current accounts and overseas institutions' use of RMB bank current accounts, which became effective on 2 April 2021.

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 Bank believes to be reliable, but neither the Bank nor any 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 Bank nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to, or payments made on account of, such beneficial ownership interests.*

The relevant Pricing Supplement will specify the Clearing System(s) applicable for each Series.

The Clearing Systems

Euroclear and Clearstream

Euroclear and Clearstream each holds securities for participating organisations and facilitates the clearance and settlement of securities transactions between their respective participants through electronic book- entry changes in accounts of such participants. Euroclear and Clearstream provide to their respective participants, among other things, services for safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to Euroclear or Clearstream is also available to others, such as banks, brokers, dealers and trust companies which clear through or maintain a custodial relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Distributions of principal with respect to book-entry interests in the Notes held through Euroclear or Clearstream will be credited, to the extent received by the Paying Agent, to the cash accounts of Euroclear or Clearstream participants in accordance with the relevant system's rules and procedures.

CMU

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

The CMU is only available to CMU Instruments issued by a CMU Member or by a person for whom a CMU Member acts as agent for the purposes of lodging instruments issued by such persons. Membership of the CMU is open to all financial institutions regulated by the HKMA, 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 may make applications to Euroclear and/or Clearstream for acceptance in their respective book-entry systems in respect of any Series of Bearer Notes. The Issuer may also apply to have Bearer Notes accepted for clearance through the CMU. In respect of Bearer Notes, a Temporary Global Note and/or a Permanent Global Note will be deposited with a common depositary for Euroclear and Clearstream or a sub-custodian for the CMU. Transfers of interests in a Temporary Global Note or a Permanent Global Note will be made in accordance with the normal market debt securities operating procedures of the CMU, Euroclear and Clearstream.

Registered Notes

The Issuer may make applications to Euroclear and/or 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 Registered Notes to be represented by a Global Certificate accepted for clearance through the CMU. Each Global Certificate will have an International Securities Identification Number ("**ISIN**") and a Common Code. Investors in Notes of such Series may hold their interests in a Global Certificate through Euroclear, Clearstream or the CMU (if applicable).

Each Global Certificate will be subject to restrictions on transfer contained in a legend appearing on the front of such Global Certificate, as set out under "Subscription and Sale".

All Registered Notes will initially be in the form of a Global Certificate. Individual Certificates will be available, in the case of Notes initially represented by a Global Certificate, in amounts specified in the applicable Pricing Supplement.

SUMMARY OF CERTAIN DIFFERENCES BETWEEN PRC GAAP AND IFRS

The Audited Financial Statements of the Bank have been prepared in accordance with the Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC on 15 February 2006, and the Application Guidance for Accounting Standards for Business Enterprises, Interpretations of Accounting Standards for Business Enterprises and other relevant regulations issued thereafter. Other than on the accounting for reversal of impairment provisions taken on accounts of long-term equity investment, investment properties, fixed assets and intangible assets, PRC GAAP has substantively converged with IFRS. Accordingly, there are no other significant differences between the principal accounting policies adopted by the Bank and IFRS.

SUBSCRIPTION AND SALE

Amended and Restated Dealer Agreement

Subject to the terms and on the conditions contained in an amended and restated dealer agreement dated 2 June 2021 (the "**Amended and Restated Dealer Agreement**") between the Bank, the Arrangers and the Permanent Dealers, the Notes will be offered on a continuous basis by the Issuer to the Permanent Dealers. However, the Issuer may sell Notes to additional Dealers appointed by the Bank from time to time that are not Permanent Dealers as at the date of the Amended and Restated 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 an Issuer through the Dealers, acting as agents of the Issuer. The Amended and Restated 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 Amended and Restated 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 Arrangers, the Dealers or any of their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities ("**Banking Services or Transactions**") and may have performed certain Banking Services or Transactions for the Bank and/or its affiliates from time to time for which they have received customary fees and expenses and may, from time to time perform various Banking Services and/or Transactions for the Bank and/or its affiliates in the ordinary course of the Issuer's or their business for which they have received and will receive, fees and expenses. The Dealers or certain of their respective affiliates may purchase the Notes and be allocated the Notes 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 Arrangers, the Dealers and/or their respective 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 Arrangers, the Dealers and/or their respective 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, the Arrangers and the Dealers are under no obligation to disclose the extent of the distribution of the Notes amongst individual investors.

In the ordinary course of their various business activities, the Arrangers, the Dealers and their respective affiliates make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Issuer, including the Notes, and could adversely affect the trading prices of the

Notes. The Arrangers, the Dealers and their affiliates may make investment recommendations and/or publish or express independent research views (positive or negative) in respect of the Notes or other financial instruments of the Issuer, and may recommend to their clients that they acquire long and/or short positions in the Notes or other financial instruments.

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.

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, as determined and certified to the Issuer and each relevant Dealer, by the Fiscal Agent or, the Lead Manager, 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, as amended (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, as determined and certified to the Issuer and the relevant Dealers, by the Lead Manager 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) (or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the Code); 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, each Dealer has represented and agreed that 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, and shall not 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.

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

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Offering Circular as completed by the Pricing Supplement in relation thereto to any retail investor in the EEA. For the purposes of this provision:

(a) the expression "retail investor" means a person who is one (or more) of the following:

(i) a retail client as defined in point (11) of Article 4(1) of **MiFID II**; or

(ii) a customer within the meaning of the **Insurance Distribution Directive**, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or

(iii) not a qualified investor as defined in the **Prospectus Regulation**; and

(b) the expression "**offer**" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes.

Prohibition of Sales to UK Retail Investors

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Offering Circular as completed by the Pricing Supplement in relation thereto to any retail investor in the UK. For these purposes:

(a) the expression "**retail investor**" means a person who is one (or more) of the following:

(i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the EUWA; or

(ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; or

(iii) not a qualified investor as defined in Article 2 of the UK Prospectus Regulation; and

(b) the expression an "**offer**" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes.

Other regulatory restrictions in the UK

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 as 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 as 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 an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not 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 any Notes in, from or otherwise involving the UK.

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 except for Notes which are a "structured product" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "**SFO**") other than (a) to "professional investors" as defined in the SFO and any rules made under the SFO; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the "**C(WUMP)O**") or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and

(ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

Singapore

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the "**SFA**")) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275, of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

(i) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(ii) where no consideration is or will be given for the transfer;

(iii) where the transfer is by operation of law;

(iv) as specified in Section 276(7) of the SFA; or

(v) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

Singapore SFA Product Classification: In connection with Section 309B of the SFA and 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).

PRC

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the Notes are not being offered or sold and may not be offered or sold, directly and indirectly, in the PRC (for such purposes, not including the Hong Kong and Macau SAR or Taiwan), except as permitted by the securities law of the PRC.

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 reoffering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

GENERAL INFORMATION

1. **Clearing Systems:** The Notes may be accepted for clearance through the Euroclear and/or 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 clearance of a Note is to be made 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. **Listing:** Application has been made to the SEHK for the listing of the Programme for 12 months after the date of this Offering Circular by way of debt issues to Professional Investors only, as described in this Offering Circular. 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 to be listed on the SEHK will be traded on the SEHK in a board lot size of at least HK$500,000 (or its equivalent in other currencies).

3. **Litigation:** Save as disclosed in this Offering Circular, neither the Bank, any Issuer, or any of the Bank's subsidiaries is involved in any governmental, legal or arbitration proceedings, nor is the Bank or any of its subsidiaries aware that any such proceedings are pending or threatened, which are or might be material in the context of the issue of the Notes.

4. **Authorisations:** The Bank has obtained all necessary consents, approvals and authorisations as may be required in connection with the establishment of the Programme and the issue of this Offering Circular. The establishment of the Programme and the issue of Notes thereunder have been duly authorised by a resolution of the board of directors of the Bank dated 25 August 2016 and the update for the Programme was authorised by a resolution of the board of directors of the Bank dated 26 February 2019. Each Issuer shall obtain approvals from the NDRC, the PBOC, the SAFE and the CBIRC (where applicable) in connection with its issuance of the Notes as the Issuer and the repayment of the principal and/or interest of the Notes by the Issuer may be adversely affected in the event any required registration is not obtained.

5. **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 Bank or of the Group since 31 December 2020 and no material adverse change in the financial position or prospects of the Bank or of the Group since 31 December 2020.

6. **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 Bank and at the specified office of the Fiscal Agent:

   (a) the articles of association of the Bank;

   (b) copies of the Audited Financial Statements;

   (c) copies of the most recent annual and interim reports (including the financial statements) published by the Bank;

   (d) the Amended and Restated Agency Agreement (which includes the form of the Global Notes, the Global Certificates, the definitive Bearer Notes, the Certificates, the Coupons, the Receipts and the Talons), as amended, supplemented or restated from time to time;

(e) the Amended and Restated Deed of Covenant, as amended, supplemented or restated from time to time;

(f) the Amended and Restated 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; and

(i) each Pricing Supplement (save that any Pricing Supplement relating to a Note which is neither admitted to trading on a regulated market within the EEA or in the UK nor offered in the EEA or in the UK 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).

7. **Auditors:** The Bank's consolidated financial statements as at and for the years ended 31 December 2019 and 2020, have been audited by KPMG, the Bank's independent auditors, in accordance with Auditing Standards for Certified Public Accountants in China. The Bank's audited consolidated financial statements as at and for the years ended 31 December 2019 and 2020 are incorporated by reference in this Offering Circular. The English translation of the Bank's audited consolidated financial statements as at and for the years ended 31 December 2019 and 2020 are included elsewhere in this Offering Circular. The Bank's consolidated financial information as at and for the year ended 31 December 2018 in the 2018 Audited Financial Statements has been audited by Deloitte, the Bank's former independent auditors, in accordance with Auditing Standards for Certified Public Accountants in China.

8. **Legend:** Each Bearer Note having a maturity of more than one year, and each Receipt, Coupon and Talon will bear the following legend: "Any United States person who holds this obligation will be subject to limitations under United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code".

9. **Pricing Supplement:** The issue price and the amount of the relevant Notes will be determined, before filing of the relevant Pricing Supplement of each Tranche, based on the prevailing market conditions. The Issuer does not intend to provide any post-issuance information in relation to any issues of Notes.

INDEX TO FINANCIAL STATEMENTS TRANSLATION

INDUSTRIAL BANK CO., LTD.

ENGLISH TRANSLATION OF CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020
(A-share report)

IF THERE IS ANY CONFLICT BETWEEN THE CHINESE VERSION AND ITS ENGLISH TRANSLATION, THE CHINESE VERSION WILL PREVAIL.

AUDITOR’S REPORT

KPMG Huazhen Shen Zi No.2102269

To the shareholders of Industrial Bank Co., Ltd.

Opinion

We have audited the accompanying financial statements of Industrial Bank Co., Ltd. (the "Bank"), which comprise the consolidated and bank balance sheets as at 31 December 2020, the consolidated and Bank’s income statements, the consolidated and Bank’s cash flow statements, the consolidated and Bank’s statements of changes in shareholders’ equity for the year then ended, and notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated and Bank’s financial position of bank as at 31 December 2020, and the consolidated and Bank’s financial performance and cash flows for the year then ended in accordance with Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People’s Republic of China.

Basis for Opinion

We conducted our audit in accordance with China Standards on Auditing for Certified Public Accountants (“CSAs”). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the China Code of Ethics for Certified Public Accountants (“the Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<table>
<tr><td colspan="2">Allowance for impairment losses on loans and debt investments</td></tr>
<tr><td colspan="2">Refer to the accounting policies set out in the notes to the financial statements "IV. Significant accounting policies and accounting estimates" 7.5 and "VII. Notes to the consolidated financial statements" 6 and 7.2.</td></tr>
<tr><td>The Key Audit Matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>The determination of allowance for impairment losses using the expected credit loss model is subject to a number of key parameters and assumptions, including the identification of loss stages, estimates of probability of default, loss given default, exposures at default and discount rate, adjustments for forward-looking information and other adjustment factors. Management judgment is involved in the selection of those parameters and the application of the assumptions.</td><td>Our audit procedures to assess allowance for impairment losses on loans and advances to customers and debt investments included the following:

• understanding and assessing the design, implementation and operating effectiveness of key internal controls of financial reporting over the approval, recording and monitoring of loans and advances to customers or debt investments, the credit grading process and the measurement of allowances for impairment;

• involving our IT specialists to assess the design and operating effectiveness of information system controls, including general information technology controls, completeness of automatically extracted key internal historical data, data transmission between systems, mapping of parameters of expected credit loss model, and logic settings for system calculation of allowance for impairment losses for expected credit loss;</td></tr>
</table>

Key Audit Matters (continued)

Allowance for impairment losses on loans and debt investments (continued)	
Refer to the accounting policies set out in the notes to the financial statements "IV. Significant accounting policies and accounting estimates" 7.5 and "VII. Notes to the consolidated financial statements" 6 and 7.2.	
The Key Audit Matter	**How the matter was addressed in our audit**
In particular, the determination of expected credit loss model is heavily dependent on the external macro environment and the Bank's internal credit risk management strategy. The expected credit losses for corporate loans and debt investments are derived from estimates including the historical losses, internal and external credit grading and other adjustment factors. The expected credit losses for personal loans are derived from estimates whereby management takes into consideration historical overdue data, the historical loss experience for personal loans and other adjustment factors.	• with the assistance of our internal specialists in financial risk management, assessing the reliability of the expected credit loss model used by management in determining allowance for impairment losses, including assessing the appropriateness of the key parameters and assumptions in the expected credit loss model, including the identification of loss stages, probability of default, loss given default, exposure at default, discount rate, adjustments for forward-looking information and other management adjustments; • assessing the completeness and accuracy of data used for the key parameters in the expected credit loss model. For key parameters derived from internal data relating to original loan agreements, we compared the total balance of the loan and financial assets list used by management to assess the allowances for impairment with the general ledger, selecting samples and comparing individual loan and financial assets information with the underlying agreements and other related documentation to assess the accuracy of compilation of the loan and financial assets list. For key parameters derived from external data, we selected samples to inspect the accuracy of such data by comparing them with public resources;

AUDITOR'S REPORT (continued)

KPMG Huazhen Shen Zi No.2102269

Key Audit Matters (continued)

<table>
<tr><td colspan="2">Allowance for impairment losses on loans and debt investments (continued)</td></tr>
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<tr><td>The Key Audit Matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>Management also exercises judgement in determining the quantum of loss given default based on a range of factors. These include available remedies for recovery, the financial situation of the borrower, the recoverable amount of collateral, the seniority of the claim and the existence and cooperativeness of other creditors. Management refers to valuation reports issued by qualified third party valuers and considers the influence of various factors including the market price, location and use when assessing the value of property held as collateral. The enforceability, timing and means of realisation of collateral can also have an impact on the recoverable amount of collateral and, therefore, the amount of allowance for impairment losses as at the end of reporting period.

We identified the impairment of loans and advances to customers and debt investments as a key audit matter because of the inherent uncertainty and management judgment involved and because of its significance to the financial results and capital of the Bank.</td><td>• for key parameters involving judgement, critically assessing input parameters by seeking evidence from external sources and comparing to the Banki's internal records including historical loss experience and type of collateral. As part of these procedures, we challenged management's revisions to estimates and input parameters compared with prior period and on transition to the new accounting standard and considered the consistency of judgement. We compared the economic factors used in the models with market information to assess whether they were aligned with market and economic development;

• for key internal data generated by the system, we selected samples and checked the system input data against source documents to assess the accuracy of the system input data, and tested the logic for preparing information about overdue loans and advances based on the samples and with the help of our IT specialists;</td></tr>
</table>

Key Audit Matters (continued)

Allowance for impairment losses on loans and debt investments (continued)	
Refer to the accounting policies set out in the notes to the financial statements "IV. Significant accounting policies and accounting estimates" 7.5 and "VII. Notes to the consolidated financial statements" 6 and 7.2.	
The Key Audit Matter	**How the matter was addressed in our audit**
	• evaluating the reasonableness of the management's judgment as to whether the credit risk of loans and advances to customers or debt investments has increased significantly since the initial recognition and whether the credit impairment has occurred by selecting a risk-based sample for credit review. We analysed the loan portfolio by industry sector to select samples for credit review in industries more vulnerable to the current economic situation. We also selected samples based on other risk criteria, including but not limited to borrowers with adverse press coverage and from the Bank's overdue report; Based on the selected samples, we checked information about overdue loans, learned about the borrowers' credit risk profile, made enquiries to the credit managers about the borrowers' business operations, checked the borrowers' financial information, and researched market information related to the borrowers' businesses.

Key Audit Matters (continued)

<table>
<tr><td colspan="2">Allowance for impairment losses on loans and debt investments (continued)</td></tr>
<tr><td colspan="2">Refer to the accounting policies set out in the notes to the financial statements "IV. Significant accounting policies and accounting estimates" 7.5 and "VII. Notes to the consolidated financial statements" 6 and 7.2.</td></tr>
<tr><td>The Key Audit Matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td></td><td>• performing credit review procedures on the samples of corporate loans and advances and debt investments selected in accordance with the aforesaid criteria, to assess the appropriateness of the loss given default (LGD) of the credit-impaired corporate loans and advances and debt investments; assessing the estimated recoverable cash flow through inquiries, professional judgements, independent queries, etc.; evaluating the management's assessment of the value of any collateral held, comparing the managemen's valuation of the collaterals to their market prices, evaluating the timing and means of realisation of the collaterals, and considering other sources of repayment asserted by the management; assessing the consistency in the application of key assumptions by the management and comparing them with our data sources.

• selecting samples to check the expected credit loss calculation, so as to comment on the Bank's application of the expected credit loss model; and

• evaluating whether the disclosure related to allowance for impairment losses on loans and advances to customers and debt investments meets the disclosure requirements of the revised CAS 37 - Presentation of Financial Instruments.</td></tr>
</table>

Key Audit Matters (continued)

Consolidation of structured entities	
Refer to the accounting policies set out in the notes to the financial statements "IV. Significant accounting policies and accounting estimates" 4, "VI. Consolidation scope" 2 and "VII. Notes to the consolidated financial statements" 43.	
The Key Audit Matter	**How the matter was addressed in our audit**
Structured entities are generally created to achieve a narrow and well defined objective with restrictions around their ongoing activities. The Bank may acquire or retain an ownership interest in, or act as a sponsor to, a structured entity through issuing a wealth management product, an investment fund, an asset management plan, a trust plan or an asset-backed security. In determining whether a structured entity is required to be consolidated by the Bank, the management is required to consider the power the Bank is able to exercise over the activities of the entity, the variable returns to which the Bank has rights from its involvement with the structured entity, and its ability to influence its own variable returns from the entity. These factors are not purely quantitative and the substance of the transaction needs to be considered collectively. We identified the consolidation of structured entities as a key audit matter because some of these structured entities were complex in nature and judgement was required when the Bank performed qualitative assessment of terms and transaction substance for each structured entity.	Our audit procedures to assess the consolidation of structured entities included the following: • making enquiries of management and inspecting documents relating to the judgement process over whether a structured entity is consolidated or not to assess whether the Bank has a robust process in this regard; • performing the following procedures for structured entities on a sample basis: - inspecting selected contracts, internal establishment documents and information disclosed to the investors to understand the purpose of the establishment of the structured entities and the involvement the Bank has with the structured entities and to assess management's judgement over whether the Bank has the ability to exercise power over the structured entities;

Key Audit Matters (continued)

<table>
<tr><td colspan="2">Consolidation of structured entities (continued)</td></tr>
<tr><td colspan="2">Refer to the accounting policies set out in the notes to the financial statements “IV. Significant accounting policies and accounting estimates” 4, “VI. Consolidation scope” 2 and “VII. Notes to the consolidated financial statements” 43.</td></tr>
<tr><td>The Key Audit Matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td></td><td>- inspecting the risk and reward structure of the structured entities, including any capital or return guarantee, provision of liquidity support, commission paid and distribution of the returns, to assess management’s judgement as to exposure, or rights, to variable returns from the Bank’s involvement in such entities;

- evaluating management’s analyses of the structured entities including qualitative analyses and calculations of the magnitude and variability associated with the Bank’s economic interests in the structured entities to assess management’s judgement over the Bank’s ability to influence its own returns from the structured entities;

- assessing management’s judgement over whether the structured entities should be consolidated or not; and

• assessing the disclosures in the consolidated financial statements in relation to structured entities with reference to the requirements of the prevailing accounting standards.</td></tr>
</table>

Key Audit Matters (continued)

Fair value of financial instruments	
Refer to "XI. Financial risk management" 7 set out in the notes to the financial statements.	
The Key Audit Matter	**How the matter was addressed in our audit**
Financial instruments carried at fair value account for a significant part of the Bank's assets and liabilities. The effect of fair value adjustments of financial instruments may impact either the profit or loss or other comprehensive income. The valuation of the Bank's financial instruments, held at fair value, is based on a combination of market data and valuation models which often require a considerable number of inputs. Many of these inputs are obtained from readily available data, in particular for level 1 and level 2 financial instruments in the fair value hierarchy, the valuation techniques for which use quoted market prices and observable inputs, respectively. Where such observable data is not readily available for valuation techniques, as in the case of level 3 financial instruments, estimates need to be developed which can involve significant management judgement. The Bank has developed its own models to value certain level 2 and level 3 financial instruments, which also involves significant management judgement. We identified assessing the fair value of financial instruments as a key audit matter because of the degree of complexity involved in valuing certain financial instruments and the degree of judgement exercised by management in determining the inputs used in the valuation models.	Our audit procedures to assess the fair value of financial instruments included the following: • assessing the design, implementation and operating effectiveness of key internal controls over the valuation, independent price verification, front office and back office reconciliations and model approval for financial instruments; • assessing the level 1 fair values, on a sample basis, by comparing the fair values applied by the Bank with publicly available market data; • engaging our internal valuation specialists to assist us in performing independent valuations, on a sample basis, of level 2 and level 3 financial instruments and comparing our valuations with the Bank's valuations. Our procedures included developing parallel models, obtaining inputs independently and verifying the inputs;

Key Audit Matters (continued)

Fair value of financial instruments (continued)	
Refer to "XI. Financial risk management" 7 set out in the notes to the financial statements.	
The Key Audit Matter	**How the matter was addressed in our audit**
	• assessing the appropriate application of fair value adjustments that form an integral part of fair values, inquiring of management about any changes in the fair value adjustments methodology and assessing the appropriateness of the inputs applied; and • assessing whether the financial statement disclosures appropriately reflected the Bank's exposure to financial instrument valuation risk with reference to the requirements of the related financial reporting standards.

Other Information

The Bank's management is responsible for the other information. The other information comprises all the information included in 2020 annual report of the Bank, other than the financial statements and our auditor's report thereon.

Our opinion on the 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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 Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Accounting Standards for Business Enterprises, and for the design, implementation and maintenance of such internal control necessary to enable that the financial statements are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank'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 management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with CSAs 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 financial statements.

As part of an audit in accordance with CSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank'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 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 Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the 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 Bank to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

AUDITOR'S REPORT (continued)

KPMG Huazhen Shen Zi No.2102269

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

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 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 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.

KPMG Huazhen LLP

Certified Public Accountants
Registered in the People's Republic of China

Shi Jian (Engagement Partner)

Beijing, China

Chen Sijie

30 March 2021

Industrial Bank Co., Ltd.
The Consolidated and Bank's Balance Sheets
As at 31 December 2020
(Expressed in millions of Renminbi, unless otherwise stated)

		The Group		*The Bank*	
	Note VII	*2020*	*2019*	*2020*	*2019*
Assets					
Cash and balances with Central Bank	1	411,147	486,444	411,138	486,430
Deposits with banks and other financial institutions	2	95,207	87,260	86,490	81,829
Precious metals		4,947	401	4,947	401
Placements with banks and other financial institutions	3	191,939	231,475	206,148	243,929
Derivative financial assets	4	59,396	32,724	59,387	32,722
Financial assets purchased under resale agreements	5	123,350	41,861	116,945	37,988
Loans and advances to customers	6	3,867,321	3,345,180	3,834,605	3,316,610
Financial investments:	7				
Trading assets	7.1	823,927	652,034	773,552	628,253
Debt investments	7.2	1,550,131	1,444,176	1,535,542	1,431,325
Other debt investments	7.3	516,368	599,382	514,919	597,801
Other equity investments	7.4	2,388	1,929	2,308	1,929
Finance lease receivables	8	100,616	106,273	-	-
Long-term equity investments	9	3,549	3,413	23,776	23,601
Fixed assets	10	26,414	24,641	20,471	18,892
Construction in progress	11	1,935	3,463	1,931	3,441
Intangible assets		712	647	652	603
Goodwill	12	532	532	-	-
Deferred tax assets	13	45,513	40,799	42,348	37,984
Other assets	14	68,608	43,047	56,101	34,518
Total assets		7,894,000	7,145,681	7,691,260	6,978,256

The accompanying notes form an integral part of these financial statements.

Industrial Bank Co., Ltd.
The Consolidated and Bank's Balance Sheets (continued)
As at 31 December 2020
(Expressed in millions of Renminbi, unless otherwise stated)

		The Group		The Bank	
	Note VII	*2020*	*2019*	*2020*	*2019*
Liabilities					
Borrowing from Central Bank		290,398	168,259	290,398	168,259
Deposits from banks and other financial institutions	15	1,487,079	1,233,937	1,495,587	1,245,608
Placements from banks and other financial institutions	16	180,171	192,310	71,448	97,194
Trading liabilities	17	16,062	4,214	14,721	4,106
Derivative financial liabilities	4	61,513	31,444	61,505	31,442
Financial assets sold under repurchase agreements	18	123,567	193,412	111,630	184,072
Deposits from customers	19	4,084,242	3,794,832	4,085,300	3,797,501
Employee benefits payable	20	20,204	17,738	17,790	15,909
Tax payable	21	12,304	14,476	11,018	13,226
Provisions	22	5,397	6,253	5,397	6,253
Debt securities issued	23	947,393	899,116	916,560	871,106
Deferred tax liabilities	13	74	-	-	-
Other liabilities	24	40,793	40,038	18,956	21,124
Total liabilities		7,269,197	6,596,029	7,100,310	6,455,800

The accompanying notes form an integral part of these financial statements.

Industrial Bank Co., Ltd.
The Consolidated and Bank's Balance Sheets (continued)
As at 31 December 2020
(Expressed in millions of Renminbi, unless otherwise stated)

	Note VII	*The Group* 2020	*The Group* 2019	*The Bank* 2020	*The Bank* 2019
Shareholders' equity					
Share capital	25	20,774	20,774	20,774	20,774
Other equity instruments	26	85,802	55,842	85,802	55,842
Including: preference shares		55,842	55,842	55,842	55,842
perpetual bonds		29,960	-	29,960	-
Capital reserve	27	74,914	74,914	75,260	75,260
Other comprehensive income	39	(749)	3,232	(751)	3,192
Surplus reserve	28	10,684	10,684	10,684	10,684
General reserve	29	87,535	78,525	83,382	74,829
Retained earnings	30	336,626	297,389	315,799	281,875
Equity attributable to shareholders of the Bank		615,586	541,360	590,950	522,456
Non-controlling interests		9,217	8,292	-	-
Total shareholders' equity		624,803	549,652	590,950	522,456
Total liabilities and shareholders' equity		7,894,000	7,145,681	7,691,260	6,978,256

The financial statements were signed by the following persons in charge:

Tao Yiping
(On Behalf of the Legal Representative)
Director
President
Financial Director

Lai Furong
Person in Charge of the Accounting Body

The accompanying notes form an integral part of these financial statements.

Industrial Bank Co., Ltd.
The Consolidated and Bank's Income Statements
For the year ended 31 December 2020
(Expressed in millions of Renminbi, unless otherwise stated)

		Note VII	The Group 2020	The Group 2019	The Bank 2020	The Bank 2019
I.	**Operating income**		203,137	181,308	186,224	168,429
	Net interest income	31	143,515	122,289	133,057	113,545
	Interest income	31	303,478	288,978	288,447	275,252
	Interest expense	31	(159,963)	(166,689)	(155,390)	(161,707)
	Net fee and commission income	32	37,710	30,378	32,315	26,060
	Fee and commission income	32	42,477	34,333	37,957	29,827
	Fee and commission expense	32	(4,767)	(3,955)	(5,642)	(3,767)
	Investment income	33	26,154	24,992	26,080	26,266
	Including: income from joint ventures and associates		154	205	210	184
	income from derecognition of financial assets at amortised cost		716	393	688	250
	(Losses)gains from changes in fair values	34	(6,267)	1,622	(6,413)	1,434
	Foreign exchange gains		813	851	845	840
	Income from disposal of assets		3	38	3	38
	Other income		510	363	129	71
	Other operating income		699	775	208	175
II.	**Operating expenses**		(126,590)	(107,042)	(118,700)	(100,000)
	Taxes and surcharges	35	(2,086)	(1,756)	(1,916)	(1,635)
	General and administrative expenses	36	(48,262)	(46,557)	(44,356)	(43,002)
	Credit impairment losses	37	(75,301)	(58,088)	(71,887)	(54,992)
	Impairment losses on other assets		(126)	(8)	(93)	(8)
	Other operating expenses		(815)	(633)	(448)	(363)
III.	**Operating profit**		76,547	74,266	67,524	68,429
	Add: Non-operating income		295	368	219	258
	Less: Non-operating expenses		(205)	(131)	(192)	(123)
IV.	**Total profit**		76,637	74,503	67,551	68,564
	Less: Income tax expenses	38	(8,956)	(7,801)	(6,695)	(6,265)
V.	**Net profit**		67,681	66,702	60,856	62,299

The accompanying notes form an integral part of these financial statements.

Industrial Bank Co., Ltd.
The Consolidated and Bank's Income Statements (continued)
For the year ended 31 December 2020
(Expressed in millions of Renminbi, unless otherwise stated)

	Note VII	The Group 2020	The Group 2019	The Bank 2020	The Bank 2019
V. Net profit (continued)		67,681	66,702	60,856	62,299
1. Categorized by continuity of operation:					
(1). Net profit from continuing operations		67,681	66,702	60,856	62,299
(2). Net profit from discontinued operations		-	-	-	-
2. Categorized by ownership:					
(1). Attributable to shareholders of the Bank		66,626	65,868	60,856	62,299
(2). Non-controlling interests		1,055	834	-	-
VI. Other comprehensive income-net of tax	39	(3,987)	270	(3,943)	244
Other comprehensive income attributable to shareholders of the Bank		(3,981)	265	(3,943)	244
1. Items that may be reclassified subsequently to profit or loss					
(1) Changes in fair value of other debt investments		(5,722)	(776)	(5,668)	(772)
(2) Credit losses on other debt investments		1,464	666	1,426	648
(3) Translation differences of financial statements denominated in foreign currencies		(22)	7	-	-
(4) Other comprehensive income recognised under equity method		-	4	-	4
2. Items that will not be reclassified subsequently to profit or loss:					
(1) Actuarial profits on defined benefit plans		391	363	391	363
(2) Changes in fair value of other equity investments		(92)	1	(92)	1
Other comprehensive income attributable to non-controlling interests		(6)	5	-	-
VII. Total comprehensive income		63,694	66,972	56,913	62,543
Total comprehensive income attributable to:					
Shareholders of the Bank		62,645	66,133	56,913	62,543
Non-controlling interests		1,049	839	-	-

The accompanying notes form an integral part of these financial statements.

Industrial Bank Co., Ltd.
The Consolidated and Bank's Income Statements (continued)
For the year ended 31 December 2020
(Expressed in millions of Renminbi, unless otherwise stated)

	Note VII	The Group 2020	The Group 2019	The Bank 2020	The Bank 2019
VIII. Earnings per share (expressed in RMB)					
Basic earnings per share	40	3.08	3.10		
Diluted earnings per share	40	3.08	3.10		

The financial statements were signed by the following persons in charge:

Tao Yiping
(On Behalf of the Legal Representative)
Director
President
Financial Director

Lai Furong
Person in Charge of the Accounting Body

The accompanying notes form an integral part of these financial statements.

Industrial Bank Co., Ltd.
The Consolidated and Bank's Cash Flow Statements
For the year ended 31 December 2020
(Expressed in millions of Renminbi, unless otherwise stated)

	The Group		*The Bank*	
	2020	*2019*	*2020*	*2019*
I. Cash flows from operating activities:				
Net increase in deposits from customers and deposits from banks and other financial institutions	519,169	336,384	514,352	343,649
Net decrease in balances with Central Bank and deposits with banks and other financial institutions	30,460	13,192	26,441	12,225
Net decrease in placements with banks and other financial institutions and financial assets purchased under resale agreements	11,981	-	9,732	-
Net decrease in finance leases	2,672	-	-	-
Net increase in borrowing from Central Bank	122,100	-	122,100	-
Cash receipts from interest, fee and commission	275,281	224,627	257,734	211,773
Other cash receipts relating to operating activities	14,753	15,277	8,393	7,581
Subtotal of cash inflows from operating activities	976,416	589,480	938,752	575,228

The accompanying notes form an integral part of these financial statements.

(Expressed in millions of Renminbi, unless otherwise stated)

	Note VII	The Group 2020	The Group 2019	The Bank 2020	The Bank 2019
I. Cash flows from operating activities: (continued)					
Net increase in loans and advances to customers		577,456	544,910	570,923	531,869
Net increase in finance leases		-	5,241	-	-
Net decrease in placements from banks and other financial institutions and financial assets sold under repurchase agreements		81,488	67,358	97,327	66,208
Net increase in placements with banks and other financial institutions and financial assets purchased under resale agreements		-	100,499	-	100,870
Net decrease in borrowing from Central Bank		-	102,800	-	102,800
Net increase in financial assets held for trading		139,003	134,656	133,026	127,722
Cash payments to interest, fee and commission		131,079	143,797	128,818	137,378
Cash payments to and on behalf of employees		26,605	25,691	24,213	23,503
Cash payments of various types of taxes		33,310	23,143	30,640	21,131
Other cash payments relating to operating activities		21,703	29,394	19,596	26,744
Subtotal of cash outflows from operating activities		1,010,644	1,177,489	1,004,543	1,138,225
Net cash flow from operating activities	41	(34,228)	(588,009)	(65,791)	(562,997)

The accompanying notes form an integral part of these financial statements.

Industrial Bank Co., Ltd.
The Consolidated and Bank's Cash Flow Statements (continued)
For the year ended 31 December 2020
(Expressed in millions of Renminbi, unless otherwise stated)

		The Group		The Bank	
		2020	*2019*	*2020*	*2019*
II.	**Cash flows from investing activities**				
	Cash receipts from recovery of investments	2,660,826	2,124,476	2,604,803	2,094,674
	Cash receipts from investment income	113,560	128,078	110,813	122,447
	Cash receipts from disposals of fixed assets, intangible assets and other long-term assets	363	161	248	161
	Other cash receipts relating to investing activities	25,249	14,342	24,010	11,302
	Subtotal of cash inflows from investing activities	2,799,998	2,267,057	2,739,874	2,228,584
	Cash payments to acquire investments	2,546,058	1,648,591	2,524,275	1,581,887
	Cash payments to acquire fixed assets, intangible assets and other long-term assets	6,585	5,517	2,795	4,255
	Other cash payments relating to investing activities	13,353	10,612	13,353	7,477
	Subtotal of cash outflows from investing activities	2,565,996	1,664,720	2,540,423	1,593,619
	Net cash flow from investing activities	234,002	602,337	199,451	634,965
III.	**Cash flows from financing activities:**				
	Cash receipts from capital contributions	30,000	32,145	30,000	30,000
	Including: Cash receipts from capital contributions from non-controlling shareholders of subsidiaries	-	238	-	-
	Proceeds from issuance of bonds	1,069,109	990,074	1,059,509	981,174
	Subtotal of cash inflows from financing activities	1,099,109	1,022,219	1,089,509	1,011,174
	Cash repayments of borrowings	1,024,429	810,130	1,017,619	809,507
	Cash payments for distribution of dividends or profits or settlement of interest expenses	45,004	44,076	43,781	43,060
	Including: Dividends paid to non-controlling shareholders of subsidiaries	10	106	-	-
	Other cash payments relating to financing activities	40	1,346	40	63
	Subtotal of cash outflows from financing activities	1,069,473	855,552	1,061,440	852,630
	Net cash flow from financing activities	29,636	166,667	28,069	158,544

The accompanying notes form an integral part of these financial statements.

Industrial Bank Co., Ltd.
The Consolidated and Bank's Cash Flow Statements (continued)
For the year ended 31 December 2020
(Expressed in millions of Renminbi, unless otherwise stated)

	Note VII	*The Group* 2020	*The Group* 2019	*The Bank* 2020	*The Bank* 2019
IV. Effect of foreign exchange rate changes on cash and cash equivalents		(4,345)	1,558	(4,303)	1,545
V. Net increase in cash and cash equivalents	41	225,065	182,553	157,426	232,057
Add: Opening balance of cash and cash equivalents		731,730	549,177	775,679	543,622
VI. Closing balance of cash and cash equivalents	41	956,795	731,730	933,105	775,679

The financial statements were signed by the following persons in charge:

Tao Yiping
(On Behalf of the Legal Representative)
Director
President
Financial Director

Lai Furong
Person in Charge of the Accounting Body

The accompanying notes form an integral part of these financial statements.

Industrial Bank Co., Ltd.
The Consolidated Statement of Changes In Shareholders' Equity
For the year ended 31 December 2020
(Expressed in millions of Renminbi, unless otherwise stated)

		Attributable to shareholders of the Bank								
	Note VII	*Share capital*	*Other equity instruments*	*Capital reserve*	*Other comprehensive income*	*Surplus reserve*	*General reserve*	*Retained earnings*	*Non-controlling interests*	*Total*
I. At 1 January 2020		20,774	55,842	74,914	3,232	10,684	78,525	297,389	8,292	549,652
II. Changes for the year										
(I) Net profit		-	-	-	-	-	-	66,626	1,055	67,681
(II) Other comprehensive income	39	-	-	-	(3,981)	-	-	-	(6)	(3,987)
Subtotal of (I) and (II)		-	-	-	(3,981)	-	-	66,626	1,049	63,694
(III) Capital contribution from shareholders		-	29,960	-	-	-	-	-	(10)	29,950
1. Changes in shareholdings in subsidiaries		-	-	-	-	-	-	-	(10)	(10)
2. Capital injection by other equity instruments shareholders	26	-	29,960	-	-	-	-	-	-	29,960
(IV) Profit distribution		-	-	-	-	-	9,010	(27,389)	(114)	(18,493)
1. Appropriation to general reserve	29	-	-	-	-	-	9,010	(9,010)	-	-
2. Dividends paid to ordinary shareholders	30	-	-	-	-	-	-	(15,830)	(10)	(15,840)
3. Dividends paid to preference shareholders	30	-	-	-	-	-	-	(2,549)	-	(2,549)
4. Distribution to perpetual debt holders		-	-	-	-	-	-	-	(104)	(104)
III. At 31 December 2020		20,774	85,802	74,914	(749)	10,684	87,535	336,626	9,217	624,803

The accompanying notes form an integral part of these financial statements.

Industrial Bank Co., Ltd.
The Consolidated Statement of Changes In Shareholders' Equity (continued)
For the year ended 31 December 2019
(Expressed in millions of Renminbi, unless otherwise stated)

		Attributable to shareholders of the Bank								
	Note VII	*Share capital*	*Other equity instruments*	*Capital reserve*	*Other comprehensive income*	*Surplus reserve*	*General reserve*	*Retained earnings*	*Non-controlling interests*	*Total*
I. At 31 December 2018		20,774	25,905	75,011	2,356	10,684	73,422	257,801	6,631	472,584
Changes in accounting policies		-	-	-	611	-	-	(5,361)	(22)	(4,772)
II. At 1 January 2019		20,774	25,905	75,011	2,967	10,684	73,422	252,440	6,609	467,812
III. Changes for the year										
(I) Net profit		-	-	-	-	-	-	65,868	834	66,702
(II) Other comprehensive income	39	-	-	-	265	-	-	-	5	270
Subtotal of (I) and (II)		-	-	-	265	-	-	65,868	839	66,972
(III) Capital contribution from shareholders		-	29,937	(97)	-	-	-	-	950	30,790
1. Contribution from shareholders		-	-	-	-	-	-	-	238	238
2. Changes in shareholdings in subsidiaries		-	-	(97)	-	-	-	-	(1,282)	(1,379)
3. Capital injection by other equity instruments shareholders		-	29,937	-	-	-	-	-	1,994	31,931
(IV) Profit distribution		-	-	-	-	-	5,103	(20,919)	(106)	(15,922)
1. Appropriation to general reserve	29	-	-	-	-	-	5,103	(5,103)	-	-
2. Dividends paid to ordinary shareholders	30	-	-	-	-	-	-	(14,334)	(106)	(14,440)
3. Dividends paid to preference shareholders	30	-	-	-	-	-	-	(1,482)	-	(1,482)
IV. At 31 December 2019		20,774	55,842	74,914	3,232	10,684	78,525	297,389	8,292	549,652

The financial statements were signed by the following persons in charge:

Tao Yiping
(On Behalf of the Legal Representative)
Director, President, Financial Director

Lai Furong
Person in Charge of the Accounting Body

The accompanying notes form an integral part of these financial statements.

Industrial Bank Co., Ltd.
The Bank's Statement of Changes In Shareholders' Equity
For the year ended 31 December 2020
(Expressed in millions of Renminbi, unless otherwise stated)

	Note VII	Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Total
I. At 1 January 2020		20,774	55,842	75,260	3,192	10,684	74,829	281,875	522,456
II. Changes for the year									
(I) Net profit		-	-	-	-	-	-	60,856	60,856
(II) Other comprehensive income	39	-	-	-	(3,943)	-	-	-	(3,943)
Subtotal of (I) and (II)		-	-	-	(3,943)	-	-	60,856	56,913
(III) Capital contribution from shareholders		-	29,960	-	-	-	-	-	29,960
Capital injection by other equity instruments shareholders	26	-	29,960	-	-	-	-	-	29,960
(IV) Profit distribution		-	-	-	-	-	8,553	(26,932)	(18,379)
1. Appropriation to general reserve	29	-	-	-	-	-	8,553	(8,553)	-
2. Dividends paid to ordinary shareholders	30	-	-	-	-	-	-	(15,830)	(15,830)
3. Dividends paid to preference shareholders	30	-	-	-	-	-	-	(2,549)	(2,549)
III. At 31 December 2020		20,774	85,802	75,260	(751)	10,684	83,382	315,799	590,950

The accompanying notes form an integral part of these financial statements.

Industrial Bank Co., Ltd.
The Bank's Statement of Changes In Shareholders' Equity (continued)
For the year ended 31 December 2019
(Expressed in millions of Renminbi, unless otherwise stated)

	Note VII	*Share capital*	*Other equity instruments*	*Capital reserve*	*Other comprehensive income*	*Surplus reserve*	*General reserve*	*Retained earnings*	*Total*
I. At 31 December 2018		20,774	25,905	75,260	2,802	10,684	69,996	244,143	449,564
Changes in accounting policies		-	-	-	146	-	-	(3,918)	(3,772)
II. At 1 January 2019		20,774	25,905	75,260	2,948	10,684	69,996	240,225	445,792
III. Changes for the year									
(I) Net profit		-	-	-	-	-	-	62,299	62,299
(II) Other comprehensive income	39	-	-	-	244	-	-	-	244
Subtotal of (I) and (II)		-	-	-	244	-	-	62,299	62,543
(III) Capital contribution from shareholders		-	29,937	-	-	-	-	-	29,937
Capital injection by other equity instruments shareholders		-	29,937	-	-	-	-	-	29,937
(IV) Profit distribution		-	-	-	-	-	4,833	(20,649)	(15,816)
1. Appropriation to general reserve	29	-	-	-	-	-	4,833	(4,833)	-
2. Dividends paid to ordinary shareholders	30	-	-	-	-	-	-	(14,334)	(14,334)
3. Dividends paid to preference shareholders	30	-	-	-	-	-	-	(1,482)	(1,482)
IV. At 31 December 2019		20,774	55,842	75,260	3,192	10,684	74,829	281,875	522,456

The financial statements were signed by the following persons in charge:

Tao Yiping
(On Behalf of the Legal Representative)
Director, President, Financial Director

Lai Furong
Person in Charge of the Accounting Body

The accompanying notes form an integral part of these financial statements.

I. General information

Industrial Bank Co., Ltd. (hereinafter referred to as "the Bank") which was referred to as Fujian Industrial Bank Co., Ltd. previously, is a stock commercial bank approved by the People's Bank of China (the "PBOC"), with the document YF [1988] No. 347 issued on 20 July 1988, in accordance with the Application by Fujian Province for Deepening Reform and Opening and Accelerating the Development of Export-oriented Economy (GH [1988] No.58) approved by the State Council. The Bank started trading on Shanghai Stock Exchange on 5 February 2007 with the stock code 601166.

The Bank holds the license for carrying out financial activities issued by China Banking Regulatory Commission (the "CBRC") with the license number of No. B0013H135010001; and the Business License of Enterprise Legal Person issued by Fujian Provincial Administration for Industry and Commerce with uniform social credit code of 91350000158142711F. The Bank's the registered address is No.154 Hudong Road, Fuzhou, Fujian Province, the PRC. Tao Yiping was delegated with the duties of legal representative.

The principal activities of the Bank comprise the provision of banking service, which includes accepting deposits from the public; granting short-term, medium-term and long-term loans; domestic and overseas settlement services; issuance of discount and acceptance bills and notes; issuing financial bonds; agency issuance and encashment, underwriting of government bonds and debentures; trading of government and financial bonds and debentures; agency trading and trading of marketable securities except stock; asset custody business; inter-bank lending and borrowings; agency trading, trading, settlement and sale of foreign exchanges; bank card business; letters of credit and letters of guarantee; remittance and insurance agent services; safety deposit box services; financial advisory services; credit investigation, advisory and attestation services and other banking activities approved by the CBRC.

The principal activities of the Bank's subsidiaries comprise finance leasing; trust services; fund raising and marketing; asset management for specific clients; asset management; consumer finance; equity investment; industrial investment; investment management and advisory; investment consulting (excluding brokerage); financial consulting; business consulting; enterprise management consulting; financial data processing; commodity futures brokerage; financial futures brokerage; futures investment consulting; economic information consulting service; application software development and operational services; system integration services; investment and asset management; acquisition, transfer and disposal of bad debts in batches of financial institutions in the province; acquisition, transfer and disposal of bad debts of non-financial institutions; issuance of wealth management products to non-specific public customers and investment and management of the investors' assets as entrusted; issuance of wealth management products to qualified investors and investment and management of the investors' assets as entrusted; wealth management consulting and advisory services; and other banking activities approved by the CBRC as well as other businesses permitted by China Securities Regulatory Commission (the "CSRC").

II. Basis of preparation of financial statements

The report is prepared on a going concern basis.

The Bank and its subsidiaries (hereinafter referred to as "the Group") has adopted the revised *CAS 22 - Recognition and Measurement of Financial Instruments* and other new financial instrument standards issued by the Ministry of Finance (the "MOF") in 2017, since 1 January 2019, also the Group has adopted the *CAS No.14 - Income* issued by the MOF in 2017, since 1 January 2020.(see Note IV. 30), the Group has not implemented the *CAS 21 – Leases* issued by the MOF in 2018.

III. Statement of compliance with the ASBE

The financial statements of the Bank have been prepared in accordance with ASBE, and present truly and completely, the consolidated and Bank's financial position as of 31 December 2020, and the consolidated and Bank's results of operations and cash flows for the year then ended.

In addition, the Bank's financial statements also comply with relevant disclosure requirements on financial statements and notes of the revised Rules on the Preparation and Submission of Information Disclosed by Companies Offering Securities to the *Public (No.15) – General Rules on Financial Reports* issed by China Securities Regulatory Commission (CSRC) in 2014.

IV. Significant accounting policies and accounting estimates

1. Accounting period

The Bank's accounting year starts on 1 January and ends on 31 December.

2. Functional currency

The Group and its domestic subsidiaries choose Renminbi ("RMB") as their functional currency, while its subsidiaries overseas choose their functional currency depends on the primary economic environment in which the subsidiaries operate and was translated into RMB according to the principles stated in Note IV. 6.

3. Accounting treatments for business combinations involving entities under common control and not under common control

A transaction constitutes a business combination when the Group obtains control of one or more entities (or a group of assets or net assets). Business combination is classified as either business combinations involving enterprises under common control or business combinations not involving enterprises under common control.

For a transaction not involving enterprises under common control, the acquirer determines whether acquired set of assets constitute a business. The Group may elect to apply the simplified assessment method, the concentration test, to determine whether an acquired set of assets is not a business. If the concentration test is met and the set of assets is determined not to be a business, no further assessment is needed. If the concentration test is not met, the Group shall perform the assessment according to the guidance on the determination of a business.

When the set of assets the group acquired does not constitute a business, acquisition costs should be allocated to each identifiable assets and liabilities at their acquisition date fair values. It is not required to apply the accounting of business combination described as below.

3.1 Business combinations involving enterprises under common control

A business combination involving enterprises under common control is a business combination in which all of the combining enterprises are ultimately controlled by the same party or parties both before and after the combination, and that control is not transitory.

The assets acquired and liabilities assumed are measured based on their carrying amounts (or the total par value of the issued shares) in the consolidated financial statements of the ultimate controlling party at the combination date. The difference between the carrying amount of the net assets obtained and the carrying amount of the consideration paid for the combination is adjusted to the share premium in capital reserve. If the share premium is not sufficient to absorb the difference, any excess shall be adjusted against retained earnings.

Costs that are directly attributable to the combination are charged to profit or loss in the period in which they are incurred. Combination date is the date on which the absorbing party effectively obtains control of the party being absorbed.

3.2 Business combinations not involving enterprises under common control and goodwill

A business combination not involving enterprises under common control is a business combination in which all of the combining enterprises are not ultimately controlled by the same party or parties before and after the combination.

The cost of combination is the aggregation of the fair values, at the acquisition date, of the assets given, liabilities incurred or assumed, and the equity securities issued by the acquirer in exchange for control of the acquire. Where a business combination not involving enterprises under common control is achieved in stages that involve multiple transactions, the cost of combination is the sum of the consideration paid at the acquisition date and the fair value at the acquisition date of the acquirer's previously held interest in the acquiree. The intermediary expenses incurred by the acquirer in respect of auditing, legal services, valuation and consultancy services, etc. and other associated administrative expenses attributable to the business combination are recognised in profit or loss when they are incurred.

For a business combination involving entities not under common control and achieved in stages, the Group remeasured its previously-held equity interest in the acquiree to its acquisition-date fair value and recognised any resulting difference between the fair value and the carrying amount as investment income or other comprehensive income for the current period. In addition, any amount recognised in other comprehensive income and other changes in the owners' equity under equity accounting in prior reporting periods relating to the previously-held equity interest that may be reclassified to profit or loss were transferred to investment income at the date of acquisition (see Note IV.9.3.(2)); Any previously-held equity interest that was designated as equity investment at fair value through other comprehensive income, the other comprehensive income recognised in prior reporting periods was transferred to retained earnings and surplus reserve at the date of acquisition.

The acquiree's identifiable assets, liabilities and contingent liabilities acquired by the acquirer in a business combination that meet the recognition criteria shall be measured at fair value at the acquisition date. Acquisition date is the date on which the acquirer effectively obtains control of the acquiree.

Where the cost of combination exceeds the acquirer’s interest in the fair value of the acquiree’s identifiable net assets, the difference is treated as an asset and recognised as goodwill, which is measured at cost on initial recognition. Where the cost of combination is less than the acquirer’s interest in the fair value of the acquiree’s identifiable net assets, the acquirer firstly reassesses the measurement of the fair values of the acquiree’s identifiable assets, liabilities and contingent liabilities and measurement of the cost of combination. If after that reassessment, the cost of combination is still less than the acquirer’s interest in the fair value of the acquiree’s identifiable net assets, the acquirer recognises the remaining difference immediately in profit or loss for the current period.

Goodwill arising on a business combination is measured at cost less accumulated impairment losses, and is presented separately in the consolidated financial statements. It is tested for impairment at least at the end of each year. On disposal of an asset group or a set of asset groups, any attributable goodwill is written off and included in the calculation of the profit or loss on disposal.

4. Preparation of consolidated financial statements

The scope of consolidated financial statements is determined on the basis of control. Control refers to the power an investor has over an investee, by virtue of which the investor enjoys variable returns by participating in related activities of the investee, and has the ability to use its power over the investee to influence the amount of its returns. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered. Once the change in relevant facts and circumstances leads to a change in relevant elements involved in the definition of control, the Group will conduct reassessment.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of subsidiary.

For subsidiaries disposed by the Group, their results of operation and cash flows prior to the disposal date (the date when control is lost) are included in the consolidated statements of comprehensive income and consolidated statement of cash flows, as appropriate.

For subsidiaries acquired through a business combination not involving enterprises under common control, their results of operation and cash flows from the acquisition date(the date when control is obtained) are included in the consolidated statements of comprehensive income and consolidated statement of cash flows, as appropriate.

No matter when the business combination occurs in the reporting period, subsidiaries acquired through a business combination involving enterprises under common control are included in the Group's scope of consolidation as if they had been included in the scope of consolidation from the date when they first came under the common control of the ultimate controlling party. Their operating results and cash flows from the beginning of the earliest reporting period are included in the consolidated income statement and consolidated statement of cash flows, as appropriate.

The significant accounting policies and accounting periods adopted by the subsidiaries are determined based on the uniform accounting policies and accounting periods set out by the Bank.

All significant intergroup accounts and transactions between the Bank and its subsidiaries or between subsidiaries are eliminated in full amount on consolidation. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, unless they represent impairment losses that are recognised in the financial statements.

Non-controlling interests are presented separately in the consolidated balance sheet within shareholders' equity. Net profit or loss attributable to non-controlling shareholders is presented separately in the consolidated income statement below the net profit line item. Total comprehensive income attributable to non-controlling shareholders is presented separately in the consolidated income statement below the total comprehensive income line item.

When the amount of loss for the period attributable to the non-controlling shareholders of a subsidiary exceeds the non-controlling shareholders' portion of the opening balance of owners' equity of the subsidiary, the excess amount are still allocated against non-controlling interests.

Acquisition of non-controlling interests or disposal of interest in a subsidiary that does not result in the loss of control over the subsidiary is accounted for as equity transactions. The carrying amounts of the equity attributable to equity holders of the bank and non-controlling interests in equity are adjusted to reflect the changes in their relative interests in the subsidiary. The difference between the amount by which the non-controlling interests in equity are adjusted and the fair value of the consideration paid or received is adjusted to capital reserve. If the capital reserve is not sufficient to absorb the difference, the excess are adjusted against retained earnings.

For the stepwise acquisition of equity interest till acquiring control after a few transactions and leading to business combination not involving enterprises under common control, this should be dealt with based on whether this belongs to 'package deal': if it belongs to 'package deal', transactions will be dealt as transactions to acquire control. If it does not belong to 'package deal', transactions will be dealt as transactions of a business combination involving entities not under common control and achieved in stages (see Note IV. 3.2).

When the Group loses control over a subsidiary due to disposal of certain equity interest or other reasons, any retained interest is re-measured at its fair value at the date when control is lost. The difference between (i) the aggregate of the consideration received on disposal and the fair value of any retained interest and (ii) the share of the former subsidiary's net assets cumulatively calculated from the acquisition date according to the original proportion of ownership interest is recognised as investment income in the period in which control is lost. Other comprehensive income associated with investment in the former subsidiary is reclassified to investment income in the period in which control is lost.

Structured entities refers to the entities that voting rights or similar rights do not constitute decisive factors when recognise the controlling party, such as when voting rights are associated with the administration, or related activities are led by the contractual arrangements. Wealth management products, fund, trust fund plans and fund management plans could be used as examples of the structured entities.

5. Recognition criteria of cash and cash equivalents

Cash comprises cash on hand and deposits that can be readily withdrawn on demand. Cash equivalents are the Group's short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

6. Transactions denominated in foreign currencies and translation of foreign currency financial statement

Transactions in foreign currencies are translated into the respective functional currencies of the operations at the spot exchange rates at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated into the functional currency at the spot exchange rates at that date. The resulting exchange differences are recognised in profit or loss. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated into functional currency using the spot exchange rates at the dates of the transactions. Non-monetary items denominated in foreign currencies that are measured at fair value are translated using the spot exchange rates at the dates the fair values are determined; Translation differences on equity investments at fair value through other comprehensive income are recognised in other comprehensive income. Other Translation differences recognised in the profit or loss.

When preparing consolidated financial statements, financial statements of overseas operations in foreign currency are translated into financial statements in RMB in the following methods: All assets and liabilities in the statements of financial position are translated by applying the spot exchange rates at the balance sheet date; shareholders' equities except retained earnings and other comprehensive income are translated by applying the spot exchange rate on the date of the transaction; statements of comprehensive income and items reflecting profit distribution occurred are translated by exchange rates similar with the spot exchange rate on the date of the transaction; retained earnings at the beginning of this year equal to the retained earnings after translation at the end of previous year; retained earnings at the end of period are presented as profit distributions after translation; differences between assets after translation and liabilities & shareholders' equity after translation are presented as "other comprehensive income" in shareholders' equity.

7. Financial instruments

The Group's financial instruments mainly include Cash and balances with Central Bank, Deposits with banks and other financial institutions, Placements with banks and other financial institutions, Derivative financial assets, Financial assets purchased under resale agreements, Loans and advances to customers, Trading assets, Debt investments, Other debt investments, Other equity investments, Other receivables, Borrowing from Central Bank, Deposits from banks and other financial institutions, Placements from banks and other financial institutions, Trading liabilities, Derivative financial liabilities, Financial assets sold under repurchase agreements, Deposits from customers, Debt securities issued, Other payables and Share capital, etc.

7.1 Recognition and initial measurement of financial instrument

A financial asset or financial liability is recognised in the balance sheet when the Group becomes a party to the contractual provisions of a financial instrument.

A financial assets and financial liabilities is measured initially at fair value. For financial assets and financial liabilities at fair value through profit or loss, any related directly attributable transaction costs are charged to profit or loss; for other categories of financial assets and financial liabilities, any related directly attributable transaction costs are included in their initial costs.

7.2 Classification and subsequent measurement of financial assets

(1) Classification of financial assets

The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. On initial recognition, a financial asset is classified as measured at amortised cost, at fair value through other comprehensive income ("FVOCI"), or at fair value through profit or loss ("FVTPL").

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows;

- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The financial assets measured at amortised cost held by the Group mainly include Cash and balances with Central Bank, Deposits with banks and other financial institutions, Placements with banks and other financial institutions, Financial assets purchased under resale agreements, Loans and advances to customers measured at amortised cost, Debt investments, Other receivables, etc.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets;

- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The financial assets measured at FVOCI held by the Group mainly include Loans and advances to customers measured at FVOCI and Other debt investments.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. The equity investments elected to fair value in other comprehensive income held by the Group mainly include Other equity investments.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. The financial assets measured at FVTPL held by the Group mainly include Loans and advances to customers measured at FVTPL and Trading assets.

The business model refers to how the Group manages its financial assets in order to generate cash flows. That is, the Group's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. The Group determines the business model for managing the financial assets according to the facts and based on the specific business objective for managing the financial assets determined by the Group's key management personnel.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. For the purposes of this assessment, 'Principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The Group also assesses whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

(2) Subsequent measurement of financial assets

(i) Financial assets at FVTPL

These financial assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss unless the financial assets are part of a hedging relationship.

(ii) Financial assets at amortised cost

These assets are subsequently measured at amortised cost using the effective interest method. A gain or loss on a financial asset that is measured at amortised cost and is not part of a hedging relationship shall be recognised in profit or loss when the financial asset is derecognised, through the amortisation process or in order to recognise impairment gains or losses.

(iii) Debt investments at FVOCI

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, impairment and foreign exchange gains and losses are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

(iv) Equity investments at FVOCI

These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to retained earnings.

7.3 Classification and subsequent measurement of financial liabilities

Financial liabilities are classified as measured at FVTPL, financial guarantee liabilities or financial liabilities measured at amortised cost.

(1) Financial liabilities at FVTPL

A financial liability is classified as at FVTPL if it is classified as held-for-trading (including derivative financial liability) or it is designated as such on initial recognition.

Financial liabilities at FVTPL are subsequently measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss, unless the financial liabilities are part of a hedging relationship.

(2) Financial guarantee liabilities

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

After initial recognition, a financial guarantee liability is measured at the higher of:

- the amount of the allowance for impairment losses determined in accordance with impairment policies of financial instruments (see Note IV. 7.5); and

- the amount initially recognised less the cumulative amount of income.

(3) Financial liabilities measured at amortised cost

Financial liabilities measured at amortised cost are subsequently measured at amortised cost using the effective interest method.

7.4 Derecognition of financial assets and financial liabilities

The Group derecognises a financial asset if the part being considered for derecognition meets one of the following conditions:

- the contractual rights to receive the cash flows from the financial asset expire; or
- the financial asset has been transferred and the Group transfers substantially all of the risks and rewards of ownership of the financial asset; or
- the financial asset has been transferred, although the Group neither transfers nor retains substantially all of the risks and rewards of ownership of the financial asset, it does not retain control over the transferred asset.

Where a transfer of a financial asset in its entirety meets the criteria for derecognition, the difference between the two amounts below is recognised in profit or loss:

- The carrying amount of the financial asset transferred measured at the date of derecognition;
- The sum of the consideration received from the transfer and, when the transferred financial asset is a debt investment at FVOCI, any cumulative gain or loss that has been recognised directly in other comprehensive income for the part derecognised.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but retains control, the Group continues to recognise the financial asset to the extent of its continuing involvement in the financial asset. If the Group has not retained control, it derecognises the financial asset and recognises separately as assets or liabilities any rights and obligations created or retained in the transfer.

The Group derecognises a financial liability (or part of it) only when its contractual obligation (or part of it) is extinguished.

7.5 Impairment of financial assets

The Group recognises allowance for impairment losses for expected credit loss (ECL) on:

- Financial assets measured at amortised cost;
- Debt investments measured at FVOCI;
- Lease receivables
- Loan commitments and financial guarantee contracts issued, which are not measured at FVTPL.

Financial assets measured at fair value, including debt investments or equity securities at FVTPL, equity securities designated at FVOCI and derivative financial assets, are not subject to the ECL assessment.

(1) Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

The maximum period considered when estimating ECLs is the maximum contractual period (including extension options) over which the Group is exposed to credit risk.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the balance sheet date (or a shorter period if the expected life of the instrument is less than 12 months).

The Group applies a “three-stage model” for measuring ECL. For the measurement and segmentation of ECL of financial instruments of the Group, see Note XI.3 Credit risk.

(2) Presentation of allowance for ECL

ECLs are remeasured at each balance sheet date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for debt investments that are measured at FVOCI, for which the allowance for impairment loss is recognised in other comprehensive income. For the loan commitments and financial guarantee contracts issued, which are not measured at FVTPL, the Group recognises the allowance for impairment losses in provisions (credit loss of off-balance sheet assets).

(3) Write-off

The gross carrying amount 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.

7.6 Offsetting

Financial assets and financial liabilities are generally presented separately in the balance sheet, and are not offset. However, a financial asset and a financial liability are offset and the net amount is presented in the balance sheet when both of the following conditions are satisfied:

- The Group currently has a legally enforceable right to set off the recognised amounts;

- The Group intends either to settle on a net basis, or to realise the financial asset and settle the financial liability simultaneously.

7.7 Derivative financial instruments and embedded derivative financial instruments

The Group uses derivative financial instruments such as interest rate swap, foreign exchange far swap, foreign exchange option, credit swap, total income swap, precious metal far swap and precious metal option, etc. A derivative financial instrument has all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable;
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors;
- It is settled at a future date.

Derivatives are recognised at fair value upon initial recognition. The positive fair value is recognised as an asset while the negative fair value is recognised as a liability. The gain or loss on re-measurement to fair value is recognised in profit or loss.

An embedded derivative financial instrument is a component of a hybrid contract that includes a non-derivative principal contract (the "host contract"), and embedded derivative financial instruments and the principal contract comprise a hybrid contract. The derivative financial instrument causes adjustment to some or all of the cash flows of the principal contract according to changes in specified interest rate, financial instrument price, foreign exchange rate, price or interest rate index, credit rating, credit index, or other similar variables.

If the host contract in a hybrid contract is classified as an asset according to the financial instruments standard, the Group will apply relevant financial asset classification provisions to the hybrid contract as a whole;

The hybrid contract will be separated from the host contract and treated as a separate derivative financial instrument if the host contract in a hybrid contract is not classified as an asset according to the financial instruments standard, and meets the following conditions: (i) the economic characteristics and risks of the embedded derivative financial instrument are not closely related to the principal contract; (ii) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (iii) the hybrid instruments are not measured at fair value through profit or loss;

Where a hybrid contract includes one or more embedded derivative financial instruments and the host contract in the hybrid contract is not classified as an asset according to the financial instruments standard, the Group classifies the hybrid contract as a financial instrument measured at FVTPL except for the following cases: (i) the embedded derivative financial instruments do not significantly modify the cash flow of the hybrid contract; (ii) when determining for the first time whether such hybrid contracts require separation, it is clear without analysis that the embedded derivative financial instruments should not be separated from the contracts.

7.8 Hedge accounting

Hedge accounting is a method which recognises in profit or loss (or other comprehensive income) the gain or loss on the hedging instrument and the hedged item in the same accounting period(s) to represent the effect of risk management.

Hedged items are items that expose the Group to risks of changes in fair value or cash flows and that are designated as being hedged and can be reliably measured. A hedging instrument is a designated financial instrument whose changes in fair value or cash flows are expected to offset changes in the fair value or cash flows of the hedged item.

At the inception of a hedge relationship, the Group formally designates the hedge instruments and the hedged items, and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to meet the hedge effectiveness in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to analyse the sources of hedge ineffectiveness which are expected to affect the hedge relationship in remaining hedging period. 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 would rebalance the hedging relationship.

Certain derivative transactions, while providing effective economic hedges under the Group's risk management positions, do not qualify for hedge accounting and are therefore treated as derivatives held for trading with fair value gains or losses recognised in profit or loss. Hedges which meet the strict criteria for hedge accounting are accounted for in accordance with the Group's accounting policy as set out below.

Fair value hedges

Fair value hedges are hedges of the Group's exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or unrecognised firm commitment, that is attributable to a particular risk and could affect the profit or loss or other comprehensive income. Among them, the circumstances affecting other comprehensive income are limited to the hedging for the risk exposure from fair value change of non-trading equity investment designated as at FVOCI. For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged, the derivative is remeasured at fair value and the gains and losses from both are taken to profit or loss or other comprehensive income.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in profit or loss. The changes in the fair value of the hedging instrument are also recognised in profit or loss.

The Group discontinues fair value hedge accounting when the hedging relationship ceases to meet the qualifying criteria after taking into account any rebalancing of the hedging relationship, including the hedging instrument has expired or has been sold, terminated or exercised. If the hedged items are derecognised, the unamortised fair value is recorded in profit or loss.

7.9 Asset-backed securities

As part of its business activities, the Bank securitised some of its assets, generally by selling the assets to structured entities, which then issue securities to investors. For the conditions for financial assets derecognition, see Note IV. 7.4. When applying the financial assets derecognition conditions, the Group considers the risk and reward transfer degree of the assets transferred to structured entities, as well as the extent to which the Group exercises control over the entities. The financial assets related to the asset-backed securities failing to meet the derecognition conditions are not derecognised, and funds from third-party investors are treated as financial liabilities. Where the Group neither transfers nor retains substantially all of the risks and rewards of ownership of the financial assets, the Group will consider whether it retains control over the transferred assets. If the Group does not retain control, it shall derecognise the financial assets and recognise the rights and obligations arising from or reserved during the transfer as assets or liabilities. If the Group retains control, the financial assets are recognised based on the extent of the its involvement in the financial assets.

7.10 Equity instrument

An equity instrument is a contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. A financial instrument issued by the Group shall be classified as an equity instrument when both of the following conditions are satisfied: (1) the 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 unfavourable to the issuer; (2) if the instrument will or may be settled in the Group’s own equity instrument, it is: a non-derivative that includes no contractual obligation for the issuer 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. The Group’s issuance (including refinancing), repurchase, sales or cancellation of an equity instrument shall be accounted for as a change to equity. The Group does not recognise changes in the fair value of an equity instrument. Transaction costs of an equity transaction are accounted for as a deduction from equity.

The Group's distribution to the holders of equity instruments is treated as profit distribution, and the issued stock dividends do not affect the total amount of shareholders' equity.

7.11 Preference share and perpetual bond

Such preference shares or their components are initially recognised as financial assets, financial liabilities or equity instruments according to the terms and the economic substance combined with the definition of financial assets, financial liabilities and equity instruments.

For the issued preference shares that should be classified as equity instruments, will be recognised as equity in actual amount received. Dividends payables are recognised as distribution of profits. Redemption before maturity will write down equity as redemption price.

8. Precious metal

Precious metals comprise gold, silver and other precious metals. Precious metals that are not related to the Group's precious metals trading activities are initially measured at acquisition cost and subsequently measured at the lower of cost and net realisable value. Precious metals acquired by the Group for trading purposes are initially measured at fair value and subsequent changes in fair value are recorded in the statement of profit or loss.

The Group records the precious metals received as an asset. A liability to return the amount of precious metals deposited is also recognised. The precious metals deposited in the Group are measured at fair value both on initial recognition and in subsequent measurement.

9. Long-term equity investments

9.1 Determination of joint control or significant influence over investee

Control refers to the power an investor has over an investee, by virtue of which the investor enjoys variable returns by participating in related activities of the investee, and has the ability to use its power over the investee to influence the amount of its returns. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. 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. When determining whether an investing enterprise is able to exercise control or significant influence over an investee, the effect of potential voting rights of the investee (for example, warrants and convertible debts) held by the investing enterprises or other parties that are currently exercisable or convertible shall be considered.

9.2 Determination of initial investment cost

For the acquisition of long-term equity investments involving enterprises under the common control, the Group measures the initial cost of the long-term equity investment as the share of the carrying amount of the owner's equity of the acquired enterprise at that date. The difference between the initial costs of the long-term equity investment and cash paid or non-cash assets transferred as well as the carrying amount of the debts borne by the Group shall offset against the capital reserve. If the capital reserve is insufficient to observe the difference, the retained earnings shall be adjusted. The investment cost which adopts the equity securities issued as the consideration should be adopted as the initial investment cost of the long-term equity investment according to the proportion carrying amount of combined party's shareholder equity in the consolidated financial statement of the final controlling part, and adjust the capital reserves by the difference between the initial investment cost of long-term equity investment and the amount of issued stock's face value, which is regarded as capital stock. If the capital reserves are insufficient to absorb the difference, retained income should be adjusted. For the acquisition of enterprises under the common control through several steps of trading, it should be confirmed whether it's a package deal. If it is, these deals should be measured as one acquiring-control deal. If not, the Group measures the initial cost of the long-term equity investment as the share of the carrying amount of the owner's equity of the acquired enterprise at that date. The difference between the initial costs of the long-term equity investment and the carrying amount of long-term equity investment before acquiring control as well as the carrying amount of the debts for more shares on the acquisition date shall offset against the capital reserve. If the capital reserve is insufficient to absorb the difference, the retained earnings shall be adjusted.

For a long-term equity investment acquired through business combination not involving enterprises under common control, the initial investment cost of the long-term equity investment is the cost of acquisition on the acquisition date. For the acquisition of enterprises under the common control through several steps of trading, it should be confirmed whether it's a package deal. If it is, these deals should be measured as one acquiring-control deal. If not, the carrying amount of long-term equity investment before acquiring control and the cost of new investment is the cost of acquisition measured under cost method.

Acquisition-related costs including auditing fees, legal services fees, valuation advice fees and other relevant management fees are generally recognised in profit or loss as incurred.

A long-term equity investment acquired other than through a business combination is initially recognised at the amount of cash paid if the Group acquires the investment by cash, or at the fair value of the equity securities issued if an investment is acquired by issuing equity securities.

9.3 Subsequent measurement and recognition of profit or loss

(1) Long-term equity investment accounted for using the cost method

The Bank uses the cost method for the long-term equity investment in subsidiaries in the financial statements. The subsidiary refers to the investee that controlled by the group.

Under the cost method, a long-term equity investment is measured at initial investment cost. Increasing or reducing investment will adjust the cost of long term equity investment accordingly. Investment income is recognised in the period in accordance with the attributable share of cash dividends or profit distributions declared by the investee.

The investments in subsidiaries are stated in the balance sheet at cost less accumulated impairment losses.

(2) Long-term equity investment accounted for using the equity method

The Group accounts for investment in associates using the equity method. Associates are those that the group is able to exercise significant influence over the investee.

Under the equity method, where the initial investment cost of a long-term equity investment exceeds the Group's share of the fair value of the investee’s identifiable net assets at the time of acquisition, no adjustment is made to the initial investment cost. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the initial cost of the investment, after reassessment of the long-term equity investment, is recognised immediately in profit or loss in the period in which the investment is acquired.

Under the equity method, the Group recognizes investment income and other comprehensive income based on the Group's share of net profit or loss and other comprehensive income of the investee and adjust the carrying amount of long-term equity investment accordingly. The carrying amount of the investment decreases regarding the attributable share of cash dividends or profit distributions declared by the investee. Changes in shareholders' equity of the investee other than net profits or losses, other comprehensive income or profit distribution are correspondingly adjusted to the carrying amount of the long-term equity investment, and recognized as capital reserve. The Group recognizes its share of the investee's net profit or loss based on the fair value of the investee's identifiable assets after the adjustment of investee's net profit. When the accounting policy and accounting period adopted by the investee are inconsistent with the Group's, the investment income and other comprehensive income are recognized based on the adjusted financial statements of the investee in accordance with the Group's accounting policies and accounting period. Unrealized profits or losses resulting from the Group's transactions with its associates and joint ventures are recognized as investment income or loss to the extent that those attributable to the Group's equity interest are eliminated. However, unrealized losses resulting from the Group's transactions with its investees in respect of impairment losses on the transferred assets shouldn't be eliminated.

The Group discontinues recognising its share of net losses of the investee after the carrying amount of the long-term equity investment together with any long-term interests that in substance form part of its net investment in the investee is reduced to zero. If the Group has incurred obligations to assume additional losses of the investee, a provision is recognized according to the expected obligation, and recorded as investment loss for the period. Where net profits are subsequently made by the investee, the Group resumes recognising its share of those profits only after its share of the profits exceeds the share of losses previously not recognized.

9.4 Disposal of long-term equity investments

On disposal of a long term equity investment, the difference between the proceeds actually received and the carrying amount is recognised in profit or loss for the period. When the Group reduces its ownership interest in investee but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the investee's disposal of the related assets or liabilities. Then the equity recognized by the Group other than the change of the net profits and loss, other comprehensive income and profit distribution of the invested entity is reclassified to profit and losses on proportion. When the Group reduces its ownership interest but the Group continues to use the cost method, for the other comprehensive income recognized by the Group using equity method prior to the control over the investee or under financial instrument recognition and measurement standard, the Group reclassifies to profit or loss the proportion of the gain or loss relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the investee's disposal of the related assets or liabilities. Then the other changes in owners' equity recognized by the Group using equity method, not arising from the change of the net profits and loss, other comprehensive income or profit distribution of the invested entity is reclassified to profit and loss on proportion.

(Expressed in millions of Renminbi, unless otherwise stated)

10. Fixed assets

10.1 Recognition criteria for fixed assets

Fixed assets are tangible assets that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and have useful lives of more than one accounting year. A fixed asset is recognised only when it is probable that economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. Fixed assets are initially measured at cost.

Subsequent expenditures incurred for the fixed asset are included in the cost of the fixed asset if it is probable that economic benefits associated with the asset will flow to the Group and the cost 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.

Fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment losses.

10.2 Depreciation of each category of fixed assets

A fixed asset is depreciated over its useful life using the straight-line method since the month subsequent to the one in which it is ready for intended use. The depreciation period, estimated net residual value rate and annual depreciation rate of each category of fixed assets are as follows:

Category	*Depreciation period*	*Estimated residual value rate*	*Annual depreciation rate*
Buildings	20- 30 years	0% - 3%	3.23% - 5.00%
Fixed assets improvement	The lower of improvement period and remaining useful life	0%	Linear depreciation according to depreciation life
Office and machinery equipment	3 - 20 years	0% - 5%	4.75% - 33.33%
Transportation vehicles	5 - 8 years	0% - 3%	12.50% - 20.00%
Flight equipment	25 years or 20 years	5% or 15%	3.80% or 4.25%

Estimated net residual value of a fixed asset is the estimated amount that the Group would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

10.3 Identification basis, valuation methods and depreciation methods for fixed assets acquired under finance leases

At the commencement of the lease term, the Group records the leased asset at an amount equal to the lower of the fair value of the leased asset and the present value of the minimum lease payments at the inception of the lease, and recognises a long-term payable at an amount equal to the minimum lease payments. The difference between the recorded amounts is accounted for as unrecognised finance charge. Besides, initial direct costs that are attributable to the leased item incurred during the process of negotiating and securing the lease agreement are also added to the amount recognised for the leased asset.

The Group adopts a depreciation policy for a fixed asset held under a finance lease which is consistent with that for its owned fixed asset. If there is reasonable certainty that the Group will obtain ownership of the leased asset at the end of the lease term, the leased asset is depreciated over its useful life. If there is no reasonable certainty that the Group will obtain ownership of the leased asset at the end of the lease term, the leased asset is depreciated over the shorter of the lease term and its useful life.

10.4 Other explanations

If a fixed asset is upon disposal or no future economic benefits are expected to be generated from its use or disposal, the fixed asset is derecognised. When a fixed asset is sold, transferred, retired or damaged, the amount of any proceeds on disposal of the asset net of the carrying amount and related taxes is recognised in profit or loss for the period.

The Group reviews the useful life and estimated net residual value rate of a fixed asset and the depreciation method applied at least once at each financial year-end, and accounts for any change as a change in an accounting estimate.

11. Construction in progress

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 fixed asset or other asset when it is ready for intended use.

12. Intangible assets

Intangible assets include land use rights, franchising, etc.

An intangible asset is measured initially at cost. Expenses related to the intangible assets are recognised in the cost of intangible assets when (i) it is probable that the associated economic benefits will flow to the Group; and (ii) the associated costs can be measured reliably. Other expenses related to the intangible assets are recognized in profit or loss for the period in which it is incurred.

Intangible assets are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses.

The acquired land use right is recognized as intangible assets. Expenses related to land use right and construction cost from buildings such as self-built factory, etc. are recognized as intangible assets and fixed assets, respectively. In the case of purchased buildings, it allocates related cost between land use right and buildings. If related cost cannot be allocated reasonably, it is recognized as fixed assets.

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 the period, and accounts for any change as a change in an accounting estimate. For an intangible asset with an infinite useful life, the Group reviews the useful life. If it is evident that the duration of associated economic benefits is predictable, then estimate the useful life pursuant to amortization policies for intangible assets with finite useful life.

13. Impairment of non-financial assets

The Group checks whether long-term equity investment, fixed assets, construction in progress, and intangible assets with a finite useful life will impair in every balance sheet date. If the indication of impairment of these assets exists, the Group estimates their recoverable amount. 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.

Estimation of recoverable amount of the assets is based on individual asset. If the recoverable amount is difficult to estimate, the amount should be estimated by the assets group which the asset belongs to. Recoverable amount is the higher of the two: net fair value of the assets or assets group after disposal expenses, or present value of the expected cash flow from the assets.

If asset's recoverable amount is lower than its carrying amount, the allowance for impairment losses should be recognized by their balances in profit or loss for the period.

The goodwill should be tested of impairment at least in the end of the each year with related assets group or combination of assets group. In purchase date, the carrying amount of goodwill should be allocated reasonably to assets group or combinations which can benefit from the synergy of enterprise merger. If the recoverable amount of assets group or combinations of allocated goodwill is lower than its carrying amount, impairment loss should be recognized. The amount of impairment loss should offset the carrying value which is allocated to the goodwill of certain assets group or combinations at first, then it should offset the carrying amount of other assets proportionally according to the proportion of other assets' carrying amount of assets group or combination after goodwill. However, such allocation would not reduce the carrying amount of an asset below the highest of its fair value less costs to sell (if measurable), its present value of expected future cash flows (if determinable) and zero.

The impairment losses cannot be reversed once they are recognized.

14. Long-term deferred expenses

Long-term deferred expenses represent expenses incurred that should be borne and amortised over the current and subsequent periods (together of more than one year). Long-term deferred expenses are amortised using the straight-line method over the expected periods in which benefits are derived.

15. Employee benefits

15.1 Accounting method of short-term employee benefits

In an accounting period in which an employee has rendered service to the Group, the Group recognizes the short-term employee benefits for that service as a liability, and the expenditure incurred for the period is recorded in profit or loss. The employee's welfare incurred is recognized in the profit or loss for the period as well. Non-monetary benefit included in employee's welfare expenses are recorded at fair value.

Payment made by the Group regarding social security contributions for employees such as contributions on medical insurance, work injury insurance and maternity insurance, etc. and payments of housing funds, as well as trade union fund and employee education fund provided in accordance with relevant requirements, are calculated according to prescribed bases and percentages in determining the amount of employee benefits and recognized as relevant liabilities, with a corresponding charge to the profit or loss for the period in the accounting period in which employees provide services.

15.2 Accounting method of post-employment benefits

Termination benefits are classified as defined contribution pension plans and defined benefit plans.

In an accounting period in which an employee has rendered service to the Group, the Group recognises the employee benefits for that service as a liability and included in profit or loss for the period.

For the defined benefit plan, the Group recognizes the obligations arising from such plan based on formula under estimated cumulated welfare method in the period in which employees render service and included in profit or loss for the period. The classifications of the costs are as follows:

- Service costs (including service costs of the period, service costs in the past, and profit and loss).
- Net value of interests from net liabilities or net assets of defined benefit plans (including interest income of planned assets, obligated interest cost of defined benefit plans and interest of influence of assets upper limit).
- The changes of recalculating the net liabilities and net assets of defined benefit plans.

Net interests of service costs and net liabilities and net assets of defined benefit plans are recorded in the profit and loss. The changes of recalculating the net liabilities and net assets of defined benefit plans, including actuarial gains or loss, planned assets yield deducting net value of interests from net liabilities or net assets of defined benefit plans, change rising from upper limit of assets deducting net value of interests from net liabilities or net assets of defined, are recorded in other comprehensive income.

The difference between the present value of defined benefit obligation and the fair value of defined benefit asset is recognized as a net asset or liability of defined benefit plans. If there is surplus, the net assets of defined benefit plans should be measured by the lower of the two: 1. the surplus of defined benefit plans; 2. upper limit of assets.

15.3 Accounting method of termination benefits

In an accounting period in which an employee has rendered service to the Group, a liability for a termination benefit and an expense accordingly are recognized at the earlier of when the Group entity can no longer withdraw the offer of the termination benefit and when the entity recognizes any related restructuring costs.

16. Assets transferred under repurchase agreements

16.1 Financial assets purchased under resale agreements

The financial assets are not recognized in the statements of financial position if they are committed to be resold at a specific price at a specific date in the future. The cost of purchasing such assets is presented under "financial assets purchased under resale agreements" in the statements of financial position. The difference between the purchasing price and reselling price is recognized as interest income during the term of the agreement using the effective interest method.

16.2 Financial assets sold under repurchase agreements

Financial assets sold subject to agreements with a commitment to repurchase at a specific future date and price are not derecognised in the statements of financial position. The proceeds from selling such assets are presented under "financial assets sold under repurchase agreements" in the statements 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.

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 balance sheet 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.

The Group reviews the carrying amount of a provision at the balance sheet date and adjusts the carrying amount to the current best estimate.

18. Interest income and expense

For all financial instruments measured at amortised cost and interest-generating financial instruments classified as financial assets measured at FVOCI, interest income is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument, where appropriate, to the book value of the financial asset, or the amortised cost of financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not expected credit losses.

Interest income is calculated by applying the effective interest rate to the book value of financial assets and is included in interest income, except for:

- For purchased or originated credit-impaired financial assets, whose interest income is calculated, since initial recognition, by applying the credit adjusted effective interest rate to their amortised cost;
- Financial assets that are not purchased or originated credit-impaired but have subsequently become credit-impaired, whose interest income is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision). If, in a subsequent period, the financial assets improve their qualities so that they are no longer credit-impaired and the improvement in credit quality is related objectively to a certain event occurring after the application of the above-mentioned rules, then the interest income is calculated by applying the effective interest rate to their book value.

19. Fee and commission income

Fees and commissions is recognized by providing various services to customers, which reflects the consideration amount expected to be entitled to receive for the service provided to customers, and the income is recognized when the performance obligations in the contract are fulfilled.

The group will confirm the income according to the performance schedule within the time period when one of the following conditions is met:

- The customer obtains and consumes the economic benefits brought by the group's performance while performing the contract;
- The customer can control the services performed during the performance of the group;
- The services performed by the group in the performance process are irreplaceable and the group has the right to collect money for the cumulative performance part which has been completed so far throughout the contract period;

In other cases, the Group recognizes revenue when customers obtains the relevant service control right.

20. Government grants

Government grants are transfer of monetary assets and non-monetary assets from the government to the Group at no consideration. A government grant is recognised only when the Group can comply with the conditions attaching to the grant and the Group will receive the grant.

If a government grant is in the form of a transfer of a monetary asset, it is measured at the amount received or receivable. If a government grant is in the form of a non-monetary asset, it is measured at fair value. If the fair value cannot be reliably determined, it is measured at a nominal amount. A government grant measured at a nominal amount is recognised immediately in profit or loss for the period. Government grants are classified into government grants related to assets and government grants related to income according the subjects required by the Government documents.

A government grant related to an asset is offset against the carrying amount of related asset. For a government grant related to income, if the grant is a compensation for related costs or losses to be incurred in subsequent periods, the grant is recognised as deferred income, and recognised in profit or loss over the periods in which the related costs or losses are recognised. If the grant is a compensation for related expenses or losses already incurred, the grant is recognised immediately in profit or loss for the period.

A government grant related to the Group's daily activities is included in other income according to the economic business substance. A government not related to the Group's daily activities is included in non-operating income and expense.

For the repayment of a government grant already recognized, if the carrying value of related assets is written off upon initial recognition, the carrying value of the assets is adjusted; if there is any related deferred income, the repayment is offset against the carrying amount of the deferred income, and any excess is recognized in profit or loss for the period; if there is no related deferred income, it is recognized immediately in profit or loss for the period.

21. Deferred tax assets/deferred tax liabilities

The income tax expenses include current income tax and deferred income tax.

21.1 Current income tax

At the balance sheet date, current income tax liabilities (or assets) for the current and prior periods are measured at the amount expected to be paid (or recovered) according to the requirements of tax laws.

21.2 Deferred tax assets and deferred tax liabilities

For temporary differences between the carrying amounts of certain assets or liabilities and their tax base, or between the nil carrying amount of those items that are not recognised as assets or liabilities and their tax base that can be determined according to tax laws, deferred tax assets and liabilities are recognised using the balance sheet liability method.

Deferred tax is generally recognised for all temporary differences. Deferred tax assets for deductible temporary differences are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be utilised. However, for temporary differences associated with the initial recognition of goodwill and the initial recognition of an asset or liability arising from a transaction (not a business combination) that affects neither the accounting profit nor taxable profits (or deductible losses) at the time of transaction, no deferred tax asset or liability is recognised.

For deductible losses and tax credits that can be carried forward, deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deductible losses and tax credits can be utilised.

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 timing of 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 taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

At the balance sheet date, deferred tax assets and liabilities are measured at the tax rates, according to tax laws, that are expected to apply in the period in which the asset is realised or the liability is settled.

when they arise from transactions or events that are directly recognised in other comprehensive income or in shareholders' equity, in which case they are recognised in other comprehensive income or in shareholders' equity; and when they arise from business combinations, in which case they adjust the carrying amount of goodwill.

At the balance sheet date, the carrying amount of deferred tax assets is reviewed and reduced if it is no longer probable that sufficient taxable profits will be available in the future to allow the benefit of deferred tax assets to be utilised. Such reduction in amount is reversed when it becomes probable that sufficient taxable profits will be available.

When the Group has a legal right to settle on a net basis and intends either to settle on a net basis or to realise the assets and settle the liabilities simultaneously, current tax assets and current tax liabilities are offset and presented on a net basis.

When the Group has a legal right to settle current tax assets and liabilities on a net basis, and deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax assets and liabilities on a net basis or to realise the assets and liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be reversed, deferred tax assets and deferred tax liabilities are offset and presented on a net basis.

22. Fiduciary activities and agent business

The Group acts in a fiduciary activities and agent business as a trustee or an agent for customers. Customers should bear the risk and return generated by such activities. The Group only charges fee and commission. The fiduciary activities and agent business are excluded from the financial statements.

23. Lease

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.

23.1 Accounting treatment of operation leases

(1) The Group as lessee under operating leases

Operating lease payments are recognized on a straight-line basis over the term of the relevant lease, and are recorded in profit or loss for the period. Initial direct costs incurred are charged to profit or loss for the period. Contingent rents are charged to profit or loss in the period in which they are actually incurred.

(2) The Group as lessor under operating leases

Rental income from operating leases is recognized in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs with more than an insignificant amount are capitalized when incurred, and are recognized in profit or loss on the same basis as rental income over the lease term. Other initial direct costs with an insignificant amount are charged to profit or loss in the period in which they are incurred. Contingent rents are charged to profit or loss in the period in which they actually arise.

23.2 Accounting treatment of finance leases

(1) The Group as lessee under finance leases

The accounting treatments are set out in Note IV "10.3 Identification basis, valuation methods and depreciation methods for fixed assets acquired under finance leases".

Unrecognised finance charges are recognised as finance charge 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 minimum lease payments less unrecognised finance charges is presented as other liabilities.

(2) The Group as lessor under finance leases

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. The net amount of financial lease receivables less unearned finance income is listed in "financial lease receivables" for presentation.

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.

24 Foreclosed asset

Foreclosed asset is initially measured at its fair value. At the balance sheet date, foreclosed asset is measured at the lower of carrying amount and net realizable value. The difference by which the net realizable value is lower than the carrying amount of the assets shall be provided for the current period.

On disposal of a foreclosed asset, the difference between (i) income from disposal and (ii) the carrying amount of the foreclosed asset is charged to income from disposal of assets.

If the foreclosed asset is transferred for self-use, it should be measured at the carrying amount at the transfer date. Provision is to taken into account if applicable.

25. Profit distribution

Proposed dividends which are declared and approved after the end of each balance sheet date are not recognised as a liability in the statement of financial position and are instead disclosed as a subsequent event after the end of each balance sheet date in the notes to the financial statements. Dividends payable are recognised as liabilities in the period in which they are approved.

26. Contingent liabilities

A potential obligation arising from a past transaction or event whose existence can only be confirmed by the occurrence or non-occurrence of future uncertain events; or a present obligation that arises from past transactions or events where it is not probable that an outflow of economic benefits is required to settle the obligation or the amount of the obligation cannot be measured reliably, is disclosed as a contingent liability unless the probability of outflow of economic benefit is remote.

Contingent liabilities which are not recognised as a liability are expected to be disclosed in the notes only. If the situation changes, the contingent liabilities are recognised as provisions when it is probable that an outflow of economic resources will be required and the amount of obligation can be measured reliably.

27. Related parties

If the Group has the power to control, jointly control or exercise significant influence over another party, or vice versa, or the two parties are subject to common control or joint control from another party, they are considered to be related parties. Related parties may be individuals or enterprises. Enterprises with which the Group is under common control only from the State and that have no other related party relationships are not regarded as related parties.

In addition to the related parties stated above, the Bank determines related parties based on the disclosure requirements of *Administrative Procedures on the Information Disclosures of Listed Companies* issued by the CSRC.

28. Operating segment

The Group determines its operating segments on the basis of its internal organisational structure, management requirements and internal reporting practices.

An operating segment is a component of the Group that meets all the following requirements: (i) it engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses relating to transactions with other components of the Group; (ii) its operating results are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and (iii) separate financial information is available. The operating segments that meet the specified criteria have been aggregated, and the operating segment that meets quantitative thresholds have been reported separately.

29. Significant accounting estimates and judgements

The preparation of the financial statements requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates as well as underlying assumptions and uncertainties involved are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

29.1 Significant accounting estimates

In addition to the accounting estimates related to the depreciation and amortization of fixed assets and intangible assets (see Note IV. 10 and 12) and the impairment of various assets (see Note VII. 2, 3, 5, 6, 7, 8, 9, 10, 11, 12 and 14), other major accounting estimates are as follows:

(1) Note VII. 13. Recognized deferred tax assets;
(2) Note VII. 42. Post-employment benefits - defined benefit plans; and
(3) Note XI. 7. Fair value of financial instruments.

29.2 Significant accounting judgements

The significant accounting judgements made by the Group in the application of accounting policies are as follows:

(1) Note IV. 7. Classification of financial investment;

(2) Note IV. 9. Significant judgments and assumptions on control, joint control or significant impact on other entities;

(3) Note VII. 23 and 26 - Other financial instruments such as preference shares and perpetual bonds are classified as financial liabilities or equity instruments; and

(4) Note VII. 43 Consolidated structured entities.

30. Changes in significant accounting policies

The Ministry of Finance released the following amendments to China Accounting Standards (CAS) in recent years and the Group has adopted these standards from the accounting year beginning on 1 January 2020.

- *CAS 14 – Revenue (Revised)* (hereinafter referred to as “New Revenue Standard”)

- China Accounting Standards Bulletin No. 13 (*Cai Kuai [2019] No. 21*) (CAS Bulletin No. 13)

- Provisions on Accounting Treatment for COVID-19-Related Rent Concessions (*Cai Kuai [2020] No. 10*)

30.1 New Revenue Standard

Under New Revenue Standard, revenue is recognised based on a single model that applies to contracts with customers. The model features the replacement of the previous “transfer of risk-reward” by the “transfer of control” as the criteria for revenue recognition. The standard contains a contract-based five-step analysis of transactions to determine whether, how much and when (at a point in time or over time) revenue is recognised. Under Old Revenue Standard, revenue is recognised in accordance with transactions distinguished from sales of goods, rendering of services and construction contracts.

New Revenue Standard also introduces extensive qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The adoption of New Revenue Standard has no material impact on the financial position and the financial result of the Group.

30.2 CAS Bulletin No. 13

CAS Bulletin No. 13 revised the three elements of business composition and refined the judgement conditions for business. When an acquirer of business combinations not under common control determines whether the acquired operating activities or combination of assets constitute a business, the option of “concentration test” is introduced.

In addition, CAS Bulletin No. 13 further clarifies that the related parties of an enterprise include joint ventures or associates of another member in the group of which the enterprise is a member (including the parents and subsidiaries), and other joint ventures or associates of an investor who exercise joint control over the enterprise.

CAS Bulletin No. 13 came into effect on 1 January 2020. The Group applies the changes in the accounting policies prospectively .

The adoption of CAS Bulletin No. 13 has no material impact on the Group’s financial position, operating results and related party disclosures.

30.3 Cai Kuai [2020] No. 10

Cai Kuai [2020] No. 10 provides a practical expedient for rent concessions that arise as a direct consequence of COVID-19 and meet the qualifying criteria. When an enterprise adopts the practical expedient, it does not need to assess whether a change in the lease has occurred or reassess the lease classification。

Cai Kuai [2020] No. 10 came into effect on 24 June 2020. The Group does not adopt the practical expedient, so the amendment has no material impact on the Group’s financial position and operating results.

V. Taxation

1. Corporate income tax

According to the Corporate Income Tax Law of the People's Republic of China, the income tax of domestic branches of the Bank and the Group's subsidiaries is calculated and settled at the tax rate of 25% (2019: 25%).

The income tax of overseas branches of the Bank is calculated in accordance with the local tax rate, and the difference between the overseas tax rate and domestic tax rate is settled by the head office.

The deductible items of Corporate income tax are calculated in accordance with the relevant regulations. Corporate income tax is prepaid by domestic branches of the Bank and conducted annual filing by the head office.

(Expressed in millions of Renminbi, unless otherwise stated)

2. Value-added tax

The value-added tax ("VAT") on sales is calculated using applicable tax rate on the basis of the revenue from sales determined as per tax regulations, and is paid after deducting the VAT on purchases. According to the Announcement of the Ministry of Finance, the State Taxation Administration and the General Administration of Customs on Policies for Deepening the VAT Reform (MOF/STA/GACC Announcement [2019] No. 39), the Group's applicable VAT rate range was changed from 3%-16% to 3%-13% from 1 April 2019.

According to the Supplementary Notice on Issues relating to VAT Policies on Assets Management Products (Cai Shui [2017] No.2) and Notice on Issues relating to VAT Policies on Assets Management Products (Cai Shui [2017] No.56) issued by MOF and State Administration of Taxation, since 1 January 2018, the manager of asset management products will be the VAT taxpayer for VAT taxable behaviours occurred in the operation of asset management products. And the VAT is levied at the rate of 3% with a provisional application of simple taxation method.

3. City maintenance and construction tax

The Group's city maintenance and construction tax is calculated according to 1% ~ 7% of VAT.

4. Education surcharge

The Group's education surcharge and local education surcharge is calculated according to 3% ~ 5% of VAT.

VI. Consolidation scope

1. Details of the Bank's principal subsidiaries included in the scope of consolidation are set out as follows:

Key subsidiaries	*Main business place/Place of registration*	*Business nature*	*Registered capital* RMB in million	*Total shareholding by the Group* *31 December 2020* *Direct* (%)	*Indirect* (%)	*31 December 2019* *Direct* (%)	*Indirect* (%)
Industrial Bank Financial Leasing Co., Ltd.	Tianjin	Financial leasing	9,000	100	-	100	-
China Industrial International Trust Limited	Fuzhou	Trust	10,000	73	-	73	-
CIB Fund Management Co., Ltd.	Fuzhou	Fund management	1,200	90	-	90	-
Industrial Consumer Finance Co., Ltd.	Quanzhou	Consumer finance	1,900	66	-	66	-
CIB Wealth Management Co., Ltd.	Fuzhou	Wealth management	5,000	100	-	100	-
CIIT Asset Management Co., Ltd. (1)	Shanghai	Assets management	3,400	-	100	-	100
China Industrial Asset Management Co., Ltd. (1)	Fuzhou	Assets management	1,950	-	100	-	100
Industrial Future Co., Ltd. (1)	Ningbo	Financial futures brokerage	500	-	100	-	100

(1) The companies are the subsidiaries of the Bank's controlled subsidiaries.

2. Refer to Note VII. 43 for the information of consolidated structure entities included in the consolidation scope.

(Expressed in millions of Renminbi, unless otherwise stated)

3. Exchange rates on principal financial statement line items of overseas operating entities

The operating entities of the Group convert the financial statement from foreign currency to RMB based on the following method: all assets and liabilities in the balance sheet should be converted by spot rate at the balance sheet date; equity of shareholders except for the retained earnings should be converted by spot rate when occurs; all subjects in the income statement and subjects which reflect the accrual distributed profit should be converted by approximate spot rate when occurs.

The exchange rate of USD, JPY, EUR, HKD, and GBP to RMB should be determined by the middle rate published by State Administration of Foreign Exchange (the "SAFE"). The exchange rate of other currency to RMB should be calculated by the benchmark rate of USD to RMB and rate of USD to other currencies offered by the SAFE.

VII. Notes to items in the financial statements

1. Cash and balances with Central Bank

		The Group		*The Bank*	
	Note	*2020*	*2019*	*2020*	*2019*
Cash on hand		4,956	4,848	4,956	4,843
Mandatory reserves with central bank	(1)	350,307	389,293	350,302	389,289
Excess reserves with central bank	(2)	55,289	89,863	55,285	89,859
Other deposits with central bank	(3)	423	2,236	423	2,235
Interest accrued		172	204	172	204
Total		411,147	486,444	411,138	486,430

(1) The domestic institution of the Bank places general deposit reserves mainly with the PBOC as required, including RMB deposit reserves and foreign deposit reserves. These deposit reserves are not available for the Group's daily operations and can't be transferred or used without the PBOC's approval. General deposit generates from organizations deposit, non-financial-budget deposit, individual deposit, enterprise deposit, net trust funds and other deposits. As at 31 December 2020, the ratio of the Bank's RMB deposit reserves is 9% (31 December 2019: 10.5%), the ratio of foreign deposit reserves is 5% (31 December 2019: 5%). According to related regulations from the PBOC, foreign deposit reserves are non-interest bearing. The Group's subsidies' RMB reserve deposit ratio is in accordance with regulations of PBOC. Deposit ratio of statutory reserve in Hong Kong branch is in accordance with regulations from local regulators.

(2) Excess reserves with central bank in Central Bank are maintained with the PBOC mainly for the purpose of clearing, transferring, etc.

(3) The majority of other deposits with central bank are the fiscal deposits placed at Central Bank. Fiscal deposit at Central Bank refers to the fiscal deposit at PBOC by the Bank according to regulations, including the Bank's agent central budgetary revenues, local treasury deposits, etc. The fiscal deposits placed with the PBOC of institutions in mainland China are non-interest bearing.

(Expressed in millions of Renminbi, unless otherwise stated)

2. Deposits with banks and other financial institutions

	The Group		The Bank	
	2020	2019	2020	2019
Banks operating in Mainland China	44,227	47,986	35,681	42,565
Other financial institutions operating in Mainland China	5,114	6,080	4,943	6,076
Banks operating outside Mainland China	45,923	33,370	45,923	33,370
Other financial institutions operating outside Mainland China	85	23	85	23
Interest accrued	195	129	185	116
Subtotal	95,544	87,588	86,817	82,150
Less: allowance for impairment losses	(337)	(328)	(327)	(321)
Net value	95,207	87,260	86,490	81,829

3. Placements with banks and other financial institutions

	The Group		The Bank	
	2020	2019	2020	2019
Banks operating in Mainland China	12,957	34,074	11,458	46,529
Other financial institutions operating in Mainland China	139,264	151,002	154,861	151,002
Banks operating outside Mainland China	39,678	46,775	39,678	46,775
Interest accrued	671	697	782	696
Subtotal	192,570	232,548	206,779	245,002
Less: allowance for impairment losses	(631)	(1,073)	(631)	(1,073)
Net value	191,939	231,475	206,148	243,929

4. Derivative financial instruments

The Group enters into derivative financial instruments related to foreign currency exchange rate, interest rate and precious metals for purposes of trading, asset and liability management and customer driven business.

The notional amounts of derivative instruments represent the value of the underlying asset or the reference rate as a basis to measure changes in derivative financial instruments, which provide an indication of the volume of business transacted by the Group, but don't stand for the relevant future cash flow or current fair value, thus, do not indicate the Group’s exposure to credit or market risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates, foreign exchange rates or precious metal prices relative to their terms. The aggregate fair values of derivative financial assets and financial liabilities can fluctuate significantly from time to time.

The notional amount and fair value of the Group's derivative financial instruments are as follows:

(Expressed in millions of Renminbi, unless otherwise stated)

The Group

	2020		
	Notional amount	*Fair value*	
		Assets	*Liabilities*
Exchange rate derivatives	1,958,034	41,037	(42,424)
Interest rate derivatives	5,032,016	17,478	(17,764)
Precious metal derivatives	40,563	705	(903)
Credit derivatives	13,619	176	(422)
Total		59,396	(61,513)

	2019		
	Notional amount	*Fair value*	
		Assets	*Liabilities*
Exchange rate derivatives	2,903,845	19,856	(19,588)
Interest rate derivatives	4,453,866	11,063	(11,291)
Precious metal derivatives	80,864	1,424	(495)
Credit derivatives	14,389	381	(70)
Total		32,724	(31,444)

The Bank

	2020		
	Notional amount	*Fair value*	
		Assets	*Liabilities*
Exchange rate derivatives	1,956,788	41,029	(42,416)
Interest rate derivatives	5,032,016	17,477	(17,764)
Precious metal derivatives	40,563	705	(903)
Credit derivatives	13,619	176	(422)
Total		59,387	(61,505)

	2019		
	Notional amount	*Fair value*	
		Assets	*Liabilities*
Exchange rate derivatives	2,903,532	19,854	(19,586)
Interest rate derivatives	4,453,866	11,063	(11,291)
Precious metal derivatives	80,864	1,424	(495)
Credit derivatives	14,389	381	(70)
Total		32,722	(31,442)

(Expressed in millions of Renminbi, unless otherwise stated)

Fair value hedge

The Group uses the fair value hedges to hedge the influences of changes in fair value of financial assets caused by the changes of market interest rate. For interest rate risk of financial assets, the Group adopts interest rate swaps as hedging instruments. Included in the aforesaid derivative financial instruments, the hedging instruments designated by the Group and the Bank are as follows:

The Group and the Bank

	2020		
	Notional amount	Fair value	
		Assets	Liabilities
Derivatives designated as fair value hedging instruments:			
Interest rate swaps	14,963	-	(328)

	2019		
	Notional amount	Fair value	
		Assets	Liabilities
Derivatives designated as fair value hedging instruments:			
Interest rate swaps	15,173	5	(233)

The effectiveness of the hedging activities in the year which is reflected by the changes in fair value of hedging instruments and the net profit or loss from the hedged item attributable to the hedged risks is as follows:

The Group and the Bank

	2020	2019
Net gain (loss) from fair value hedge:		
Hedging instruments	(100)	(226)
Hedged item attributable to the hedged risk	95	272
	(5)	46

Details of hedged exposure in fair value hedging strategy of the Group as below:

	2020				
	Carrying amount of hedged items		Total amount of fair value adjustment of hedged items		Balance sheet items
	Assets	Liabilities	Assets	Liabilities	
Bonds	15,356	-	335	-	Other Debt Investments

(Expressed in millions of Renminbi, unless otherwise stated)

	2019				
	Carrying amount of hedged items		Total amount of fair value adjustment of hedged items		Balance sheet items
	Assets	Liabilities	Assets	Liabilities	
Bonds	15,400	-	240	-	Other Debt Investments

5. Financial assets purchased under resale agreements

	The Group		The Bank	
	2020	2019	2020	2019
Bonds	124,148	42,501	117,743	38,628
Interest accrued	182	69	181	69
Subtotal	124,330	42,570	117,924	38,697
Less: allowance for impairment losses	(980)	(709)	(979)	(709)
Total	123,350	41,861	116,945	37,988

6. Loans and advances to customers

6.1 Analysis of loans and advances to customers by person and corporate:

	The Group		The Bank	
	2020	2019	2020	2019
Measured at amortised cost:				
Personal loans and advances				
Residential and business mortgage loans	1,053,059	910,879	1,053,059	910,879
Credit cards	409,826	349,312	409,826	349,312
Others	251,586	189,356	210,661	155,097
Subtotal	1,714,471	1,449,547	1,673,546	1,415,288
Corporate loans and advances				
Loans and advances	2,042,136	1,793,741	2,048,156	1,797,971
Subtotal	2,042,136	1,793,741	2,048,156	1,797,971
Less: allowance for impairment losses on loans and advances to customers measured at amortised cost	(108,068)	(104,853)	(105,482)	(103,029)
Carrying amount of loans and advances to customers measured at amortised cost	3,648,539	3,138,435	3,616,220	3,110,230
Fair value through other comprehensive income:				
Corporate loans and advances				
Discounted Bills	207,703	195,824	207,703	195,824
Subtotal	207,703	195,824	207,703	195,824
Fair value through profit or loss:				
Corporate loans and advances				
Loans and advances	1,364	2,339	1,364	2,339

(Expressed in millions of Renminbi, unless otherwise stated)

Subtotal	1,364	2,339	1,364	2,339
Interest accrued	9,715	8,582	9,318	8,217
Net balance	3,867,321	3,345,180	3,834,605	3,316,610

As at 31 December 2020, the Group and Bank's allowance for impairment losses on loans and advances to customers measured at fair value through other comprehensive income was RMB 593 million (As at 31 December 2019: RMB 728 million).

6.2 Analysis of loans and advances to customers (interest accrued excluded) by industry distribution:

	The Group				The Bank			
	2020		2019		2020		2019	
	Amount	(%)	Amount	(%)	Amount	(%)	Amount	(%)
Manufacturing	373,532	9.43	354,788	10.31	373,532	9.51	354,588	10.40
Leasing and commercial services	356,050	8.98	286,222	8.32	356,201	9.06	290,627	8.52
Real estate	317,522	8.01	251,859	7.32	317,522	8.08	251,859	7.38
Retail and wholesale	250,564	6.32	238,168	6.92	250,564	6.37	238,168	6.98
Water, environment and public facilities administration	231,766	5.84	202,979	5.90	231,766	5.90	202,979	5.95
Construction	134,205	3.38	123,785	3.60	134,205	3.41	123,785	3.63
Transport, logistics and postal service	121,472	3.06	101,484	2.95	121,472	3.09	101,484	2.97
Production and supply of power, gas and water	87,242	2.20	80,332	2.33	87,242	2.22	80,332	2.35
Extractive industry	58,636	1.48	60,172	1.75	58,189	1.48	60,172	1.76
Financial industry	32,658	0.82	26,020	0.76	38,974	0.99	26,020	0.76
Other corporate industries	79,853	2.01	70,271	2.03	79,853	2.03	70,296	2.07
Subtotal	2,043,500	51.53	1,796,080	52.19	2,049,520	52.14	1,800,310	52.77
Personal loans	1,714,471	43.23	1,449,547	42.12	1,673,546	42.58	1,415,288	41.49
Discounted bills	207,703	5.24	195,824	5.69	207,703	5.28	195,824	5.74
Gross loans and advances	3,965,674	100.00	3,441,451	100.00	3,930,769	100.00	3,411,422	100.00
Less: allowance for impairment losses	(108,068)		(104,853)		(105,482)		(103,029)	
Loans and advances to customers (interest accrued excluded)	3,857,606		3,336,598		3,825,287		3,308,393	

6.3 Analysis of loans and advances to customers (interest accrued excluded) by geographical distribution:

	The Group				The Bank			
	2020		2019		2020		2019	
	Amount	(%)	Amount	(%)	Amount	(%)	Amount	(%)
Guangdong	483,612	12.19	395,599	11.49	480,588	12.23	393,175	11.52
Head office (Note 1)	422,941	10.67	359,167	10.44	422,941	10.76	359,167	10.53
Fujian	410,418	10.35	359,748	10.45	410,253	10.44	359,795	10.55
Jiangsu	406,890	10.26	336,525	9.78	402,388	10.24	333,484	9.78
Zhejiang	339,335	8.56	276,693	8.04	337,533	8.59	275,371	8.07
Beijing	212,119	5.35	179,249	5.21	211,234	5.37	177,948	5.22
Shanghai	178,025	4.49	151,732	4.41	169,944	4.32	141,987	4.16
Others (Note 2)	1,512,334	38.13	1,382,738	40.18	1,495,888	38.05	1,370,495	40.17
Gross loans and advances	3,965,674	100.00	3,441,451	100.00	3,930,769	100.00	3,411,422	100.00
Less: allowance for impairment losses	(108,068)		(104,853)		(105,482)		(103,029)	
Loans and advances to customers (interest accrued excluded)	3,857,606		3,336,598		3,825,287		3,308,393	

Note 1: Head office contains the credit card centre and the treasury centre.

(Expressed in millions of Renminbi, unless otherwise stated)

Note 2: As at 31 December 2020, the Bank has 45 tier 1 branches, apart from the tier 1 branches mentioned above, the rest is categorized into "Others". Loans and advances originated by the Bank and the subsidiaries are presented by geographical distribution.

6.4 Analysis of loans and advances (interest accrued excluded) to customers by security type:

	The Group		*The Bank*	
	2020	*2019*	*2020*	*2019*
Unsecured loans	1,054,966	880,060	1,020,509	850,031
Guaranteed loans	812,622	709,810	812,622	709,810
Collateralised loans	1,890,383	1,655,757	1,889,935	1,655,757
- Secured by mortgage	1,573,352	1,352,975	1,572,904	1,352,975
- Secured by collaterals	317,031	302,782	317,031	302,782
Discounted bills	207,703	195,824	207,703	195,824
Gross loans and advances	3,965,674	3,441,451	3,930,769	3,411,422
Less: allowance for impairment losses	(108,068)	(104,853)	(105,482)	(103,029)
Loans and advances to customers (interest accrued excluded)	3,857,606	3,336,598	3,825,287	3,308,393

6.5 Overdue loans (interest accrued excluded):

The Group

	2020					*2019*				
	1-90 days (including 90 days)	*90-360 days (including 360 days)*	*360 days to 3 years (including 3 years)*	*Over 3 years*	*Total*	*1-90 days (including 90 days)*	*90-360 days (including 360 days)*	*360 days to 3 years (including 3 years)*	*Over 3 years*	*Total*
Unsecured loans	8,395	7,940	806	138	17,279	7,768	7,519	559	90	15,936
Guaranteed loans	3,695	6,035	3,277	697	13,704	5,228	6,771	6,744	787	19,530
Collateralised loans	7,626	5,786	7,487	437	21,336	9,297	9,945	8,169	1,116	28,527
-Secured by mortgage	7,588	5,500	7,026	397	20,511	8,265	7,451	7,992	1,084	24,792
-Secured by collaterals	38	286	461	40	825	1,032	2,494	177	32	3,735
Total	19,716	19,761	11,570	1,272	52,319	22,293	24,235	15,472	1,993	63,993

The Bank

	2020					*2019*				
	1-90 days (including 90 days)	*90-360 days (including 360 days)*	*360 days to 3 years (including 3 years)*	*Over 3 years*	*Total*	*1-90 days (including 90 days)*	*90-360 days (including 360 days)*	*360 days to 3 years (including 3 years)*	*Over 3 years*	*Total*
Unsecured loans	7,836	7,181	805	138	15,960	7,115	6,737	513	90	14,455
Guaranteed loans	3,695	6,035	3,277	697	13,704	5,228	6,771	6,744	787	19,530
Collateralised loans	7,626	5,786	7,039	437	20,888	9,297	9,945	8,169	1,116	28,527
-Secured by mortgage	7,588	5,500	6,578	397	20,063	8,265	7,451	7,992	1,084	24,792
-Secured by collaterals	38	286	461	40	825	1,032	2,494	177	32	3,735
Total	19,157	19,002	11,121	1,272	50,552	21,640	23,453	15,426	1,993	62,512

The loan will be categorized into overdue when principal or interest is overdue for one day.

(Expressed in millions of Renminbi, unless otherwise stated)

6.6 Allowance for loan impairment

As at 31 December 2020, changes in allowance for impairment losses on loans and advances to customers are as follows:

(1) Loans and advances to customers measured at amortised cost

	The Group			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	
1 January 2020	57,044	11,150	36,659	104,853
Transfer:				
- to stage 1	4,419	(1,994)	(2,425)	-
- to stage 2	(355)	605	(250)	-
- to stage 3	(419)	(1,277)	1,696	-
Charge	7,973	(999)	42,381	49,355
Write-offs	-	-	(52,067)	(52,067)
Recoveries of amounts previously written off	-	-	7,967	7,967
Exchange difference and other movements	-	-	(2,040)	(2,040)
31 December 2020	68,662	7,485	31,921	108,068

	The Group			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	
1 January 2019	48,271	12,128	29,525	89,924
Transfer:				
- to stage 1	4,686	(2,157)	(2,529)	-
- to stage 2	(292)	321	(29)	-
- to stage 3	(331)	(2,008)	2,339	-
Charge	4,710	2,866	39,044	46,620
Write-offs	-	-	(36,526)	(36,526)
Recoveries of amounts previously written off	-	-	6,080	6,080
Exchange difference and other movements	-	-	(1,245)	(1,245)
31 December 2019	57,044	11,150	36,659	104,853

(Expressed in millions of Renminbi, unless otherwise stated)

	The Bank			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
	12-month ECL	*Lifetime ECL not credit-impaired*	*Lifetime ECL credit-impaired*	
1 January 2020	56,070	11,051	35,908	103,029
Transfer:				
- to stage 1	4,417	(1,994)	(2,423)	-
- to stage 2	(339)	588	(249)	-
- to stage 3	(376)	(1,273)	1,649	-
Charge	7,794	(1,134)	40,313	46,973
Write-offs	-	-	(50,232)	(50,232)
Recoveries of amounts previously written off	-	-	7,752	7,752
Exchange difference and other movements	-	-	(2,040)	(2,040)
31 December 2020	67,566	7,238	30,678	105,482

	The Bank			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
	12-month ECL	*Lifetime ECL not credit-impaired*	*Lifetime ECL credit-impaired*	
1 January 2019	47,875	12,040	29,131	89,046
Transfer:				
- to stage 1	4,670	(2,152)	(2,518)	-
- to stage 2	(289)	318	(29)	-
- to stage 3	(269)	(2,004)	2,273	-
Charge	4,083	2,849	37,945	44,877
Write-offs	-	-	(35,711)	(35,711)
Recoveries of amounts previously written off	-	-	6,062	6,062
Exchange difference and other movements	-	-	(1,245)	(1,245)
31 December 2019	56,070	11,051	35,908	103,029

(Expressed in millions of Renminbi, unless otherwise stated)

(2) Loans and advances to customers measured at fair value through other comprehensive income

	Group and Bank			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
	12-month ECL	*Lifetime ECL not credit-impaired*	*Lifetime ECL credit-impaired*	
1 January 2020	700	16	12	728
Transfer:				
- to stage 1	-	-	-	-
- to stage 2	-	-	-	-
- to stage 3	-	-	-	-
Charge	(124)	(16)	5	(135)
Write-offs	-	-	-	-
Recoveries of amounts previously written off	-	-	-	-
Exchange difference and other movements	-	-	-	-
31 December 2020	576	-	17	593

	Group and Bank			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
	12-month ECL	*Lifetime ECL not credit-impaired*	*Lifetime ECL credit-impaired*	
1 January 2019	656	-	-	656
Transfer:				
- to stage 1	-	-	-	-
- to stage 2	-	-	-	-
- to stage 3	-	-	-	-
Charge	44	16	12	72
Write-offs	-	-	-	-
Recoveries of amounts previously written off	-	-	-	-
Exchange difference and other movements	-	-	-	-
31 December 2019	700	16	12	728

(Expressed in millions of Renminbi, unless otherwise stated)

7. Financial investments

	Note	The Group 2020	The Group 2019	The Bank 2020	The Bank 2019
Trading assets	7.1	823,927	652,034	773,552	628,253
Debt investments	7.2	1,550,131	1,444,176	1,535,542	1,431,325
Other debt investments	7.3	516,368	599,382	514,919	597,801
Other equity investments	7.4	2,388	1,929	2,308	1,929
Total		2,892,814	2,697,521	2,826,321	2,659,308

7.1 Trading assets

	The Group 2020	The Group 2019	The Bank 2020	The Bank 2019
Held for trading purpose:				
Debt instrument investments:				
Government bonds	51,676	16,419	50,436	15,111
The Central Bank bills and policy financial bonds	10,797	10,880	7,277	3,080
Bonds issued by banks and other financial institutions	9,259	15,624	2,673	11,571
Interbank certificates of deposit	1,732	16,489	298	14,738
Corporate bonds and asset-backed securities	93,319	91,108	52,173	55,281
Equity instrument investments:				
Funds	548,723	425,981	588,034	468,084
Subtotal	715,506	576,501	700,891	567,865
Financial assets measured at fair value through profit or loss (mandatory):				
Bonds issued by banks and other financial institutions	2,802	3,421	2,802	3,421
Corporate bonds and asset-backed securities	3,339	6,147	3,267	6,055
Trust beneficiary rights and asset management plans	76,219	50,942	65,625	46,534
Equity investments	12,839	5,433	967	2,251
Funds	2,214	847	-	-
Wealth management products	2,210	2,810	-	2,127
Other investments	8,798	5,933	-	-
Subtotal	108,421	75,533	72,661	60,388
Total	823,927	652,034	773,552	628,253

(Expressed in millions of Renminbi, unless otherwise stated)

7.2 Debt investments

	Note	The Group 2020	The Group 2019	The Bank 2020	The Bank 2019
Government bonds		705,846	643,791	702,498	642,291
The Central Bank bills and policy financial bonds		2,090	2,191	2,090	2,191
Bonds issued by banks and other financial institutions		59,549	25,431	59,609	25,431
Interbank certificates of deposit		16,646	21,939	16,646	21,939
Corporate bonds and asset-backed securities		100,017	94,022	99,617	93,761
Trust beneficiary rights and asset management plans		681,928	665,698	670,381	653,644
Interest accrued		15,557	15,213	15,318	15,073
Subtotal		1,581,633	1,468,285	1,566,159	1,454,330
Less: allowance for impairment losses	(1)	(31,502)	(24,109)	(30,617)	(23,005)
Net value		1,550,131	1,444,176	1,535,542	1,431,325

(1) Changes in allowance for impairment losses on debt investments are as follows:

	The Group Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total
1 January 2020	8,892	2,936	12,281	24,109
Transfer:				
- to stage 1	161	(161)	-	-
- to stage 2	(64)	64	-	-
- to stage 3	(100)	(1,051)	1,151	-
Reversal	5,500	1,632	12,754	19,886
Write-offs and transfer out	-	-	(12,730)	(12,730)
Exchange difference and other movements	(227)	-	464	237
31 December 2020	14,162	3,420	13,920	31,502

	The Group Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total
1 January 2019	11,206	2,926	9,130	23,262
Transfer:				
- to stage 1	827	(827)	-	-
- to stage 2	(462)	462	-	-
- to stage 3	(46)	(386)	432	-
(Charge) reversal	(2,633)	761	6,505	4,633
Write-offs and transfer out	-	-	(4,219)	(4,219)
Exchange difference and other movements	-	-	433	433
31 December 2019	8,892	2,936	12,281	24,109

(Expressed in millions of Renminbi, unless otherwise stated)

	The Bank			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
	12-month ECL	*Lifetime ECL not credit-impaired*	*Lifetime ECL credit-impaired*	
1 January 2020	8,860	2,805	11,340	23,005
Transfer:				
- to stage 1	161	(161)	-	-
- to stage 2	(64)	64	-	-
- to stage 3	(100)	(1,051)	1,151	-
Reversal	5,521	1,424	12,149	19,094
Write-offs and transfer out	-	-	(11,719)	(11,719)
Exchange difference and other movements	(227)	-	464	237
31 December 2020	14,151	3,081	13,385	30,617

	The Bank			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
	12-month ECL	*Lifetime ECL not credit-impaired*	*Lifetime ECL credit-impaired*	
1 January 2019	11,109	2,925	8,777	22,811
Transfer:				
- to stage 1	827	(827)	-	-
- to stage 2	(449)	449	-	-
- to stage 3	(46)	(386)	432	-
(Charge) reversal	(2,581)	644	5,917	3,980
Write-offs and transfer out	-	-	(4,219)	(4,219)
Exchange difference and other movements	-	-	433	433
31 December 2019	8,860	2,805	11,340	23,005

7.3 Other debt investments

	The Group		*The Bank*	
	2020	*2019*	*2020*	*2019*
Debt investments:				
Government bonds	208,107	237,149	208,107	237,149
The Central Bank bills and policy financial bonds	10,624	15,642	10,624	15,642
Bonds issued by banks and other financial institutions	25,526	28,613	25,536	28,673
Interbank certificates of deposit	42,097	95,088	42,097	95,088
Corporate bonds and asset-backed securities	219,462	211,071	219,992	211,687
Trust beneficiary rights and asset management plans	5,216	5,794	3,221	3,565
Interest accrued	5,336	6,025	5,342	5,997
Total	516,368	599,382	514,919	597,801

(Expressed in millions of Renminbi, unless otherwise stated)

(1) Changes in fair value

	Note	The Group 2020	The Group 2019	The Bank 2020	The Bank 2019
Initial recognition cost		523,280	598,659	521,625	596,971
Fair value		516,368	599,382	514,919	597,801
Accumulate amount recognised in other comprehensive income		(7,247)	483	(7,041)	590
Accumulate amount recognised in profit or loss	(i)	335	240	335	240

(i) The Bank's Hong Kong branch uses interest rate swaps to hedge the changes in fair value caused by changes in bond interest rates of other debt investments held. Fair value changes of the part of hedged bonds are included in profit or loss.

(2) Changes in allowance for impairment losses on other debt investments are as follows

	The Group			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	
1 January 2020	703	74	1,205	1,982
Transfer:				
- to stage 1	1	(1)	-	-
- to stage 2	(1)	1	-	-
- to stage 3	(2)	-	2	-
(Charge) reversal	(11)	517	1,977	2,483
Write-offs and transfer out	-	-	(280)	(280)
Exchange difference and other movements	(97)	-	-	(97)
31 December 2020	593	591	2,904	4,088

	The Group			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	
1 January 2019	618	276	262	1,156
Transfer:				
- to stage 1	162	(162)	-	-
- to stage 2	(2)	2	-	-
- to stage 3	(1)	(18)	19	-
(Charge) reversal	(83)	(24)	924	817
Exchange difference and other movements	9	-	-	9
31 December 2019	703	74	1,205	1,982

(Expressed in millions of Renminbi, unless otherwise stated)

	The Bank			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	
1 January 2020	669	64	1,124	1,857
Transfer:				
- to stage 1	-	-	-	-
- to stage 2	(1)	1	-	-
- to stage 3	-	-	-	-
Reversal	19	515	1,884	2,418
Write-offs and transfer out	-	-	(284)	(284)
Exchange difference and other movements	(97)	-	-	(97)
31 December 2020	590	580	2,724	3,894

	The Bank			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	
1 January 2019	608	276	181	1,065
Transfer:				
- to stage 1	162	(162)	-	-
- to stage 2	(2)	2	-	-
- to stage 3	(1)	(18)	19	-
(Charge) reversal	(107)	(34)	924	783
Exchange difference and other movements	9	-	-	9
31 December 2019	669	64	1,124	1,857

7.4 Other equity investments

	The Group		The Bank	
	2020	2019	2020	2019
Designated at fair value through other comprehensive income	2,388	1,929	2,308	1,929

The Group designates non-trading equity investments as financial assets at fair value through other comprehensive income. As at 31 December 2020, the fair value of the equity investments is RMB2,388 million (31 December 2019: RMB1,929 million). During the reporting period, dividend income of RMB12 million (2019: RMB9 million) recognized for such equity investments was included in the profit or loss.

(Expressed in millions of Renminbi, unless otherwise stated)

Related analysis of other equity investments are as follows:

	The Group		The Bank	
	2020	2019	2020	2019
Initial recognition cost	2,673	2,092	2,593	2,092
Fair value	2,388	1,929	2,308	1,929
Accumulate amount recognised in other comprehensive income	(285)	(163)	(285)	(163)

8. Finance lease receivables

The Group

Presented by nature:

	Note	2020	2019
Finance lease receivables		116,719	123,215
Less: unrealized financing income		(10,846)	(11,919)
Present value of minimum finance lease receivables		105,873	111,296
Less: allowance for impairment losses	(1)	(5,257)	(5,023)
Net value		100,616	106,273

(Expressed in millions of Renminbi, unless otherwise stated)

Finance lease receivables Listed as follows:

	Note	*2020*	*2019*
Within 1 year		43,412	49,586
1 to 2 years		32,866	29,188
2 to 3 years		17,992	18,474
3 to 5 years		13,718	14,431
Over 5 years		6,751	8,826
Undated*		1,980	2,710
Minimum lease receipts		116,719	123,215
Unrealized financing income		(10,846)	(11,919)
Present value of minimum finance lease receivables		105,873	111,296
Less: allowance for impairment losses	(1)	(5,257)	(5,023)
Net value		100,616	106,273
Finance lease receivables due within 1 year		37,814	43,888
Finance lease receivables due more than 1 year		62,802	62,385

* Undated amount refers to the part that was impaired or overdue for more than one month.

(Expressed in millions of Renminbi, unless otherwise stated)

Changes in allowance for impairment losses on finance lease receivables :

	The Group			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	
1 January 2020	1,358	982	2,683	5,023
Transfer:				
- to stage 1	316	(316)	-	-
- to stage 2	(7)	7	-	-
- to stage 3	(117)	-	117	-
Reversal (charge)	346	(117)	(173)	56
Write-offs and transfer out	-	-	(1)	(1)
Recovery of writ-offs	-	-	181	181
Exchange difference and other movements	(2)	-	-	(2)
31 December 2020	1,894	556	2,807	5,257

	The Group			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	
1 January 2019	858	1,894	2,960	5,712
Transfer:				
- to stage 1	152	(152)	-	-
- to stage 2	(4)	4	-	-
- to stage 3	(6)	(425)	431	-
Reversal (charge)	357	(339)	608	626
Write-offs and transfer out	-	-	(1,316)	(1,316)
Exchange difference and other movements	1	-	-	1
31 December 2019	1,358	982	2,683	5,023

(Expressed in millions of Renminbi, unless otherwise stated)

9. Long-term equity investments

The Group

Investee	*Accounting method*	*1 January 2020*	*Changes*	*31 December 2020*	*Proportion of equity interest (%)*	*Proportion of voting power in the investee (%)*	*Explanation of inconsistency between the proportion of equity interest and the proportion of voting power in the investee*	*Provisions*	*Cash dividends for this year*
Bank of Jiujiang.[1]	Equity method	3,052	175	3,227	12.23	12.23	not applicable	-	35
Others	Equity method	361	(39)	322			not applicable	-	2
Total		3,413	136	3,549				-	37

The Bank

Investee	*Accounting method*	*1 January 2020*	*Changes*	*31 December 2020*	*Proportion of equity interest (%)*	*Proportion of voting power in the investee (%)*	*Explanation of inconsistency between the proportion of equity interest and the proportion of voting power in the investee*	*Provisions*	*Cash dividends for this year*
Bank of Jiujiang [1]	Equity method	3,052	175	3,227	12.23	12.23	not applicable	-	35
Industrial Bank Financial Leasing Co., Ltd. (Note. VI)	Cost method	7,000	-	7,000	100.00	100.00	not applicable	-	-
China Industrial International Trust Limited (Note. VI)	Cost method	6,395	-	6,395	73.00	73.00	not applicable	-	-
CIB Fund Management Co., Ltd. (Note. VI)	Cost method	900	-	900	90.00	90.00	not applicable	-	90
Industrial Consumer Finance Co., Ltd (Note. VI)	Cost method	1,254	-	1,254	66.00	66.00	not applicable	-	-
CIB Wealth Management Co., Ltd. (Note. VI)	Cost method	5,000	-	5,000	100.00	100.00	not applicable	-	-
Total		23,601	175	23,776				-	125

(1) As the Bank held 12.23% shareholding ratio of Bank of Jiujiang and sent directors to the Bank of Jiujiang, the Bank has significant influence over the Bank of Jiujiang and the equity investment is accounted for using the equity method.

(2) There are no restrictions of the investees' capacities of capital transferring to the Group and the Bank on 31 December 2020.

(Expressed in millions of Renminbi, unless otherwise stated)

10. Fixed assets

The Group

	Buildings	*Fixed assets improvement*	*Office and machinery equipment*	*Transportation vehicles*	*Flight equipment*	*Total*
Cost						
At 1 January 2020	19,315	1,160	7,868	462	6,264	35,069
Purchase	57	1	923	52	443	1,476
Transfers from constructions in progress	2,335	57	1	-	-	2,393
Sales/disposals	(69)	(47)	(78)	(58)	(1)	(253)
At 31 December 2020	21,638	1,171	8,714	456	6,706	38,685
Accumulated depreciation						
At 1 January 2020	(3,503)	(511)	(5,409)	(310)	(686)	(10,419)
Depreciation for the year	(687)	(81)	(917)	(53)	(229)	(1,967)
Eliminated on sales/disposals	22	47	49	35	1	154
At 31 December 2020	(4,168)	(545)	(6,277)	(328)	(914)	(12,232)
Net value						
At 1 January 2020	15,812	649	2,459	152	5,578	24,650
At 31 December 2020	17,470	626	2,437	128	5,792	26,453
Allowance for impairment losses						
At 1 January 2020	(3)	-	-	-	(6)	(9)
Charge for the year	-	-	-	-	(30)	(30)
At 31 December 2020	(3)	-	-	-	(36)	(39)
Net carrying amount						
At 1 January 2020	15,809	649	2,459	152	5,572	24,641
At 31 December 2020	17,467	626	2,437	128	5,756	26,414

As at 31 December 2020, the cost of flight equipment leased out under operating lease business by the Group's subsidiary Industrial Bank Financial Leasing Co., Ltd. was RMB6,706 million (31 December 2019: RMB6,264 million).

Buildings cost RMB2,100 million are in use but the legal ownership registrations were still in process as at 31 December 2020 (31 December 2019: RMB1,340 million).

(Expressed in millions of Renminbi, unless otherwise stated)

The Bank

	Buildings	*Fixed assets improvement*	*Office and machinery equipment*	*Transportation vehicles*	*Total*
Cost					
At 1 January 2020	19,281	1,160	7,539	430	28,410
Purchase	57	-	855	49	961
Transfers from constructions in progress	2,335	57	1	-	2,393
Sales/disposals	(69)	(47)	(73)	(54)	(243)
At 31 December 2020	21,604	1,170	8,322	425	31,521
Accumulated depreciation					
At 1 January 2020	(3,492)	(511)	(5,215)	(297)	(9,515)
Depreciation for the year	(685)	(81)	(859)	(41)	(1,666)
Eliminated on sales/disposals	22	47	35	30	134
At 31 December 2020	(4,155)	(545)	(6,039)	(308)	(11,047)
Net value					
At 1 January 2020	15,789	649	2,324	133	18,895
At 31 December 2020	17,449	625	2,283	117	20,474
Allowance for impairment losses					
At 1 January 2020	(3)	-	-	-	(3)
At 31 December 2020	(3)	-	-	-	(3)
Net carrying amount					
At 1 January 2020	15,786	649	2,324	133	18,892
At 31 December 2020	17,446	625	2,283	117	20,471

Buildings cost RMB2,100 million are in use but the legal ownership registrations were still in process as at 31 December 2019 (31 December 2019: RMB1,340 million).

(Expressed in millions of Renminbi, unless otherwise stated)

11. Construction in progress

11.1 Details of construction in progress are as follows:

The Group

	2020			2019		
	Carrying amount	Allowance for impairment loss	Net carry amount	Carrying amount	Allowance for impairment loss	Net carry amount
Operating building, Head office	-	-	-	709	-	709
Operating building, Jinan	-	-	-	577	-	577
Operating building, Guiyang	15	-	15	336	-	336
Operating building, Changsha	397	-	397	359	-	359
Operating building, Nanning	365	-	365	289	-	289
Operating building, Nanchang	351	-	351	351	-	351
Operating building, Putian	160	-	160	156	-	156
Operating building, Nanjing	138	-	138	-	-	-
Operating building, Hohhot	196	-	196	89	-	89
Others	313	-	313	597	-	597
Total	1,935	-	1,935	3,463	-	3,463

The Bank

	2020			2019		
	Carrying amount	Allowance for impairment loss	Net carry amount	Carrying amount	Allowance for impairment loss	Net carry amount
Operating building, Head office	-	-	-	709	-	709
Operating building, Jinan	-	-	-	577	-	577
Operating building, Guiyang	15	-	15	336	-	336
Operating building, Changsha	397	-	397	359	-	359
Operating building, Nanning	365	-	365	289	-	289
Operating building, Nanchang	351	-	351	351	-	351
Operating building, Putian	160	-	160	156	-	156
Operating building, Nanjing	138	-	138	-	-	-
Operating building, Hohhot	196	-	196	89	-	89
Others	309	-	309	575	-	575
Total	1,931	-	1,931	3,441	-	3,441

(Expressed in millions of Renminbi, unless otherwise stated)

11.2 Significant changes in construction in progress are as follows:

The Group

	2020				
	At 1 January 2020	*Additions*	*Transfer to fixed assets*	*Transfer to long-term prepaid expenses*	*At 31 December 2020*
Operating building, Head office	709	183	(892)	-	-
Operating building, Jinan	577	64	(641)	-	-
Operating building, Guiyang	336	50	(371)	-	15
Operating building, Changsha	359	38	-	-	397
Operating building, Nanning	289	76	-	-	365
Operating building, Nanchang	351	-	-	-	351
Operating building, Putian	156	4	-	-	160
Operating building, Nanjing	-	138	-	-	138
Operating building, Hohhot	89	107	-	-	196
Others	597	657	(489)	(452)	313
Total	3,463	1,317	(2,393)	(452)	1,935

The bank

	2020				
	At 1 January 2020	*Additions*	*Transfer to fixed assets*	*Transfer to long-term prepaid expenses*	*At 31 December 2020*
Operating building, Head office	709	183	(892)	-	-
Operating building, Jinan	577	64	(641)	-	-
Operating building, Guiyang	336	50	(371)	-	15
Operating building, Changsha	359	38	-	-	397
Operating building, Nanning	289	76	-	-	365
Operating building, Nanchang	351	-	-	-	351
Operating building, Putian	156	4	-	-	160
Operating building, Nanjing	-	138	-	-	138
Operating building, Hohhot	89	107	-	-	196
Others	575	656	(489)	(433)	309
Total	3,441	1,316	(2,393)	(433)	1,931

12. Goodwill

The Group

	1 January 2020	*Additions*	*Deductions*	*31 December 2020*	*Provision at 31 December 2020*
China Industrial International Trust Limited	532	-	-	532	-

Goodwill arose from acquisition of China Industrial International Trust Limited in February 2011, and the overweight of China Industrial Future Limited by China Industrial International Trust Limited in March 2015.

(Expressed in millions of Renminbi, unless otherwise stated)

At the end of the period, the Group performed impairment tests on goodwill based on expected future cash flow of the investee, meanwhile, calculated the expected present value of future cash flow of the investee by applying an appropriate discount rate to determine recoverable amount. No evidence shows that the recoverable amount of goodwill is less than the carrying amount and therefore no impairment is recognized.

13. Deferred tax asset and deferred tax liability

13.1 Recognized deferred tax assets and liabilities

The Group

	2020		*2019*	
	Deductible (taxable) temporary differences	*Deferred tax assets (liabilities)*	*Deductible (taxable) temporary differences*	*Deferred tax assets (liabilities)*
Deferred tax assets				
Impairment losses on assets	152,748	38,187	147,280	36,820
Fair value changes of derivative financial instruments	2,496	624	-	-
Fair value changes of trading assets	6,020	1,505	1,097	274
Fair value changes of trading liabilities	-	-	19	5
Changes in fair value in other debt investments	7,148	1,787	-	-
Changes in fair value in other equity investments	284	71	163	41
Accrued but not paid employee benefits	15,548	3,887	15,744	3,936
Others	2,000	500	2,112	528
Subtotal	186,244	46,561	166,415	41,604
Offset	(4,192)	(1,048)	(3,219)	(805)
Deferred tax liabilities after offset	182,052	45,513	163,196	40,799
Deferred tax liabilities				
Fair value changes of derivative financial instruments	(32)	(8)	(425)	(106)
Fair value changes of trading liabilities	(228)	(57)	-	-
Differences of fixed assets depreciation	(2,520)	(630)	(1,073)	(268)
Fair value changes of precious metals	(136)	(34)	(14)	(4)
Fair value changes of other debt investments	-	-	(509)	(127)
Others	(1,572)	(393)	(1,198)	(300)
Subtotal	(4,488)	(1,122)	(3,219)	(805)
Offse	4,192	1,048	3,219	805
Deferred tax liabilities after offset	(296)	(74)	-	-

(Expressed in millions of Renminbi, unless otherwise stated)

The Bank

	2020		*2019*	
	Deductible (taxable) temporary differences	*Deferred tax assets (liabilities)*	*Deductible (taxable) temporary differences*	*Deferred tax assets (liabilities)*
Deferred tax assets				
Impairment losses on assets	143,628	35,907	139,617	34,904
Fair value changes of derivative financial instruments	2,496	624	-	-
Fair value changes of trading assets	5,884	1,471	751	188
Fair value changes of trading liabilities	-	-	19	5
Fair value changes of other debt investments	7,053	1,763	-	-
Fair value changes of other equity investments	285	71	163	41
Accrued but not paid employee benefits	13,688	3,422	14,261	3,565
Others	276	69	351	88
Subtotal	173,310	43,327	155,162	38,791
Offset	(3,916)	(979)	(3,226)	(807)
Deferred tax liabilities after offset	169,394	42,348	151,936	37,984
Deferred tax liabilities				
Fair value changes of derivative financial instruments	-	-	(425)	(106)
Fair value changes of trading liabilities	(24)	(6)	-	-
Differences of fixed assets depreciation	(2,520)	(630)	(1,073)	(268)
Fair value changes of precious metals	(136)	(34)	(14)	(4)
Fair value changes of other debt investments	-	-	(516)	(129)
Others	(1,236)	(309)	(1,198)	(300)
Subtotal	(3,916)	(979)	(3,226)	(807)
Offset	3,916	979	3,226	807
Deferred tax liabilities after offset	-	-	-	-

The tax payment of domestic branches of the Bank can be aggregated in the way that the deferred tax assets and deferred tax liabilities are presented at the net amount after offset; overseas branches are individual taxable entities, and the deferred tax assets and deferred tax liabilities of the same entity can be presented at the net amount after offset. When there are net deferred tax assets/liabilities in overseas branches, they are not offset against those in domestic branches. The subsidiaries of the Bank are individual taxable entities, and the deferred tax assets and deferred tax liabilities of the same entity can be presented at the net amount after offset.

(Expressed in millions of Renminbi, unless otherwise stated)

13.2 Movements in deferred income tax assets and liabilities

	The Group	The Bank
31 December 2019	40,799	37,984
- Deferred tax assets	41,604	38,791
- Deferred tax liabilities	(805)	(807)
Net changes of deferred tax recognized in income tax expenses	2,696	2,442
Net changes of deferred tax recognized in other comprehensive income	1,944	1,922
31 December 2020	45,439	42,348
- Deferred tax assets	46,561	43,327
- Deferred tax liabilities	(1,122)	(979)

14. Other assets

	Note	The Group 2020	The Group 2019	The Bank 2020	The Bank 2019
Items in the process of clearance and settlement		29,324	9,129	26,067	7,292
Other receivables	(1)	18,125	14,213	15,409	11,728
Continuing involvement assets (Note XII.3.1)		11,490	13,400	9,337	10,472
Prepaid purchase cost of lease assets		4,193	1,174	-	-
Interest receivable	(2)	1,909	1,785	1,788	1,745
Net assets of defined benefit plan (Note VII.42.2)		1,763	1,409	1,763	1,409
Long-term deferred expenses	(3)	1,357	1,398	1,290	1,333
Foreclosed assets	(4)	447	539	447	539
Total		68,608	43,047	56,101	34,518

14.1 Other receivables

Listed by aging:

Account age	The Group 2020	Proportion %	The Group 2019	Proportion %	The Bank 2020	Proportion %	The Bank 2019	Proportion %
Within 1 year	18,116	84.86	13,716	81.90	15,576	84.01	11,316	79.61
1-2 years	520	2.44	407	2.42	439	2.37	331	2.33
2-3 years	209	0.98	219	1.31	149	0.80	183	1.29
Over 3 years	2,502	11.72	2,406	14.37	2,377	12.82	2,384	16.77
Subtotal	21,347	100.00	16,748	100.00	18,541	100.00	14,214	100.00
Less: Allowance for impairment losses	(3,222)		(2,535)		(3,132)		(2,486)	
Net value	18,125		14,213		15,409		11,728	

(Expressed in millions of Renminbi, unless otherwise stated)

14.2 Interest receivable

	The Group		The Bank	
	2020	2019	2020	2019
Loans and advances to customers	1,141	890	1,117	867
Bonds and other investments	768	875	671	875
Others	-	20	-	3
Total	1,909	1,785	1,788	1,745

14.3 Long-term deferred expenses

The Group

	1 January 2020	Changes	Transferred from construction in progress	Amortization	31 December 2020
Leasehold improvements	1,289	59	452	(545)	1,255
Others	109	8	-	(15)	102
Total	1,398	67	452	(560)	1,357

The Bank

	1 January 2020	Changes	Transferred from construction in progress	Amortization	31 December 2020
Leasehold improvements	1,224	91	433	(525)	1,223
Others	109	(34)	-	(8)	67
Total	1,333	57	433	(533)	1,290

14.4 Foreclosed assets

Analysed by category of the foreclosed assets:

	The Group and the Bank	
	2020	2019
Buildings and land use rights	583	591
Others	1	1
Subtotal	584	592
Less: Allowance for impairment losses	(137)	(53)
Net value	447	539

(Expressed in millions of Renminbi, unless otherwise stated)

15. Deposits from banks and other financial institutions

	The Group		The Bank	
	2020	*2019*	*2020*	*2019*
Amount due to banks:				
Banks operating in Mainland China	317,622	237,939	317,622	237,938
Banks operating outside Mainland China	78,231	110,254	78,231	110,254
Deposits from other financial institutions:				
Other financial institutions operating in Mainland China	1,086,659	879,658	1,095,126	891,312
Other financial institutions operating outside Mainland China	-	13	-	13
Interest accrued	4,567	6,073	4,608	6,091
Total	1,487,079	1,233,937	1,495,587	1,245,608

16. Placements from banks and other financial institutions

	The Group		The Bank	
	2020	*2019*	*2020*	*2019*
Banks operating in Mainland China	126,590	107,437	19,556	13,960
Other financial institutions operating in Mainland China	2,098	3,458	1,398	3,393
Banks operating outside Mainland China	50,473	80,094	50,268	78,939
Interest accrued	1,010	1,321	226	902
Total	180,171	192,310	71,448	97,194

17. Trading liabilities

		The Group		The Bank	
	Note	*2020*	*2019*	*2020*	*2019*
Trading liabilities:					
Financial liabilities related to precious metals	(1)	13,789	3,654	13,789	3,654
Sold financing bonds		679	30	679	30
Others		253	261	253	261
Subtotal		14,721	3,945	14,721	3,945
Financial liabilities assigned as at fair value through profit or loss	(2)	1,341	269	-	161
Total		16,062	4,214	14,721	4,106

(Expressed in millions of Renminbi, unless otherwise stated)

(1) The Group's financial liabilities related to the precious metals are matched with the precious metals or derivatives based on the risk management strategy and are included in the financial liabilities at fair value through profit or loss.

(2) The Group's other shareholder's equity and structured financial instruments that are included in the consolidated financial statements are designated as financial liabilities at fair value through profit or loss. No significant changes in fair value from changes in credit risk occurred on 31 December 2020 (31 December 2019: Nil).

18. Financial assets sold under repurchase agreements

	The Group		*The Bank*	
	2020	*2019*	*2020*	*2019*
Bonds	82,358	143,966	70,423	134,626
Bills	41,035	49,089	41,035	49,089
Interest accrued	174	357	172	357
Total	123,567	193,412	111,630	184,072

19. Deposits from customers

	The Group		*The Bank*	
	2020	*2019*	*2020*	*2019*
Demand deposits				
- Corporate	1,290,261	1,176,810	1,291,198	1,179,079
- Personal	324,566	287,098	324,566	287,098
Subtotal	1,614,827	1,463,908	1,615,764	1,466,177
Term deposits (including call deposits)				
- Corporate	1,711,733	1,628,915	1,711,853	1,629,315
- Personal	401,882	374,634	401,882	374,634
Subtotal	2,113,615	2,003,549	2,113,735	2,003,949
Guaranteed and margin deposits	311,007	289,707	311,007	289,707
Others	3,445	1,899	3,445	1,899
Interest accrued	41,348	35,769	41,349	35,769
Total	4,084,242	3,794,832	4,085,300	3,797,501

The pledged deposits included in deposits from customers are analysed as follows:

	The Group and the Bank	
	2020	*2019*
Bank acceptances	197,853	163,958
Letters of credit	26,912	31,936
Guarantee	8,075	9,156
Others	78,167	84,657
Total	311,007	289,707

(Expressed in millions of Renminbi, unless otherwise stated)

20. Employee benefits payable

	The Group				The Bank			
	1 January 2020	Increase	Decrease	31 December 2020	1 January 2020	Increase	Decrease	31 December 2020
Salaries and bonus	15,466	22,850	(20,722)	17,594	13,751	20,368	(18,809)	15,310
Labor union expenditure and staff educational funds	2,032	912	(496)	2,448	1,986	830	(450)	2,366
Social insurance	70	2,177	(2,214)	33	66	2,039	(2,076)	29
Housing funds	41	1,177	(1,173)	45	36	1,057	(1,055)	38
Defined contribution plans	129	1,955	(2,000)	84	70	1,800	(1,823)	47
Total	17,738	29,071	(26,605)	20,204	15,909	26,094	(24,213)	17,790

The salaries, bonus, retirement benefits and other social insurance of employee benefits payable are granted or paid according to time limit set by relevant laws, regulations and the Group's policies. See defined contribution pension plans in Note VII. 42.1.

21. Tax payable

	The Group		The Bank	
	2020	2019	2020	2019
Corporate income tax	7,984	10,715	7,156	10,026
Value added tax	3,566	3,124	3,187	2,628
City maintenance and construction tax	288	221	259	212
Others	466	416	416	360
Total	12,304	14,476	11,018	13,226

22. Provisions

	The Group and the Bank	
	2020	2019
Credit loss of off-balance sheet assets	5,397	6,253

As at 31 December 2020, movements of credit loss on off-balance sheet assets are as follows:

	The Group and the Bank			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	
1 January 2020	4,818	148	1,287	6,253
Transfer:				
- to stage 1	2	(2)	-	-
- to stage 2	(3)	3	-	-
- to stage 3	(5)	(1)	6	-
(Charge) reversal	(582)	466	(724)	(840)
Exchange difference and other movements	(16)	-	-	(16)
31 December 2020	4,214	614	569	5,397

(Expressed in millions of Renminbi, unless otherwise stated)

	The Group and the Bank			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
	12-month ECL	*Lifetime ECL not credit-impaired*	*Lifetime ECL credit-impaired*	
1 January 2019	4,371	320	281	4,972
Transfer:				
- to stage 1	86	(86)	-	-
- to stage 2	(3)	3	-	-
- to stage 3	(1)	-	1	-
Reversal (charge)	361	(89)	1,005	1,277
Exchange difference and other movements	4	-	-	4
31 December 2019	4,818	148	1,287	6,253

23. Debt securities issued

	The Group		*The Bank*	
	2020	*2019*	*2020*	*2019*
Long-term subordinated bonds	10,278	13,381	10,278	13,381
Financial bonds	224,170	143,015	206,436	120,702
Tier 2 capital bonds	83,442	83,427	81,411	81,397
Interbank certificates of deposit	612,210	650,853	612,210	650,853
Certificates of deposit	6,225	4,773	6,225	4,773
Private placement note	2,027	1,400	-	-
Corporate bonds	9,041	2,267	-	-
Total	947,393	899,116	916,560	871,106

Note: Debt securities issued by the Group include long-term subordinated bonds, financial bonds, tier 2 capital bonds, interbank certificates of deposit, certificates of deposit and asset-backed securities. Tier 2 capital bonds are issued by commercial banks and their subsidiaries to supplement the secondary capital. Tier 2 capital bonds and the long-term subordinated bonds are in the same liquidation sequence.

(Expressed in millions of Renminbi, unless otherwise stated)

Details of debt securities issued are as follows:

Category of bonds	*Issuing date*	*Interest payment frequency*	*The Group* 2020	*The Bank* 2020
Long-term subordinate bonds				
11 CIB subordinated debt (1)	2011-06-28	Yearly	10,000	10,000
Interest accrued			293	293
Less: unamortised issuance cost			(15)	(15)
Subtotal			10,278	10,278
Financial bonds				
16 CIB green financial bond 03(2)	2016-11-15	Yearly	20,000	20,000
18 CIB green financial bond 01(3)	2018-11-01	Yearly	30,000	30,000
18 CIB green financial bond 02(3)	2018-11-22	Yearly	30,000	30,000
19 CIB green financial bond 01(4)	2019-07-16	Yearly	20,000	20,000
20 CIB small and micro enterprise bond 01(5)	2020-04-28	Yearly	23,000	23,000
20 CIB small and micro enterprise bond 02(5)	2020-04-28	Yearly	7,000	7,000
20 CIB small and micro enterprise bond 03(5)	2020-05-25	Yearly	22,000	22,000
20 CIB small and micro enterprise bond 04(5)	2020-05-25	Yearly	5,000	5,000
20 CIB small and micro enterprise bond 05(5)	2020-08-11	Yearly	23,000	23,000
USD medium-term notes (6)	2016-09-21	Semi-annually	1,958	1,958
USD medium-term notes (6)	2018-03-05	Semi-annually	3,915	3,915
USD medium-term notes (6)	2018-03-05	Semi-annually	1,631	1,631
USD medium-term notes (6)	2018-03-05	Quarterly	3,262	3,262
EUR medium-term notes (6)	2018-03-05	Quarterly	2,007	2,007
USD green financial bond(6)	2018-11-13	Quarterly	3,915	3,915
EUR green financial bond(6)	2018-11-13	Quarterly	2,409	2,409
HKD Interbank certificates of deposit (6)	2020-11-06	Semi-annually	2,525	2,525
USD Interbank certificates of deposit (6)	2020-11-06	Semi-annually	2,936	2,936
18 CIB leasing debt 01(7)	2018-06-05	Yearly	3,490	-
18 CIB leasing debt 02(7)	2018-11-21	Yearly	3,500	-
18 CIB leasing debt 03(7)	2018-11-30	Yearly	3,000	-
19 CIB leasing debt 01(7)	2019-03-04	Yearly	2,500	-
19 CIB consumer financial debt 01(8)	2019-08-15	Yearly	2,000	-
19 CIB consumer financial debt 02(8)	2019-11-20	Yearly	1,000	-
20 CIB consumer financial debt 01(8)	2020-08-18	Yearly	2,000	-
Interest accrued			2,260	2,006
Less: unamortised issuance cost			(138)	(128)
Subtotal			224,170	206,436
Tier 2 capital bonds				
16 CIB secondary(9)	2016-04-11	Yearly	30,000	30,000
19 CIB secondary 01(9)	2019-08-23	Yearly	30,000	30,000
19 CIB secondary 02(9)	2019-09-17	Yearly	20,000	20,000
17 CIB leasing secondary (10)	2017-09-15	Yearly	2,000	-
Interest accrued			1,507	1,476
Less: unamortised issuance cost			(65)	(65)
Subtotal			83,442	81,411

(Expressed in millions of Renminbi, unless otherwise stated)

Category of bonds	*Issuing date*	*Interest payment frequency*	*The Group* 2020	*The Bank* 2020
Interbank certificates of deposit				
Par value of interbank certificates of deposit [11]			618,299	618,299
Interest accrued			64	64
Less: unamortised issuance cost			(6,153)	(6,153)
Subtotal			612,210	612,210
Certificates of deposit				
Par value of certificates of deposit [12]			6,221	6,221
Interest accrued			12	12
Less: unamortised issuance cost			(8)	(8)
Subtotal			6,225	6,225
Private placement note				
18 CIAMC PPN001[13]	2018-12-19	Yearly	1,000	-
20 CIAMC PPN001[13]	2020-03-09	Yearly	500	-
20 CIAMC PPN001[13]	2020-04-20	Yearly	500	-
Interest accrued			27	-
Subtotal			2,027	-
Corporate bonds				
19 CIAMC 01[14]	2019-11-18	Yearly	500	-
19 CIAMC 02[14]	2019-11-18	Yearly	440	-
20 CIAMC 01[15]	2020-03-18	Yearly	321	-
20 CIAMC 02[15]	2020-03-18	Yearly	366	-
20 CIAMC 03[15]	2020-08-19	Yearly	480	-
20 CIAMC 04[15]	2020-08-19	Yearly	570	-
19 CIIT 01[16]	2019-12-26	Yearly	1,632	-
20 CIIT 01[16]	2020-03-13	Yearly	1,500	-
20 CIIT 02[16]	2020-07-27	Yearly	3,100	-
Interest accrued			141	-
Less: unamortised issuance cost			(9)	-
Subtotal			9,041	-
Total			947,393	916,560

(1) In June 2011, the Group issued RMB 10 billion subordinated bond with a 15-year maturity, a fixed interest rate and a redemption right in the end of the tenth year. The annual coupon rate is 5.75% consistently.

(2) In November 2016, the Group issued a green financial bond of 5-year maturity RMB 20 billion with fixed rate of 3.40%.

(3) In November 2018, the Group issued two batche of green financial bonds with 3-year maturity RMB 30 billion per batches with fixed rates of 3.99% and 3.89%.

(4) In July 2019, the Group issued a green financial bond of 3-year maturity RMB 20 billion with fixed rates of 3.55%.

(5) In April 2020, the Group issued RMB 23 billion 3-year fixed-rate and RMB 7 billion 5-year fixed-rate small and micro enterprise bonds, with annual interest rates of 2.17% and 2.67%, respectively. In May 2020, the Group issued RMB 22 billion 3-year fixed-rate and RMB 5 billion 5-year fixed-rate small and micro enterprise bonds, with annual interest rates of 2.58% and 2.95%, respectively. In August 2020, the Group issued RMB 23 billion 3-year fixed-rate small and micro enterprise bond, with annual interest rates of 3.45%.

(6) In September 2016, the Group set the medium-term notes issuing plan with limit of USD 5 billion at The Stock Exchange of Hong Kong Ltd. (the "SEHK"). According to the plan, the Hong Kong branch of the Bank initially issued 5-year medium-term notes amounting USD 300 million with fixed rates of 2.375%. The annual rate kept constant during the existence of bonds; in March 2018, the Hong Kong branch of the Bank issued 3-year medium-term notes amounting USD 600 million, 5-year medium-term notes amounting USD 250 million, 5-year medium-term notes amounting USD 500 million and 3-year medium-term notes amounting EUR 250 million with fixed rates of 3.50%, 3.750%, 105 basis points over the 3-month London rate for interbank lending, and 75 basis points over the 3-month Europe rate for interbank lending; in November 2018, the Hong Kong branch of the Bank issued 3-year overseas green financial bonds amounting USD 600 million and 3-year overseas green financial bonds amounting EUR 300 million with fixed rates of 85 basis points over the 3-month London rate for interbank lending and 85 basis points over the 3-month Europe rate for interbank lending; in November 2020, the Hong Kong branch of the Bank issued HKD 3 billion and USD 450 million interbank certificates of deposit due within 1 year, with fixed rates of 1.10% and 1.125%.

(7) In June 2018, November 2018, November 2018 and March 2019, the Group's subsidiary Industrial Bank Financial Leasing Co., Ltd. respectively issued RMB financial bonds of 3-year maturity RMB 3,500 million, RMB 3,500 million, RMB 3 billion and RMB 2,500 million with fixed rates of 4.88%, 3.98%, 3.95% and 3.52%. As of 31 December 2020, the "18 CIB leasing debt 01" of RMB 10 million issued by Industrial Bank Financial Leasing Co., Ltd. in June 2018 was held by the Bank.

(8) In August 2019, November 2019 and August 2020, the Group's subsidiary Industrial Consumer Finance Co., Ltd. respectively issued RMB financial bonds of 3-year maturity RMB 2 billion, RMB 1 billion and RMB 2 billion with fixed rates of 3.77%, 3.79% and 3.70% respectively.

(9) In April 2016, August 2019 and November 2019, the Group issued RMB 30 billion, RMB 30 billion, RMB 20 billion subordinated bond with a 10-year maturity, a fixed rate and a redemption right at the end of the fifth year. The annual coupon rate is 3.74%, 4.15% and 4.12% consistently.

(10) In September 2017, the Group's subsidiary Industrial Bank Financial Leasing Co., Ltd. issued RMB 2 billion 10-year tier 2 capital bonds with fixed rate and issuer's redemption right at the end of the 5th year. During the tenure of the bonds, the annual interest rate remains at 5.15%.

(11) As at 31 December 2020, the Group had 426 unpaid interbank certificates of deposit with total amount of RMB 618,299 million, including 7 USD non-negotiable certificates deposit, of which the issued par value was USD 700 million (RMB 4,567 million) and the terms are within 1 year; 2 HKD interbank certificates of deposit, of which the issued par value is HKD 1 billion (RMB 842 million) and the terms are within 1 year; and 417 RMB interbank certificates of deposit, of which the issued par value is RMB 612,890 million and the terms are within 1 year. The annual rate is 1.60% to 3.35%. Except for interest of 8 interest-bearing debts being paid quarterly, the interest of rest is paid upon maturity.

(12) As at 31 December 2020, Hong Kong branch had 11 unpaid interbank certificates of deposit, of with a total the amount was RMB 6,221 million and the terms are within 1 year. The amount of 4 HKD certificates was HKD 3,050 million (RMB 2,567 million); the amount of 7 USD certificates was USD 560 million (RMB 3,654 million). The annual interest rate was between 0.67% to 1.40%. The interest of all certificates is paid upon maturity.

(13) In December 2018, March 2020 and April 2020, CIIT Asset Management Co., Ltd., a subsidiary of China Industrial International Trust Limited, the Group's subsidiary, issued RMB 1 billion three-year fixed interest rate placement note with the annual rate of 4.85%, RMB 500 million three-year fixed interest rate placement note with the annual rate of 3.59% and RMB 500 million three-year fixed interest rate placement note with the annual rate of 4.85%, 3.59% and 3.19% respectively.

(14) In November 2019, CIIT Asset Management Co., Ltd., a subsidiary of China Industrial International Trust Limited, the Group's subsidiary, issued RMB 500 milion 2+1 year fixed interest rate financial bond with the annual rate of 4.10% and RMB 500 million 3+2 year fixed interest rate Corporate bond with the annual rate of 4.25% respectively. As at 31 December 2020, the Bank holds “19 CIAMC 02” of RMB 60 million issued by CIIT Asset Management Co., Ltd. in November 2019.

(15) In March 2020, CIIT Asset Management Co., Ltd., a subsidiary of China Industrial International Trust Limited, the Group's subsidiary, issued RMB 400 million 2-year fixed interest rate Corporate bond with the annual rate of 3.4% and RMB 450 million 3-year fixed interest rate Corporate bond with the annual rate of 3.65% respectively. In August 2020, CIIT Asset Management Co., Ltd., issued RMB 550 million “1+1 year fixed interest rate” Corporate bond with the annual rate of 3.65% and RMB 600 million 3-year fixed interest rate Corporate bond with the annual rate of 4% respectively. As at 31 December 2020, the Bank holds “20 CIAMC 01” and “20 CIAMC 02” of RMB 163 million respectively issued by CIIT Asset Management Co., Ltd., and holds “20 CIAMC 03” and “20 CIAMC 04” of RMB 100 million respectively issued by CIIT Asset Management Co., Ltd. in August 2020.

(16) In December 2019, March 2020 and July 2020, CIIT Asset Management Co., Ltd., a subsidiary of China Industrial International Trust Limited, the Group's subsidiary, issued RMB 1,900 milion 3+2 year fixed interest rate Corporate bond, RMB 1,500 milion 3+2 year fixed interest rate Corporate bond and RMB 3,100 milion 3+2 year fixed interest rate Corporate bond, with the annual rate of 4.4%, 3.5% and 4.38%. As at 31 December 2020, the Bank holds “19 CIIT 01” of RMB 268 million issued by CIIT Asset Management Co., Ltd. in December 2019.

(Expressed in millions of Renminbi, unless otherwise stated)

24. Other liabilites

	The Group		*The Bank*	
	2020	*2019*	*2020*	*2019*
Continuing involvement liabilities (Note XII. 3.1)	11,490	13,400	9,337	10,472
Items in the process of clearance and settlement	11,457	6,979	1,703	1,650
Other accounts payable	8,894	7,201	6,286	6,628
Advance collection of financial leasing funds	2,860	4,536	-	-
Notes payable	2,844	1,963	-	-
Deferred income	2,455	2,667	1,283	1,076
Others	793	3,292	347	1,298
Total	40,793	40,038	18,956	21,124

25. Share capital

	The Group and the Bank		
	1 January 2020	*Change for the period*	*31 December 2020*
Shares without limited sales restrictions RMB ordinary shares (A shares)	19,052	563	19,615
Shares with limited sales restrictions RMB ordinary shares (A shares)	1,722	(563)	1,159
Total shares	20,774	-	20,774

As at 31 December 2020, the share capital of the Bank is RMB20,774 million (31 December 2019: RMB20,774 million) with par value of RMB 1 per share.

26. Other equity instruments

26.1 Outstanding preference shares and perpetual bonds in the end of the period are as follows:

The Group and the Bank

Outstanding financial instrument	*Issue Date*	*Classification*	*Rate*	*Issue price* RMB/share	*Quantity* million share	*Amount* RMB million	*Maturity date*	*Conversion condition*	*Conversion*
Outstanding preference shares									
Preference shares	2014.12	Equity instrument	Note 1	100	130	13,000	N/A	Note 4	N/A
Preference shares	2015.6	Equity instrument	Note 2	100	130	13,000	N/A	Note 4	N/A
Preference shares	2019.4	Equity instrument	Note 3	100	300	30,000	N/A	Note 4	N/A
Perpetual Bonds									
Perpetual Bonds	2020.10	Equity instrument	Note 5	100	300	30,000	N/A	N/A	N/A

Note 1: For the initial issuance of the preference shares ("Xing Ye You 1"), every five year was an interest-bearing cycle starting from the payment deadline (i.e. 8 December 2014). The dividend rate was the same in every interest-bearing cycle. The dividend rate of preference shares of this issuance was the sum of benchmark interest rate and basic interest rate. The benchmark interest rate was adjusted every 5 years from the deadline for payment of preference shares issued. The basic spread was the dividend rate of first cycle deducting the benchmark interest rate, i.e. 2.55%. The basic spread would no longer be adjusted after the issuance. The subsequent coupon interest rate was determined by the current benchmark interest rate plus the basis spread. the benchmark interest rate of current interest-bearing cycle is national debt (which period before payment is for 5 years) YTM's arithmetic mean (rounded to 0.01%), from the fixed-rate national debt yield curve in Bank Debt published on www.chinabond.com.cn (or any other websites approved by Central Securities Depository Trust and Clearing Corporation Limited), 20 days before benchmark interest rate adjustment date which's the date of each 5 years of the deadline for payment of preference shares issued (which is 8 December). If the YTM regarding treasury bonds, with 5-year remaining terms is not available on the benchmark interest adjustment date, the Bank and investors will negotiate with the investor to determine the subsequent benchmark interest rate or its determining principles at the request of the regulatory authorities.

In December 2019, the dividend yield ratio of the "Xing Ye You 1" preferred stock for the second dividend period was adjusted in accordance with relevant provisions in the Prospectus. The current benchmark interest rate was the arithmetic mean (i.e. 3.00% rounded to 0.01%) of the yield to maturity of the 5-year treasury bond within the ChinaBond treasury bond yield curve (previously known as the ChinaBond interbank fixed interest rate treasury bond yield curve) in the 20 trading days (excluding the benchmark interest rate adjustment date) prior to the current benchmark interest rate adjustment date (8 December 2019) published on www.chinabond.com.cn or other websites recognised by China Central Depository & Clearing Co., Ltd., and the basic spread was 2.55%. Therefore, the dividend yield ratio of "Xing Ye You 1" for the second dividend period was changed to 5.55% from 8 December 2019.

Note 2: For the second issuance of the preference shares ("Xing Ye You 2"), every five year was an interest-bearing cycle starting from the payment deadline (i.e. 24 June 2015). The dividend rate was the same in every interest-bearing cycle. The dividend rate of preference shares of this issuance was the sum of benchmark interest rate and basic interest rate. The benchmark interest rate was adjusted every 5 years from the deadline for payment of preference shares issued. The basic spread was the dividend rate of first cycle deducting the benchmark interest rate, i.e. 2.15%. The basic spread would no longer be adjusted after the issuance. The subsequent coupon interest rate was determined by the current benchmark interest rate plus the basis spread, the benchmark interest rate of current interest-bearing cycle is national debt (which period before payment is for 5 years) YTM's arithmetic mean (rounded to 0.01%), from the fixed-rate national debt yield curve in Bank Debt published on www.chinabond.com.cn (or any other websites approved by Central Securities Depository Trust and Clearing Corporation Limited), 20 days before benchmark interest rate adjustment date which's the date of each 5 years of the deadline for payment of preference shares issued (which is 24 June). If the YTM regarding treasury bonds, with 5-year remaining terms is not available on the benchmark interest adjustment date, the Bank and investors will negotiate with the investor to determine the subsequent benchmark interest rate or its determining principles at the request of the regulatory authorities.

In June 2020, the dividend yield ratio of the "Xing Ye You 2" preferred stock for the second dividend period was adjusted in accordance with relevant provisions in the Prospectus. The current benchmark interest rate was the arithmetic mean (i.e. 2.48% rounded to 0.01%) of the yield to maturity of the 5-year treasury bond within the ChinaBond treasury bond yield curve (previously known as the ChinaBond interbank fixed interest rate treasury bond yield curve) in the 20 trading days (excluding the benchmark interest rate adjustment date) prior to the current benchmark interest rate adjustment date (24 June 2020) published on www.chinabond.com.cn or other websites recognised by China Central Depository & Clearing Co., Ltd., and the basic spread was 2.15%. Therefore, the dividend yield ratio of "Xing Ye You 2" for the second dividend period was changed to 4.63% from 24 June 2020.

Note 3: For the the preference shares ("Xing Ye You 3") issued in 2019, every five year was an interest-bearing cycle starting from the payment deadline (i.e. 10 April 2019). The dividend rate was the same in every interest-bearing cycle. The dividend rate of first cycle was determined as 4.90% through inquiry by the Board of Directors authorized by shareholders' meeting and was in accordance with factors such as national policy, market conditions, specific circumstances of the Bank and requirements from investors at that time. The dividend rate of preference shares of this issuance was not higher than the annual weighted average ROE of ordinary shareholders over the last two fiscal years. The dividend rate of preference shares of this issuance was the sum of benchmark interest rate and basic interest rate. The benchmark interest rate of the first interest-bearing cycle (i.e. 3.06%, rounded to 0.01%) was determined by calculating the arithmetic mean of 20 trading days (before 10 April 2019) of the YTM regarding treasury bonds, with 5-year remaining terms. The data was obtained from the interbank fixed-rate treasury bond yield curve published by ChinaBond Information Website (or any other websites approved by Central Securities Depository Trust and Clearing Corporation Limited). The benchmark interest rate was adjusted every 5 years from the deadline for payment of preference shares issued. The basic spread was the dividend rate of first cycle deducting the benchmark interest rate, i.e. 1.84%. The basic spread would no longer be adjusted after the issuance. The subsequent coupon interest rate was determined by the current benchmark interest rate plus the basis spread. The benchmark interest rate of current interest-bearing cycle was determined by calculating the arithmetic mean of 20 trading days (before the benchmark interest adjustment date) of the YTM regarding treasury bonds, with 5-year remaining terms (rounded to 0.01%). If the YTM of 5-year treasury bonds is not available on the benchmark interest adjustment day, the benchmark interest rate or its principle will be determined under negotiations between the Bank and investors required by the regulator.

Note 4: When the Bank's core tier 1 capital adequacy ratio falls to 5.125%, the preference shares issued this time will be completely converted to A shares of ordinary shares with the mandatory price after the examination and determination made by CBIRC in accordance with the relevant requirements of CBIRC. The conversion is irrevocable.

When triggered events of the secondary capital instruments issued by the Bank occur, the preference shares issued this time will be completely converted to A shares of ordinary shares with the mandatory price after the examination and determination made by CBIRC in accordance with the relevant requirements of CBIRC. The conversion is irrevocable. The secondary capital instruments triggering event is the earlier of the following two situations: 1) CBIRC considers the Bank unable to survive without conversion or written off; 2) Relevant departments considers the Bank unable to survive without the contribution from public departments or the same effect of support provided.

Note 5: Approved by the relevant regulators, the Bank issued the Non-fixed-term Capital Bonds of Industrial Bank Co., Ltd. (Perpetual Bonds or “the Bonds”) in the national inter-bank bond market on 13 October 2020. The Bank completed book building and the issuance of the Bonds on 13 October 2020 and 15 October 2020, respectively. The Bonds have a par value of RMB 100 per unit and a coupon rate of 4.73% for the first five years. The coupon rate will be adjusted every five years, and the issuer shall have a conditional redemption right on every dividend payment date from the fifth year onwards. Proceeds from the issuance of the Bonds will be used to replenish Additional tier 1 capital of the Bank in accordance with the applicable laws and the approval of the competent authorities.

26.2 The principal terms of disclosure

(i) Preference shares

The Bank will pay preference shares dividends in cash. The preference shares of this issuance uses a non-cumulative dividend payment, which means dividend that is not paid in full to preference shareholders will not accumulate to the next interest-bearing year. After the preference shareholders obtain distribution in accordance with the agreed dividend rate, they can no longer participate in the distribution of remaining profits with ordinary shareholders.

Under the premise of ensuring the capital adequacy ratio to satisfy the regulatory requirements, if there still is retained earnings in the Bank's financial statements caliber after covering losses, extracting statutory reserve and general reserve, the Bank could allocate dividends to preference shareholders. The priority of preference shareholders is higher than ordinary shareholders in dividend distribution. Payment of preference shares dividends is neither linked to ratings of the Bank, nor adjusted with the rating changes. The Bank can cancel payment of preference shares dividends in any case, which does not constitute an event of default. The Bank is entitled to arrange cancelled payment of preference shares dividends as repayment of other matured debts. Cancelling payment of dividends shall not constitute any further restrictions on the Bank except restrictions on profit distribution of ordinary shares. When the Bank exercises the aforesaid rights, it will take full account of the interests of preference shareholders. If payment of preference shares dividend is wholly or partly cancelled, the Bank shall not pay ordinary share dividend for the fiscal year.

The right of redemption for preference shares of this issuance belongs to the Bank. The Bank may exercise the right of redemption under the premise of obtaining CBIRC's approval. The Bank's preference shareholders do not have the right to request redemption of preference shares and should not expect that the preference shares will be redeemed.

The initial mandatory conversion price of the preference shares of this issuance is the arithmetic mean of 20 trading days of the Bank's A shares of ordinary shares before issuance of Board resolution which passed the issuance of the preference shares. Since the issuance plan of the preference shares is passed by the Bank's Board of Directors, when the Bank's shares change with the delivery of stock dividend, transferring of reserve to share capital, issuance of new shares (not including any share capital from conversion of financing instruments with terms that they could be converted to ordinary shares) or the allotment of shares, the mandatory conversion price of the preference shares will be accumulatively adjusted in turn in accordance with the established formula, and disclose relevant information in accordance with the provisions.

The Bank's preference shareholders are entitled with priority over ordinary shareholders of the remaining property distribution. The amount paid off is the sum of the neither cancelled nor paid dividends and the nominal amount of the preference shares; if it can not be paid in full, the remaining property will be distributed in proportion to preference shares.

(ii) Perpetual Bonds

The Bonds will keep continuing so long as the Bank’s business continues operating. The Bonds sets conditional redemption rights for the issuer. Specifically, from the fifth anniversary since the issuance, the Bank can redeem the Bonds, in whole or in part, on each dividend payment date (including the fifth dividend payment date since the issuance).

The coupon rate of the Bonds will be adjusted at defined intervals, with an adjustment period every five years from the payment due date. The dividend shall be paid at the same agreed rate in each adjustment period of coupon rate. The coupon rate at the time of issuance is determined by book building and centralized allotment.

The claims in respect of the Bonds will be subordinated to the claims of depositors, general creditors, and subordinated debts that rank senior to the Bonds; and will rank in priority to all classes of shares held by the Bank’s shareholders and rank pari passu with the claims in respect of additional tier 1 capital instruments of the Bank that rank pari passu with the Bonds.

If a Non-Viability Trigger Event occurs, the Bank has the right to write off, in whole or in part, the principal amount of the Bonds without the need for the consent of the Bondholders. The amount of the write-off shall be determined by the ratio of the outstanding principal amount of the Bonds to the aggregate outstanding principal amount of all additional tier 1 capital instruments under the identical trigger event.

The dividends on the Bonds are non-cumulative, any dividends unpaid to the Bondholders in full by the Bank will not accumulate or compound to the subsequent distribution period. The Bank have the right to cancel, in whole or in part, dividends on the Bonds and any such cancellation shall not constitute an event of default.

According to the applicable laws and approval of the competent authorities, the net proceeds from the issuance of the Bonds after deducting issuance costs will to be used to replenish the additional tier 1 capital of the Bank

(Expressed in millions of Renminbi, unless otherwise stated)

26.3 Changes of outstanding preference shares and perpetual bonds are as follows:

The preferred shares issued by the Group and the Bank remained unchanged during the period.

	1 January 2020		*Additional/Less*		*31 December 2020*	
	Quantity Million	*Book value* RMB million	*Quantity* Million	*Book value* RMB million	*Quantity* Million	*Book value* RMB million
Preference shares						
Preference shares	560	56,000	-	-	560	56,000
Fees	-	(158)	-	-	-	(158)
Subtotal	560	55,842	-	-	560	55,842
Perpetual Bonds						
Perpetual Bonds	-	-	300	30,000	300	30,000
Fees	-	-	-	(40)	-	(40)
Subtotal	-	-	300	29,960	300	29,960
Total	560	55,842	300	29,960	860	85,802

As at 31 December 2020, the Bank issued the above-mentioned other equity instruments to supplement tier 1 capital of RMB 85,802 million.

26.4 Attribution to holders of equity instrument:

The Group

	31 December 2020	*31 December 2019*
Equities attributable to shareholders of the Bank	615,586	541,360
Equities attributable to ordinary shareholders of the Bank	529,784	485,518
Equities attributable to preference shareholders of the Bank	85,802	55,842
Equity attributable to non-controlling shareholders	9,217	8,292
Equity attributable to non-controlling ordinary shareholders	7,223	6,298
Equity attributable to non-controlling shareholders of other equity instruments	1,994	1,994

27. Capital reserve

	The Group				*The Bank*			
	1 January 2020	*Increase*	*Decrease*	*31 December 2020*	*1 January 2020*	*Increase*	*Decrease*	*31 December 2020*
Share premium	74,881	-	-	74,881	75,227	-	-	75,227
Others	33	-	-	33	33	-	-	33
Total	74,914	-	-	74,914	75,260	-	-	75,260

(Expressed in millions of Renminbi, unless otherwise stated)

28. Surplus reserve

	The Group and the Bank	
	2020	2019
Statutory surplus reserve	10,387	10,387
Discretionary surplus reserve	297	297
Total	10,684	10,684

Under relevant PRC law, the Bank is required to transfer 10% of its net profit to a nondistributable statutory surplus reserve. Appropriation to the statutory surplus reserve may cease when the balance of this reserve has reached 50% of share capital. As of 31 December 2020, the Bank ceased to make appropriations to the statutory surplus reserves since the balance of them have reached 50% of the share capital of the Bank.

29. General reserve

	The Group		The Bank	
	2020	2019	2020	2019
General reserve	87,535	78,525	83,382	74,829

Pursuant to (CJ[2012] No. 20) Measures on General Provision for Bad and Doubtful Debts for Financial Institutions promulgated by the MOF, the Bank is required to transfer certain percentage of its net profit to establish and maintain a general reserve within shareholders' equity, through the appropriation of profit to address unidentified potential impairment losses. In principle, the general reserve, accounted as profit distribution, should not be lower than 1.5% of the closing balance of gross risk-bearing assets since it is a part of shareholders' equity. Gross risk-bearing assets include Loans and advances to customers, Debt investments, Other debt investments, Other equity investments, Long-term equity investments, Deposits with banks and other financial institutions, Placements with banks and other financial institutions, Foreclosed assets and Other receivables and so forth. The subsidiaries of the Bank determine the general reserve according to the regulation.

30. Retained earnings

	The Group		The Bank	
	2020	2019	2020	2019
Opening balance	297,389	252,440	281,875	240,225
Net profit	66,626	65,868	60,856	62,299
Appropriations to general reserve	(9,010)	(5,103)	(8,553)	(4,833)
Dividends distribution of ordinary shares	(15,830)	(14,334)	(15,830)	(14,334)
Dividends distribution of preference shares	(2,549)	(1,482)	(2,549)	(1,482)
Closing balance	336,626	297,389	315,799	281,875

30.1 "2020 Profit Distribution Proposal of the Bank" approved by the Board of Directors on 30 March 2021 and will be submitted for approval by the annual general meeting is as follows :

(i) Appropriation of RMB 8,553 million to general reserve. As at 31 December 2020, the proposed appropriation of general reserve has been included in the general reserve.

(ii) Distribute cash dividends of RMB 8.02 per 10 shares (tax inclusive) on the basis of 20,774,190,751 ordinary shares of the Bank at the issuance date of the financial statements.

(iii) The divided period of preference shares issued in 2014 is from 1 January 2020 to 31 December 2020 (the annual dividend rate is 5.55%), the divided period of preference shares issued in 2015 is from 1 January 2020 to 31 December 2020 (the nominal dividend yield of the first dividend period was 5.4%, and was adjusted to 4.63% for the second dividend period since 24 June 2020), the divided period of preference shares issued in 2019 is from 1 January 2020 to 31 December 2020 (the annual dividend rate is 4.9%), the dividends payable of preference shares are RMB 2,841 million in total.

The above profit distribution plan has not been approved by the Annual General Meeting of the Bank. The accounting treatment of dividend distribution scheme before the approval is not carried out.

30.2 "2019 Profit Distribution Proposal of the Bank" approved by the Board of Directors on 28 April 2020 and approved by the Annual General Meeting on 29 June 2020 is as follows :

(i) Appropriation of RMB 4,833 million to general reserve. As at 31 December 2019, the proposed appropriation of general reserve has been included in the general reserve.

(ii) Distribute cash dividends of RMB 7.62 per 10 shares (tax inclusive) on the basis of 20,774,190,751 ordinary shares of the Bank at the issuance date of the financial statements.

(iii) The divided period of preference shares issued in 2014 is from 1 January 2019 to 31 December 2019 (the nominal dividend yield of the first dividend period was 6%, and was adjusted to 5.55% for the second dividend period since 8 December 2019), the divided period of preference shares issued in 2015 is from 1 January 2019 to 31 December 2019 (the annual dividend rate is 5.4%), the divided period of preference shares issued in 2019 is from 10 April 2019 to 31 December 2019 (the annual dividend rate is 4.9%), the dividends payable of preference shares are RMB 2,549 million in total.

As at 31 December 2020, the above-mentioned dividend distribution has been completed.

30.3 Surplus reserve appropriated by subsidiaries

As at 31 December 2020, the balance of the Group's retained earnings include surplus reserve appropriated by subsidiaries amounting to RMB 2,487 million (31 December 2019: RMB 1,917 million).

(Expressed in millions of Renminbi, unless otherwise stated)

31. Net interest income

	The Group		*The Bank*	
	2020	*2019*	*2020*	*2019*
Interest income				
Balances with Central Bank	5,731	6,209	5,731	6,209
Deposits with banks and other financial institutions	1,659	2,209	1,568	2,060
Placements with banks and other financial institutions	6,849	4,792	7,073	5,145
Financial assets purchased under resale agreements	2,712	2,676	2,642	2,651
Loans and advances to customers	198,197	172,454	191,119	166,758
Including: Corporate	90,510	83,952	90,664	84,114
Personal	101,714	81,831	94,482	75,973
Discounted bills	5,973	6,671	5,973	6,671
Bonds and other investment	82,999	94,976	80,299	92,314
Finance lease receivables	5,159	5,291	-	-
Others	172	371	15	115
Subtotal	303,478	288,978	288,447	275,252
Interest expense:				
Borrowing from Central Bank	(5,485)	(7,215)	(5,485)	(7,215)
Deposits from banks and other financial institutions	(30,631)	(34,548)	(30,831)	(34,662)
Placements from banks and other financial institutions	(4,463)	(6,289)	(1,357)	(2,630)
Financial assets sold under repurchase agreements	(2,843)	(3,888)	(2,528)	(3,615)
Deposits from customers	(88,617)	(86,691)	(88,645)	(86,710)
Debt securities issued	(27,757)	(27,812)	(26,494)	(26,792)
Others	(167)	(246)	(50)	(83)
Subtotal	(159,963)	(166,689)	(155,390)	(161,707)
Net interest income	143,515	122,289	133,057	113,545

32. Net fee and commission income

	The Group		*The Bank*	
	2020	*2019*	*2020*	*2019*
Fee and commission income				
Bank card fee	11,678	10,873	11,678	10,872
Consultancy and advisory fee	13,369	9,104	12,049	8,133
Agency fee	4,948	3,269	4,897	3,074
Custodian fee	2,969	2,875	2,969	2,875
Settlement and clearing fee	1,730	1,395	1,730	1,396
Credit commitment fee	1,612	1,591	1,612	1,591
Transactional service fee	1,326	1,005	1,326	1,005
Trust service fee	1,914	2,469	-	-
Lease service fee	701	841	-	-
Others	2,230	911	1,696	881
Subtotal	42,477	34,333	37,957	29,827
Fee and commission expense	(4,767)	(3,955)	(5,642)	(3,767)
Net fee and commission income	37,710	30,378	32,315	26,060

(Expressed in millions of Renminbi, unless otherwise stated)

33. Investment income

	The Group		The Bank	
	2020	2019	2020	2019
Trading assets	20,254	19,920	20,049	21,103
Other debt investments	4,440	4,554	4,440	4,553
Trading liabilities	1,174	(571)	1,174	(571)
Debt investments	716	393	688	250
Gains from long-term equity investments under the equity method	154	205	210	184
Other equity investments	12	9	12	9
Dividends declared by subsidiaries	-	-	90	267
Precious metal	(832)	430	(832)	430
Derivative financial instruments	(871)	(529)	(821)	(538)
Others	1,107	581	1,070	579
Total	26,154	24,992	26,080	26,266

34. Losses(gains) from changes in fair values

	The Group		The Bank	
	2020	2019	2020	2019
Precious metals	118	(84)	119	(84)
Trading liabilities	(7)	(16)	42	(16)
Derivative financial instruments and others	(1,449)	377	(1,476)	377
Trading assets	(4,929)	1,345	(5,098)	1,157
Total	(6,267)	1,622	(6,413)	1,434

35. Taxes and surcharges

	The Group		The Bank	
	2020	2019	2020	2019
City maintenance and construction tax	1,008	845	931	790
Education surcharge	693	568	640	529
Others	385	343	345	316
Total	2,086	1,756	1,916	1,635

36. General and administrative expenses

	The Group		The Bank	
	2020	2019	2020	2019
Employee benefits	29,071	28,008	26,094	25,844
Lease expenses	3,134	3,107	2,972	2,932
Depreciation and amortization	2,433	2,199	2,330	2,110
Others	13,624	13,243	12,960	12,116
Total	48,262	46,557	44,356	43,002

(Expressed in millions of Renminbi, unless otherwise stated)

37. Credit impairment losses

	The Group		The Bank	
	2020	2019	2020	2019
Loans and advances to customers	49,220	46,692	46,838	44,949
Debt investments	19,886	4,633	19,094	3,980
Other debt investments	2,483	817	2,418	783
Finance lease receivables	56	626	-	-
Credit loss of off-balance sheet assets	(840)	1,277	(840)	1,277
Others	4,496	4,043	4,377	4,003
Total	75,301	58,088	71,887	54,992

38. Income tax expenses

	The Group		The Bank	
	2020	2019	2020	2019
Current income tax	15,036	14,115	12,506	12,369
Deferred income tax	(6,064)	(6,325)	(5,799)	(6,109)
Adjustment for prior years	(16)	11	(12)	5
Total	8,956	7,801	6,695	6,265

The tax charges can be reconciled to the profit as follows:

	The Group		The Bank	
	2020	2019	2020	2019
Accounting profit	76,637	74,503	67,551	68,564
Tax calculated at applicable statutory tax rate of 25%	19,159	18,626	16,888	17,141
Adjustments on income tax:				
Income not taxable for tax purpose	(12,661)	(12,324)	(12,561)	(12,286)
Expenses not deductible for tax purpose	2,474	1,488	2,380	1,405
Adjustment for prior years	(16)	11	(12)	5
Total	8,956	7,801	6,695	6,265

(Expressed in millions of Renminbi, unless otherwise stated)

39. Other comprehensive income

The Group

	31 December 2019	*Year ended 31 December 2020* Amount incurred before income tax	Other comprehensive income transferred to profit and loss	Income tax expense	Attributable to shareholders of the Bank after tax	Non-controlling interests after tax	*31 December 2020*
Other comprehensive income that will not be subsequently classified to profit and loss							
Including: Actuarial profits/losses on defined benefit plans	997	391	-	-	391	-	1,388
Fair value changes of other equity investments	(122)	(122)	-	30	(92)	-	(214)
Subtotal	875	269	-	30	299	-	1,174
Other comprehensive income that may be subsequently classified to profit and loss							
Including: Fair value changes of other debt investments (Note 1)	301	(6,092)	(1,563)	1,913	(5,722)	(20)	(5,421)
Credit losses on other debt investments (Note 2)	2,025	2,955	(985)	(492)	1,464	14	3,489
Translation differences of financial statements denominated in foreign currencies	31	(22)	-	-	(22)	-	9
Subtotal	2,357	(3,159)	(2,548)	1,421	(4,280)	(6)	(1,923)
Total	3,232	(2,890)	(2,548)	1,451	(3,981)	(6)	(749)

(Expressed in millions of Renminbi, unless otherwise stated)

The Bank

		Year ended 31 December 2020			
	31 December 2019	*Amount incurred before income tax*	*Other comprehensive income transferred to profit and loss*	*Income tax expense*	*31 December 2020*
Other comprehensive income that will not be subsequently classified to profit and loss					
Including: Actuarial profits/losses on defined benefit plans	997	391	-	-	1,388
Fair value changes of other equity investments	(122)	(122)	-	30	(214)
Subtotal	875	269	-	30	1,174
Other comprehensive income that may be subsequently classified to profit and loss					
Including: Fair value changes of other debt investments (Note 1)	378	(5,993)	(1,565)	1,890	(5,290)
Credit losses on other debt investments (Note 2)	1,939	2,861	(960)	(475)	3,365
Subtotal	2,317	(3,132)	(2,525)	1,415	(1,925)
Total	3,192	(2,863)	(2,525)	1,445	(751)

Note 1: Fair value changes of other debt investments include changes in fair value of issued loans and advances measured at fair value through other comprehensive income.

Note 2: Provision for credit impairments of other debt investments include provision for impairments of issued loans and advances measured at fair value through other comprehensive income.

(Expressed in millions of Renminbi, unless otherwise stated)

40. Earnings per share

The Group

	2020	*2019*
Current net profit attributable to ordinary shareholders of the Bank (RMB million)	64,077	64,386
Weighted average ordinary shares issued by the Bank (shares in million)	20,774	20,774
Basic and diluted earnings per share (RMB)	3.08	3.10

When calculating the earnings per share, the current net profit attributed to ordinary shareholders did not include preference shares dividends announced of insurance during the year ended 31 December 2020 and 31 December 2019. The conversion characteristic of preference shares enables the existence or ownership of ordinary shares to be issued. As at 31 December 2020 and 31 December 2019, there was no trigger event for the conversion of shares, and the conversion characteristics of preference shares had no impact on the calculation of the basic and diluted earnings per share for the above period.

(Expressed in millions of Renminbi, unless otherwise stated)

41. Supplementary information to the cash flow statement

41.1 Reconciliation of net profit to cash flows from operating activities

	The Group		The Bank	
	2020	2019	2020	2019
1. Reconciliation of net profit to cash flows from operating activities				
Net profit	67,681	66,702	60,856	62,299
Add: Allowance for impairment losses on assets	75,426	58,096	71,981	55,000
Depreciation of fixed assets	1,967	1,710	1,666	1,407
Amortization of intangible assets	148	124	131	112
Amortization of long-term deferred expenses	560	620	533	591
Gains from disposal of fixed assets, intangible assets and other long-term assets	(7)	(36)	(7)	(36)
Interest income of bonds and other investments	(82,999)	(94,976)	(80,299)	(92,314)
Interest income of impaired financial assets	(1,289)	(1,162)	(1,289)	(1,162)
Losses(gains) from changes in fair value	6,267	(1,622)	6,413	(1,434)
Investment income	(26,154)	(24,992)	(26,080)	(26,266)
Interest expense for debt securities issued	27,757	27,812	26,494	26,792
Increase in deferred tax assets	(4,814)	(7,060)	(4,443)	(6,706)
Increase (decrease) in deferred tax liabilities	174	(61)	79	(59)
Increase in receivables of operating activities	(671,038)	(783,178)	(668,632)	(759,854)
Increase in payables of operating activities	572,093	170,014	546,806	178,633
Net cash flow from operating activities	(34,228)	(588,009)	(65,791)	(562,997)
2. Net changes in cash and cash equivalents				
Closing balance of cash and cash equivalents	956,795	731,730	933,105	775,679
Less: opening balance of cash and cash equivalents	731,730	549,177	775,679	543,622
Net increase of cash and cash equivalents	225,065	182,553	157,426	232,057

(Expressed in millions of Renminbi, unless otherwise stated)

41.2 Composition of cash and cash equivalents

Cash and cash equivalents stated in consolidated cash flow statement and cash flow statement comprise:

	The Group		*The Bank*	
	2020	*2019*	*2020*	*2019*
Cash on hand	4,956	4,848	4,956	4,843
Balances with Central Bank that can be withdrawn on demand	55,289	89,863	55,285	89,859
Original maturity less than three months:				
Deposits with banks and other financial institutions	79,864	82,306	67,649	77,403
Placements with banks and other financial institutions	60,504	85,391	59,004	85,754
Financial assets purchased under resale agreements	120,668	42,494	115,528	38,629
Bonds investment	635,514	426,828	630,683	479,191
Closing balance of cash and cash equivalents	956,795	731,730	933,105	775,679

42. Post-employment compensation

42.1 Defined contribution plans

The Group participates in the endowment insurance, unemployment insurance plans established by the government and the annuity plan established by the Group. According to these plans, the employees' salaries are paid to the plans proportionally each month. Except the expenses above, the Group undertakes no further payment duties. Certain expenses are charged in profit or loss of the period.

Expense recognized in profit or loss for the period:

	The Group		*The Bank*	
	2020	*2019*	*2020*	*2019*
Defined contribution plans	1,955	2,555	1,800	2,409

Amount of payable at the period-end:

	The Group		*The Bank*	
	2020	*2019*	*2020*	*2019*
Defined contribution plans	84	129	47	70

42.2 Defined benefit plans

The Group offers complementary retiring benefit plans to employees who start their service before 31 December 2007 and core personnel of grade 13 or above who join the Group after 31 December 2007 and are not due to retire for 10 or more years. The Group estimates the present value by actuary means based on expected cumulative benefits unit method. The project estimates the future cash outflow based on rate of inflation and rate of death, and recognizes its present value by discount rate. Discount rate is measured by the corresponding yield of the treasury bond which matches the period of defined benefit plans and currency on balance sheet date. The Group recognizes assets of this plan based on actuary results, related actuarial gains or losses recognized into other comprehensive income. Past service costs will be charged in profit or loss in the period of revising the plans. The interest net value is recognized by the defined benefit plans net liabilities or assets multiplying by appropriate discount rate.

The profit or loss charged by related influence from defined benefit plans is RMB 37 million. Actuary gains charging to other comprehensive income are RMB 391 million. Net assets of defined benefit plans are decreased by RMB 354 million for the period, and the balance at the end of the period is RMB 1,763 million, which is the net value of present value of defined benefit plans duties and fair value of defined benefit plans assets, and should be charged to other assets (Note VII.14).

As at 31 December 2020, the Group's defined benefit plans' average benefit obligation period was about 6 to 8 years (31 December 2019: about 6 to 8 years).

Defined benefit plan makes the Group face the actuarial risks that include interest rate risk and longevity risk. The decrease of the yield of government bond will lead to an increase in the present value of defined benefit plan obligations. The present value of defined benefit plan obligations is calculated based on the best estimate of the mortality rate of the employees participating in the scheme, and the increase in life expectancy will lead to an increase in plan liabilities.

Discount rate and mortality rate are the key actuarial factors in determining the present value of the defined benefit plan obligations. The discount rate is 3.25% as at 31 December 2020 (31 December 2019: 3.00%). Mortality assumptions are based on Male Pension Service Form and Female Pension Service Form of China Experience Life Table of Life Insurance (2010-2013) released by Chinese Insurance Regulatory Commission. The male workers retired at the age of 60 and female workers retired at the age of 55 are expected to have an average residual life of 25.34 years and 34.03 years respectively.

The following sensitivity analysis is based on the corresponding hypothesis with reasonable possible changes occurred at the end of the reporting period (assuming all other assumptions remain unchanged):

If the discount rate increases (decreases) by 25 basis points, then the present value of defined benefit plan obligations will be decreased by RMB 45 million (increased by RMB 46 million).

As part of hypothesis may have correlation and a hypothesis cannot be changed in an isolate way, the sensitivity analysis may not reflect the actual changes in the fair value of the defined benefit plan obligations.

In the aforesaid sensitivity analysis, the calculation method in determining the defined benefit plan obligations is the same as the recognition of the relevant liabilities in the balance sheet at the end of the reporting period.

Compared with the previous year, the method for sensitivity analysis and the hypothesis didn't change.

43. Structured entities

Consolidated structured entities

The consolidated structured entities of the Group are fund products, asset-backed securities, trust plans and asset management plans. As the manager/initiator of the fund products, asset-backed securities, trust plans and asset management plans, the Group considers whether it has control over the structured entities, and determine whether the consolidation is necessary based on the scope of asset manager's decision, power of trust holder, reward from management service offering and the risk exposure of variable profit. In 2020, the Group didn't offer financial support to the consolidated structured entities (2019: Nil).

Unconsolidated structured entities

43.1 Structured entities sponsored by third party institutions in which the Group holds an interest

The Group holds an interest in some structured entities sponsored by third party institutions through investments in the notes issued by these structured entities. Such structured entities include funds, trust plans, asset management plans, asset-backed financings and wealth management products and the Group does not consolidate these structured entities. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors including the Group and are financed through the issue of investment products to investors. The Group earns interest income and investment income mainly through holding these structured entities equities. The Group does not consolidate these structured entities because the Group does not control them.

(Expressed in millions of Renminbi, unless otherwise stated)

The following table sets out an analysis of the carrying amounts and the maximum risk exposure of interests held by the Group as at 31 December 2020 and 31 December 2019 in the structured entities sponsored by third party institutions:

The Group

	2020					
	Trading assets	*Debt investments*	*Other debt investments*	*Carrying amount*	*Maximum risk exposure (note)*	*Type of income*
Funds	529,381	-	-	529,381	529,381	Investment income
Trust plans	9,082	318,692	1,628	329,402	329,402	Investment income, interest income
Asset management plans	50,657	158,600	1,425	210,682	210,682	Investment income, interest income
Asset-backed securities	6,306	24,663	82,913	113,882	113,882	Investment income, interest income
Wealth management products	350	-	-	350	350	Investment income
Total	595,776	501,955	85,966	1,183,697	1,183,697	

	2019					
	Trading assets	*Debt investments*	*Other debt investments*	*Carrying amount*	*Maximum risk exposure (note)*	*Type of income*
Funds	403,969	-	-	403,969	403,969	Investment income
Trust plans	3,899	330,386	1,746	336,031	336,031	Investment income, interest income
Asset management plans	32,994	87,619	1,784	122,397	122,397	Investment income, interest income
Asset-backed securities	7,235	16,245	93,862	117,342	117,342	Investment income, interest income
Wealth management products	2,127	-	-	2,127	2,127	Investment income
Total	450,224	434,250	97,392	981,866	981,866	

Note: Maximum loss exposure to funds, trust plans, asset management plans, asset-backed securities and wealth management products is the amortised cost or fair value at the reporting date as recognized in the balance sheet.

(Expressed in millions of Renminbi, unless otherwise stated)

43.2 Structured entities sponsored by the Group which the Group did not consolidate but held an interest

The Group acted as sponsors of structured entities that provide specialised investment opportunities to investors. These structured entities generally finance the purchase of assets by issuing units of the products. The Group did not control these structured entities and therefore, these structured entities were not consolidated. As at 31 December 2020, those structured entities sponsored by the Group consist primarily of wealth management products, trust plans, funds, asset management plans and asset-backed securities with principals not guaranteed by the Group. The Group earns commission income by providing management services to the investors of these structured entities.

As at 31 December 2020 and 31 December 2019, unconsolidated structured entities sponsored by the Group are set out as below:

The Group

	2020	*2019*
Wealth management products	1,447,569	1,311,051
Trust plans	306,340	477,028
Funds	227,115	194,736
Asset management plans	95,062	148,868
Asset-backed securities	57,774	70,612
Total	2,133,860	2,202,295

As at 31 December 2020, the commission income earned from offering management service to the investors of these structured entities by the Group is RMB12,545 million (As at 31 December 2019: RMB9,409 million).

43.3 Unconsolidated structured entities sponsored by the Group during the year in which the Group does not have an interest at 31 December 2020

Unconsolidated structured entities sponsored after 1 January 2020 but matured before 31 December 2020 by the Group in which the Group does not have an interest at were mainly the non-principal-guaranteed wealth management products. As at 31 December 2020, the amount of fee and commission income received from such category of non-principal-guaranteed wealth management products by the Group was RMB406 million (As at 31 December 2019: RMB691 million).

The aggregated amount of the non-principal-guaranteed wealth management products sponsored and issued by the Group after 1 January 2020 but matured before 31 December 2020 was RMB155,012 million (The aggregated amount of the non-principal-guaranteed wealth management products sponsored and issued by the Group after 1 January 2019 but matured before 31 December 2019 was RMB208,686 million).

VIII. Segment reporting

Senior management of the Group evaluates the operations of the Group in accordance with their economic areas of the respective branches and subsidiaries. Each branch serves its local customers and few customers in other regions. The Group does not deeply depend on one single external customer. Through the review of internal reports, the management of the Group conducts performance evaluation and determines the allocation of resources. Segment reporting is presented in a manner consistent with the Group's internal management and reports.

Segment accounting policies are consistent with the accounting policies of the consolidated financial statements. Inter-segment transfer transactions are measured at the actual transaction prices.

The Group includes the head office (including the head office and the operating institutions of the head office), Fujian, Beijing, Shanghai, Guangdong, Zhejiang, Jiangsu, northeast and other regions, western region, central region, a total of ten segments, of which branches within the northeast and other regions, western region, central region are presented in a consolidated manner.

Among them, the northeast and other regions includes: Harbin branch, Changchun branch, Shenyang branch, Dalian branch, Tianjin branch, Jinan branch, Qingdao branch, Haikou branch, Hong Kong branch and Industrial Bank Financial Leasing Co., Ltd.;

Western region includes: Chengdu branch, Chongqing branch, Guiyang branch, Xi'an branch, Kunming branch, Nanning branch, Urumqi branch, Lanzhou branch, Yinchuan branch, Xining branch and Lasa branch;

Central region includes: Hohhot branch, Shijiazhuang branch, Zhengzhou branch, Taiyuan branch, Hefei branch, Changsha branch, Wuhan branch and Nanchang branch.

(Expressed in millions of Renminbi, unless otherwise stated)

The Group

	2020											
	Head office	*Fujian*	*Beijing*	*Shanghai*	*Guangdong*	*Zhejiang*	*Jiangsu*	*Northeast and other regions*	*Western region*	*Central region*	*Eliminations*	*Total*
Operating income	86,810	24,475	6,561	5,493	11,814	7,817	11,466	16,807	13,944	17,950	-	203,137
Net interest income	44,777	17,048	5,793	4,576	10,935	7,896	10,523	14,447	12,099	15,421	-	143,515
Including: Net inter-segment interest income	(50,726)	5,047	12,400	8,556	9,078	(534)	860	5,066	4,315	5,938	-	-
Net fee and commission income	24,835	4,762	720	776	746	(173)	788	1,783	1,492	1,981	-	37,710
Other income	17,198	2,665	48	141	133	94	155	577	353	548	-	21,912
Operating expenses	(62,135)	(13,535)	(5,224)	(1,621)	(3,966)	(4,181)	(3,699)	(15,262)	(7,373)	(9,594)	-	(126,590)
Operating profit	24,675	10,940	1,337	3,872	7,848	3,636	7,767	1,545	6,571	8,356	-	76,547
Add: Non-operating income	76	88	4	13	26	18	8	24	15	23	-	295
Less: Non-operating expenses	(62)	(28)	(24)	(9)	(28)	(10)	(8)	(12)	(17)	(7)	-	(205)
Total profit	24,689	11,000	1,317	3,876	7,846	3,644	7,767	1,557	6,569	8,372	-	76,637
Less：Income tax expenses												(8,956)
Net profit												67,681
Segment assets	4,008,433	676,075	662,730	473,182	800,186	358,129	464,891	876,124	603,146	747,166	(1,821,575)	7,848,487
Including: Investment in an associate												3,549
Undistributed assets												45,513
Total assets												7,894,000
Segment liabilities	3,540,677	626,039	660,546	467,383	792,306	354,430	456,860	856,987	596,766	738,704	(1,821,575)	7,269,123
Undistributed liabilities												74
Total liabilities												7,269,197
Supplemental information												
Credit commitments	444,176	74,318	19,363	38,775	127,444	78,953	131,018	241,753	158,872	236,008	-	1,550,680
Depreciation and amortization	604	288	91	206	155	98	152	309	230	300	-	2,433
Capital expenditures	712	318	44	102	139	161	220	1,369	387	303	-	3,755

(Expressed in millions of Renminbi, unless otherwise stated)

	2019											
	Head office	*Fujian*	*Beijing*	*Shanghai*	*Guangdong*	*Zhejiang*	*Jiangsu*	*Northeast and other regions*	*Western region*	*Central region*	*Eliminations*	*Total*
Operating income	72,294	20,874	7,408	5,209	11,998	6,833	11,135	16,082	14,229	15,246	-	181,308
Net interest income	29,298	16,383	6,664	4,482	11,077	6,389	10,250	12,005	12,663	13,078	-	122,289
Including: Net inter-segment interest income	(64,404)	6,478	13,567	9,789	12,828	1,451	2,505	5,282	5,755	6,749	-	-
Net fee and commission income	17,408	4,266	663	647	717	360	675	2,511	1,307	1,824	-	30,378
Other income	25,588	225	81	80	204	84	210	1,566	259	344	-	28,641
Operating expenses	(40,129)	(13,033)	(2,358)	(3,676)	(5,423)	(2,683)	(3,529)	(21,723)	(6,554)	(7,934)	-	(107,042)
Operating profit	32,165	7,841	5,050	1,533	6,575	4,150	7,606	(5,641)	7,675	7,312	-	74,266
Add：Non-operating income	85	126	3	6	45	34	12	10	17	30	-	368
Less：Non-operating expenses	(19)	(24)	(8)	-	(17)	(5)	(6)	(32)	(7)	(13)	-	(131)
Total profit	32,231	7,943	5,045	1,539	6,603	4,179	7,612	(5,663)	7,685	7,329	-	74,503
Less：Income tax expenses												(7,801)
Net profit												66,702
Segment assets	3,758,609	584,804	576,641	435,959	742,110	305,298	423,548	826,411	598,404	762,898	(1,909,800)	7,104,882
Including: Investment in an associate												3,413
Undistributed assets												40,799
Total assets												7,145,681
Segment liabilities	3,331,015	559,210	577,274	431,364	735,430	300,988	415,581	808,977	590,718	755,272	(1,909,800)	6,596,029
Undistributed liabilities												-
Total liabilities												6,596,029
Supplemental information												
Credit commitments	355,436	63,821	20,964	62,984	100,214	74,462	111,846	232,049	153,244	228,867	-	1,403,887
Depreciation and amortization	475	269	96	85	141	94	153	315	249	322	-	2,199
Capital expenditures	1,089	370	78	128	228	120	167	1,549	882	1,273	-	5,884

IX. Related party relationship and transactions

1. Related Party Relationship

The Group

Related parties with no controlling interest

1.1 Shareholders holding more than 5% (inclusive) of the Bank's shares

Name	*Economic nature*	*Place of registration*	*Registered capital* RMB hundred million	*Principal activities*	*Legal representative*
The Finance Bureau of Fujian Province	Legal entity of government agencies	Fuzhou	-	Administration of Fujian provincial fiscal and tax policy	Yu Jun
People's Insurance Company of China (1)	Incorporated Company	Beijing	222.43	Insurance services	Liao Jianmin
China Life Insurance Company (1)	Incorporated Company	Beijing	257.61	Insurance services	Xiao Jianyou
China National Tobacco Corporation (1)	Owned by the whole people	Beijing	570.00	Production, and sales of tobacco products	Zhang Jianmin
Haisheng Investment Management Company of Fujian Tobacco (1)	Limited Company	Xiamen	26.47	Investment management	Lu Xiaodong
China Tobacco Hunan Investment Management Company (1)	Limited Company	Changsha	2.00	Investment management	Deng Yongzhi
The People's Insurance Company (Group) of China Limited (1)	Incorporated Company	Beijing	442.24	Investment management and insurance services	Luo Xi
China National Tobacco Fujian Corporation (1)	Owned by the whole people	Fuzhou	1.37	Sales of tobacco products	LI Mindeng
China National Tobacco Guangdong Corporation (1)	Owned by the whole people	Guanghzou	1.40	Production, and sales of tobacco products	Wang Deyuan
Fujian Sanhua Color Printing Co., Ltd(1)	Limited Company	Longyan	0.12	Trademark, advertisement and other printed matter production	Lu Dongfen

(Expressed in millions of Renminbi, unless otherwise stated)

Number of shares held by Shareholders holding more than 5% (inclusive) of the Bank's shares:

Name	*2020*		*2019*	
	Shares Million shares	*Proportion* (%)	*Shares* Million shares	*Proportion* (%)
The Finance Bureau of Fujian Province	3,902	18.78	3,902	18.78
China Life Insurance Company [(1)]	1,276	6.14	1,276	6.14
People's Insurance Company of China [(1)]	1,229	5.91	1,229	5.91
China National Tobacco Corporation [(1)]	1,110	5.34	1,110	5.34
Haisheng Investment Management Company of Fujian Tobacco [(1)]	441	2.13	441	2.13
China Tobacco Hunan Investment Management Company [(1)]	226	1.09	226	1.09
The People's Insurance Company (Group) of China Limited [(1)]	174	0.84	174	0.84
China National Tobacco Fujian Corporation [(1)]	132	0.64	132	0.64
China National Tobacco Guangdong Corporation [(1)]	99	0.48	99	0.48
Fujian Sanhua Color Printing Co., Ltd[(1)]	46	0.22	-	-
Total	8,635	41.57	8,589	41.35

Note: (1) Relationship between related parties: People's Insurance Company of China and China Life Insurance Company are both subsidiaries of The People's Insurance Company (Group) of China Limited. The aggregate proportion is 12.89%. Haisheng Investment Management Company of Fujian Tobacco, China Tobacco Hunan Investment Management Company, China National Tobacco Fujian Corporation, China National Tobacco Guangdong Corporation and Fujian Sanhua Color Printing Co., Ltd are subsidiaries of China National Tobacco Corporation. The aggregate proportion is 9.90%.

1.2 Associates

Details of general information and related information of associates are set out in Note VII.9.

1.3 Other related parties

Other related parties include key management personnel (director, supervisor, senior management of head office) and their close families, as well as other enterprises over which the key management personnel or their close families have control, common control or significant influence.

2. Related party transactions

The conditions and prices of related party transactions between the Group and the Bank are determined according to the Group's contract, and are examined and approved in accordance with the transaction type and content of transaction by corresponding decision-making authority.

(Expressed in millions of Renminbi, unless otherwise stated)

2.1 Interest income

Related party	*2020*	*2019*
Associates	274	103
Fujian Yango Holdings Group and its related parties	201	178
Longyan Huijin Development Group Co., Ltd. and its related parties	42	1
China Tobacco and its related parties	19	-
Zhejiang Energy Group Co., Ltd. and its related parties	6	7
Other related parties	12	33
Total	554	322

2.2 Interest expense

Related party	*2020*	*2019*
China Tobacco and its related parties	1,130	553
The People's Insurance Company (Group) of China Limited and its related parties	870	960
Zhejiang Energy Group Co., Ltd. and its related parties	21	4
The Finance Bureau of Fujian Province and its subsidiaries	20	223
Fujian Yango Holdings Group and its related parties	15	8
Associates	2	13
Longyan Huijin Development Group Co., Ltd. and its related parties	1	4
Others	-	23
Total	2,059	1,788

(Expressed in millions of Renminbi, unless otherwise stated)

2.3 Investment income

Related party	*2020*	*2019*
Longyan Huijin Development Group Co., Ltd. and its related parties	168	-
Associates	-	35
The People's Insurance Company (Group) of China Limited and its related parties	-	13
Total	168	48

2.4 Fee and commission income

Related party	*2020*	*2019*
The People's Insurance Company (Group) of China Limited and its related parties	59	18
Fujian Yango Holdings Group and its related parties	24	23
Zhejiang Energy Group Co., Ltd. and its related parties	10	-
The Finance Bureau of Fujian Province and its subsidiaries	2	1
Others	17	22
Total	112	64

2.5 Fees and commission expense

Related party	*2020*	*2019*
The People's Insurance Company (Group) of China Limited and its related parties	5	6
Longyan Huijin Development Group Co., Ltd. and its related parties	2	-
Others	1	-
Total	8	6

(Expressed in millions of Renminbi, unless otherwise stated)

2.6 General and administrative expenses-insurance

Related party	*2020*	*2019*
The People's Insurance Company (Group) of China Limited and its related parties	377	450

In 2020, the Bank was paid RMB1 million in compensation from People's Insurance Company of China (2019: RMB10 million).

2.7 General and administrative expenses-rental expense

Related party	*2020*	*2019*
China Tobacco and its related parties	21	29

2.8 General and administrative expenses-others

Related party	2020年	2019年
Other	20	-

3. Unsettled amount of related party transactions

3.1 Deposits with banks and other financial institutions

Related party	*2020*	*2019*
Associates	14	643
Fujian Yango Holdings Group and its related parties	-	500
Total	14	1,143

3.2 Placements with banks and other financial institutions

Related party	*2020*	*2019*
Associates	2,949	2,198

(Expressed in millions of Renminbi, unless otherwise stated)

3.3 Derivative financial instruments

		2020		*2019*	
Related party	*Transaction type*	*Notional amount*	*Assets/ Liabilities*	*Notional amount*	*Assets/ Liabilities*
Others	Interest Rate Derivative	-	-	20	-

3.4 Loans and advances to customers

Related party	*2020*	*2019*
Fujian Yango Holdings Group and its related parties	6,592	7,284
Associates	2,543	-
Longyan Huijin Development Group Co., Ltd. and its related parties	867	116
Zhejiang Energy Group Co., Ltd. and its related parties	522	100
China Tobacco and its related parties	197	-
Others	9	651
Total	10,730	8,151

3.5 Other debt investments

Related party	*2020*	*2019*
Longyan Huijin Development Group Co., Ltd. and its related parties	100	-

(Expressed in millions of Renminbi, unless otherwise stated)

3.6 Debt investments

Related party	*2020*	*2019*
Associates	7,009	6,219
Fujian Yango Holdings Group and its related parties	1,215	4,675
Total	8,224	10,894

3.7 Deposits from banks and other financial institution

Related party	*2020*	*2019*
Zhejiang Energy Group Co., Ltd. and its related parties	3,000	-
Associates	851	479
Fujian Yango Holdings Group and its related parties	367	397
China Tobacco and its related parties	54	-
The People's Insurance Company (Group) of China Limited and its related parties	38	-
Others	-	770
Total	4,310	1,646

3.8 Deposits from customers

Related party	*2020*	*2019*
China Tobacco and its related parties	82,535	33,961
The People's Insurance Company (Group) of China Limited and its related parties	24,063	21,694
Fujian Yango Holdings Group and its related parties	6,138	1,289
The Finance Bureau of Fujian Province and its subsidiaries	1,955	7,811
Associates	1,267	479
Longyan Huijin Development Group Co., Ltd. and its related parties	512	378
Zhejiang Energy Group Co., Ltd. and its related parties	36	1
Others	409	740
Total	116,915	66,353

(Expressed in millions of Renminbi, unless otherwise stated)

3.9 Credit line

Related party	*2020*	*2019*
The People's Insurance Company (Group) of China Limited and its related parties	54,000	54,000
Fujian Yango Holdings Group and its related parties	22,000	22,000
China Tobacco and its related parties	15,000	15,000
Zhejiang Energy Group Co., Ltd. and its related parties	8,100	8,000
Longyan Huijin Development Group Co., Ltd. and its related parties	4,000	1,000
Total[(i)]	103,100	100,000

Note (i): Based on the principle of materiality, the above table only disclosed the credit lines of material related party annouced by the Group.

3.10 Off-balance sheet items

Bank acceptances

Related party	*2020*	*2019*
The People's Insurance Company (Group) of China Limited and its related parties	294	294
Fujian Yango Holdings Group and its related parties	1,641	897
China Tobacco and its related parties	68	46
Zhejiang Energy Group Co., Ltd. and its related parties	113	195
Longyan Huijin Development Group Co., Ltd. and its related parties	30	29
Associates	1,237	-
Total	3,383	1,461

Letters of guarantee

Related party	*2020*	*2019*
The People's Insurance Company (Group) of China Limited and its related parties	470	482
Fujian Yango Holdings Group and its related parties	304	216
China Tobacco and its related parties	54	-
Total	828	698

(Expressed in millions of Renminbi, unless otherwise stated)

Letters of credit

Related party	*2020*	*2019*
Associates	560	-
Total	560	-

4. Key management personnel remuneration

	2020	*2019*
Salary and welfare	14	15

X. Contingencies and commitments

1. Pending litigations

As of the balance sheet date, the Group's management considers that there is no pending litigation which has a significant impact on the financial statements that needs to be disclosed.

2. Off-balance sheet items

Contractual amount

	The Group and the Bank	
	2020	*2019*
Credit card commitments	444,176	355,436
Letters of credit	148,465	148,059
Letters of guarantee	108,561	120,318
Bank acceptances	822,341	761,032
Irrevocable loan commitments	27,137	19,042
Total	1,550,680	1,403,887

(Expressed in millions of Renminbi, unless otherwise stated)

3. Capital commitments

	Contractual amount of the Group		Contractual amount of the Bank	
	2020	2019	2020	2019
Authorized but not contracted for	156	85	155	85
Contracted but not paid for	406	751	388	730
	562	836	543	815

4. Operating lease commitments

As a tenant, according to the non-cancellable lease contracts, the required minimum lease payments by the Group and the Bank are as follows:

	The Group		The Bank	
	2020	2019	2020	2019
Within one year	1,572	2,246	1,328	2,173
One to five years	4,708	4,180	4,589	4,102
Over five years	4,801	962	4,767	961
Total	11,081	7,388	10,684	7,236

5. Collateral

Assets pledged

5.1 The carrying amount of assets pledged as collateral under repurchase agreements is as follows:

	The Group		The Bank	
	2020	2019	2020	2019
Bonds	85,015	148,041	73,080	138,681
Bills	41,035	49,089	41,035	49,089
Total	126,050	197,130	114,115	187,770

As at 31 December 2020, included in Group's and the Bank's bills purchased under resale agreement, there was no bill used for carrying out business of sale under repurchase agreement (31 December 2019: Nil) .

5.2 As at 31 December 2020, the Group and the Bank have no pledged bonds to credit derivative transaction (31 December 2019: RMB518 million) .

Collateral accepted

In the resale agreement, the Group can sell pledged assets or transfer them in other transactions when the counterparty is not in breach of the contract. As at 31 December 2020, the fair value of pledged assets available for sale or convertible is RMB1,976 million (31 December 2019: RMB2,456 million).

(Expressed in millions of Renminbi, unless otherwise stated)

6. Redemption commitment of certificate treasury bonds and saving treasury bonds

The Group entrusted by the MOF as its agent issues certificate treasury bonds and saving treasury bonds. Holders of certificate treasury bonds and saving treasury bonds can require advance redemption, and the Group has the obligation to execute the redemption responsibility. Redemption amount for the certificate treasury bonds and saving treasury bonds includes principal and interest payable till redemption date.

As of 31 December 2020 and 31 December 2019, the cumulative principal balances of the certificate treasury bonds and saving treasury bonds which are issued by the Group under trust prior to maturity and not been paid are as follows:

	The Group and the Bank	
	2020	*2019*
Certificate treasury bonds and saving treasury bonds	2,682	2,849

The Group believes the Group's redemption amount of these certificate treasury bonds and saving treasury bonds is not significant before their maturity.

7. Fiduciary Business

	The Group		*The Bank*	
	2020	2019	2020	2019
Fiduciary loans	223,035	307,446	223,035	307,446
Fiduciary wealth management products	1,447,569	1,311,051	777,775	1,311,051
Fiduciary investments	73	14,524	73	14,524

Fiduciary loans are loans that depositor designated specific third party as the loan party, and related credit risk of the loan is borne by depositors who designated borrowers.

Fiduciary wealth management products refer to a kind of service that the entrusted Group is responsible for the operation and management of customer assets. The investment risk of fiduciary wealth management products is borne by the trustor.

Fiduciary investments refers to a kind of service that the entrusted Group engaged in capital operation, investment management, investment advisory and other investment services based on the principal-agent relationship. The investment risk of fiduciary investment is borne by the trustor.

XI. Financial risk management

1. Overview

The Group is exposed to various types of risks due to its financing businesses including banking business. The Group identifies, assesses and monitors various risks on an on-going basis. The most significant types of risk to which the Group is exposed are credit risk, market risk, liquidity risk and operation risk, country risk, bank account interest rate risk, reputation risk, strategic risk, information technology risk.

The Group's risk management objectives are to achieve a proper balance between risks and benefits and run business safely and prudently under reasonable level of risk.

2. Risk management framework

Risk management is the basic safeguard of survival and development of commercial banks. The Group has taken risk management as one of its core competitiveness, formulated development strategy focus on business operation as well as risk management, established pre-during-post events risk control system with a core of risk asset management, and improved the risk management and operation instructions for various businesses; completed the mechanism of risk responsibilities and punishment, implemented credit business operation responsibilities, established risk fund for credit post personnel, enhanced risk constraints; including credit risk, market risk, liquidity risk, operational risk and other risks into the scope of risk management and continuously improve the risk management mechanism to wholly-owned and holding subsidiaries; Further defined the specific responsibilities of board of directors, board of supervisors, senior management and operation executives in respect of risk management, formed a defined, clear and effective overall risk management system. In daily risk management work, the Group’s business sector, risk management department and internal audit department build up the “three defences”; they perform their respective functions and work together to achieve the objective of risk management. Among them, operation institutions and business sector form the first line of defences to conduct risk management according to the risk management rules and policies. Operation institutions take precautions against all the business and operating risk, while business sector is in charge of making its risk management policy, evaluating the effectiveness of risk management regularly and taking corrective actions if necessary. The risk management department is the second line of defences, which is responsible for the constitution of the Group’s risk management strategy, policy, regulations and process, and supervision of the execution. Meanwhile, the risk management department is responsible for the identification, evaluation and supervision of the risk that the Group faces, assessing the Group’s risk condition periodically, taking measures for continuously improvement, pushing forward the outspread of overall risk management work. The internal audit department is the third line of defences. It is responsible for all process audits, continuously providing independent and prospective audit and supervision with emphasis.

3. Credit risk

Credit risk represents the potential loss that may arise from a customer or counterparty's failure to meet its obligation. Credit risk can also arise from operational failures that result in an unauthorised or inappropriate advance, commitment or investment of funds. The Group's major credit risks come from loans and receivables (enterprises and personal credit loans), treasury operations (including debt investment) and off-balance sheet related credit risk exposures. The Group manages and controls credit risk according to the following processes: customer investigation before granting of credit limits, credit review and approval and post-disbursement loan monitoring and collection.

The Group establish the risk management department, which is responsible for organizing, implementing the credit risk management strategies and policies of the Group, it is also responsible for making basic rules for the Group risk management affairs, in addition, it is also professionally managing, evaluating, guiding the general operation of the Group risk management together with inspecting and supervising the activities mentioned above. As the leading party, the risk management department formulates unified standards, responsible for the credit management on the whole. All the actions taken are to ensure the overall credit risk under control. The Group set up risk management department and professional risk management desk in all the three major lines called enterprise financial line, retail financial line and investment banking and financial markets line. Each of the risk departments is responsible for the credit management in its own line or professional operating department, and it is also responsible for making detailed regulation and operating rules and approving projects within the approving authority. The Group also sets up several specialized committees such as Credit Approval Committee and Credit Accountability Committee. The first one is responsible for the examination and approval of the loans within the authority. The other one is responsible for determining the responsibility of related loans.

The Group has formulated a whole set of credit policies on approval process and management procedure, and implemented throughout the Group. The credit management procedure for corporate and personal loans can be classified as credit investigation, credit examination, credit approval, credit disbursement, and post disbursement monitoring and recovery process. In addition, the Group issued Due Diligence of Credit approval to clarify the duties of different positions, to effectively control the credit risk, and to strengthen compliance of credit business.

In accordance with the discriminative credit policy of "protecting, controlling, and compressing", the Group set up detailed rules for the implementation of credit policy, which has intensified the credit support for the real economy and optimized credit resources allocation. The Group preferentially develops credit businesses for industries which comply with national policy orientation, develop rapidly and have broad market prospects (including infrastructures, people's livelihood, strategic emerging industries and modern agriculture); actively practices green credit principle, preferentially supports green and environment friendly industry with obvious social benefits, mature technology application and commercial operation; supports short-term cycle and people's livelihood consumption industry like medical care, education, tourism and communication.

The Group has established a customer credit rating system which comprehensively and systematically investigated various factors and variation trends that influence customer solvency in future; disclosed and evaluated customers' credit risks and capabilities based on qualitative and quantitative analysis. Credit rating results become an important foundation to draw up credit service polices, adjust and optimize client structure, as well as identify credit service of individual customer. According to new Basel Capital Accord and relevant guides of CBRC, the Group developed and established customer internal rating system and has been continuously optimizing the model and system. Meanwhile, the related results of internal rating has continuously entered into various risk management areas including authorization management, industry access, limit management, economic capital measurement and asset impairment calculation. Since the credit risk weighted assets ("CRWA") measurement system was completed and launched, the Group had the capacity to measure CRWA using internal rating method. As the new capital accords related projects were completed successively, the Group got promoted in capacity of identification, measurement and control of credit risk.

The Group developed risk warning system, applying big data technology to fully integrate both internal and external risk information and analysing as per certain rules so as to form a warning indicator. With customers' potential risks disclosed in time by monitoring the indicator, the active push, tracking, feedback and report generating by level of warning indicator can be achieved and the timeliness and accuracy of risk warning can be improved effectively. The risk warning system realized the online posting of warning information and carried out system hard control over processes including warning adjustment, cancellation etc. and provided basic guarantee for credit management.

The Group accurately identified risks conditions of credit asset, reasonably reflected the income after risk adjustment to guide capital allocation optimization in operation institutions and allocation of credit resources to strengthen risk awareness in operation institutions. Therefore, Credit Asset Risks Classification Implementation Method and Credit Asset Risks Classification Implementation Standards and others have been established to make sure branches adjust credit asset risks classification according to real conditions of projects. Based on 5 levels classified by CBRC, the Group has classified its credit asset risks into 9 levels as level 1(normal), level 2(normal), level 3(normal), level 1(attention), level 2(attention), level 3(attention), sublevel, doubtful and loss. The Group has various management policies to each level.

In 2020, the COVID-19 pandemic has caused a certain impact on China's overall economic operation and affected enterprises' normal operation differently, which has in turn affected the asset quality of the Group's credit assets to a certain extent. Despite the situation caused by the pandemic, the Group provided relief support for customers affected by the epidemic in accordance with government regulations. The Group has also further strengthened risk monitoring, increased the frequency of risk inspections, and performed risk tracking in respect of customers affected by the pandemic. Based on the intelligent risk control platform, the Group enhances the application of big data analysis in its risk management to proactively respond to changes in the external environment, and takes forward-looking risk control measures to effectively resolve hidden risks and prevent the accumulation of non-performing loans.

Risks arising from credit commitments are similar to risks of loans and advances to customers in substance. Therefore, requirements for application, post-loan management and pledge and guarantees are the same with those in loans and advances to customers. According to substanceover-form principle, the Group includes the non-standard credit loans in the comprehensive risk management system and manages them by comparing to traditional loans. The Group provides uniform credit, carries out general control on risks, executes uniform credit policy in nationwide, carries out whole-process responsibilities management by comparing to traditional loans, implements risk classification and provides risk reserves.

ECL measurement

Stage of financial asset risks

The Group adopted a three-stage ECL model for the impairment of financial assets in accordance with the new standard requirements. The model is summarised as follows:

- Financial assets that have not increased significantly since the initial recognition or have a low credit risk at the reporting date are included in stage 1, and the Group continuously monitors its credit risk;

- Financial assets that have a significant increase (excluding the low credit risk of such financial instruments at the reporting date), but without objective impairment evidence are included in stage 2. Criteria of the Group's significant increase in credit risk, see *Significant increase in credit risk*;

- Financial assets with objective evidence of impairment at the reporting date are included in stage 3. The Group's definition of credit impairment and default, see *Definition of asset defaulted and credit-impaired*.

- Financial assets classified in stage 1 make provisions for ECL caused by defaults that may occur within 12 months after the reporting date, and the financial assets classified in the stage 2 and 3 make provisions for the entire lifetime ECL; calculation of the interest income of financial assets classified in stage 1 and 2 is based on the total carrying value of the assets, and interest income of the financial assets classified in stage 3 is calculated based on the net amount after deducting provisions for credit losses. Inputs, assumptions and estimation techniques utilised in ECL measurement, see *Measurement of ECL – Explanation of inputs, assumptions and estimation techniques*.

- The Group takes into account forward-looking information when measuring ECLs. For a description of how the Group considers forward-looking information into the ECL model, please refer to *Forward-looking information incorporated in the ECL model*;

- Purchased or originated credit-impaired (POCI) financial assets refer to financial assets with credit impairment at initial recognition. Loss provision of these assets are lifetime ECLs.

The key judgements and assumptions adopted by the Group when measuring the ECLs in accordance with the new standard are as follows:

Significant increase in credit risk

The Group identifies whether the credit risk has increased significantly by comparing default risk at the reporting date with the risk of default on the day of initial recognition. Main factors include: 1. The PD of impairment losses, e.g. the internal credit rating of corporate loans declined by 3 levels or more, and the external credit rating of bond investment declined by 3 levels or more in principle. 2. Other significant increase in credit risk. Generally, if the credit business is overdue for over 30 days, it should be considered a significant increase in credit risk. The Group reviews whether the evaluation criteria are applicable to the current situation on a regular basis.

After the outbreak of the COVID-19 pandemic, the Group provided relief support for customers affected by the pandemic in accordance with government regulations. For customers who apply for loan relief, the Group strictly follows policy requirements related to deferred payment of principal and interest and regulates customers' eligibility. For customers who are eligible for loan relief, the Group provides support measures such as loan extensions, deferred interest payment, and adjustments to the repayment plans. The Group also evaluates whether the credit risk of such customers has increased significantly based on actual circumstances.

Definition of asset defaulted and credit-impaired

The Group carefully considers whether different standards represent client defaults. When a financial asset meets one or more of the following conditions, the Group recognizes the financial asset as defaulted, and the standard is consistent with the definition of the credit-impaired:

(1) Quantitative criteria:

- Payment overdue for more than 90 days. If the borrower violates the prescribed overdraft limit or the re-approved overdraft limit is less than the current balance, the overdraft will be deemed to be overdue.

(2) Qualitative criteria:

- Any loan to the debtor ceases to bear interest or accrue interest is included in the off-balance sheet accounting;
- After the occurrence of the credit relationship, due to the deterioration of the financial situation of the debtor, the Group wrote off the loan or has made a certain proportion of loan loss provisions;
- The Group sells the loan and assumes a certain percentage of the book loss;
- Due to the deterioration of the financial situation of the debtor, the Group agreed to restructure and make non-commercial adjustments to the terms of the loan contract, including but not limited to the following: (a) The contract term changes lead to a decline in the scale of the debt; (b) the debtor is unable to repay the loan; (c) extension due to the debtor's inability to repay;
- The Group classifies the debtor as a bankrupt enterprise or a similar status;
- The debtor filed for bankruptcy, or has gone bankrupt, or is in a similar state of protection, and thus will not perform or postpone the settlement of the debts of the Group;
- Other circumstances identified by the Group that may result in the debtor not being able to fully repay the debt.

The above criteria apply to all financial instruments of the Group and are consistent with the definition of default used in internal credit risk management. The definition of default has been consistently applied to the model of Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD) in the Group's ECL calculation process.

Measurement of ECL – Explanation of inputs, assumptions and estimation techniques

According to whether there is a significant increase in credit risk and whether there is an impairment of assets, the Group measures the impairment loss for different financial assets according to its current risk stage with ECL of 12 months or the entire lifetime respectively. The expected credit losses taken by the Group are obtained by Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD), and discounted by discount factors. Definitions are as follows:

- PD refers to the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.

- The exposure to default risk refers to the amount that the Group should be repaid in the event of default in the next 12 months or throughout the remaining period;

- LGD is the Group's estimation regarding the extent of the EAD.

The estimates for each risk parameter are as follows:

- Estimation of PD: For non-retail credit assets, the PD is obtained through the main benchmark mapping of internal rating and the macroeconomic forward-looking adjustment is applied to obtain the PD applicable under the new standard; for retail credit assets, it is based on PD of division of pool, and the macroeconomic forward-looking adjustment is conducted to obtain the PD applicable under the new standard; for bond assets, the PD is mapped to the main benchmark mainly through external rating, and the applicable PD under the new criterion is obtained through macroeconomic forward-looking adjustment; PD for the entire lifetime of more than 12 months is estimated by a 12M PD and a forward-looking adjustment factor;

- Estimation of EAD: The EAD of financial assets in the first and third stages is the amortised cost; the EAD of financial assets in the second stage is the amortised cost and the cash discount of capital recovered in the following years;

- Estimation of LGD: For non-retail credit assets, it uses the LGD after mitigation, and a macroeconomic forward-looking adjustment is made to obtain the LGD applicable under the new standard; for retail credit assets, it is based on LGD of division of pool, and a macroeconomic forward-looking adjustment is conducted to obtain the LGD applicable under the new standard; for the loss without historical data collection and write-off of data assets, it is based on peer experience and regulatory factors, combined with expert's judgement.

The ECL is multiplied by the above estimated PD, EAD and LGD, and discounted to the reporting date. The discount rate used in the ECL calculation is the initial actual effective interest rate.

The Group monitors and reviews assumptions related to the calculation of ECL on a regular basis. There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

Forward-looking information incorporated in the ECL model

Risk parameters related to the calculation of ECL incorporates forward-looking information. The macroeconomic indicators considered by the Group include GDP growth rate, year-on-year growth of CPI , year-on-year growth of M2 monetary supply, cumulative year-on-year growth of fixed asset investment completion value, year-on-year growth of total cumulative value of retail sales of social consumer goods, year-on-year growth of cumulative value of real estate development investment, and the year-on-year growth of per capita disposable income of urban residents. The macroeconomic forward-looking adjustment factors are determined based on the historical situation of these macroeconomic indicators and the predicted values for the coming year. Considering that the changes in the future macro economy may differ from the estimations, the Group reviews and monitors the appropriateness of the estimation on a regular basis. In 2020, the Group maintains a conservative approach towards future economic forecasts when evaluating expected credit losses. The forward-looking information used has taken full account of the impact of COVID-19 on the macro economy and the banking sector.

3.1 Concentration of credit risk

Concentration of credit risk exists when changes in geographic, economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is material in relation to the Group's total exposures. The Group's portfolio of financial instrument is diversified along geographic, industry and product sectors.

The Group mainly operates the lending and guarantee business in the PRC mainland only. Since there are different economic development characteristics in the different regions in China, the characteristics of credit risks are also different.

For the geographical and industrial concentration of the loans and advances to customers please refer to Note VII. 6.

3.2 Maximum exposure to credit risk

Despite any usable collateral, and other credit enhancement measures, the maximum credit risk exposure that the Group and the Bank can afford on balance sheet date is the related financial assets (including derivative instruments and deducted equity instruments) plus the amount of off-balance sheet book value in Note X. 2. As at 31 December 2020, the maximum credit risk exposure of the Group amounted to RMB8,791,696 million (31 December 2019: RMB8,024,736 million); the maximum credit risk exposure of the Bank amounted to RMB8,556,258 million (31 December 2019: RMB7,811,204 million).

(Expressed in millions of Renminbi, unless otherwise stated)

Credit exposure

Loans and advances to customers

The Group

	2020				
	Stage 1	*Stage 2*	*Stage 3*	*Purchased financial assets that have already been impaired*	*Total*
Low risk	3,861,722	6,903	821	-	3,869,446
Medium risk	-	45,350	9,455	-	54,805
High risk	-	-	49,774	-	49,774
Total carrying amount	3,861,722	52,253	60,050	-	3,974,025
Allowance for impairment losses	(68,662)	(7,485)	(31,921)	-	(108,068)
Total	3,793,060	44,768	28,129	-	3,865,957

The Group

	2019				
	Stage 1	*Stage 2*	*Stage 3*	*Purchased financial assets that have already been impaired*	*Total*
Low risk	3,313,348	18,032	1,218	-	3,332,598
Medium risk	-	54,145	7,646	-	61,791
High risk	-	-	53,305	-	53,305
Total carrying amount	3,313,348	72,177	62,169	-	3,447,694
Allowance for impairment losses	(57,044)	(11,150)	(36,659)	-	(104,853)
Total	3,256,304	61,027	25,510	-	3,342,841

The Group classifies asset risk characteristics according to the quality of assets. “Low risk” means that the borrower can fulfill the contract, and there are not enough reasons to suspect that the principal and interest of the loan cannot be repaid in full on time; “Medium risk” means that the borrower is currently able to repay the principal and interest of the loan, but there are some factors that may adversely affect the repayment; “High risk” means that the borrower’s repayment ability has obvious problems and loan principal and interest cannot be repaid in full by relying on normal business income. Even if the guarantee is enforced, losses may be incurred. The above maximum credit risk exposure information for loans and advances does not include loans and advances that are measured at fair value through profit or loss.

(Expressed in millions of Renminbi, unless otherwise stated)

Off-Balance Sheet Items

The Group

	2020				
	Stage 1	Stage 2	Stage 3	Purchased financial assets that have already been impaired	Total
Low risk	1,542,315	4,177	1,252	-	1,547,744
Medium risk	-	1,892	-	-	1,892
High risk	-	-	1,044	-	1,044
Total carrying amount	1,542,315	6,069	2,296	-	1,550,680
Allowance for impairment losses	(4,214)	(614)	(569)	-	(5,397)
Total	1,538,101	5,455	1,727	-	1,545,283

The Group

	2019				
	Stage 1	Stage 2	Stage 3	Purchased financial assets that have already been impaired	Total
Low risk	1,392,362	3,961	625	-	1,396,948
Medium risk	-	3,754	1,100	-	4,854
High risk	-	-	2,085	-	2,085
Total carrying amount	1,392,362	7,715	3,810	-	1,403,887
Allowance for impairment losses	(4,818)	(148)	(1,287)	-	(6,253)
Total	1,387,544	7,567	2,523	-	1,397,634

Financial investments

The Group

	2020				
	Stage 1	Stage 2	Stage 3	Purchased financial assets that have already been impaired	Total
Low risk	2,036,218	9,442	-	-	2,045,660
Medium risk	-	22,059	12,371	-	34,430
High risk	-	-	17,911	-	17,911
Total carrying amount	2,036,218	31,501	30,282	-	2,098,001
Allowance for impairment losses	(14,162)	(3,420)	(13,920)	-	(31,502)
Total	2,022,056	28,081	16,362	-	2,066,499

(Expressed in millions of Renminbi, unless otherwise stated)

The Group

	2019				
	Stage 1	*Stage 2*	*Stage 3*	*Purchased financial assets that have already been impaired*	*Total*
Low risk	1,998,828	13,741	-	-	2,012,569
Medium risk	-	35,027	3,601	-	38,628
High risk	-	-	16,470	-	16,470
Total carrying amount	1,998,828	48,768	20,071	-	2,067,667
Allowance for impairment losses	(8,892)	(2,936)	(12,281)	-	(24,109)
Total	1,989,936	45,832	7,790	-	2,043,558

The Group classifies the credit ratings of financial assets included in the ECL measurement as “low risk”, “medium risk” and “high risk” according to the characteristics of risk levels. “Low risk” means that the assets are of good quality, the possibility of future default is low, and it is less affected by external unfavourable factors; “medium risk” means the asset has certain solvency, but the persistent significant instability or poor commercial, financial or economic conditions may reduce its solvency; and “high risk” means the existence of unfavourable factors that have a material impact on solvency, a higher risk of default or assets that meet the definition of default by the Group.

Deposits with banks and other financial institutions

The Group

	2020				
	Stage 1	*Stage 2*	*Stage 3*	*Purchased financial assets that have already been impaired*	*Total*
Low risk	412,419	-	-	-	412,419
Medium risk	-	-	-	-	-
High risk	-	-	25	-	25
Total carrying amount	412,419	-	25	-	412,444
Allowance for impairment losses	(1,923)	-	(25)	-	(1,948)
Total	410,496	-	-	-	410,496

(Expressed in millions of Renminbi, unless otherwise stated)

The Group

	2019				
	Stage 1	*Stage 2*	*Stage 3*	*Purchased financial assets that have already been impaired*	*Total*
Low risk	362,681	-	-	-	362,681
Medium risk	-	-	-	-	-
High risk	-	-	25	-	25
Total carrying amount	362,681	-	25	-	362,706
Allowance for impairment losses	(2,085)	-	(25)	-	(2,110)
Total	360,596	-	-	-	360,596

The Group classifies risk characteristics of deposits with banks and other financial institutions based on asset entry and internal rating changes. “Low risk” means that the issuer’s initial internal rating is above the entry level, there are no reasons to suspect that the financial investment is expected to default; “Medium risk” means that although the issuer’s internal rating is reduced to a certain extent, but there are not enough reasons to suspect that the financial investment is expected to default; “high risk” means that there are obvious problems may cause a default, or the financial investment indeed is defaulted.

(Expressed in millions of Renminbi, unless otherwise stated)

3.3 Analysis of exposure to credit risk of the Group about loans and advances to customers, inter-bank placements, investments and finance lease receivables

As at 31 December 2020, the credit risk stages of financial instruments are as follows:

	The Group							
	Gross carrying amount				*Allowance for impairment losses*			
	Stage 1	*Stage 2*	*Stage 3*	*Total*	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Measured at amortised cost:								
Cash and balances with Central Bank	411,147	-	-	411,147	-	-	-	-
Deposits with banks and other financial institutions	95,528	-	16	95,544	(321)	-	(16)	(337)
Placements with banks and other financial institutions	192,561	-	9	192,570	(622)	-	(9)	(631)
Financial assets purchased under resale agreements	124,330	-	-	124,330	(980)	-	-	(980)
Loans and advances to customers								
- Corporate loans and advances	1,963,313	42,567	41,751	2,047,631	(60,239)	(6,171)	(19,037)	(85,447)
- Personal loans and advances	1,690,748	9,672	18,271	1,718,691	(8,423)	(1,314)	(12,884)	(22,621)
Financial investments	1,524,446	28,497	28,690	1,581,633	(14,162)	(3,420)	(13,920)	(31,502)
Finance lease receivables	100,583	1,845	3,445	105,873	(1,894)	(556)	(2,807)	(5,257)
Financial assets, Others	54,466	287	2,020	56,773	(1,452)	(41)	(1,729)	(3,222)
Total	6,157,122	82,868	94,202	6,334,192	(88,093)	(11,502)	(50,402)	(149,997)

(Expressed in millions of Renminbi, unless otherwise stated)

	The Group							
	Gross carrying amount				*Provision for expected credit losses*			
	Stage 1	*Stage 2*	*Stage 3*	*Total*	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Fair value through other comprehensive income:								
Loans and advances to customers								
- Corporate loans and advances	207,661	14	28	207,703	(576)	-	(17)	(593)
Other debt investments	511,772	3,004	1,592	516,368	(593)	(591)	(2,904)	(4,088)
Total	719,433	3,018	1,620	724,071	(1,169)	(591)	(2,921)	(4,681)
Credit commitments	1,542,315	6,069	2,296	1,550,680	(4,214)	(614)	(569)	(5,397)

(Expressed in millions of Renminbi, unless otherwise stated)

As at 31 December 2019, the credit risk stages of financial instruments are as follows:

	The Group							
	Gross carrying amount				*Allowance for impairment losses*			
	Stage 1	*Stage 2*	*Stage 3*	*Total*	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Measured at amortised cost:								
Cash and balances with Central Bank	486,444	-	-	486,444	-	-	-	-
Deposits with banks and other financial institutions	87,572	-	16	87,588	(312)	-	(16)	(328)
Placements with banks and other financial institutions	232,539	-	9	232,548	(1,064)	-	(9)	(1,073)
Financial assets purchased under resale agreements	42,570	-	-	42,570	(709)	-	-	(709)
Loans and advances to customers								
- Corporate loans and advances	1,687,624	60,288	50,769	1,798,681	(49,606)	(9,274)	(28,412)	(87,292)
- Personal loans and advances	1,430,079	11,745	11,365	1,453,189	(7,438)	(1,876)	(8,247)	(17,561)
Financial investments	1,402,836	45,931	19,518	1,468,285	(8,892)	(2,936)	(12,281)	(24,109)
Finance lease receivables	105,190	2,721	3,385	111,296	(1,358)	(982)	(2,683)	(5,023)
Financial assets, Others	27,210	351	1,274	28,835	(1,328)	(103)	(1,104)	(2,535)
Total	5,502,064	121,036	86,336	5,709,436	(70,707)	(15,171)	(52,752)	(138,630)

(Expressed in millions of Renminbi, unless otherwise stated)

	The Group							
	Gross carrying amount				*Provision for expected credit losses*			
	Stage 1	*Stage 2*	*Stage 3*	*Total*	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Fair value through other comprehensive income:								
Loans and advances to customers								
- Corporate loans and advances	195,645	144	35	195,824	(700)	(16)	(12)	(728)
Other debt investments	595,992	2,837	553	599,382	(703)	(74)	(1,205)	(1,982)
Total	791,637	2,981	588	795,206	(1,403)	(90)	(1,217)	(2,710)
Credit commitments	1,392,362	7,715	3,810	1,403,887	(4,818)	(148)	(1,287)	(6,253)

(Expressed in millions of Renminbi, unless otherwise stated)

3.3.1 Loans and advances to customers

As at 31 Dememeber 2020, loans and advances to customers were analysed by types of security as follows, excluding loans and advances measured at fair value through profit or loss:

	31 December 2020		*31 December 2019*	
	The Group	*The Bank*	*The Group*	*The Bank*
Stage 1				
Unsecured loans	1,040,036	1,006,540	866,123	837,259
Guaranteed loans	772,877	772,877	656,561	656,561
Collateralised loans				
- Secured by mortgage	1,528,590	1,528,590	1,303,528	1,303,528
- Secured by collaterals	520,219	520,219	487,136	487,136
Subtotal	3,861,722	3,828,226	3,313,348	3,284,484
Stage 2				
Unsecured loans	10,895	10,493	12,975	12,468
Guaranteed loans	14,297	14,297	29,390	29,390
Collateralised loans				
- Secured by mortgage	24,639	24,639	24,722	24,722
- Secured by collaterals	2,422	2,422	5,090	5,090
Subtotal	52,253	51,851	72,177	71,670
Stage 3				
Unsecured loans	13,615	12,659	9,414	8,391
Guaranteed loans	25,448	25,448	23,859	23,859
Collateralised loans				
- Secured by mortgage	20,123	19,675	24,725	24,725
- Secured by collaterals	864	864	4,171	4,171
Subtotal	60,050	58,646	62,169	61,146
Total	3,974,025	3,938,723	3,447,694	3,417,300
Fair value of collateral held against credit-impaired loans	10,377	10,377	14,454	14,454

The above collateral mainly includes land, buildings, machinery and equipment, etc. The fair value of collateral was estimated by the Group based on the latest external valuations available, adjusted in light of disposal experience and current market conditions.

(Expressed in millions of Renminbi, unless otherwise stated)

3.3.2 Deposits with banks and other financial institutions

Deposits with banks and other financial institutions include balances with banks and other financial institutions, placements with banks and other financial institutions and financial assets purchased under resale agreements of which counterparties are banks and non-bank financial institutions.

	2020		2019	
	The Group	*The Bank*	*The Group*	*The Bank*
Occurred credit impaired	25	25	25	25
Less: allowances for impairment losses	(25)	(25)	(25)	(25)
Subtotal	-	-	-	-
Neither past due nor credit-impaired				
- Grade A to AAA	264,653	263,629	339,208	342,365
- Grade B to BBB	609	609	4,378	4,378
- Unrated	146,108	146,108	18,200	18,200
Total	411,370	410,346	361,786	364,943
Interest accrued	1,048	1,149	895	881
Less: allowances for impairment losses	(1,922)	(1,912)	(2,085)	(2,078)
Subtotal	410,496	409,583	360,596	363,746
Total	410,496	409,583	360,596	363,746

Deposits with banks and other financial institutions are analysed above according to the Group and the Bank's internal credit rating. Exposure limits are set for banks and non-bank financial institutions.

(Expressed in millions of Renminbi, unless otherwise stated)

3.3.3 Distribution of investments analysed by rating

The ratings are obtained from Standard & Poor's ratings, or major rating agencies where the issuers of the debt securities are located. The investments include debt investments in Financial investments.

The Group

	2020					
	Unrated	*AAA*	*AA*	*A*	*Lower than A*	*Total*
Occurred credit impaired						
- Other corporates	21,223	643	1,676	-	5,032	28,574
- Banks and non-bank financial institutions.	940	857	-	-	-	1,797
Total	22,163	1,500	1,676	-	5,032	30,371
Allowance for impairment losses						(13,920)
Subtotal						16,451
Overdue nor credit impaired						
- Other corporates	8,114	-	-	-	-	8,114
Allowance for impairment losses						(1,031)
Subtotal						7,083
Neither overdue nor credit impaired						
- Government	801,859	174,206	-	687	-	976,752
- Policy banks	22,844	-	-	916	-	23,760
- Banking and non-banking financial institution	125,360	115,865	13,220	8,244	1,665	264,354
- Other corporates	396,654	398,871	203,734	13,252	40,080	1,052,591
Total	1,346,717	688,942	216,954	23,099	41,745	2,317,457
Allowance for impairment losses						(16,551)
Subtotal						2,300,906
Total						2,324,440

(Expressed in millions of Renminbi, unless otherwise stated)

	2019					
	Unrated	*AAA*	*AA*	*A*	*Lower than A*	*Total*
Occurred credit impaired						
- Other corporates	15,953	858	454	-	2,806	20,071
Allowance for impairment losses						(12,281)
Subtotal						7,790
Overdue nor credit impaired						
- Other corporates	1,262	-	1,203	-	-	2,465
Allowance for impairment losses						(293)
Subtotal						2,172
Neither overdue nor credit impaired						
- Government	764,822	144,157	-	511	43	909,533
- Policy banks	28,621	-	-	419	-	29,040
- Banking and non-banking financial institution	176,982	58,449	2,254	10,988	3,079	251,752
- Other corporates	513,648	294,694	202,859	20,276	43,102	1,074,579
Total	1,484,073	497,300	205,113	32,194	46,224	2,264,904
Allowance for impairment losses						(11,535)
Subtotal						2,253,369
Total						2,263,331

3.4 Collateral and other credit enhancements

The amount and type of collateral required depend on the assessment of the credit risk of the counterparty. The pledge rate depends on the credit information, operation and management, and financial position of pledgers, the condition of collateral, the market price, the pledged periods, and the convertibility of collateral. In addition, the Collateral Guideline of the Group set an upper limit of the pledged rate. Furthermore, the Group classifies and manages collateral by the difficulty of appraisal and management, the stability of market price and the convertibility of collateral. Following are the main types of collateral:

- For reverse repurchase agreements, collateral mainly includes bills, loans and securities;
- For commercial loans, collateral mainly includes land, properties, equipment and shares, etc;
- For retail loans, collateral mainly includes properties.

The management will monitor the market value of the collateral, ask the borrowers to increase collateral if necessary according to the agreements and monitor the changes in the market value of the collateral when reviewing the adequacy of impairment.

3.5 Rescheduled loans

Rescheduled loans refer to the loan projects generated by the the Group to re-determine the terms of the loan at the discretion of the borrower who is unable to repay the loan according to the original loan terms. If conditions permit, the Group will seek to reschedule the loan instead of obtaining ownership of the collateral. The Group assessed the rescheduled loans as impaired loans manner when rescheduling. As at 31 December 2020, the carrying amount of the Group's rescheduled loans was RMB 3,840 million. (As at 31 December 2019, the amount is 4,769 million.)

4. Market risk

Market risk is the risk of loss, in respect of the Group’s on and off-balance sheet activities, arising from movements in market rates including interest rates, foreign exchange rates, commodity prices and stock prices. Market risk arises from both the Group’s proprietary and customer driven business. The Group’s market risk management objective is to control the market risk within a reasonable scope in order to achieve the optimal risk adjusted benefit.

According to the Group’s market risk management structure, market risk management is critical for the management of the Group’s assets and liabilities. Any major events should be reported to the Asset and Liability Management Committee for review and then authorized by President of the Bank. The planning and financial department is responsible for implementing the Group’s asset and liability management policy, analysing and monitoring the implementation status of each type of indicators.

For daily control and management of treasury business, the risk management department of the treasure center built up mid-stage risk control system to carry out an implanting risk management and report to the risk management department of the Group.

4.1 Interest rate risk

The interest rate risk of the Group includes repricing risk, yield curve risk, benchmark risk and optional risk, among which repricing risk is the main risk. It is the risk arising from the mismatch between the agreed maturity date (fixed interest rate day) and the repricing date (floating interest rate) of interest bearing assets and interest payment liabilities. Currently, the Group has fully carried out the internal capital transfer pricing. The Group determined the transfer pricing by different products and terms, and gradually centralized the interest rate risk to the Head Office, so as to improve the efficiency of management and control the interest rate risk.

For the interest risk management of bank accounts, the Group mainly evaluates the interest rate risk of balance sheet through gap analysis. The Group dynamically monitors and controls the interest rate sensitive gap of balance sheet through information systems like assets-liabilities management system, and simply calculates the interest rate sensitivity affected by revenue and economic value on the basis of gap analysis. The revenue analysis emphasizes on the effect of the interest rate fluctuation on short-term income, while the economic value analysis emphasizes on the effect of the interest rate fluctuation on present value of net cash flow.

For the interest risk management of transaction accounts, the Group mainly achieves the real-time monitoring of the interest rate risk of the trading accounts through the quota system, the use of financial transactions and analysis system and the scientific exposure measurement models. According to regulatory requirement, the Group has strengthened the management of market risk measurement models, standardized the developing, testing and commissioning process, and built on regular evaluation mechanisms to ensure the accuracy of measurement models. The Group applies the on-line trading and analysis system to timely measure and control the interest rate risk exposure of transaction accounts, which provides effective technical support to control the interest rate risk of transaction accounts.

(Expressed in millions of Renminbi, unless otherwise stated)

At the balance sheet date, an analysis of contractual reprising date or maturity date, whichever is earlier, of the financial assets and financial liabilities are as follows:

The Group

	2020					
	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
Financial assets:						
Cash and balances with Central Bank	406,191	-	-	-	4,956	411,147
Deposits with banks and other financial institutions	80,966	14,039	202	-	-	95,207
Placements with banks and other financial institutions	101,230	89,558	1,151	-	-	191,939
Derivative financial assets	-	-	-	-	59,396	59,396
Financial assets purchased under resale agreements	122,357	993	-	-	-	123,350
Loans and advances to customers	2,688,978	978,655	134,731	64,957	-	3,867,321
Financial investments:						
Trading assets	50,666	48,489	117,020	25,072	582,680	823,927
Debt investments	161,696	173,957	758,727	455,751	-	1,550,131
Other debt investments	108,938	63,264	235,320	108,846	-	516,368
Other equity investments	-	-	-	-	2,388	2,388
Finance lease receivables	15,443	54,777	29,533	863	-	100,616
Other assets	373	3,505	315	-	49,358	53,551
Total financial assets	3,736,838	1,427,237	1,276,999	655,489	698,778	7,795,341
Financial liabilities:						
Borrowing from Central Bank	36,655	253,743	-	-	-	290,398
Deposits from banks and other financial institutions	1,163,967	323,112	-	-	-	1,487,079
Placements from banks and other financial institutions	88,602	72,865	14,675	4,029	-	180,171
Trading liabilities	935	-	-	-	15,127	16,062
Derivative financial liabilities	-	-	-	-	61,513	61,513
Financial assets sold under repurchase agreements	99,358	24,209	-	-	-	123,567
Deposits from customers	2,576,935	535,237	969,812	-	2,258	4,084,242
Debt securities issued	227,918	537,319	180,126	2,030	-	947,393
Other liabilities	-	-	-	-	26,848	26,848
Total financial liabilities	4,194,370	1,746,485	1,164,613	6,059	105,746	7,217,273
Net position	(457,532)	(319,248)	112,386	649,430	593,032	578,068

(Expressed in millions of Renminbi, unless otherwise stated)

	2019					
	Within 3 months	*3-12 months*	*1-5 years*	*Over 5 years*	*Non-interest bearing*	*Total*
Financial assets:						
Cash and balances with Central Bank	481,596	-	-	-	4,848	486,444
Deposits with banks and other financial institutions	85,636	1,624	-	-	-	87,260
Placements with banks and other financial institutions	117,798	113,173	504	-	-	231,475
Derivative financial assets	-	-	-	-	32,724	32,724
Financial assets purchased under resale agreements	41,861	-	-	-	-	41,861
Loans and advances to customers	2,628,868	655,404	53,633	7,275	-	3,345,180
Financial investments:						
Trading assets	29,045	63,092	69,914	47,907	442,076	652,034
Debt investments	334,500	146,971	567,403	395,302	-	1,444,176
Other debt investments	73,446	144,385	278,670	102,881	-	599,382
Other equity investments	-	-	-	-	1,929	1,929
Finance lease receivables	91,244	8,736	6,277	16	-	106,273
Other assets	1,494	-	-	-	24,807	26,301
Total financial assets	3,885,488	1,133,385	976,401	553,381	506,384	7,055,039
Financial liabilities:						
Borrowing from Central Bank	-	30,900	137,359	-	-	168,259
Deposits from banks and other financial institutions	902,769	256,482	74,686	-	-	1,233,937
Placements from banks and other financial institutions	85,769	89,041	15,400	2,100	-	192,310
Trading liabilities	261	191	8	-	3,754	4,214
Derivative financial liabilities	-	-	-	-	31,444	31,444
Financial assets sold under repurchase agreements	172,195	21,217	-	-	-	193,412
Deposits from customers	2,378,411	525,748	885,156	26	5,491	3,794,832
Debt securities issued	233,806	431,929	231,351	2,030	-	899,116
Other liabilities	242	5	7	-	25,256	25,510
Total financial liabilities	3,773,453	1,355,513	1,343,967	4,156	65,945	6,543,034
Net position	112,035	(222,128)	(367,566)	549,225	440,439	512,005

The following tables illustrate the potential impact of a parallel upward or downward shift of 100 basis points in all currencies' yield curves on the Group's net interest income and other comprehensive income, based on the Group's positions of financial assets and financial liabilities at the balance sheet date.

The Group

	2020		*2019*	
	Net interest income (decrease) increase	*Other comprehensive income (decrease) increase*	*Net interest income (decrease) increase*	*Other comprehensive income (decrease) increase*
+100 basis points	(7,019)	(12,288)	(755)	(11,200)
- 100 basis points	7,019	13,146	755	12,579

The sensitivity analysis on net interest income is based on reasonably possible changes in interest rates with the assumption that the structure of financial assets and financial liabilities held at the period end remains unchanged.

The sensitivity analysis on other comprehensive income is the effect on changes of fixed rate debt instruments at fair value through other comprehensive income at the period end after adjusting in accordance with the reasonably possible changes in interest rates.

The above prediction assumes that all yield curves of assets and liabilities, except demand deposit, shift upward or downward parallel. Therefore it does not reflect the potential impact of non-parallel shift in yield curves. The prediction also assumes that all positions are held to maturity. The Group anticipates that the amount of sensitivity analysis is insignificant if a position is not held to maturity.

The assumption does not represent the Group's capital and interest rate risk management policy. Therefore the above analysis may differ from the actual situation.

In addition, the impact of interest rate fluctuation is only for illustrating purpose, showing the anticipated net interest income and other comprehensive income of the Group under the current interest rate risk situation, and such impact has not taken into account the potential interest rate risk control activities carried out by the management.

4.2 Foreign currency risk

The Group conducts its businesses mainly in RMB, with certain businesses denominated in USD or other currencies. RMB is the functional currency. The exchange rate for RMB converting to USD or other foreign currencies is regulated by the PBOC.

The Group is mainly exposed to currency risk resulting from currency mismatches of assets and liabilities, foreign currency transactions and foreign currency capital, etc.

The capital operation department of the Bank centrally manages the currency risk. The currency risk that arises from all types of foreign exchange transactions at the branch level should be centralized to head office to manage the risk exposure and squares positions through the core business system.

The currency risk exposure between foreign currencies is managed on the basis of "overnight position limit" and "day time self-trading positions". The positions are centralized to the capital operation department in a timely way and managed centrally. This kind of position is relatively small compared to the Group's asset scale and is controllable.

Regarding the currency risk exposure between RMB and foreign currencies, the Group is mainly exposed to currency risk resulting from the comprehensive positions of the RMB market maker and the position of the foreign currency capital. As an active RMB market maker, the Group controls the position limit properly. The comprehensive positions of the market maker are managed close to zero and the overnight positions are kept at low level.

(Expressed in millions of Renminbi, unless otherwise stated)

The following tables are the structure analysis of the relevant financial assets and financial liabilities by currency.

The Group

	2020			
	RMB	*USD equivalent to RMB*	*Other currencies equivalent to RMB*	*Total*
Financial assets:				
Cash and balances with Central Bank	402,618	8,378	151	411,147
Deposits with banks and other financial institutions	38,056	56,913	238	95,207
Placements with banks and other financial institutions	158,942	32,741	256	191,939
Derivative financial assets	51,471	7,911	14	59,396
Financial assets purchased under resale agreements	122,646	704	-	123,350
Loans and advances to customers	3,721,039	86,496	59,786	3,867,321
Financial investments:				
Trading assets	797,980	25,854	93	823,927
Debt investments	1,506,665	40,018	3,448	1,550,131
Other debt investments	440,906	74,701	761	516,368
Other equity investments	2,327	61	-	2,388
Finance lease receivables	99,680	936	-	100,616
Other assets	52,450	1,005	96	53,551
Total financial assets	7,394,780	335,718	64,843	7,795,341
Financial liabilities:				
Borrowing from Central Bank	290,398	-	-	290,398
Deposits from banks and other financial institutions	1,374,364	107,331	5,384	1,487,079
Placements from banks and other financial institutions	111,375	65,456	3,340	180,171
Trading liabilities	16,062	-	-	16,062
Derivative financial liabilities	52,383	9,084	46	61,513
Financial assets sold under repurchase agreements	111,348	12,211	8	123,567
Deposits from customers	3,900,364	154,772	29,106	4,084,242
Debt securities issued	911,145	21,354	14,894	947,393
Other liabilities	26,675	86	87	26,848
Total financial liabilities	6,794,114	370,294	52,865	7,217,273
Net position	600,666	(34,576)	11,978	578,068

(Expressed in millions of Renminbi, unless otherwise stated)

	2019			
	RMB	*USD equivalent to RMB*	*Other currencies equivalent to RMB*	*Total*
Financial assets:				
Cash and balances with Central Bank	474,490	302	11,652	486,444
Deposits with banks and other financial institutions	51,631	35,345	284	87,260
Placements with banks and other financial institutions	172,056	59,101	318	231,475
Derivative financial assets	29,566	3,140	18	32,724
Financial assets purchased under resale agreements	41,179	682	-	41,861
Loans and advances to customers	3,175,265	103,576	66,339	3,345,180
Financial investments:				
Trading assets	606,234	44,904	896	652,034
Debt investments	1,403,414	37,273	3,489	1,444,176
Other debt investments	509,515	88,616	1,251	599,382
Other equity investments	1,872	57	-	1,929
Finance lease receivables	105,326	947	-	106,273
Other assets	23,213	336	2,752	26,301
Total financial assets	6,593,761	374,279	86,999	7,055,039
Financial liabilities:				
Borrowing from Central Bank	168,259	-	-	168,259
Deposits from banks and other financial institutions	1,094,788	138,929	220	1,233,937
Placements from banks and other financial institutions	97,358	94,823	129	192,310
Trading liabilities	4,053	161	-	4,214
Derivative financial liabilities	27,565	3,873	6	31,444
Financial assets sold under repurchase agreements	178,461	14,933	18	193,412
Deposits from customers	3,558,885	50,432	185,515	3,794,832
Debt securities issued	870,580	22,539	5,997	899,116
Other liabilities	21,202	750	3,558	25,510
Total financial liabilities	6,021,151	326,440	195,443	6,543,034
Net position	572,610	47,839	(108,444)	512,005

The table below indicates the potential effect of an appreciation or depreciation of RMB spot and forward exchange rate against all other currencies by 5% on the foreign exchange gains or losses:

The Group

	2020 Foreign exchange increase (decrease)	*2019 Foreign exchange increase (decrease)*
5% appreciation	1,231	677
5% depreciation	(1,231)	(677)

The above sensitivity analysis is measured on the basis that all assets and liabilities have a static currency risk structure. The relevant assumptions are:

(1) The exchange rate sensitivity represents the exchange gains or losses arisen from a 5% change of the closing exchange rates (middle price) of the different foreign currencies against RMB at the balance sheet date;

(2) The exchange rate changes of different foreign currencies against RMB move in the same direction simultaneously.

The aforesaid effect on foreign exchange gains or loss is based on the assumption that the Group's net positions of foreign exchange sensitivity and foreign exchange derivative instruments at the end of the reporting period remain unchanged. The Group mitigates its foreign currency risk through active management of its foreign currency exposures and appropriate use of derivative instruments, based on the management expectation of future foreign currency movements, and therefore the above sensitivity analysis may differ from the actual situation.

4.3 Other price risk

Other price risk mainly derives from equity investment, held-for-trading precious metals investment and other bonds and derivatives linked to commodity price.

The Group considers that the market risk of commodity price or stock price from portfolio is insignificant.

5. Liquidity risk

Liquidity risk refers to the risk of being unable to acquire sufficient funds in time or failing to acquire sufficient funds at a reasonable cost to meet repayment obligations for asset growth or other business. The Group's liquidity risk mainly derives from advanced or concertrated withdrawal, principal-guaranteed wealth management products redemption, deferred loan repayment and mismatches of assets and liabilities.

The assets and liabilities management committee of the Group monitors and manages the liquidity risk of the Group, ensuring effective liquidity management. The committee will determine the liquidity risk management strategy, the monitoring indicators and the alarming index, regularly analyse and discuss the liquidity risk assessment report submitted, and determine the liquidity risk management measures.

The financial planning department is responsible for: drafting liquidity risk management policies and measures; monitoring different types of liquidity ratios and exposure indicators. The planning and financial department monitors the liquidity risk ratios monthly by reviewing the assets' and liabilities' structure. If there are any ratios close to or over the alarming limits, the department has to investigate the reasons and make recommendations to adjust the assets' and liabilities' structure accordingly; analysing the liquidity risk and reporting to the assets and liabilities management committee regularly; and daily operation of liquidity management, establishment of a cash position forecast system at the Bank level in order to meet the cash payment needs and assure the liquidity for the business development requirements.

(Expressed in millions of Renminbi, unless otherwise stated)

The Group regularly monitors the surplus reserve ratio, liquidity ratio, liquidity coverage ratio, net stable fund ratio, ratio of dependence on interbank liabilities and sets alarming and tolerance limits for each ratio. The Group also prepares general liquidity analysis report based on liquidity indicators recorded and net cash flow position of assets and liabilities, incorporating the consideration of macro economy and interbank liquidity status. The report is submitted to the assets and liabilities management committee for assessment. The assessment report will be submitted together with credit risk, liquidity risk and market risk to the risk management committee for the analysis of the Group's overall risk assessment to determine the management strategy accordingly.

5.1 Undiscounted contractual cash flows classified by the maturity date of contracts

The following tables are the structure analysis of non-derivative financial assets and financial liabilities by contractual maturities at the balance sheet date. The amounts disclosed in each term are the undiscounted contractual cash flows.

The Group

	2020							
	On demand	*Less than 1 month*	*1 to 3 months*	*3 months to 1 year*	*1 to 5 years*	*Over 5 years*	*Past due/undated*	*Total*
Non-derivative financial assets:								
Cash and balances with Central Bank	411,147	-	-	-	-	-	-	411,147
Deposits with banks and other financial institutions	73,603	4,114	3,272	14,363	202	-	-	95,554
Placements with banks and other financial institutions	53	69,316	32,040	91,354	1,252	-	-	194,015
Financial assets purchased under resale agreements	-	121,913	506	1,001	-	-	-	123,420
Loans and advances to customers	-	561,675	256,378	1,027,759	1,222,118	2,086,767	55,793	5,210,490
Financial investments:								
Trading assets	541,907	14,090	14,945	53,185	142,582	18,792	85,975	871,476
Debt investments	-	26,142	74,679	201,903	846,133	693,967	35,058	1,877,882
Other debt investments	-	24,044	45,234	67,664	282,187	161,225	1,247	581,601
Other equity investments	-	-	-	-	-	-	2,388	2,388
Financial lease receivables	-	3,240	9,088	30,561	64,575	6,751	2,504	116,719
Other non-derivative financial assets	41,449	159	3,363	5,176	3,383	220	5	53,755
Total non-derivative financial assets:	1,068,159	824,693	439,505	1,492,966	2,562,432	2,967,722	182,970	9,538,447
Non-derivative financial liabilities:								
Borrowing from Central Bank	-	30,065	5,627	258,139	-	-	-	293,831
Deposits from banks and other financial institutions	734,981	241,543	188,486	327,354	-	-	-	1,492,364
Placements from banks and other financial institutions	-	51,964	36,677	72,923	14,732	4,029	-	180,325
Trading liabilities	16,195	682	12	50	-	-	304	17,243
Financial assets sold under repurchase agreements	-	79,595	19,789	24,215	-	-	-	123,599
Deposits from customers	2,258	316,356	2,240,041	576,311	1,052,113	-	-	4,187,079
Debt securities issued	-	113,770	114,789	504,988	138,909	121,630	-	994,086
Other non-derivative financial liabilities	5,553	766	1,217	2,836	6,704	543	10,399	28,018
Total non-derivative financial liabilities	758,987	834,741	2,606,638	1,766,816	1,212,458	126,202	10,703	7,316,545
Net position	309,172	(10,048)	(2,167,133)	(273,850)	1,349,974	2,841,520	172,267	2,221,902

(Expressed in millions of Renminbi, unless otherwise stated)

	2019							
	On demand	*Less than 1 month*	*1 to 3 months*	*3 months to 1 year*	*1 to 5 years*	*Over 5 years*	*Past due/undated*	*Total*
Non-derivative financial assets:								
Cash and balances with Central Bank	390,869	-	-	-	-	-	97,317	488,186
Deposits with banks and other financial institutions	53,074	27,611	5,030	1,663	-	-	-	87,378
Placements with banks and other financial institutions	77	94,837	23,074	115,862	540	-	-	234,390
Financial assets purchased under resale agreements	-	41,889	-	-	-	-	-	41,889
Loans and advances to customers	-	486,949	250,130	907,908	1,009,623	1,694,727	71,461	4,420,798
Financial investments:								
Trading assets	423,808	14,046	5,550	67,758	79,650	55,013	75,803	721,628
Debt investments	-	31,289	57,913	181,850	769,013	644,582	36,288	1,720,935
Other debt investments	-	10,436	24,517	149,622	322,986	165,454	7,429	680,444
Other equity investments	-	-	-	-	-	-	1,929	1,929
Financial lease receivables	-	4,060	9,490	35,459	62,093	8,826	3,287	123,215
Other non-derivative financial assets	17,262	1,230	2,907	533	1,531	158	6,736	30,357
Total non-derivative financial assets:	885,090	712,347	378,611	1,460,655	2,245,436	2,568,760	300,250	8,551,149
Non-derivative financial liabilities:								
Borrowing from Central Bank	-	-	-	30,958	140,189	-	-	171,147
Deposits from banks and other financial institutions	616,190	130,532	156,981	260,375	74,685	-	-	1,238,763
Placements from banks and other financial institutions	-	50,273	36,774	91,394	16,078	2,193	-	196,712
Trading liabilities	92	510	3,578	40	9	-	-	4,229
Financial assets sold under repurchase agreements	-	147,994	24,328	21,387	-	-	-	193,709
Deposits from customers	21,829	2,091,527	254,751	540,979	885,701	46	-	3,794,833
Debt securities issued	-	39,389	192,377	439,720	150,276	129,290	-	951,052
Other non-derivative financial liabilities	13,993	705	787	1,449	1,236	91	9,046	27,307
Total non-derivative financial liabilities	652,104	2,460,930	669,576	1,386,302	1,268,174	131,620	9,046	6,577,752
Net position	232,986	(1,748,583)	(290,965)	74,353	977,262	2,437,140	291,204	1,973,397

(Expressed in millions of Renminbi, unless otherwise stated)

5.2 Liquidity risk analysis of derivative instruments

(1) Derivatives settled on a net basis

Derivatives that were settled on a net basis by the Group include: interest rate derivatives, exchange rate derivatives, credit derivatives and precious metal derivatives, etc. The tables below set forth the Group's net derivative financial instruments positions by remaining contractual maturities at the balance sheet date. The amounts disclosed in the tables are the undiscounted contractual cash flows:

The Group

	2020					
	Less than 1 month	*1-3 months*	*3-12 months*	*1-5 years*	*Over 5 years*	*Total*
Interest rate derivatives	20	42	24	(84)	(287)	(285)
Exchange rate derivatives	(265)	183	(1,593)	38	-	(1,637)
Other derivatives	(198)	(12)	(172)	(66)	-	(448)
Total	(443)	213	(1,741)	(112)	(287)	(2,370)

	2019					
	Less than 1 month	*1-3 months*	*3-12 months*	*1-5 years*	*Over 5 years*	*Total*
Interest rate derivatives	2	(31)	208	(249)	(158)	(228)
Exchange rate derivatives	499	1,092	(211)	2	-	1,382
Other derivatives	34	835	86	285	-	1,240
Total	535	1,896	83	38	(158)	2,394

(2) Derivatives settled on a gross basis

The Group's derivatives that will be settled on a gross basis refer to exchange rate derivatives. The tables below set forth the Group's positions by remaining contractual maturities at the balance sheet date. The amounts disclosed in the tables are the undiscounted contractual cash flows:

The Group

	2020					
	Less than 1 month	*1-3 months*	*3-12 months*	*1-5 years*	*Over 5 years*	*Total*
Exchange rate derivatives						
- Cash inflow	489,362	493,225	896,814	75,483	476	1,955,360
- Cash outflow	(490,163)	(493,305)	(900,205)	(76,009)	(558)	(1,960,240)
Total	(801)	(80)	(3,391)	(526)	(82)	(4,880)

	2019					
	Less than 1 month	*1-3 months*	*3-12 months*	*1-5 years*	*Over 5 years*	*Total*
Exchange rate derivatives						
- Cash inflow	284,670	294,703	490,642	96,180	38,245	1,204,440
- Cash outflow	(285,264)	(295,237)	(491,279)	(97,683)	(38,311)	(1,207,774)
Total	(594)	(534)	(637)	(1,503)	(66)	(3,334)

(Expressed in millions of Renminbi, unless otherwise stated)

5.3 Liquidity risk analysis of off-balance sheet items

The Group's off-balance sheet items mainly include credit card commitments, letters of credit, letters of guarantee and bank acceptances. The tables below set forth the liquidity of the off-balance sheet items:

The Group

	2020				2019			
	Less than 1 year	1-5 years	Over 5 years	Total	Less than 1 year	1-5 years	Over 5 years	Total
Credit card commitments	444,176	-	-	444,176	355,436	-	-	355,436
Letters of credit	148,217	248	-	148,465	147,815	244	-	148,059
Letters of guarantee	74,225	32,234	2,102	108,561	61,588	51,173	7,557	120,318
Bank acceptances	822,341	-	-	822,341	761,032	-	-	761,032
Irrevocable loan commitments	6,271	12,766	8,100	27,137	2,543	7,287	9,212	19,042
Total	1,495,230	45,248	10,202	1,550,680	1,328,414	58,704	16,769	1,403,887

6. Capital management

During the reporting period, the Group had conscientiously implemented the capital management policy according to the regulations of China Banking Regulatory Commission *Administrative Measures for the Capital of Commercial Banks (for Trial Implementation)*. The Group will ensure capital adequacy ratio and the overall strategic development match with risk preference and risk management capabilities, in order to achieve healthy, sustainable and rapid development.

In 2020, the Group implemented capital intensive operation and management to continuously improve and optimize risk-weighted asset amount allocation and governing system: oriented by risk-weighted asset yields, the Group makes overall arrangements in operation institutions, risk-weighted assets scale of business lines to reasonably adjust industry structure and promote capital allocation.

According to related guidelines of CBRC, "*Administrative Measures for the Capital of Commercial Banks (for Trial Implementation)*" and other regulations, the Group monitors its capital adequacy and capital application in real time.

	The Group	
	2020	2019
Net core tier 1 capital	528,452	484,935
Net tier 1 capital	614,394	540,887
Net capital	762,803	684,547
Total risk weighted assets	5,663,756	5,123,362
Core tier 1 capital adequacy ratio	9.33%	9.47%
Tier 1 capital adequacy ratio	10.85%	10.56%
Capital adequacy ratio	13.47%	13.36%

(1) The scope of consolidation for the purpose of calculating the Group's Capital Adequacy Ratio includes domestic and overseas operating units and other financial subsidiaries specified in the capital rules.

(2) The Group's core tier 1 capital includes ordinary shares, the capital reserve (subject to regulatory limitations), surplus reserve, general reserve, retained earnings, non-controlling interests (to the extent permitted in the core tier 1 capital under the Regulation), and other qualified capital instruments.

(3) The Group's core tier 1 capital supervision deductions include the net amount of goodwill after deduction of related deferred tax liabilities and the net amount of other intangible assets (excluding land use rights) after deduction of related net deferred tax liabilities.

(4) The Group's other tier 1 capital includes preference shares and non-controlling interests to the extent permitted by the capital rules.

(5) The Group's tier 2 capital includes: tier 2 capital instruments and related premium (to the extent allowed under the Regulation), excessive allowance for loan losses, and non-controlling interests to the extent permitted by the capital rules.

(6) Risk-weighted Assets include Credit Risk-weighted Assets, Market Risk-weighted Assets and Operational Risk-weighted Assets. The Group adopts risk weighting approach, standardized approach and basic indicator approach to measure Credit Risk-weighted Assets, Market Risk-weighted Assets and Operational Risk-weighted Assets respectively.

7. Fair value of financial instruments

7.1 Method of fair value recognition

Part of the financial assets and financial liabilities of the Group is measured at fair value. Fair value are measured through appropriate method and parameters, and regularly reviewed by the Board of Directors to keep its applicability. The Group determined and disclosed the fair value of financial instruments based on:

Level 1 inputs: Unadjusted public quoted prices in active markets that are observable at the measurement date for identical assets or liabilities;

Level 2 inputs: All parameters that have a significant impact on the valuation results are market information that can be directly or indirectly observable with the utilisation of valuation techniques; and

Level 3 inputs: Part of the parameters that have a significant impact on the valuation results are market information that are not observable with the utilisation of valuation techniques.

When recognizing the fair value of the financial instrument, to those financial instruments which can obtain unadjusted price of same assets and liabilities in the active market, the Group regards the unadjusted price in the active market as the best evidence of fair value. And then the Group recognizes the fair value and classifies it to level 1. The financial instruments of the Group divided into the first level include equity securities and public funds listed on the exchange.

(Expressed in millions of Renminbi, unless otherwise stated)

If the parameters of the estimation are observable and acquirable in the active market, such financial instruments (including equity instrument and derivative financial instrument) should be classified to level 2. Financial instruments classified as level 2 by the Group were mainly bond investment, bill business, foreign exchange forwards and swaps, interest rate swaps, foreign exchange options and precious metal contracts, etc. In terms of the fair value of RMB bonds, the Group mainly adopted the valuation results issued by China Central Depository & Clearing Co., Ltd. or China Securities Depository and Clearing Corporation Limited according to the different bond exchange markets; the fair value of foreign currency bonds was based on the valuation results published by Bloomberg; bill business was discounted by a discounted cash flow model which uses the interbank lending rate as a benchmark to adjust the spread based on credit risk and liquidity to build an interest rate curve; non-derivative financial instruments and some derivative financial instruments (including interest rate swaps, foreign exchange forwards, etc.) that cannot obtain quotes from active markets were valued using a cash flow discount model which includes main parameters such as recent transaction price, relevant yield curve, exchange rate, early compensation rate and counterparty credit spread; and option derivative valuation valued using the Black-Scholes option pricing model which includes the relevant yield curve, exchange rate, volatility, and counterparty credit spread etc.. All significant valuation parameters are based on observable market information.

7.2 Financial assets and financial liabilities at fair value on recurring basis

For financial assets and financial liabilities at fair value on recurring basis, three levels of fair value measurement are analysed as follows:

The Group

	2020				*2019*			
	Level 1	*Level 2*	*Level 3*	*Total*	*Level 1*	*Level 2*	*Level 3*	*Total*
Financial assets:								
Trading assets	281,048	510,036	32,843	823,927	246,522	383,604	21,908	652,034
Other debt investments	-	513,762	2,606	516,368	-	593,744	5,638	599,382
Other equity investments	595	-	1,793	2,388	716	-	1,213	1,929
Loans and advances to customers								
At fair value through profit or loss	-	1,364	-	1,364	-	2,339	-	2,339
At fair value through other comprehensive income	-	207,703	-	207,703	-	195,824	-	195,824
Derivative financial assets	-	59,396	-	59,396	-	32,724	-	32,724
Total	281,643	1,292,261	37,242	1,611,146	247,238	1,208,235	28,759	1,484,232
Financial liabilities:								
Trading liabilities	972	14,786	304	16,062	108	4,106	-	4,214
Derivative financial liabilities	-	61,513	-	61,513	-	31,444	-	31,444
Total	972	76,299	304	77,575	108	35,550	-	35,658

In 2020 and 2019, the Group did not transfer the fair value of financial instruments from level 1 and level 2 to level 3, nor did it transfer the fair value of financial instruments from level 1 to level 2.

(Expressed in millions of Renminbi, unless otherwise stated)

Movement in level 3 financial instruments measured at fair value:

The Group

	Trading assets	*Other debt investment*	Other equity investment	Trading liabilities	Tatal
At 1 January 2020	21,908	5,638	1,213	-	28,759
Gains or losses					
- in profit or loss	(76)	(345)	-	-	(421)
- in other comprehensive income	-	232	-	-	232
Purchase	18,306	556	580	(304)	19,138
Sold and settle	(7,295)	(3,475)	-	-	(10,770)
At 31 December 2020	32,843	2,606	1,793	(304)	36,938
Unrealized gains or losses as at 31 December 2020 included in profit or loss for assets held at 31 December 2020	(53)	-	-	-	(53)

	Trading assets	*Other debt investments*	*Other equity investments*	*Total*
At 1 January 2019	41,721	6,027	713	48,461
Gains or losses				
- in profit or loss	(1,174)	554	-	(620)
- in other comprehensive income	-	(963)	-	(963)
Purchase	13,818	5,495	500	19,813
Sold and settle	(32,457)	(5,475)	-	(37,932)
At 31 December 2019	21,908	5,638	1,213	28,759
Unrealized gains or losses as at 31 December 2019 included in profit or loss for assets held at 31 December 2019	(1,468)	-	-	(1,468)

(Expressed in millions of Renminbi, unless otherwise stated)

Information of Level 3 financial instruments:

The Group

Items	*Fair value on 31 December 2020*	*Value Tech*
Trading assets		
- Trust beneficiary rights and asset management plans	11,215	Discounted cash flow method
- Wealth management products	-	Discounted cash flow method
- Equity investments	11,089	Net asset value method
- Debt	1,741	Discounted cash flow method
- Others	8,798	Discounted cash flow method
Other debt investments		
- Trust beneficiary rights and asset management plans	2,556	Discounted cash flow method
- Debt	50	Discounted cash flow method
Other equity investments	1,793	Net asset value method
Trading liabilities	(304)	Note
Total	36,938	

Items	*Fair value on 31 December 2019*	*Value Tech*
Trading assets		
- Trust beneficiary rights and asset management plans	8,454	Discounted cash flow method
- Wealth management products	2,260	Discounted cash flow method
- Equity investments	5,218	Net asset value method
- Debt	43	Discounted cash flow method
- Others	5,933	Discounted cash flow method
Other debt investments		
- Trust beneficiary rights and asset management plans	4,278	Discounted cash flow method
- Debt	1,360	Discounted cash flow method
Other equity investments	1,213	Net asset value method
Total	28,759	

Note: Trading liabilities are the equity of other share holders in the consolidated structured entity, and the fair value is the amount attributable to the investors of the structured entity calculated based on the net value of the structured entity.

(Expressed in millions of Renminbi, unless otherwise stated)

7.3 Financial assets and liabilities measured not by fair value

All financial instruments are carried at amounts not materially different from their fair value not measured at fair value except as follows:

The Group

	2020				
	Carrying amount	*Fair value*	*Level 1*	*Level 2*	*Level 3*
Financial assets:					
Debt investments	1,550,131	1,563,127	-	904,055	659,072
Total	1,550,131	1,563,127	-	904,055	659,072
Financial liabilities:					
Debt securities issued	947,393	949,491	-	949,491	-
Total	947,393	949,491	-	949,491	-

	2019				
	Carrying amount	*Fair value*	*Level 1*	*Level 2*	*Level 3*
Financial assets:					
Debt investments	1,444,176	1,462,527	-	813,519	649,008
Total	1,444,176	1,462,527	-	813,519	649,008
Financial liabilities:					
Debt securities issued	899,116	894,531	-	894,531	-
Total	899,116	894,531	-	894,531	-

Quantitative information of level 2, 3 at fair value:

The Group

Items	*Fair value at 31 December 2020*	*Fair value at 31 December 2019*	*Valuation Technique*	*Inputs*
Debt investments	1,563,127	1,462,527	Discounted cash flow method	Yield rate of bonds,default rate, loss given default, discount rate
Debt securities issued	949,491	894,531	Discounted cash flow method	Yield rate of bonds

All of the above-mentioned assumptions and methods provide a consistent basis for the calculation of the fair values of the Group’s assets and liabilities. However, other institutions may use different assumptions and methods. Therefore, the fair values disclosed by different financial institutions may not be entirely comparable.

(Expressed in millions of Renminbi, unless otherwise stated)

XII. Other significant events

1. Financial assets and financial liabilities measured at fair value

The Group

	2020				
	Opening balance	*Profit or loss arising from changes in fair value for the year*	*Accumulated changes in fair value included in other comprehensive income*	*Provision for impairment losses for the year*	*Closing balance*
Financial assets:					
Derivative financial assets	32,724	26,672	-	-	59,396
Loans and advances to customers measured at fair value through profit or loss	2,339	1	-	-	1,364
Loans and advances to customers measured at fair value through other comprehensive income	195,824	-	(12)	135	207,703
Trading assets	652,034	(4,929)	-	-	823,927
Other debt investments	599,382	95	(7,247)	(2,483)	516,368
Other equity investments	1,929	-	(285)	-	2,388
Total financial assets	1,484,232	21,839	(7,544)	(2,348)	1,611,146
Financial liabilities [(1)]	(35,658)	(30,076)	-	-	(77,575)

The Bank

	2020				
	Opening balance	*Profit or loss arising from changes in fair value for the year*	*Accumulated changes in fair value included in other comprehensive income*	*Provision for impairment losses for the year*	*Closing balance*
Financial assets:					
Derivative financial assets	32,722	26,665	-	-	59,387
Loans and advances to customers measured at fair value through profit or loss	2,339	1	-	-	1,364
Loans and advances to customers measured at fair value through other comprehensive income	195,824	-	(12)	135	207,703
Trading assets	628,253	(5,098)	-	-	773,552
Other debt investments	597,801	95	(7,041)	(2,418)	514,919
Other equity investments	1,929	-	(285)	-	2,308
Total financial assets	1,458,868	21,663	(7,338)	(2,283)	1,559,233
Financial liabilities [(1)]	(35,548)	(30,021)	-	-	(76,226)

(1) Financial liabilities include trading liabilities and derivative financial liabilities.

(2) The items of assets and liabilities listed on the above tables have no inevitable relationship.

(Expressed in millions of Renminbi, unless otherwise stated)

2. Financial assets and financial liabilities denominated in foreign currencies

The Group

	2020				
	Opening balance	*Profit or loss arising from changes in fair value for the year*	*Accumulated changes in fair value included in other comprehensive income*	*(Charge) reversal for impairment losses for the year*	*Closing balance*
Cash and balances with Central Bank	11,954	-	-	-	8,529
Deposits with banks and other financial institutions	35,629	-	-	-	57,151
Placements with banks and other financial institutions	59,419	-	-	-	32,997
Derivative financial assets	3,158	4,767	-	-	7,925
Financial assets purchased under resale agreement	682	-	-	-	704
Loans and advances to customers	169,950	-	-	(2,908)	146,282
Financial investments:					
Trading assets	45,800	(1,002)	-	-	25,947
Debt investments	40,762	-	-	93	43,466
Other debt investments	89,867	-	(625)	564	75,462
Other equity investments	57	-	57	-	61
Finance lease receivables	947	-	-	(11)	936
Other financial assets	3,088	-	-	-	1,101
Total of financial assets	461,313	3,765	(568)	(2,262)	400,561
Financial liabilities [1]	(521,883)	(5,251)	-	-	(423,692)

(Expressed in millions of Renminbi, unless otherwise stated)

The Bank

	2020				
	Opening balance	*Profit or loss arising from changes in fair value for the year*	*Accumulated changes in fair value included in other comprehensive income*	*(Charge) reversal for impairment losses for the year*	*Closing balance*
Cash and balances with Central Bank	11,954	-	-	-	8,529
Deposits with banks and other financial institutions	35,629	-	-	-	57,151
Placements with banks and other financial institutions	59,419	-	-	-	32,997
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Financial assets purchased under resale agreement	682	-	-	-	704
Loans and advances to customers	169,950	-	-	(2,908)	146,282
Financial investments:					
Trading assets	45,800	(1,002)	-	-	25,947
Debt investments	40,762	-	-	93	43,466
Other debt investments	89,867	-	(625)	564	75,462
Other equity investments	57	-	57	-	61
Other financial assets	3,088	-	-	-	1,101
Total of financial assets	460,366	3,765	(568)	(2,251)	399,625
Financial liabilities [(1)]	(517,004)	(5,251)	-	-	(417,775)

(1) Financial liabilities include Borrowing from Central Bank, Deposits from banks and other financial institutions, Placements from banks and other financial institutions, Trading liabilities, Derivative financial liabilities, Financial assets sold under repurchase agreements, Deposits from customers and Debt securities issued, etc.

(2) The items of assets and liabilities listed on the above tables have no inevitable relationship.

3. Transfer of financial assets

3.1 Assets-securitized

The Group conducts asset-backed securities transactions during normal operations. The Group sells part of its financial assets to the special purpose trust established by the Group as an originating institution and then the special purpose trust issues asset-backed securities to investors. The Group determines whether it combines the special purpose trust based on whether it has power over such special purpose trust and whether it is involved in related activities of the special purpose trust to enjoy variable returns, and whether the Group has the ability to use its power over the special purpose trust to affect its returns.

Once a special purpose trust is established, it shall be distinguished from other property for which the Group has not set up a trust. When the Group is dissolved according to law, revoked according to law, and declared bankrupt, if the Group is the sole beneficiary, the special purpose trust shall be terminated and the trust property shall be deemed as the liquidation property; if the Group is not the sole beneficiary, the special purpose trust shall survive and the trust property shall not be deemed as the liquidation property; however, the trust beneficial rights held by the Group is its liquidation property.

In the course of the transfer of the aforesaid financial assets, the Group has not recognized the gains or losses since the transferring consideration is same as the book value of the transferred financial assets. Subsequently, the Group as a financial asset service institution will charge a certain service fee.

The Group analyses and judges if the relevant financial assets transferred to be derecognized based on the degree of transfer of risk and return:

- When the Group transfers substantially all the risks (mainly include credit risk, early repayment risk and interest rate risk of the transferred assets) and rewards of ownership of the financial assets to other investors in the course of the transfer of the underlying financial assets, the Group derecognizes the transferred financial assets. The Group has RMB 30,151 million securitized financial assets in 2020 (2019: Nil). Meanwhile, the Group subscribed for a certain percentage of asset-backed securities. As at 31 December 2020, the above asset-backed securities held by the Group amounted to RMB 4,447 million (31 December 2019: RMB 7,815 million).

- In 2020, the Group's transferred assets include financial assets with carrying amount of RMB 17,344 million (2019: RMB 50,571 million), where the Group neither transferred nor retained substantially all the risks (mainly include the credit risk, early repayment risk and interest rate risk of the transferred assets) and rewards of the ownership, and retained the control and has continuing involvement in these financial assets. As at 31 December 2020, the Group continued to recognize the financial assets with carrying amount of RMB 11,490 million (31 December 2019: RMB 13,400 million) based on its extent of continuing involvement in the assets, and recognized assets and liabilities with continuing involvement as other assets and other liabilities.

(Expressed in millions of Renminbi, unless otherwise stated)

3.2 Repurchase agreements

Repurchase agreements refer to agreements made by the Group and the counter-parities that financial assets (or financial assets that share the same substance) are settled a fixed price of repurchasing when they are sold at a fixed date. Due to the fixed repurchasing price, the Group shoulders almost all the credit and market risks and benefit of the assets. The sold financial assets (cannot be used within the period) should not be recognized in the financial statement, but should be regarded as guarantees because the Group retains all the risks and returns. Besides, the Group recognizes the financial liabilities by the price received. In these trading, the counter-parties' right to the Group is not limited within the transferred financial assets.

As at 31 December 2020 and 31 December 2019, the Group conducted trading of bonds and bills under repurchase agreements. The price of selling these financial assets is called financial assets sold under repurchase agreements price (Note VII. 18).

Included in the repurchase agreement, the book value of the financial assets which had been transferred but continued to be recognized by the Group and relevant liabilities are as follows:

The Group

Item	*2020*		*2019*	
	Bond	*Bill*	*Bond*	*Bill*
Assets book value	85,015	41,330	148,041	49,089
Liabilities book value	82,358	41,035	143,966	49,089

XIII. Comparative figures

Certain comparative figures have been re-presented by the Group to meet the presentation of the financial reporting.

XIV. Non-adjusting events after balance sheet date

In March 2021, Industrial Consumer Finance Co., Ltd., a subsidiary of the Group, issued RMB 1.5 billion 3-year fixed rate financial bonds with an annual interest rate of 3.85%

As at the approval date of the financial statements, there is no material post balance sheet date events which should be disclosed by the Group, except for the above contents and dividend distribution. For dividend distribution details, see Note VII. 30.

XV. Financial statements approved

The financial statements were approved by the Board of Directors of the Bank on 30 March 2021.

INDUSTRIAL BANK CO., LTD.
Supplementary Financial Information
(Expressed in millions of Renminbi, unless otherwise stated)

I Breakdown of non-recurring profit or loss

The following table is in accordance with the requirement of Information Disclosure and Presentation Rules for Companies Making Public Offering of Securities No. 1 - Non-recurring Profit or Loss (2008) (ZJHGG [2008] No.43) issued by China Securities Regulatory Commission.

The Group

	2020	*2019*
Gains and losses on the disposal of non-current assets	3	36
Government grants recognized in profit or loss	510	363
Net non-operating income and expenses in addition to the above	89	239
Subtotal	602	638
Impact on income tax expenses	(168)	(177)
Total	434	461
Total non-recurring profit or loss attributable to ordinary shareholders of the Bank	408	410
Total non-recurring profit or loss attributable to non-controlling interests	26	51
Net profit attributable to ordinary shareholders of the Bank, after deduction of non-recurring profit or loss	63,669	63,976

Non-recurring profit or loss refers to the profit or loss not related to normal business or the profit or loss which is related to normal business but affects the user of financial statements to make correct judgement for the Bank's financial position and financial performance because of its distinctiveness and non-recurring. Considering the nature of its normal business, Industrial Bank Co., Ltd. (hereinafter referred to as "the Bank") does not include "Trading assets, Debt investments, Other debt investments and Other equity investments" in non-recurring profit or loss.

II Return on net assets ("ROE") and earnings per share ("EPS")

The related data is calculated in accordance with the provisions in the Rule No.9 for the Preparation of Information Disclosure of Companies with Public Offering – the Calculation and Disclosure of ROE and EPS (revised in 2010). In the related period, basic EPS is calculated by dividing net profit by weighted average ordinary shares issued.

The Group

2020

	Weighted average ROE (%)	*Basic EPS (RMB)*
Net profit attributable to ordinary shareholders of the Bank	12.62	3.08
Net profit attributable to ordinary shareholders of the Bank, after deduction of non-recurring profit or loss	12.54	3.06

2019

	Weighted average ROE (%)	*Basic EPS (RMB)*
Net profit attributable to ordinary shareholders of the Bank	14.02	3.10
Net profit attributable to ordinary shareholders of the Bank, after deduction of non-recurring profit or loss	13.93	3.08

AUDITOR'S REPORT

KPMG Huazhen Shen Zi No.2002163

TO THE SHAREHOLDERS OF INDUSTRIAL BANK CO., LTD.

OPINION

We have audited the accompanying financial statements of Industrial Bank Co., Ltd. (the "Bank"), which comprise the consolidated and Bank's balance sheets as at 31 December 2019, the consolidated and Bank's income statements, the consolidated and Bank's cash flow statements, the consolidated and Bank's statements of changes in shareholders' equity for the year then ended, and notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated and Bank's financial position of the Bank as at 31 December 2019, and the consolidated and Bank's financial performance and cash flows of the Bank for the year then ended in accordance with Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People's Republic of China.

BASIS FOR OPINION

We conducted our audit in accordance with China Standards on Auditing for Certified Public Accountants ("CSAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the China Code of Ethics for Certified Public Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the 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)

Allowance for impairment losses on loans and debt investments	
Refer to the accounting policies set out in the notes to the financial statements "IV. Significant accounting policies and accounting estimates" 7.5 and "VII. Notes to the consolidated financial statements" 6 and 7.2.	
The Key Audit Matter	**How the matter was addressed in our audit**
The Bank has adopted the revised *CAS 22 - Recognition and Measurement of Financial Instruments* since 1 January 2019 and developed the expected credit loss model. The determination of allowance for impairment losses using the expected credit loss model is subject to a number of key parameters and assumptions, including the identification of loss stages, estimates of probability of default, loss given default, exposures at default and discount rate, adjustments for forward-looking information and other adjustment factors. Management judgment is involved in the selection of those parameters and the application of the assumptions. In particular, the determination of expected credit loss model is heavily dependent on the external macro environment and the Bank's internal credit risk management strategy. The expected credit losses for corporate loans and debt investments are derived from estimates including the historical losses, internal and external credit grading and other adjustment factors. The expected credit losses for personal loans are derived from estimates whereby management takes into consideration historical overdue data, the historical loss experience for personal loans and other adjustment factors. Management also exercises judgement in determining the quantum of loss given default based on a range of factors. These include available remedies for recovery, the financial situation of the borrower, the recoverable amount of collateral, the seniority of the claim and the existence and cooperativeness of other creditors. Management refers to valuation reports issued by qualified third party valuers and considers the influence of various factors including the market price, location and use when assessing the value of property held as collateral. The enforceability, timing and means of realisation of collateral can also have an impact on the recoverable amount of collateral and, therefore, the amount of allowance for impairment losses as at the end of reporting period. We identified the impairment of loans and advances to customers and debt investments as a key audit matter because of the inherent uncertainty and management judgment involved and because of its significance to the financial results and capital of the Bank.	Our audit procedures to assess allowance for impairment losses on loans and advances to customers and debt investments included the following: • understanding and assessing the design, implementation and operating effectiveness of key internal controls of financial reporting over the approval, recording and monitoring of loans and advances to customers or debt investments, the credit grading process and the measurement of allowances for impairment; • involving our IT specialists to assess the design and operating effectiveness of information system controls, including general information technology controls, completeness of automatically extracted key internal historical data, data transmission between systems, mapping of parameters of expected credit loss model, and logic settings for system calculation of allowance for impairment losses for expected credit loss; • with the assistance of our internal specialists in financial risk management, assessing the reliability of the expected credit loss model used by management in determining allowance for impairment losses, including assessing the appropriateness of the key parameters and assumptions in the expected credit loss model, including the identification of loss stages, probability of default, loss given default, exposure at default, discount rate, adjustments for forward-looking information and other management adjustments; • assessing the completeness and accuracy of data used for the key parameters in the expected credit loss model. For key parameters derived from internal data relating to original loan agreements, we compared the total balance of the loan and financial assets list used by management to assess the allowances for impairment with the general ledger, selecting samples and comparing individual loan and financial assets information with the underlying agreements and other related documentation to assess the accuracy of compilation of the loan and financial assets list. For key parameters derived from external data, we selected samples to inspect the accuracy of such data by comparing them with public resources;

KEY AUDIT MATTERS (continued)

Allowance for impairment losses on loans and debt investments (continued)	
Refer to the accounting policies set out in the notes to the financial statements "IV. Significant accounting policies and accounting estimates" 7.5 and "VII. Notes to the consolidated financial statements" 6 and 7.2.	
The Key Audit Matter	**How the matter was addressed in our audit**
	• for key parameters involving judgement, critically assessing input parameters by seeking evidence from external sources and comparing to the Bank's internal records including historical loss experience and type of collateral. As part of these procedures, we challenged management's revisions to estimates and input parameters compared with prior period and on transition to the new accounting standard and considered the consistency of judgement. We compared the economic factors used in the models with market information to assess whether they were aligned with market and economic development; • for key internal data generated by the system, we selected samples and checked the system input data against source documents to assess the accuracy of the system input data, and tested the logic for preparing information about overdue loans and advances based on the samples and with the help of our IT specialists; • evaluating the reasonableness of the management's judgment as to whether the credit risk of loans and advances to customers or debt investments has increased significantly since the initial recognition and whether the credit impairment has occurred by selecting a risk-based sample for credit review. We analysed the loan portfolio by industry sector to select samples for credit review in industries more vulnerable to the current economic situation. We also selected samples based on other risk criteria, including but not limited to borrowers with adverse press coverage and from the Bank's overdue report; Based on the selected samples, we checked information about overdue loans, learned about the borrowers' credit risk profile, made enquiries to the credit managers about the borrowers' business operations, checked the borrowers' financial information, and researched market information related to the borrowers' businesses.

KEY AUDIT MATTERS (continued)

Allowance for impairment losses on loans and debt investments (continued)	
Refer to the accounting policies set out in the notes to the financial statements "IV. Significant accounting policies and accounting estimates" 7.5 and "VII. Notes to the consolidated financial statements" 6 and 7.2.	
The Key Audit Matter	**How the matter was addressed in our audit**
	• performing credit review procedures on the samples of corporate loans and advances and debt investments selected in accordance with the aforesaid criteria, to assess the appropriateness of the loss given default (LGD) of the credit-impaired corporate loans and advances and debt investments; assessing the estimated recoverable cash flow through inquiries, professional judgements, independent queries, etc.; evaluating the management's assessment of the value of any collateral held, comparing the managemen's valuation of the collaterals to their market prices, evaluating the timing and means of realisation of the collaterals, and considering other sources of repayment asserted by the management; assessing the consistency in the application of key assumptions by the management and comparing them with our data sources. • selecting samples to check the expected credit loss calculation, so as to comment on the Bank's application of the expected credit loss model; and • evaluating whether the disclosure related to allowance for impairment losses on loans and advances to customers and debt investments meets the disclosure requirements of the revised *CAS 37 - Presentation of Financial Instruments.*

KEY AUDIT MATTERS (continued)

Consolidation of structured entities	
Refer to the accounting policies set out in the notes to the financial statements "IV. Significant accounting policies and accounting estimates" 4, "VI. Consolidation scope" 2 and "VII. Notes to the consolidated financial statements" 48.	
The Key Audit Matter	**How the matter was addressed in our audit**
Structured entities are generally created to achieve a narrow and well defined objective with restrictions around their ongoing activities. The Bank may acquire or retain an ownership interest in, or act as a sponsor to, a structured entity through issuing a wealth management product, an investment fund, an asset management plan, a trust plan or an asset-backed security. In determining whether a structured entity is required to be consolidated by the Bank, the management is required to consider the power the Bank is able to exercise over the activities of the entity, the variable returns to which the Bank has rights from its involvement with the structured entity, and its ability to influence its own variable returns from the entity. These factors are not purely quantitative and the substance of the transaction needs to be considered collectively. We identified the consolidation of structured entities as a key audit matter because some of these structured entities were complex in nature and judgement was required when the Bank performed qualitative assessment of terms and transaction substance for each structured entity.	Our audit procedures to assess the consolidation of structured entities included the following: • making enquiries of management and inspecting documents relating to the judgement process over whether a structured entity is consolidated or not to assess whether the Bank has a robust process in this regard; • performing the following procedures for structured entities on a sample basis: - inspecting selected contracts, internal establishment documents and information disclosed to the investors to understand the purpose of the establishment of the structured entities and the involvement the Bank has with the structured entities and to assess management's judgement over whether the Bank has the ability to exercise power over the structured entities; - inspecting the risk and reward structure of the structured entities, including any capital or return guarantee, provision of liquidity support, commission paid and distribution of the returns, to assess management's judgement as to exposure, or rights, to variable returns from the Bank's involvement in such entities; - evaluating management's analyses of the structured entities including qualitative analyses and calculations of the magnitude and variability associated with the Bank's economic interests in the structured entities to assess management's judgement over the Bank's ability to influence its own returns from the structured entities; - assessing management's judgement over whether the structured entities should be consolidated or not; and • assessing the disclosures in the consolidated financial statements in relation to structured entities with reference to the requirements of the prevailing accounting standards.

KEY AUDIT MATTERS (continued)

Fair value of financial instruments

Refer to ”XI. Financial risk management” 7 set out in the notes to the financial statements.

The Key Audit Matter	How the matter was addressed in our audit
Financial instruments carried at fair value account for a significant part of the Bank's assets and liabilities. The effect of fair value adjustments of financial instruments may impact either the profit or loss or other comprehensive income. The valuation of the Bank's financial instruments, held at fair value, is based on a combination of market data and valuation models which often require a considerable number of inputs. Many of these inputs are obtained from readily available data, in particular for level 1 and level 2 financial instruments in the fair value hierarchy, the valuation techniques for which use quoted market prices and observable inputs, respectively. Where such observable data is not readily available for valuation techniques, as in the case of level 3 financial instruments, estimates need to be developed which can involve significant management judgement. The Bank has developed its own models to value certain level 2 and level 3 financial instruments, which also involves significant management judgement. We identified assessing the fair value of financial instruments as a key audit matter because of the degree of complexity involved in valuing certain financial instruments and the degree of judgement exercised by management in determining the inputs used in the valuation models.	Our audit procedures to assess the fair value of financial instruments included the following: • assessing the design, implementation and operating effectiveness of key internal controls over the valuation, independent price verification, front office and back office reconciliations and model approval for financial instruments; • assessing the level 1 fair values, on a sample basis, by comparing the fair values applied by the Bank with publicly available market data; • engaging our internal valuation specialists to assist us in performing independent valuations, on a sample basis, of level 2 and level 3 financial instruments and comparing our valuations with the Bank's valuations. Our procedures included developing parallel models, obtaining inputs independently and verifying the inputs; • assessing the appropriate application of fair value adjustments that form an integral part of fair values, inquiring of management about any changes in the fair value adjustments methodology and assessing the appropriateness of the inputs applied; and • assessing whether the financial statement disclosures appropriately reflected the Bank's exposure to financial instrument valuation risk with reference to the requirements of the related financial reporting standards.

KEY AUDIT MATTERS (continued)

Adjustments and disclosures in relation to transition to the new financial instruments standards

Refer to the accounting policies set out in the notes to the financial statements "IV. Significant accounting policies and accounting estimates" 30.

The Key Audit Matter	How the matter was addressed in our audit
The Bank has applied the revised *CAS 22 - Recognition and Measurement of Financial Instruments, CAS 23 - Transfer of Financial Assets and CAS 37 - Presentation of Financial Instruments* (hereinafter referred to as "New Financial Instrument Standards") since 1 January 2019. The new financial instruments standards have modified the previously applied financial instrument classification and measurement framework and introduced a more complex ECL model for assessing impairment. In addition, the Bank needed to follow the classification and measurement requirements (including impairment) of new financial instruments standards, and recognise any difference between the previous carrying amount under the previous financial instruments standards and the carrying amount at the initial application date (1 January 2019) of the new standards in the opening retained earnings or other comprehensive income from equity. We identified the adjustments and disclosures in relation to the transition to the new financial instruments standards as a key audit matter, because of the complexity of the transition process which involved changes in internal controls of the financial reporting process, accounting treatments, and application of new system data; also, management judgment was applied.	Our audit procedures relating to the transition to the new financial instruments standards included the following: • understanding and assessing the key internal controls of the financial reporting process related to the transition to the new financial instruments standards, including internal control processes related to the selection and approval of accounting policy and expected credit loss model methodology, information system related controls, etc.; • obtaining a list of financial instruments classified by the management as at the transition date, selecting samples to perform contractual cash flow tests, and consulting relevant business model documents, so as to assess the accuracy of the classification judgement and result; • engaging our internal specialists in financial risk management to assist us in evaluating the valuation method of financial assets and the key parameters used for financial assets that are measured at fair value due to changes in classification and measurement, and selecting samples to independently verify their fair value; • with the assistance of our internal specialists in financial risk management, assessing the reliability of the expected credit loss model used by management in determining allowance for impairment losses, including assessing the appropriateness of the key parameters and assumptions in the expected credit loss model, including the identification of loss stages, probability of default, loss given default, exposure at default, discount rate, adjustments for forward-looking information and other management adjustments, and evaluating the reasonableness of key management judgments involved; • obtaining journal entries relating to adjustments made on transition to the new financial instruments standards on 1 January 2019 and comparing them with the list of classification, valuation, expected credit loss of financial instruments, to assess the completeness and accuracy of adjustment journals, and assessing whether the journal entries in relation to transition to the new financial instruments standards were in compliance with the prevailing accounting standards; and • assessing whether the relevant disclosures in relation to transition to the new financial instruments standards at 1 January 2019 were in compliance with the prevailing accounting standards.

OTHER INFORMATION

The Bank's management is responsible for the other information. The other information comprises all the information included in 2019 annual report of the Bank, other than the financial statements and our auditor's report thereon.

Our opinion on the 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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 MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Accounting Standards for Business Enterprises, and for the design, implementation and maintenance of such internal control necessary to enable that the financial statements are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank'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 management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with CSAs 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 financial statements.

As part of an audit in accordance with CSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank'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 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 Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the 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 Bank to express an opinion on the 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.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS (continued)

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and 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 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.

KPMG Huazhen LLP
Beijing, China

Certified Public Accountants
Registered in the People's
Republic of China

Shi Jian (Engagement Partner)

Chen Sijie

28 April 2020

THE CONSOLIDATED AND BANK'S BALANCE SHEETS

AS AT 31 DECEMBER 2019 (Expressed in millions of Renminbi, unless otherwise stated)

		The Group		The Bank	
	Note VII	2019	2018	2019	2018
Assets					
Cash and balances with Central Bank	1	**486,444**	475,781	**486,430**	475,775
Deposits with banks and other financial institutions	2	**87,260**	53,303	**81,829**	47,869
Precious metals		**401**	3,350	**401**	3,350
Placements with banks and other financial institutions	3	**231,475**	98,349	**243,929**	111,238
Derivative financial assets	4	**32,724**	42,092	**32,722**	42,092
Financial assets purchased under resale agreements	5	**41,861**	77,083	**37,988**	73,795
Loans and advances to customers	6	**3,345,180**	2,838,445	**3,316,610**	2,822,075
Financial investments:	7				
Trading assets	7.1	**652,034**	N/A	**628,253**	N/A
Debt investments	7.2	**1,444,176**	N/A	**1,431,325**	N/A
Other debt investments	7.3	**599,382**	N/A	**597,801**	N/A
Other equity investments	7.4	**1,929**	N/A	**1,929**	N/A
Financial assets at fair value through profit or loss	8	**N/A**	459,598	**N/A**	413,015
Available-for-sale financial assets	9	**N/A**	647,102	**N/A**	665,685
Held-to-maturity investments	10	**N/A**	395,142	**N/A**	393,557
Investments classified as receivables	11	**N/A**	1,387,150	**N/A**	1,375,840
Finance lease receivables	12	**106,273**	104,253	**-**	-
Long-term equity investments	13	**3,413**	3,224	**23,601**	17,979
Fixed assets	14	**24,641**	17,658	**18,892**	12,624
Construction in progress	15	**3,463**	7,872	**3,441**	7,852
Intangible assets		**647**	602	**603**	556
Goodwill	16	**532**	532	**-**	-
Deferred tax assets	17	**40,799**	32,317	**37,984**	30,102
Other assets	18	**43,047**	67,804	**34,518**	56,028
Total assets		**7,145,681**	6,711,657	**6,978,256**	6,549,432

(Continued)

The accompanying notes form an integral part of these financial statements.

		The Group		The Bank	
	Note VII	2019	2018	2019	2018
Liabilities					
Borrowing from Central Bank		**168,259**	268,500	**168,259**	268,500
Deposits from banks and other financial institutions	19	**1,233,937**	1,344,883	**1,245,608**	1,351,407
Placements from banks and other financial institutions	20	**192,310**	220,831	**97,194**	126,941
Trading liabilities	21	**4,214**	2,594	**4,106**	2,387
Derivative financial liabilities	4	**31,444**	38,823	**31,442**	38,823
Financial assets sold under repurchase agreements	22	**193,412**	230,569	**184,072**	219,274
Deposits from customers	23	**3,794,832**	3,303,512	**3,797,501**	3,304,063
Employee benefits payable	24	**17,738**	15,341	**15,909**	13,569
Tax payable	25	**14,476**	11,297	**13,226**	10,045
Provisions	26	**6,253**	-	**6,253**	-
Debt securities issued	27	**899,116**	717,854	**871,106**	698,436
Other liabilities	28	**40,038**	84,869	**21,124**	66,423
Total liabilities		**6,596,029**	6,239,073	**6,455,800**	6,099,868
Shareholders' equity					
Share capital	29	**20,774**	20,774	**20,774**	20,774
Other equity instruments	30	**55,842**	25,905	**55,842**	25,905
Including: preference shares		**55,842**	25,905	**55,842**	25,905
Capital reserve	31	**74,914**	75,011	**75,260**	75,260
Other comprehensive income	44	**3,232**	2,356	**3,192**	2,802
Surplus reserve	32	**10,684**	10,684	**10,684**	10,684
General reserve	33	**78,525**	73,422	**74,829**	69,996
Retained earnings	34	**297,389**	257,801	**281,875**	244,143
Equity attributable to shareholders of the Bank		**541,360**	465,953	**522,456**	449,564
Non-controlling interests		**8,292**	6,631	**-**	-
Total shareholders' equity		**549,652**	472,584	**522,456**	449,564
Total liabilities and shareholders' equity		**7,145,681**	6,711,657	**6,978,256**	6,549,432

The financial statements were signed by the following persons in charge:

Tao Yiping
(On Behalf of the Legal Representative)
Director, President, Financial Director

Lai Furong
Person in Charge of the Accounting Body

The accompanying notes form an integral part of these financial statements.

THE CONSOLIDATED AND BANK'S INCOME STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019 (Expressed in millions of Renminbi, unless otherwise stated)

		The Group		The Bank	
	Note VII	2019	2018	2019	2018
I. Operating income		**181,308**	158,287	**168,429**	147,994
Net interest income	35	**102,988**	95,657	**94,244**	90,636
Interest income	35	**269,677**	270,578	**255,951**	259,667
Interest expense	35	**(166,689)**	(174,921)	**(161,707)**	(169,031)
Net fee and commission income	36	**49,679**	42,978	**45,361**	38,754
Fee and commission income	36	**53,634**	47,062	**49,128**	42,375
Fee and commission expense	36	**(3,955)**	(4,084)	**(3,767)**	(3,621)
Investment income	37	**24,992**	26,482	**26,266**	26,981
Including: income from joint ventures and associates		**205**	265	**184**	264
income from derecognition of financial assets at amortised cost		**393**	N/A	**250**	N/A
Gains from changes in fair values	38	**1,622**	2,919	**1,434**	2,711
Foreign exchange gains (losses)		**851**	(11,298)	**840**	(11,418)
Income from disposal of assets		**38**	19	**38**	19
Other income		**363**	637	**71**	103
Other operating income		**775**	893	**175**	208
II. Operating expenses		**(107,042)**	(90,373)	**(100,000)**	(85,270)
Taxes and surcharges	39	**(1,756)**	(1,408)	**(1,635)**	(1,316)
General and administrative expenses	40	**(46,557)**	(42,064)	**(43,002)**	(39,086)
Credit impairment losses	41	**(58,088)**	N/A	**(54,992)**	N/A
Impairment losses on assets	42	**N/A**	(46,404)	**N/A**	(44,609)
Impairment losses on other assets		**(8)**	N/A	**(8)**	N/A
Other operating expenses		**(633)**	(497)	**(363)**	(259)
III. Operating profit		**74,266**	67,914	**68,429**	62,724
Add: Non-operating income		**368**	335	**258**	285
Less: Non-operating expenses		**(131)**	(172)	**(123)**	(163)
IV. Total profit		**74,503**	68,077	**68,564**	62,846
Less: Income tax expenses	43	**(7,801)**	(6,832)	**(6,265)**	(5,615)
V. Net profit		**66,702**	61,245	**62,299**	57,231

(Continued)

The accompanying notes form an integral part of these financial statements.

		The Group		The Bank	
	Note VII	2019	2018	2019	2018
V. Net profit (continued)		**66,702**	61,245	**62,299**	57,231
1. Categorized by continuity of operation:					
(1) Net profit from continuing operations		**66,702**	61,245	**62,299**	57,231
(2) Net profit from discontinued operations		**-**	-	**-**	-
2. Categorized by ownership:					
(1) Attributable to shareholders of the Bank		**65,868**	60,620	**62,299**	57,231
(2) Non-controlling interests		**834**	625	**-**	-
VI. Other comprehensive income- net of tax	44	**270**	3,352	**244**	3,819
Other comprehensive income attributable to shareholders of the Bank		**265**	3,423	**244**	3,819
1.Items that may be reclassified subsequently to profit or loss					
(1) Changes in fair value of other debt investments		**(776)**	N/A	**(772)**	N/A
(2) Credit losses on other debt investments		**666**	N/A	**648**	N/A
(3) Changes in fair value of available-for-sale financial assets		**N/A**	3,587	**N/A**	4,007
(4) Translation differences of financial statements denominated in foreign currencies		**7**	24	**-**	-
(5) Other comprehensive income recognised under equity method		**4**	-	**4**	-
2.Items that will not be reclassified subsequently to profit or loss:					
(1) Actuarial (losses) profits on defined benefit plans		**363**	(188)	**363**	(188)
(2) Changes in fair value of other equity investments		**1**	N/A	**1**	N/A
Other comprehensive income attributable to non-controlling interests		**5**	(71)	**-**	-
VII.Total comprehensive income		**66,972**	64,597	**62,543**	61,050
Total comprehensive income attributable to:					
Shareholders of the Bank		**66,133**	64,043	**62,543**	61,050
Non-controlling interests		**839**	554	**-**	-
VIII.Earnings per share (expressed in RMB)					
Basic earnings per share	45	**3.10**	2.85		
Diluted earnings per share	45	**3.10**	2.85		

The financial statements were signed by the following persons in charge:

Tao Yiping	Lai Furong
(On Behalf of the Legal Representative)	Person in Charge of the Accounting Body
Director, President, Financial Director	

The accompanying notes form an integral part of these financial statements.

THE CONSOLIDATED AND BANK'S CASH FLOW STATEMENTS

For the year ended 31 December 2019 (Expressed in millions of Renminbi, unless otherwise stated)

		The Group		The Bank	
	Note VII	2019	2018	2019	2018
I. Cash flows from operating activities:					
Net increase in deposits from customers and deposits from banks and other financial institutions		**336,384**	113,004	**343,649**	116,059
Net decrease in balances with Central Bank and deposits with banks and other financial institutions		**13,192**	48,698	**12,225**	47,193
Net increase in placements from banks and other financial institutions and financial assets sold under repurchase agreements		**-**	33,677	**-**	37,181
Net increase in borrowing from Central Bank		**-**	23,500	**-**	23,500
Cash receipts from interest, fee and commission		**224,627**	195,667	**211,773**	182,868
Other cash receipts relating to operating activities		**15,277**	51,888	**7,581**	11,325
Subtotal of cash inflows from operating activities		**589,480**	466,434	**575,228**	418,126
Net increase in loans and advances to customers		**544,910**	532,140	**531,869**	522,562
Net increase in finance leases		**5,241**	1,886	**-**	-
Net decrease in placements from banks and other financial institutions and financial assets sold under repurchase agreements		**67,358**	-	**66,208**	-
Net increase in placements with banks and other financial institutions and financial assets purchased under resale agreements		**100,499**	30,736	**100,870**	37,295
Net decrease in borrowing from Central Bank		**102,800**	-	**102,800**	-
Net increase in financial assets held for trading		**134,656**	-	**127,722**	-
Cash payments to interest, fee and commission		**143,797**	145,164	**137,378**	138,207
Cash payments to and on behalf of employees		**25,691**	24,925	**23,503**	23,096
Cash payments of various types of taxes		**23,143**	18,435	**21,131**	15,881
Other cash payments relating to operating activities		**29,394**	69,247	**26,744**	38,092
Subtotal of cash outflows from operating activities		**1,177,489**	822,533	**1,138,225**	775,133
Net cash flow from operating activities	46	**(588,009)**	(356,099)	**(562,997)**	(357,007)
II.Cash flows from investing activities					
Cash receipts from recovery of investments		**5,219,878**	5,489,179	**5,190,076**	5,397,632
Cash receipts from investment income		**128,078**	120,784	**122,447**	118,100

(Continued)

	Note VII	The Group 2019	The Group 2018	The Bank 2019	The Bank 2018
Cash receipts from disposals of fixed assets, intangible assets and other long-term assets		**161**	228	**161**	93
Other cash receipts relating to investing activities		**14,342**	20	**11,302**	20
Subtotal of cash inflows from investing activities		**5,362,459**	5,610,211	**5,323,986**	5,515,845
Cash payments to acquire investments		**4,743,993**	5,180,506	**4,677,289**	5,098,552
Cash payments to acquire fixed assets, intangible assets and other long-term assets		**5,517**	6,395	**4,255**	5,163
Other cash payments relating to investing activities		**10,612**	920	**7,477**	920
Subtotal of cash outflows from investing activities		**4,760,122**	5,187,821	**4,689,021**	5,104,635
Net cash flow from investing activities		**602,337**	422,390	**634,965**	411,210
III.Cash flows from financing activities:					
Cash receipts from capital contributions		**32,145**	220	**30,000**	-
Including: Cash receipts from capital contributions from non-controlling shareholders of subsidiaries		**238**	220	**-**	-
Proceeds from issuance of bonds		**990,074**	1,425,549	**981,174**	1,414,572
Other cash receipts relating to financing activities		**-**	3,641	**-**	-
Subtotal of cash inflows from financing activities		**1,022,219**	1,429,410	**1,011,174**	1,414,572
Cash repayments of borrowings		**810,130**	1,370,689	**809,507**	1,364,168
Cash payments for distribution of dividends or profits or settlement of interest expenses		**44,076**	43,728	**43,060**	43,728
Including: Dividends paid to non-controlling shareholders of subsidiaries		**106**	-	**-**	-
Other cash payments relating to financing activities		**1,346**	4,557	**63**	-
Subtotal of cash outflows from financing activities		**855,552**	1,418,974	**852,630**	1,407,896
Net cash flow from financing activities		**166,667**	10,436	**158,544**	6,676
IV.Effect of foreign exchange rate changes on cash and cash equivalents		**1,558**	2,129	**1,545**	2,116
V.Net increase in cash and cash equivalents	46	**182,553**	78,856	**232,057**	62,995
Add: Opening balance of cash and cash equivalents		**549,177**	470,321	**543,622**	480,627
VI.Closing balance of cash and cash equivalents	46	**731,730**	549,177	**775,679**	543,622

The financial statements were signed by the following persons in charge:

Tao Yiping
(On Behalf of the Legal Representative)
Director, President, Financial Director

Lai Furong
Person in Charge of the Accounting Body

The accompanying notes form an integral part of these financial statements.

THE CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019 (Expressed in millions of Renminbi, unless otherwise stated)

	2019									
	Attributable to shareholders of the Bank									
	Note VII	Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Non-controlling interests	Total
I. At 31 December 2018		20,774	25,905	75,011	2,356	10,684	73,422	257,801	6,631	472,584
Changes in accounting policies		-	-	-	611	-	-	(5,361)	(22)	(4,772)
II. At 1 January 2019		20,774	25,905	75,011	2,967	10,684	73,422	252,440	6,609	467,812
III. Changes for the year										
(I) Net profit		-	-	-	-	-	-	65,868	834	66,702
(II) Other comprehensive income	44	-	-	-	265	-	-	-	5	270
Subtotal of (I) and (II)		-	-	-	265	-	-	65,868	839	66,972
(III) Capital contribution from shareholders		-	29,937	(97)	-	-	-	-	950	30,790
1.Contribution from shareholders		-	-	-	-	-	-	-	238	238
2.Changes in shareholdings in subsidiaries		-	-	(97)	-	-	-	-	(1,282)	(1,379)
3.Capital injection by other equity instruments shareholders		-	29,937	-	-	-	-	-	1,994	31,931
(IV) Profit distribution		-	-	-	-	-	5,103	(20,919)	(106)	(15,922)
1.Appropriation to general reserve	33	-	-	-	-	-	5,103	(5,103)	-	-
2.Dividends paid to ordinary shareholders	34	-	-	-	-	-	-	(14,334)	(106)	(14,440)
3.Dividends paid to preference shareholders	34	-	-	-	-	-	-	(1,482)	-	(1,482)
IV. At 31 December 2019		20,774	55,842	74,914	3,232	10,684	78,525	297,389	8,292	549,652

The accompanying notes form an integral part of these financial statements.

FOR THE YEAR ENDED 31 DECEMBER 2018 (Expressed in millions of Renminbi, unless otherwise stated)

		2018								
		Attributable to shareholders of the Bank								
	Note VII	Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Non-controlling interests	Total
I. At 1 January 2018		20,774	25,905	75,011	(1,067)	10,684	70,611	214,977	5,857	422,752
II. Changes for the year										
(I) Net profit		-	-	-	-	-	-	60,620	625	61,245
(II) Other comprehensive income	44	-	-	-	3,423	-	-	-	(71)	3,352
Subtotal of (I) and (II)		-	-	-	3,423	-	-	60,620	554	64,597
(III) Capital contribution from shareholders		-	-	-	-	-	-	-	220	220
Contribution from shareholders		-	-	-	-	-	-	-	220	220
(IV) Profit distribution		-	-	-	-	-	2,811	(17,796)	-	(14,985)
1. Appropriation to general reserve	33	-	-	-	-	-	2,811	(2,811)	-	-
2. Dividends paid to ordinary shareholders	34	-	-	-	-	-	-	(13,503)	-	(13,503)
3. Dividends paid to preference shareholders	34	-	-	-	-	-	-	(1,482)	-	(1,482)
III. At 31 December 2018		20,774	25,905	75,011	2,356	10,684	73,422	257,801	6,631	472,584

The financial statements were signed by the following persons in charge:

Tao Yiping	Lai Furong
(On Behalf of the Legal Representative)	Person in Charge of the Accounting Body
Director, President, Financial Director	

The accompanying notes form an integral part of these financial statements.

THE BANK'S STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019 (Expressed in millions of Renminbi, unless otherwise stated)

		2019							
	Note VII	Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Total
I. At 31 December 2018		20,774	25,905	75,260	2,802	10,684	69,996	244,143	449,564
Changes in accounting policies		-	-	-	146	-	-	(3,918)	(3,772)
II. At 1 January 2019		20,774	25,905	75,260	2,948	10,684	69,996	240,225	445,792
III. Changes for the year									
(I) Net profit		-	-	-	-	-	-	62,299	62,299
(II) Other comprehensive income	44	-	-	-	244	-	-	-	244
Subtotal of (I) and (II)		-	-	-	244	-	-	62,299	62,543
(III) Capital contribution from shareholders		-	29,937	-	-	-	-	-	29,937
Capital injection by other equity instruments shareholders		-	29,937	-	-	-	-	-	29,937
(IV) Profit distribution		-	-	-	-	-	4,833	(20,649)	(15,816)
1. Appropriation to general reserve	33	-	-	-	-	-	4,833	(4,833)	-
2. Dividends paid to ordinary shareholders	34	-	-	-	-	-	-	(14,334)	(14,334)
3. Dividends paid to preference shareholders	34	-	-	-	-	-	-	(1,482)	(1,482)
IV. At 31 December 2019		20,774	55,842	75,260	3,192	10,684	74,829	281,875	522,456

The accompanying notes form an integral part of these financial statements.

FOR THE YEAR ENDED 31 DECEMBER 2018 (Expressed in millions of Renminbi, unless otherwise stated)

		2018							
	Note VII	Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Total
I. At 1 January 2018		20,774	25,905	75,260	(1,017)	10,684	67,888	204,005	403,499
II. Changes for the year									
(I) Net profit		-	-	-	-	-	-	57,231	57,231
(II) Other comprehensive income	44	-	-	-	3,819	-	-	-	3,819
Subtotal of (I) and (II)		-	-	-	3,819	-	-	57,231	61,050
(III) Profit distribution		-	-	-	-	-	2,108	(17,093)	(14,985)
1. Appropriation to general reserve	33	-	-	-	-	-	2,108	(2,108)	-
2. Dividends paid to ordinary shareholders	34	-	-	-	-	-	-	(13,503)	(13,503)
3. Dividends paid to preference shareholders	34	-	-	-	-	-	-	(1,482)	(1,482)
III. At 31 December 2018		20,774	25,905	75,260	2,802	10,684	69,996	244,143	449,564

The financial statements were signed by the following persons in charge:

Tao Yiping	Lai Furong
(On Behalf of the Legal Representative)	Person in Charge of the Accounting Body
Director, President, Financial Director	

The accompanying notes form an integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of Renminbi, unless otherwise stated)

I. GENERAL INFORMATION

Industrial Bank Co., Ltd. (hereinafter referred to as "the Bank") which was referred to as Fujian Industrial Bank Co., Ltd. previously, is a stock commercial bank approved by the People's Bank of China (the "PBOC"), with the document YF [1988] No. 347 issued on 20 July 1988, in accordance with the Application by Fujian Province for Deepening Reform and Opening and Accelerating the Development of Export-oriented Economy (GH [1988] No.58) approved by the State Council. The Bank started trading on Shanghai Stock Exchange on 5 February 2007 with the stock code 601166.

The Bank holds the license for carrying out financial activities issued by China Banking and Insurance Regulatory Commission (formerly known as China Banking Regulatory Commission, hereinafter referred to as the "CBIRC") with the license number of No. B0013H135010001; and the Business License of Enterprise Legal Person issued by Fujian Provincial Administration for Industry and Commerce with uniform social credit code of 91350000158142711F. The Bank's registered address is No.154 Hudong Road, Fuzhou, Fujian Province, the PRC. Tao Yiping was delegated with the duties of legal representative.

The principal activities of the Bank comprise the provision of banking service, which includes accepting deposits from the public; granting short-term, medium-term and long-term loans; domestic and overseas settlement services; issuance of discount and acceptance bills and notes; issuing financial bonds; agency issuance and encashment, underwriting of government bonds and debentures; trading of government and financial bonds and debentures; agency trading and trading of marketable securities except stock; asset custody business; inter-bank lending and borrowings; agency trading, trading, settlement and sale of foreign exchanges; bank card business; letters of credit and letters of guarantee; remittance and insurance agent services; safety deposit box services; financial advisory services; credit investigation, advisory and attestation services and other banking activities approved by the CBIRC.

The principal activities of the Bank's subsidiaries comprise finance leasing; trust services; fund raising and marketing; asset management for specific clients; asset management; consumer finance; equity investment; industrial investment; investment management and advisory; investment consulting (excluding brokerage); financial consulting; business consulting; enterprise management consulting; financial data processing; commodity futures brokerage; financial futures brokerage; futures investment consulting; economic information consulting service; application software development and operational services; system integration services; investment and asset management; acquisition, transfer and disposal of bad debts in batches of financial institutions in the province; acquisition, transfer and disposal of bad debts of non-financial institutions; issuance of wealth management products to non-specific public customers and investment and management of the investors' assets as entrusted; issuance of wealth management products to qualified investors and investment and management of the investors' assets as entrusted; wealth management consulting and advisory services; and other banking activities approved by the CBIRC as well as other businesses permitted by China Securities Regulatory Commission (the "CSRC").

II. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The report is prepared on a going concern basis.

The Bank and its subsidiaries (hereinafter referred to as "the Group") has adopted the revised *CAS 22 - Recognition and Measurement of Financial Instruments* and other new financial instrument standards issued by the Ministry of Finance (the "MOF") in 2017, since 1 January 2019. (see Note IV. 30).

The Group has not implemented the revised *CAS 14 - Revenue and CAS 21 – Leases* issued by the Ministry of Finance in 2017 and 2018 respectively.

III. STATEMENT OF COMPLIANCE WITH THE ASBE

The financial statements of the Bank have been prepared in accordance with ASBE, and present truly and completely, the consolidated and Bank's financial position as at 31 December 2019, and the consolidated and Bank's results of operations and cash flows for the year then ended.

In addition, the Bank's financial statements also comply with relevant disclosure requirements on financial statements and notes of the revised Rules on the Preparation and Submission of Information Disclosed by Companies Offering Securities to the Public (No.15) – General Rules on Financial Reports issed by China Securities Regulatory Commission (CSRC) in 2014.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

1. Accounting period

The Bank's accounting year starts on 1 January and ends on 31 December.

2. Functional currency

The Group and its domestic subsidiaries choose Renminbi ("RMB") as their functional currency, while its subsidiaries overseas choose their functional currency depends on the primary economic environment in which the subsidiaries operate and was translated into RMB according to the principles stated in Note IV. 6.

3. The accounting treatment of business combinations involving enterprises under common control and business combinations not involving enterprises under common control

Business combinations are classified into business combinations involving enterprises under common control and business combinations not involving enterprises under common control.

3.1 Business combinations involving enterprises under common control

A business combination involving enterprises under common control is a business combination in which all of the combining enterprises are ultimately controlled by the same party or parties both before and after the combination, and that control is not transitory.

The assets acquired and liabilities assumed are measured based on their carrying amounts (or the total par value of the issued shares) in the consolidated financial statements of the ultimate controlling party at the combination date. The difference between the carrying amount of the net assets obtained and the carrying amount of the consideration paid for the combination is adjusted to the share premium in capital reserve. If the share premium is not sufficient to absorb the difference, any excess shall be adjusted against retained earnings.

Costs that are directly attributable to the combination are charged to profit or loss in the period in which they are incurred. Combination date is the date on which the absorbing party effectively obtains control of the party being absorbed.

3.2 Business combinations not involving enterprises under common control and goodwill

A business combination not involving enterprises under common control is a business combination in which all of the combining enterprises are not ultimately controlled by the same party or parties before and after the combination.

The cost of combination is the aggregation of the fair values, at the acquisition date, of the assets given, liabilities incurred or assumed, and the equity securities issued by the acquirer in exchange for control of the acquire. Where a business combination not involving enterprises under common control is achieved in stages that involve multiple transactions, the cost of combination is the sum of the consideration paid at the acquisition date and the fair value at the acquisition date of the acquirer's previously held interest in the acquiree. The intermediary expenses incurred by the acquirer in respect of auditing, legal services, valuation and consultancy services, etc. and other associated administrative expenses attributable to the business combination are recognised in profit or loss when they are incurred.

For a business combination involving entities not under common control and achieved in stages, the Group remeasured its previously-held equity interest in the acquiree to its acquisition-date fair value and recognised any resulting difference between the fair value and the carrying amount as investment income or other comprehensive income for the current period. In addition, any amount recognised in other comprehensive income and other changes in the owners' equity under equity accounting in prior reporting periods relating to the previously-held equity interest that may be reclassified to profit or loss were transferred to investment income at the date of acquisition (see Note IV. 9.3.2); Any previously-held equity interest that was designated as equity investment at fair value through other comprehensive income, the other comprehensive income recognised in prior reporting periods was transferred to retained earnings and surplus reserve at the date of acquisition.

The acquiree's identifiable assets, liabilities and contingent liabilities acquired by the acquirer in a business combination that meet the recognition criteria shall be measured at fair value at the acquisition date. Acquisition date is the date on which the acquirer effectively obtains control of the acquiree.

Where the cost of combination exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is treated as an asset and recognised as goodwill, which is measured at cost on initial recognition. Where the cost of combination is less than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the acquirer firstly reassesses the measurement of the fair values of the acquiree's identifiable assets, liabilities and contingent liabilities and measurement of the cost of combination. If after that reassessment, the cost of combination is still less than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the acquirer recognises the remaining difference immediately in profit or loss for the current period.

Goodwill arising on a business combination is measured at cost less accumulated impairment losses, and is presented separately in the consolidated financial statements. It is tested for impairment at least at the end of each year. On disposal of an asset group or a set of asset groups, any attributable goodwill is written off and included in the calculation of the profit or loss on disposal.

4. Preparation of consolidated financial statements

The scope of consolidated financial statements is determined on the basis of control. Control refers to the power an investor has over an investee, by virtue of which the investor enjoys variable returns by participating in related activities of the investee, and has the ability to use its power over the investee to influence the amount of its returns. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered. Once the change in relevant facts and circumstances leads to a change in relevant elements involved in the definition of control, the Group will conduct reassessment.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of subsidiary.

For subsidiaries disposed by the Group, their results of operation and cash flows prior to the disposal date (the date when control is lost) are included in the consolidated statements of comprehensive income and consolidated statement of cash flows, as appropriate.

For subsidiaries acquired through a business combination not involving enterprises under common control, their results of operation and cash flows from the acquisition date(the date when control is obtained) are included in the consolidated statements of comprehensive income and consolidated statement of cash flows, as appropriate.

No matter when the business combination occurs in the reporting period, subsidiaries acquired through a business combination involving enterprises under common control are included in the Group's scope of consolidation as if they had been included in the scope of consolidation from the date when they first came under the common control of the ultimate controlling party. Their operating results and cash flows from the beginning of the earliest reporting period are included in the consolidated income statement and consolidated statement of cash flows, as appropriate.

The significant accounting policies and accounting periods adopted by the subsidiaries are determined based on the uniform accounting policies and accounting periods set out by the Bank.

All significant intergroup accounts and transactions between the Bank and its subsidiaries or between subsidiaries are eliminated in full amount on consolidation. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, unless they represent impairment losses that are recognised in the financial statements.

Non-controlling interests are presented separately in the consolidated balance sheet within shareholders' equity. Net profit or loss attributable to non-controlling shareholders is presented separately in the consolidated income statement below the net profit line item. Total comprehensive income attributable to non-controlling shareholders is presented separately in the consolidated income statement below the total comprehensive income line item.

When the amount of loss for the period attributable to the non-controlling shareholders of a subsidiary exceeds the non-controlling shareholders' portion of the opening balance of owners' equity of the subsidiary, the excess amount are still allocated against non-controlling interests.

Acquisition of non-controlling interests or disposal of interest in a subsidiary that does not result in the loss of control over the subsidiary is accounted for as equity transactions. The carrying amounts of the equity attributable to equity holders of the bank and non-controlling interests in equity are adjusted to reflect the changes in their relative interests in the subsidiary. The difference between the amount by which the non-controlling interests in equity are adjusted and the fair value of the consideration paid or received is adjusted to capital reserve. If the capital reserve is not sufficient to absorb the difference, the excess are adjusted against retained earnings.

For the stepwise acquisition of equity interest till acquiring control after a few transactions and leading to business combination not involving enterprises under common control, this should be dealt with based on whether this belongs to 'package deal': if it belongs to 'package deal', transactions will be dealt as transactions to acquire control. If it does not belong to 'package deal', transactions will be dealt as transactions of a business combination involving entities not under common control and achieved in stages (see Note IV. 3.2).

When the Group loses control over a subsidiary due to disposal of certain equity interest or other reasons, any retained interest is re-measured at its fair value at the date when control is lost. The difference between (i) the aggregate of the consideration received on disposal and the fair value of any retained interest and (ii) the share of the former subsidiary's net assets cumulatively calculated from the acquisition date according to the original proportion of ownership interest is recognised as investment income in the period in which control is lost. Other comprehensive income associated with investment in the former subsidiary is reclassified to investment income in the period in which control is lost.

Structured entities refers to the entities that voting rights or similar rights do not constitute decisive factors when recognise the controlling party, such as when voting rights are associated with the administration, or related activities are led by the contractual arrangements. Wealth management products, fund, trust fund plans and fund management plans could be used as examples of the structured entities.

5. Recognition criteria of cash and cash equivalents

Cash comprises cash on hand and deposits that can be readily withdrawn on demand. Cash equivalents are the Group's short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

6. Transactions denominated in foreign currencies and translation of foreign currency financial statement

Transactions in foreign currencies are translated into the respective functional currencies of the operations at the spot exchange rates at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated into the functional currency at the spot exchange rates at that date. The resulting exchange differences are recognised in profit or loss. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated into functional currency using the spot exchange rates at the dates of the transactions. Non-monetary items denominated in foreign currencies that are measured at fair value are translated using the spot exchange rates at the dates the fair values are determined; Translation differences on equity investments at fair value through other comprehensive income are recognised in other comprehensive income. Other Translation differences recognised in the profit or loss.

When preparing consolidated financial statements, financial statements of overseas operations in foreign currency are translated into financial statements in RMB in the following methods: All assets and liabilities in the statements of financial position are translated by applying the spot exchange rates at the balance sheet date; shareholders' equities except retained earnings and other comprehensive income are translated by applying the spot exchange rate on the date of the transaction; statements of comprehensive income and items reflecting profit distribution occurred are translated by exchange rates similar with the spot exchange rate on the date of the transaction; retained earnings at the beginning of this year equal to the retained earnings after translation at the end of previous year; retained earnings at the end of period are presented as profit distributions after translation; differences between assets after translation and liabilities & shareholders' equity after translation are presented as "other comprehensive income" in shareholders' equity.

7. Financial instruments

The Group's financial instruments mainly include Cash and balances with Central Bank, Deposits with banks and other financial institutions, Placements with banks and other financial institutions, Derivative financial assets, Financial assets purchased under resale agreements, Loans and advances to customers, Trading assets, Debt investments, Other debt investments, Other equity investments, Other receivables, Borrowing from Central Bank, Deposits from banks and other financial institutions, Placements from banks and other financial institutions, Trading liabilities, Derivative financial liabilities, Financial assets sold under repurchase agreements, Deposits from customers, Debt securities issued, Other payables and Share capital, etc.

7.1 Recognition and initial measurement of financial instrument

A financial asset or financial liability is recognised in the balance sheet when the Group becomes a party to the contractual provisions of a financial instrument.

A financial assets and financial liabilities is measured initially at fair value. For financial assets and financial liabilities at fair value through profit or loss, any related directly attributable transaction costs are charged to profit or loss; for other categories of financial assets and financial liabilities, any related directly attributable transaction costs are included in their initial costs.

7.2 Classification and subsequent measurement of financial assets

7.2.1 Classification of financial assets

The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. On initial recognition, a financial asset is classified as measured at amortised cost, at fair value through other comprehensive income ("FVOCI"), or at fair value through profit or loss ("FVTPL").

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows;

- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The financial assets measured at amortised cost held by the Group mainly include Cash and balances with Central Bank, Deposits with banks and other financial institutions, Placements with banks and other financial institutions, Financial assets purchased under resale agreements, Loans and advances to customers measured at amortised cost, Debt investments, Other receivables, etc.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets;

- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The financial assets measured at FVOCI held by the Group mainly include Loans and advances to customers measured at FVOCI and Other debt investments.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. The equity investments elected to fair value in other comprehensive income held by the Group mainly include Other equity investments.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. The financial assets measured at FVTPL held by the Group mainly include Loans and advances to customers measured at FVTPL and Trading assets.

The business model refers to how the Group manages its financial assets in order to generate cash flows. That is, the Group's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. The Group determines the business model for managing the financial assets according to the facts and based on the specific business objective for managing the financial assets determined by the Group's key management personnel.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. For the purposes of this assessment, 'Principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The Group also assesses whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

7.2.2 Subsequent measurement of financial assets

(i) Financial assets at FVTPL

These financial assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss unless the financial assets are part of a hedging relationship.

(ii) Financial assets at amortised cost

These assets are subsequently measured at amortised cost using the effective interest method. A gain or loss on a financial asset that is measured at amortised cost and is not part of a hedging relationship shall be recognised in profit or loss when the financial asset is derecognised, through the amortisation process or in order to recognise impairment gains or losses.

(iii) Debt investments at FVOCI

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, impairment and foreign exchange gains and losses are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

(iv) Equity investments at FVOCI

These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to retained earnings.

7.3 Classification and subsequent measurement of financial liabilities

Financial liabilities are classified as measured at FVTPL, financial guarantee liabilities or financial liabilities measured at amortised cost.

(1) Financial liabilities at FVTPL

A financial liability is classified as at FVTPL if it is classified as held-for-trading (including derivative financial liability) or it is designated as such on initial recognition.

Financial liabilities at FVTPL are subsequently measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss, unless the financial liabilities are part of a hedging relationship.

(2) Financial guarantee liabilities

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

After initial recognition, a financial guarantee liability is measured at the higher of:

- the amount of the allowance for impairment losses determined in accordance with impairment policies of financial instruments (see Note IV. 7.5); and
- the amount initially recognised less the cumulative amount of income.

(3) Financial liabilities measured at amortised cost

Financial liabilities measured at amortised cost are subsequently measured at amortised cost using the effective interest method.

7.4 Derecognition of financial assets and financial liabilities

The Group derecognises a financial asset if the part being considered for derecognition meets one of the following conditions:

(i) the contractual rights to receive the cash flows from the financial asset expire; or

(ii) the financial asset has been transferred and the Group transfers substantially all of the risks and rewards of ownership of the financial asset; or

(iii) the financial asset has been transferred, although the Group neither transfers nor retains substantially all of the risks and rewards of ownership of the financial asset, it does not retain control over the transferred asset.

Where a transfer of a financial asset in its entirety meets the criteria for derecognition, the difference between the two amounts below is recognised in profit or loss:

- The carrying amount of the financial asset transferred measured at the date of derecognition;
- The sum of the consideration received from the transfer and, when the transferred financial asset is a debt investment at FVOCI, any cumulative gain or loss that has been recognised directly in other comprehensive income for the part derecognised.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but retains control, the Group continues to recognise the financial asset to the extent of its continuing involvement in the financial asset. If the Group has not retained control, it derecognises the financial asset and recognises separately as assets or liabilities any rights and obligations created or retained in the transfer.

The Group derecognises a financial liability (or part of it) only when its contractual obligation (or part of it) is extinguished.

7.5 Impairment of financial assets

The Group recognises allowance for impairment losses for expected credit loss (ECL) on:

- Financial assets measured at amortised cost;
- Debt investments measured at FVOCI;
- Lease receivables
- Loan commitments and financial guarantee contracts issued, which are not measured at FVTPL.

Financial assets measured at fair value, including debt investments or equity securities at FVTPL, equity securities designated at FVOCI and derivative financial assets, are not subject to the ECL assessment.

(1) Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

The maximum period considered when estimating ECLs is the maximum contractual period (including extension options) over which the Group is exposed to credit risk.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the balance sheet date (or a shorter period if the expected life of the instrument is less than 12 months).

The Group applies a “three-stage model” for measuring ECL. For the measurement and segmentation of ECL of financial instruments of the Group, see Note XI.3 Credit risk.

(2) Presentation of allowance for ECL

ECLs are remeasured at each balance sheet date to reflect changes in the financial instrument’s credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for debt investments that are measured at FVOCI, for which the allowance for impairment loss is recognised in other comprehensive income. For the loan commitments and financial guarantee contracts issued, which are not measured at FVTPL, the Group recognises the allowance for impairment losses in provisions (credit loss of off-balance sheet assets).

(3) Write-off

The gross carrying amount 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.

7.6 Offsetting

Financial assets and financial liabilities are generally presented separately in the balance sheet, and are not offset. However, a financial asset and a financial liability are offset and the net amount is presented in the balance sheet when both of the following conditions are satisfied:

- The Group currently has a legally enforceable right to set off the recognised amounts;
- The Group intends either to settle on a net basis, or to realise the financial asset and settle the financial liability simultaneously.

7.7 Derivative financial instruments and embedded derivative financial instruments

The Group uses derivative financial instruments such as interest rate swap, foreign exchange far swap, foreign exchange option, credit swap, total income swap, precious metal far swap and precious metal option, etc. A derivative financial instrument has all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable;

- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors;

- It is settled at a future date.

Derivatives are recognised at fair value upon initial recognition. The positive fair value is recognised as an asset while the negative fair value is recognised as a liability. The gain or loss on re-measurement to fair value is recognised in profit or loss.

An embedded derivative financial instrument is a component of a hybrid contract that includes a non-derivative principal contract (the "host contract"), and embedded derivative financial instruments and the principal contract comprise a hybrid contract. The derivative financial instrument causes adjustment to some or all of the cash flows of the principal contract according to changes in specified interest rate, financial instrument price, foreign exchange rate, price or interest rate index, credit rating, credit index, or other similar variables.

If the host contract in a hybrid contract is classified as an asset according to the financial instruments standard, the Group will apply relevant financial asset classification provisions to the hybrid contract as a whole;

The hybrid contract will be separated from the host contract and treated as a separate derivative financial instrument if the host contract in a hybrid contract is not classified as an asset according to the financial instruments standard, and meets the following conditions: (i) the economic characteristics and risks of the embedded derivative financial instrument are not closely related to the principal contract; (ii) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (iii) the hybrid instruments are not measured at fair value through profit or loss;

Where a hybrid contract includes one or more embedded derivative financial instruments and the host contract in the hybrid contract is not classified as an asset according to the financial instruments standard, the Group classifies the hybrid contract as a financial instrument measured at FVTPL except for the following cases: (i) the embedded derivative financial instruments do not significantly modify the cash flow of the hybrid contract; (ii) when determining for the first time whether such hybrid contracts require separation, it is clear without analysis that the embedded derivative financial instruments should not be separated from the contracts.

7.8 Hedge accounting

Hedge accounting is a method which recognises in profit or loss (or other comprehensive income) the gain or loss on the hedging instrument and the hedged item in the same accounting period(s) to represent the effect of risk management.

Hedged items are items that expose the Group to risks of changes in fair value or cash flows and that are designated as being hedged and can be reliably measured. A hedging instrument is a designated financial instrument whose changes in fair value or cash flows are expected to offset changes in the fair value or cash flows of the hedged item.

At the inception of a hedge relationship, the Group formally designates the hedge instruments and the hedged items, and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to meet the hedge effectiveness in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to analyse the sources of hedge ineffectiveness which are expected to affect the hedge relationship in remaining hedging period. 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 would rebalance the hedging relationship.

Certain derivative transactions, while providing effective economic hedges under the Group's risk management positions, do not qualify for hedge accounting and are therefore treated as derivatives held for trading with fair value gains or losses recognised in profit or loss. Hedges which meet the strict criteria for hedge accounting are accounted for in accordance with the Group's accounting policy as set out below.

7.8.1 Fair value hedges

Fair value hedges are hedges of the Group's exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or unrecognised firm commitment, that is attributable to a particular risk and could affect the profit or loss or other comprehensive income. Among them, the circumstances affecting other comprehensive income are limited to the hedging for the risk exposure from fair value change of non-trading equity investment designated as at FVOCI. For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged, the derivative is remeasured at fair value and the gains and losses from both are taken to profit or loss or other comprehensive income.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in profit or loss. The changes in the fair value of the hedging instrument are also recognised in profit or loss.

The Group discontinues fair value hedge accounting when the hedging relationship ceases to meet the qualifying criteria after taking into account any rebalancing of the hedging relationship, including the hedging instrument has expired or has been sold, terminated or exercised. If the hedged items are derecognised, the unamortised fair value is recorded in profit or loss.

7.9 Asset-backed securities

As part of its business activities, the Bank securitised some of its assets, generally by selling the assets to structured entities, which then issue securities to investors. For the conditions for financial assets derecognition, see Note IV. 7.4. When applying the financial assets derecognition conditions, the Group considers the risk and reward transfer degree of the assets transferred to structured entities, as well as the extent to which the Group exercises control over the entities. The financial assets related to the asset-backed securities failing to meet the derecognition conditions are not derecognised, and funds from third-party investors are treated as financial liabilities. Where the Group neither transfers nor retains substantially all of the risks and rewards of ownership of the financial assets, the Group will consider whether it retains control over the transferred assets. If the Group does not retain control, it shall derecognise the financial assets and recognise the rights and obligations arising from or reserved during the transfer as assets or liabilities. If the Group retains control, the financial assets are recognised based on the extent of the its involvement in the financial assets.

7.10 Equity instrument

An equity instrument is a contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. A financial instrument issued by the Group shall be classified as an equity instrument when both of the following conditions are satisfied: (1) the 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 unfavourable to the issuer; (2) if the instrument will or may be settled in the Group's own equity instrument, it is: a non-derivative that includes no contractual obligation for the issuer 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. The Group's issuance (including refinancing), repurchase, sales or cancellation of an equity instrument shall be accounted for as a change to equity. The Group does not recognise changes in the fair value of an equity instrument. Transaction costs of an equity transaction are accounted for as a deduction from equity.

The Group's distribution to the holders of equity instruments is treated as profit distribution, and the issued stock dividends do not affect the total amount of shareholders' equity.

7.11 Preference share

Such preference shares or their components are initially recognised as financial assets, financial liabilities or equity instruments according to the terms and the economic substance combined with the definition of financial assets, financial liabilities and equity instruments.

For the issued preference shares that should be classified as equity instruments, will be recognised as equity in actual amount received. Dividends payables are recognised as distribution of profits. Redemption before maturity will write down equity as redemption price.

8. Precious metal

Precious metals comprise gold, silver and other precious metals. Precious metals that are not related to the Group's precious metals trading activities are initially measured at acquisition cost and subsequently measured at the lower of cost and net realisable value. Precious metals acquired by the Group for trading purposes are initially measured at fair value and subsequent changes in fair value are recorded in the statement of profit or loss.

The Group records the precious metals received as an asset. A liability to return the amount of precious metals deposited is also recognised. The precious metals deposited in the Group are measured at fair value both on initial recognition and in subsequent measurement.

9. Long-term equity investments

9.1 Determination of joint control or significant influence over investee

Control refers to the power an investor has over an investee, by virtue of which the investor enjoys variable returns by participating in related activities of the investee, and has the ability to use its power over the investee to influence the amount of its returns. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. 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. When determining whether an investing enterprise is able to exercise control or significant influence over an investee, the effect of potential voting rights of the investee (for example, warrants and convertible debts) held by the investing enterprises or other parties that are currently exercisable or convertible shall be considered.

9.2 Determination of initial investment cost

For the acquisition of long-term equity investments involving enterprises under the common control, the Group measures the initial cost of the long-term equity investment as the share of the carrying amount of the owner's equity of the acquired enterprise at that date. The difference between the initial costs of the long-term equity investment and cash paid or non-cash assets transferred as well as the carrying amount of the debts borne by the Group shall offset against the capital reserve. If the capital reserve is insufficient to observe the difference, the retained earnings shall be adjusted. The investment cost which adopts the equity securities issued as the consideration should be adopted as the initial investment cost of the long-term equity investment according to the proportion carrying amount of combined party's shareholder equity in the consolidated financial statement of the final controlling part, and adjust the capital reserves by the difference between the initial investment cost of long-term equity investment and the amount of issued stock's face value, which is regarded as capital stock. If the capital reserves are insufficient to absorb the difference, retained income should be adjusted. For the acquisition of enterprises under the common control through several steps of trading, it should be confirmed whether it's a 'package deal'. If it is, these deals should be measured as one acquiring-control deal. If not, the Group measures the initial cost of the long-term equity investment as the share of the carrying amount of the owner's equity of the acquired enterprise at that date. The difference between the initial costs of the long-term equity investment and the carrying amount of long-term equity investment before acquiring control as well as the carrying amount of the debts for more shares on the acquisition date shall offset against the capital reserve. If the capital reserve is insufficient to absorb the difference, the retained earnings shall be adjusted.

For a long-term equity investment acquired through business combination not involving enterprises under common control, the initial investment cost of the long-term equity investment is the cost of acquisition on the acquisition date. For the acquisition of enterprises under the common control through several steps of trading, it should be confirmed whether it's a package deal. If it is, these deals should be measured as one acquiring-control deal. If not, the carrying amount of long-term equity investment before acquiring control and the cost of new investment is the cost of acquisition measured under cost method.

Acquisition-related costs including auditing fees, legal services fees, valuation advice fees and other relevant management fees are generally recognised in profit or loss as incurred.

A long-term equity investment acquired other than through a business combination is initially recognised at the amount of cash paid if the Group acquires the investment by cash, or at the fair value of the equity securities issued if an investment is acquired by issuing equity securities.

9.3 Subsequent measurement and recognition of profit or loss

9.3.1 Long-term equity investment accounted for using the cost method

The Bank uses the cost method for the long-term equity investment in subsidiaries in the financial statements. The subsidiary refers to the investee that controlled by the group.

Under the cost method, a long-term equity investment is measured at initial investment cost. Increasing or reducing investment will adjust the cost of long term equity investment accordingly. Investment income is recognised in the period in accordance with the attributable share of cash dividends or profit distributions declared by the investee.

The investments in subsidiaries are stated in the balance sheet at cost less accumulated impairment losses.

9.3.2 Long-term equity investment accounted for using the equity method

The Group accounts for investment in associates using the equity method. Associates are those that the group is able to exercise significant influence over the investee.

Under the equity method, where the initial investment cost of a long-term equity investment exceeds the Group's share of the fair value of the investee's identifiable net assets at the time of acquisition, no adjustment is made to the initial investment cost. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the initial cost of the investment, after reassessment of the long-term equity investment, is recognised immediately in profit or loss in the period in which the investment is acquired.

Under the equity method, the Group recognizes investment income and other comprehensive income based on the Group's share of net profit or loss and other comprehensive income of the investee and adjust the carrying amount of long-term equity investment accordingly. The carrying amount of the investment decreases regarding the attributable share of cash dividends or profit distributions declared by the investee. Changes in shareholders' equity of the investee other than net profits or losses, other comprehensive income or profit distribution are correspondingly adjusted to the carrying amount of the long-term equity investment, and recognized as capital reserve. The Group recognizes its share of the investee's net profit or loss based on the fair value of the investee's identifiable assets after the adjustment of investee's net profit. When the accounting policy and accounting period adopted by the investee are inconsistent with the Group's, the investment income and other comprehensive income are recognized based on the adjusted financial statements of the investee in accordance with the Group's accounting policies and accounting period. Unrealized profits or losses resulting from the Group's transactions with its associates and joint ventures are recognized as investment income or loss to the extent that those attributable to the Group's equity interest are eliminated. However, unrealized losses resulting from the Group's transactions with its investees in respect of impairment losses on the transferred assets shouldn't be eliminated.

The Group discontinues recognising its share of net losses of the investee after the carrying amount of the long-term equity investment together with any long-term interests that in substance form part of its net investment in the investee is reduced to zero. If the Group has incurred obligations to assume additional losses of the investee, a provision is recognized according to the expected obligation, and recorded as investment loss for the period. Where net profits are subsequently made by the investee, the Group resumes recognising its share of those profits only after its share of the profits exceeds the share of losses previously not recognized.

9.4 Disposal of long-term equity investments

On disposal of a long term equity investment, the difference between the proceeds actually received and the carrying amount is recognised in profit or loss for the period. When the Group reduces its ownership interest in investee but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the investee's disposal of the related assets or liabilities. Then the equity recognized by the Group other than the change of the net profits and loss, other comprehensive income and profit distribution of the invested entity is reclassified to profit and losses on proportion. When the Group reduces its ownership interest but the Group continues to use the cost method, for the other comprehensive income recognized by the Group using equity method prior to the control over the investee or under financial instrument recognition and measurement standard, the Group reclassifies to profit or loss the proportion of the gain or loss relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the investee's disposal of the related assets or liabilities. Then the other changes in owners' equity recognized by the Group using equity method, not arising from the change of the net profits and loss, other comprehensive income or profit distribution of the invested entity is reclassified to profit and loss on proportion.

10. Fixed assets

10.1 Recognition criteria for fixed assets

Fixed assets are tangible assets that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and have useful lives of more than one accounting year. A fixed asset is recognised only when it is probable that economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. Fixed assets are initially measured at cost.

Subsequent expenditures incurred for the fixed asset are included in the cost of the fixed asset if it is probable that economic benefits associated with the asset will flow to the Group and the cost 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.

Fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment losses.

10.2 Depreciation of each category of fixed assets

A fixed asset is depreciated over its useful life using the straight-line method since the month subsequent to the one in which it is ready for intended use. The depreciation period, estimated net residual value rate and annual depreciation rate of each category of fixed assets are as follows:

Category	Depreciation period	Estimated Residual value rate	Annual depreciation rate
Buildings	20 – 30 years	0% - 3%	3.23% - 5.00%
Fixed assets improvement	The lower of improvement period and remaining useful life	0%	
Office and machinery equipment	3 – 20 years	0% - 5%	4.75% - 33.33%
Transportation vehicles	5 – 8 years	0% - 3%	12.50% - 20.00%
Flight equipment	25 years or 20 years	5% or 15%	3.8% or 4.25%

Estimated net residual value of a fixed asset is the estimated amount that the Group would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

10.3 Identification basis, valuation methods and depreciation methods for fixed assets acquired under finance leases

At the commencement of the lease term, the Group records the leased asset at an amount equal to the lower of the fair value of the leased asset and the present value of the minimum lease payments at the inception of the lease, and recognises a long-term payable at an amount equal to the minimum lease payments. The difference between the recorded amounts is accounted for as unrecognised finance charge. Besides, initial direct costs that are attributable to the leased item incurred during the process of negotiating and securing the lease agreement are also added to the amount recognised for the leased asset.

The Group adopts a depreciation policy for a fixed asset held under a finance lease which is consistent with that for its owned fixed asset. If there is reasonable certainty that the Group will obtain ownership of the leased asset at the end of the lease term, the leased asset is depreciated over its useful life. If there is no reasonable certainty that the Group will obtain ownership of the leased asset at the end of the lease term, the leased asset is depreciated over the shorter of the lease term and its useful life.

10.4 Other explanations

If a fixed asset is upon disposal or no future economic benefits are expected to be generated from its use or disposal, the fixed asset is derecognised. When a fixed asset is sold, transferred, retired or damaged, the amount of any proceeds on disposal of the asset net of the carrying amount and related taxes is recognised in profit or loss for the period.

The Group reviews the useful life and estimated net residual value rate of a fixed asset and the depreciation method applied at least once at each financial year-end, and accounts for any change as a change in an accounting estimate.

11. Construction in progress

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 fixed asset or other asset when it is ready for intended use.

12. Intangible assets

Intangible assets include land use rights, franchising, etc.

An intangible asset is measured initially at cost. Expenses related to the intangible assets are recognised in the cost of intangible assets when (i) it is probable that the associated economic benefits will flow to the Group; and (ii) the associated costs can be measured reliably. Other expenses related to the intangible assets are recognized in profit or loss for the period in which it is incurred.

Intangible assets are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses.

The acquired land use right is recognized as intangible assets. Expenses related to land use right and construction cost from buildings such as self-built factory, etc. are recognized as intangible assets and fixed assets, respectively. In the case of purchased buildings, it allocates related cost between land use right and buildings. If related cost cannot be allocated reasonably, it is recognized as fixed assets.

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 the period, and accounts for any change as a change in an accounting estimate. For an intangible asset with an infinite useful life, the Group reviews the useful life. If it is evident that the duration of associated economic benefits is predictable, then estimate the useful life pursuant to amortization policies for intangible assets with finite useful life.

13. Impairment of non-financial assets

The Group checks whether long-term equity investment, fixed assets, construction in progress, and intangible assets with a finite useful life will impair in every balance sheet date. If the indication of impairment of these assets exists, the Group estimates their recoverable amount. 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.

Estimation of recoverable amount of the assets is based on individual asset. If the recoverable amount is difficult to estimate, the amount should be estimated by the assets group which the asset belongs to. Recoverable amount is the higher of the two: net fair value of the assets or assets group after disposal expenses, or present value of the expected cash flow from the assets.

If asset's recoverable amount is lower than its carrying amount, the allowance for impairment losses should be recognized by their balances in profit or loss for the period.

The goodwill should be tested of impairment at least in the end of the each year with related assets group or combination of assets group. In purchase date, the carrying amount of goodwill should be allocated reasonably to assets group or combinations which can benefit from the synergy of enterprise merger. If the recoverable amount of assets group or combinations of allocated goodwill is lower than its carrying amount, impairment loss should be recognized. The amount of impairment loss should offset the carrying value which is allocated to the goodwill of certain assets group or combinations at first, then it should offset the carrying amount of other assets proportionally according to the proportion of other assets' carrying amount of assets group or combination after goodwill. However, such allocation would not reduce the carrying amount of an asset below the highest of its fair value less costs to sell (if measurable), its present value of expected future cash flows (if determinable) and zero.

The impairment losses cannot be reversed once they are recognized.

14. Long-term deferred expenses

Long-term deferred expenses represent expenses incurred that should be borne and amortised over the current and subsequent periods (together of more than one year). Long-term deferred expenses are amortised using the straight-line method over the expected periods in which benefits are derived.

15. Employee benefits

15.1 Accounting method of short-term employee benefits

In an accounting period in which an employee has rendered service to the Group, the Group recognizes the short-term employee benefits for that service as a liability, and the expenditure incurred for the period is recorded in profit or loss. The employee's welfare incurred is recognized in the profit or loss for the period as well. Non-monetary benefit included in employee's welfare expenses are recorded at fair value.

Payment made by the Group regarding social security contributions for employees such as contributions on medical insurance, work injury insurance and maternity insurance, etc. and payments of housing funds, as well as trade union fund and employee education fund provided in accordance with relevant requirements, are calculated according to prescribed bases and percentages in determining the amount of employee benefits and recognized as relevant liabilities, with a corresponding charge to the profit or loss for the period in the accounting period in which employees provide services.

15.2 Accounting method of post-employment benefits

Termination benefits are classified as defined contribution pension plans and defined benefit plans.

In an accounting period in which an employee has rendered service to the Group, the Group recognises the employee benefits for that service as a liability and included in profit or loss for the period.

For the defined benefit plan, the Group recognizes the obligations arising from such plan based on formula under estimated cumulated welfare method in the period in which employees render service and included in profit or loss for the period. The classifications of the costs are as follows:

- Service costs (including service costs of the period, service costs in the past, and profit and loss).
- Net value of interests from net liabilities or net assets of defined benefit plans (including interest income of planned assets, obligated interest cost of defined benefit plans and interest of influence of assets upper limit).
- The changes of recalculating the net liabilities and net assets of defined benefit plans.

Net interests of service costs and net liabilities and net assets of defined benefit plans are recorded in the profit and loss. The changes of recalculating the net liabilities and net assets of defined benefit plans, including actuarial gains or loss, planned assets yield deducting net value of interests from net liabilities or net assets of defined benefit plans, change rising from upper limit of assets deducting net value of interests from net liabilities or net assets of defined, are recorded in other comprehensive income.

The difference between the present value of defined benefit obligation and the fair value of defined benefit asset is recognized as a net asset or liability of defined benefit plans. If there is surplus, the net assets of defined benefit plans should be measured by the lower of the two: 1. the surplus of defined benefit plans; 2. upper limit of assets.

15.3 Accounting method of termination benefits

In an accounting period in which an employee has rendered service to the Group, a liability for a termination benefit and an expense accordingly are recognized at the earlier of when the Group entity can no longer withdraw the offer of the termination benefit and when the entity recognizes any related restructuring costs.

16. Assets transferred under repurchase agreements

16.1 Financial assets purchased under resale agreements

The financial assets are not recognized in the statements of financial position if they are committed to be resold at a specific price at a specific date in the future. The cost of purchasing such assets is presented under "financial assets purchased under resale agreements" in the statements of financial position. The difference between the purchasing price and reselling price is recognized as interest income during the term of the agreement using the effective interest method.

16.2 Financial assets sold under repurchase agreements

Financial assets sold subject to agreements with a commitment to repurchase at a specific future date and price are not derecognised in the statements of financial position. The proceeds from selling such assets are presented under "financial assets sold under repurchase agreements" in the statements 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.

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 balance sheet 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.

The Group reviews the carrying amount of a provision at the balance sheet date and adjusts the carrying amount to the current best estimate.

18. Interest income and expense

For all financial instruments measured at amortised cost and interest-generating financial instruments classified as financial assets measured at FVOCI, interest income is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument, where appropriate, to the book value of the financial asset, or the amortised cost of financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not expected credit losses.

Interest income is calculated by applying the effective interest rate to the book value of financial assets and is included in interest income, except for:

- For purchased or originated credit-impaired financial assets, whose interest income is calculated, since initial recognition, by applying the credit adjusted effective interest rate to their amortised cost;

- Financial assets that are not purchased or originated credit-impaired but have subsequently become credit-impaired, whose interest income is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision). If, in a subsequent period, the financial assets improve their qualities so that they are no longer credit-impaired and the improvement in credit quality is related objectively to a certain event occurring after the application of the above-mentioned rules, then the interest income is calculated by applying the effective interest rate to their book value.

19. Fee and commission income

Fee and commission income is recognized on accrual basis when providing related service.

20. Government grants

Government grants are transfer of monetary assets and non-monetary assets from the government to the Group at no consideration. A government grant is recognised only when the Group can comply with the conditions attaching to the grant and the Group will receive the grant.

If a government grant is in the form of a transfer of a monetary asset, it is measured at the amount received or receivable. If a government grant is in the form of a non-monetary asset, it is measured at fair value. If the fair value cannot be reliably determined, it is measured at a nominal amount. A government grant measured at a nominal amount is recognised immediately in profit or loss for the period. Government grants are classified into government grants related to assets and government grants related to income according the subjects required by the Government documents.

A government grant related to an asset is offset against the carrying amount of related asset. For a government grant related to income, if the grant is a compensation for related costs or losses to be incurred in subsequent periods, the grant is recognised as deferred income, and recognised in profit or loss over the periods in which the related costs or losses are recognised. If the grant is a compensation for related expenses or losses already incurred, the grant is recognised immediately in profit or loss for the period.

A government grant related to the Group’s daily activities is included in other income according to the economic business substance. A government not related to the Group’s daily activities is included in non-operating income and expense.

For the repayment of a government grant already recognized, if the carrying value of related assets is written off upon initial recognition, the carrying value of the assets is adjusted; if there is any related deferred income, the repayment is offset against the carrying amount of the deferred income, and any excess is recognized in profit or loss for the period; if there is no related deferred income, it is recognized immediately in profit or loss for the period.

21. Deferred tax assets/deferred tax liabilities

The income tax expenses include current income tax and deferred income tax.

21.1 Current income tax

At the balance sheet date, current income tax liabilities (or assets) for the current and prior periods are measured at the amount expected to be paid (or recovered) according to the requirements of tax laws.

21.2 Deferred tax assets and deferred tax liabilities

For temporary differences between the carrying amounts of certain assets or liabilities and their tax base, or between the nil carrying amount of those items that are not recognised as assets or liabilities and their tax base that can be determined according to tax laws, deferred tax assets and liabilities are recognised using the balance sheet liability method.

Deferred tax is generally recognised for all temporary differences. Deferred tax assets for deductible temporary differences are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be utilised. However, for temporary differences associated with the initial recognition of goodwill and the initial recognition of an asset or liability arising from a transaction (not a business combination) that affects neither the accounting profit nor taxable profits (or deductible losses) at the time of transaction, no deferred tax asset or liability is recognised.

For deductible losses and tax credits that can be carried forward, deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deductible losses and tax credits can be utilised.

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 timing of 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 taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

At the balance sheet date, deferred tax assets and liabilities are measured at the tax rates, according to tax laws, that are expected to apply in the period in which the asset is realised or the liability is settled.

Current and deferred tax expenses or income are recognised in profit or loss for the period, except when they arise from transactions or events that are directly recognised in other comprehensive income or in shareholders' equity, in which case they are recognised in other comprehensive income or in shareholders' equity; and when they arise from business combinations, in which case they adjust the carrying amount of goodwill.

At the balance sheet date, the carrying amount of deferred tax assets is reviewed and reduced if it is no longer probable that sufficient taxable profits will be available in the future to allow the benefit of deferred tax assets to be utilised. Such reduction in amount is reversed when it becomes probable that sufficient taxable profits will be available.

When the Group has a legal right to settle on a net basis and intends either to settle on a net basis or to realise the assets and settle the liabilities simultaneously, current tax assets and current tax liabilities are offset and presented on a net basis.

When the Group has a legal right to settle current tax assets and liabilities on a net basis, and deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax assets and liabilities on a net basis or to realise the assets and liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be reversed, deferred tax assets and deferred tax liabilities are offset and presented on a net basis.

22. Fiduciary activities and agent business

The Group acts in a fiduciary activities and agent business as a trustee or an agent for customers. Customers should bear the risk and return generated by such activities. The Group only charges fee and commission. The fiduciary activities and agent business are excluded from the financial statements.

23. Lease

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.

23.1 Accounting treatment of operation leases

23.1.1 The Group as lessee under operating leases

Operating lease payments are recognized on a straight-line basis over the term of the relevant lease, and are recorded in profit or loss for the period. Initial direct costs incurred are charged to profit or loss for the period. Contingent rents are charged to profit or loss in the period in which they are actually incurred.

23.1.2 The Group as lessor under operating leases

Rental income from operating leases is recognized in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs with more than an insignificant amount are capitalized when incurred, and are recognized in profit or loss on the same basis as rental income over the lease term. Other initial direct costs with an insignificant amount are charged to profit or loss in the period in which they are incurred. Contingent rents are charged to profit or loss in the period in which they actually arise.

23.2 Accounting treatment of finance leases

23.2.1 The Group as lessee under finance leases

The accounting treatments are set out in Note IV "10.3 Identification basis, valuation methods and depreciation methods for fixed assets acquired under finance leases".

Unrecognised finance charges are recognised as finance charge 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 minimum lease payments less unrecognised finance charges is presented as other liabilities.

23.2.2 The Group as lessor under finance leases

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. The net amount of financial lease receivables less unearned finance income is listed in "financial lease receivables" for presentation.

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.

24. Foreclosed asset

Foreclosed asset is initially measured at its fair value. At the balance sheet date, foreclosed asset is measured at the lower of carrying amount and net realizable value. The difference by which the net realizable value is lower than the carrying amount of the assets shall be provided for the current period.

On disposal of a foreclosed asset, the difference between (i) income from disposal and (ii) the carrying amount of the foreclosed asset is charged to income from disposal of assets.

If the foreclosed asset is transferred for self-use, it should be measured at the carrying amount at the transfer date. Provision is to taken into account if applicable.

25. Profit distribution

Proposed dividends which are declared and approved after the end of each balance sheet date are not recognised as a liability in the statement of financial position and are instead disclosed as a subsequent event after the end of each balance sheet date in the notes to the financial statements. Dividends payable are recognised as liabilities in the period in which they are approved.

26. Contingent liabilities

A potential obligation arising from a past transaction or event whose existence can only be confirmed by the occurrence or non-occurrence of future uncertain events; or a present obligation that arises from past transactions or events where it is not probable that an outflow of economic benefits is required to settle the obligation or the amount of the obligation cannot be measured reliably, is disclosed as a contingent liability unless the probability of outflow of economic benefit is remote.

Contingent liabilities which are not recognised as a liability are expected to be disclosed in the notes only. If the situation changes, the contingent liabilities are recognised as liability when it is probable that an outflow of economic resources will be required and the amount of obligation can be measured reliably.

27. Related parties

If the Group has the power to control, jointly control or exercise significant influence over another party, or vice versa, or the two parties are subject to common control or joint control from another party, they are considered to be related parties. Related parties may be individuals or enterprises. Enterprises with which the Group is under common control only from the State and that have no other related party relationships are not regarded as related parties.

In addition to the related parties stated above, the Bank determines related parties based on the disclosure requirements of Administrative Procedures on the Information Disclosures of Listed Companies issued by the CSRC.

28. Operating segment

The Group determines its operating segments on the basis of its internal organisational structure, management requirements and internal reporting practices.

An operating segment is a component of the Group that meets all the following requirements: (i) it engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses relating to transactions with other components of the Group; (ii) its operating results are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and (iii) separate financial information is available. The operating segments that meet the specified criteria have been aggregated, and the operating segment that meets quantitative thresholds have been reported separately.

29. Significant accounting estimates and judgements

The preparation of the financial statements requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates as well as underlying assumptions and uncertainties involved are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. For the significant accounting judgements and estimates regarding the previous *CAS 22 - Recognition and Measurement of Financial Instruments, CAS 23 - Transfer of Financial Assets, CAS 24 - Hedge Accounting and CAS 37 - Presentation of Financial Instruments* (referred to as "Old Financial Instrument Standards"), see Note "Significant accounting policies and accounting estimates" to 2018 financial statements.

29.1 Significant accounting estimates

In addition to the accounting estimates related to the depreciation and amortization of fixed assets and intangible assets (see Note IV. 10 and 12) and the impairment of various assets (see Note VII. 2, 3, 5, 6, 7, 12, 13, 14, 15, 16 and 18), other major accounting estimates are as follows:

(i) Note VII. 17. Recognized deferred tax assets;

(ii) Note VII. 47. Post-employment benefits - defined benefit plans; and

(iii) Note XI. 7. Fair value of financial instruments.

29.2 Significant accounting judgements

The significant accounting judgements made by the Group in the application of accounting policies are as follows:

(i) Note IV. 7. Classification of financial investment;

(ii) Note IV. 9. Significant judgments and assumptions on control, joint control or significant impact on other entities;

(iii) Note VII. 27 and 30 - Other financial instruments such as preference shares and perpetual bonds are classified as financial liabilities or equity instruments; and

(iv) Note VII. 48. Consolidated structured entities.

30. Changes in significant accounting policies

The Ministry of Finance released the following amendments to China Accounting Standards (CAS) in recent years and the Group has adopted these standards from the accounting year beginning on 1 January 2019.

- The revised *CAS 22 - Recognition and Measurement of Financial Instruments, CAS 23 - Transfer of Financial Assets, CAS 24 - Hedge Accounting and CAS 37 - Presentation of Financial Instruments* (hereinafter referred to as "New Financial Instrument Standards")
- *Notice on Revision of 2018 Illustrative Financial Statements for Financial Entities (Cai Kuai [2018] No. 36) and the Format of Consolidated Financial Statements (2019 Version) (Cai Kuai [2019] No. 16)* (hereinafter collectively referred to as the "New Format of Enterprise Financial Statements")
- *CAS 7 - Exchange of Non-Monetary Assets (Revised)* (The "CAS – 7 (2019)")
- *CAS 12 – Debt Restructurings (Revised)* (The "CAS – 12 (2019)")

The principal effects of adopting these amended accounting policies are as follows:

(1) New Financial Instrument Standards

New Financial Instrument Standards introduces new requirements for classification and measurement of financial assets, including the measurement of impairment for financial assets, hedge accounting and disclosure. The Group retrospectively adjusts the classification and measurement (including impairment) of financial instrument that are not derecognized on the date of implementation of New Financial Instrument Standards (i.e. 1 January 2019) in accordance with the New Financial Instrument Standards. The Group does not adjust the comparative financial statements, and the difference between the original carrying amount of the financial instrument and the new carrying amount on the date of implementation of New Financial Instrument Standards is included in the retained earnings or other comprehensive income at the beginning of 2019.

Classification and measurement

New Financial Instrument Standards contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss (FVTPL) and (3) fair value through other comprehensive income (FVOCI):

- The classification for debt instruments is determined based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the asset. On initial recognition the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL. If a debt instrument is classified as FVOCI then interest revenue, impairment, foreign exchange gains/losses and gains/losses on disposal will be recognized in profit or loss.
- For equity securities, the classification is FVTPL regardless of the entity's business model. The only exception is if the equity security is not held for trading and the entity irrevocably elects to designate that security as FVOCI. If an equity security is designated as FVOCI then only dividend income on that security will be recognized in profit or loss. Gains and losses on that security will be recognized in other comprehensive income without recycling.

Impairment

The new impairment model in New Financial Instrument Standards replaces the "incurred loss" model in old financial instrument standards with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognized. Instead, an entity is required to recognize and measure either a 12-month expected credit loss or lifetime expected credit loss, depending on the asset and the facts and circumstances, which will result in an early recognition of credit losses.

Hedge accounting

New Financial Instrument Standards does not fundamentally change the requirements relating to measuring and recognising ineffectiveness under old financial instrument standards. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting.

Disclosure

New Financial Instrument Standards will require extensive new disclosures, in particular about hedge accounting, credit risk and expected credit loss.

(2) New Format of Enterprise Financial Statements

In accordance with the New Format of Enterprise Financial Statements, the Group adjusted the related financial statement items based on the principle of materiality and the actual situation of the Group.

Set out below is the impact of adopting New Financial Instrument Standards and New Format of Enterprise Financial Statements on the Group's balance sheet items at 1 January 2019:

	Carrying amount under the old financial instrument standards			Carrying amount under the new financial instrument standards
	31 December 2018	Reclassification	Remeasurement	1 January 2019
Assets				
Cash and balances with Central Bank	475,781	204	-	**475,985**
Deposits with banks and other financial institutions	53,303	239	(187)	**53,355**
Precious metals	3,350	-	-	**3,350**
Placements with banks and other financial institutions	98,349	406	(342)	**98,413**
Derivative financial assets	42,092	-	-	**42,092**
Financial assets purchased under resale agreements	77,083	51	(440)	**76,694**
Loans and advances to customers	2,838,445	7,491	5,693	**2,851,629**
Financial investments:				
Trading assets	N/A	690,491	427	**690,918**
Debt investments	N/A	1,702,008	(5,471)	**1,696,537**
Other debt investments	N/A	520,163	672	**520,835**
Other equity investments	N/A	1,428	-	**1,428**
Financial assets at fair value through profit or loss	459,598	(459,598)	-	**-**
Available-for-sale financial assets	647,102	(647,102)	-	**-**
Held-to-maturity investments	395,142	(395,142)	-	**-**
Investments classified as receivables	1,387,150	(1,387,150)	-	**-**
Finance lease receivables	104,253	-	(1,162)	**103,091**
Long-term equity investments	3,224	-	-	**3,224**
Fixed assets	17,658	-	-	**17,658**
Construction in progress	7,872	-	-	**7,872**
Intangible assets	602	-	-	**602**
Goodwill	532	-	-	**532**
Deferred tax assets	32,317	-	1,326	**33,643**
Other assets	67,804	(33,489)	(316)	**33,999**
Including: Interest receivable	34,463	(33,485)	-	**978**
Total assets	6,711,657	-	200	**6,711,857**

	Carrying amount under the old financial instrument standards			Carrying amount under the new financial instrument standards
	31 December 2018	Reclassification	Remeasurement	1 January 2019
Liabilities				
Borrowing from Central Bank	268,500	4,312	-	**272,812**
Deposits from banks and other financial institutions	1,344,883	6,511	-	**1,351,394**
Placements from banks and other financial institutions	220,831	1,657	-	**222,488**
Trading liabilities	2,594	-	-	**2,594**
Derivative financial liabilities	38,823	-	-	**38,823**
Financial assets sold under repurchase agreements	230,569	443	-	**231,012**
Deposits from customers	3,303,512	30,324	-	**3,333,836**
Employee benefits payable	15,341	-	-	**15,341**
Tax payable	11,297	-	-	**11,297**
Provisions	-	-	4,972	**4,972**
Debt securities issued	717,854	3,510	-	**721,364**
Other liabilities	84,869	(46,757)	-	**38,112**
Total liabilities	6,239,073	-	4,972	**6,244,045**
Total shareholders' equity	472,584	-	(4,772)	**467,812**

The Group has adopted New Financial Instrument Standards from 1 January 2019. There were a net increase of RMB 705 million in other comprehensive income (after tax) and a net decrease of RMB 5,477 million in retained earnings (after tax) arising from the new requirements on classification and measurement of financial assets listed above as compared with that when recognized under old financial instrument standards.

The following table recounciles the carrying amounts of financial assets determined in accordance with the old financial instrument standards to those determined in accordance with New Financial Instrument Standards on 1 January 2019.

		Carrying amount under the old financial instrument standards			Carrying amount under the new financial instrument standards
Financial instruments	Note	31 December 2018	Reclassification	Remeasurement	1 January 2019
Financial assets measured at amortised cost					
Cash and balances with Central Bank					
Balance under the old financial instrument standards		475,781			
Reclassification: from other assets -interest receivable	A		204		
Remeasurement: provision for expected credit losses				-	
Balance under the New Financial Instrument Standards					**475,985**
Deposits with banks and other financial institutions					
Balance under the old financial instrument standards		53,303			
Reclassification: from other assets -interest receivable	A		239		
Remeasurement: provision for expected credit losses				(187)	
Balance under the New Financial Instrument Standards					**53,355**
Placements with banks and other financial institutions					
Balance under the old financial instrument standards		98,349			
Reclassification: from other assets -interest receivable	A		406		
Remeasurement: provision for expected credit losses				(342)	
Balance under the New Financial Instrument Standards					**98,413**

Financial instruments	Note	Carrying amount under the old financial instrument standards 31 December 2018	Reclassification	Remeasurement	Carrying amount under the new financial instrument standards 1 January 2019
Financial assets measured at amortised cost (continued)					
Financial assets purchased under resale agreements					
Balance under the old financial instrument standards		77,083			
Reclassification: from other assets -interest receivable	A		51		
Remeasurement: provision for expected credit losses				(440)	
Balance under the New Financial Instrument Standards					**76,694**
Loans and advances to customers					
Balance under the old financial instrument standards		2,838,445			
Add: from other assets -interest receivable	A		7,491		
Less: to loans and advances to customers at fair value through other comprehensive income	B		(157,818)		
Less: to loans and advances to customers at fair value through profit or loss	C		(547)		
Remeasurement: provision for expected credit losses				4,055	
Balance under the New Financial Instrument Standards					**2,691,626**

		Carrying amount under the old financial instrument standards			Carrying amount under the new financial instrument standards
Financial instruments	Note	31 December 2018	Reclassification	Remeasurement	1 January 2019
Financial assets measured at amortised cost (continued)					
Debt investments—amortised cost (“AC”)					
Balance under the old financial instrument standards		-			
Add: from other assets -interest receivable	A		15,949		
Add: from available-for-sale financial assets	D		896		
Add: from held-to-maturity investments			389,486		
Remeasurement: provision for expected credit losses				(32)	
Add: from investments classified as receivables			1,295,668		
Remeasurement: provision for expected credit losses				(5,435)	
Add: from financial assets at fair value through profit or loss			9		
Remeasurement: provision for expected credit losses				(4)	
Balance under the New Financial Instrument Standards					**1,696,537**

		Carrying amount under the old financial instrument standards			Carrying amount under the new financial instrument standards
Financial instruments	Note	31 December 2018	Reclassification	Remeasurement	1 January 2019
Financial assets measured at amortised cost (continued)					
Held-to-maturity investments					
Balance under the old financial instrument standards		395,142			
Less: to trading assets—fair value through profit or loss ("FVTPL")	C		(205)		
Less: to debt investments—AC			(389,486)		
Less: to other debt investments—fair value through other comprehensive income ("FVOCI")	B		(5,451)		
Balance under the New Financial Instrument Standards					-

		Carrying amount under the old financial instrument standards			Carrying amount under the new financial instrument standards
Financial instruments	Note	31 December 2018	Reclassification	Remeasurement	1 January 2019
Financial assets measured at amortised cost (continued)					
Investments classified as receivables					
Balance under the old financial instrument standards		1,387,150			
Less: to trading assets—FVTPL	C		(24,046)		
Less: to debt investments—AC			(1,295,668)		
Less: to other debt investments—FVOCI	B		(67,436)		
Balance under the New Financial Instrument Standards					-
Finance lease receivables					
Balance under the old financial instrument standards		104,253			
Remeasurement: provision for expected credit losses				(1,162)	
Balance under the New Financial Instrument Standards					**103,091**

Financial instruments	Note	Carrying amount under the old financial instrument standards 31 December 2018	Reclassification	Remeasurement	Carrying amount under the new financial instrument standards 1 January 2019
Financial assets measured at amortised cost (continued)					
Other assets—interest receivable					
Balance under the old financial instrument standards		34,463			
Less: to cash and balances with Central Bank	A		(204)		
Less: to deposits with banks and other financial institutions	A		(239)		
Less: to placements with banks and other financial institutions	A		(406)		
Less: to financial assets purchased under resale agreements	A		(51)		
Less: to loans and advances to customers	A		(7,491)		
Less: to trading assets—FVTPL	A		(3,462)		
Less: to debt investments—AC	A		(15,949)		
Less: to other debt investments—FVOCI	A		(5,683)		
Balance under the New Financial Instrument Standards					**978**
Other assets—except interest receivable					
Balance under the old financial instrument standards		33,341			
Less: to trading assets—FVTPL	C		(4)		
Remeasurement: provision for expected credit losses				(316)	
Balance under the New Financial Instrument Standards					**33,021**
Total other assets		67,804	(33,489)	(316)	**33,999**
Subtotal of financial assets measured at amortised cost		5,497,310	(263,747)	(3,863)	**5,229,700**

		Carrying amount under the old financial instrument standards			Carrying amount under the new financial instrument standards
Financial instruments	Note	31 December 2018	Reclassification	Remeasurement	1 January 2019
Financial assets at fair value through profit or loss					
Derivative financial assets					
Balance under the old financial instrument standards and the New Financial Instrument Standards		42,092			**42,092**
Loans and advances to customers					
Balance under the old financial instrument standards		-			
Add: from loans and advances to customers - amortised cost	C		547		
Remeasurement: from amortised cost to fair value				5	
Balance under the New Financial Instrument Standards					**552**

		Carrying amount under the old financial instrument standards			Carrying amount under the new financial instrument standards
Financial instruments	Note	31 December 2018	Reclassification	Remeasurement	1 January 2019
Financial assets at fair value through profit or loss (continued)					
Trading assets—FVTPL					
Balance under the old financial instrument standards		-			
Add: from other assets -interest receivable	A		3,462		
Less: to debt investments—AC			(9)		
Add: from financial assets at fair value through profit or loss			459,598		
Add: from available-for-sale financial assets	C		203,185		
Remeasurement: reverse of impairment allowance under the old financial instrument standards				810	
Remeasurement: fair value changes				(496)	
Add: from held-to-maturity investments	C		205		
Remeasurement: reverse of impairment allowance under the old financial instrument standards				137	
Remeasurement: from amortised cost to fair value				(136)	
Add: from investments classified as receivables	C		24,046		
Remeasurement: reverse of impairment allowance under the old financial instrument standards				457	
Remeasurement: from amortised cost to fair value				(345)	
Add: from other assets	C		4		
Balance under the New Financial Instrument Standards					**690,918**

		Carrying amount under the old financial instrument standards			Carrying amount under the new financial instrument standards
Financial instruments	Note	31 December 2018	Reclassification	Remeasurement	1 January 2019
Financial assets at fair value through profit or loss (continued)					
Financial assets at fair value through profit or loss					
Balance under the old financial instrument standards		459,598			
Less: to trading assets – FVTPL			(459,598)		
Balance under the New Financial Instrument Standards					-
Subtotal of financial assets at fair value through profit or loss		501,690	231,440	432	**733,562**

		Carrying amount under the old financial instrument standards			Carrying amount under the new financial instrument standards
Financial instruments	Note	31 December 2018	Reclassification	Remeasurement	1 January 2019
Financial assets at fair value through other comprehensive income					
Loans and advances to customers					
Balance under the old financial instrument standards		-			
Add: from loans and advances to customers - amortised cost	B		157,818		
Remeasurement: reverse of impairment allowance under the old financial instrument standards				1,653	
Remeasurement: from amortised cost to fair value				(20)	
Balance under the New Financial Instrument Standards					**159,451**
Other debt investments—FVOCI					
Balance under the old financial instrument standards		-			
Add: from other assets -interest receivable	A		5,683		
Add: from available-for-sale financial assets	B		441,593		
Remeasurement: reverse of impairment allowance under the old financial instrument standards				537	
Remeasurement: fair value changes				(537)	
Add: from held-to-maturity investments	B		5,451		
Remeasurement: from amortised cost to fair value				142	
Add: from investments classified as receivables	B		67,436		
Remeasurement: from amortised cost to fair value				530	
Balance under the New Financial Instrument Standards					**520,835**

Financial instruments	Note	Carrying amount under the old financial instrument standards 31 December 2018	Reclassification	Remeasurement	Carrying amount under the new financial instrument standards 1 January 2019
Financial assets at fair value through other comprehensive income (continued)					
Other equity investments—FVOCI					
Balance under the old financial instrument standards		-			
Add: from available-for-sale financial assets	E		1,428		
Balance under the New Financial Instrument Standards					**1,428**
Available-for-sale financial assets					
Balance under the old financial instrument standards		647,102			
Less: to trading assets—FVTPL	C		(203,185)		
Less: to debt investments—AC	D		(896)		
Less: to other debt investments—FVOCI	B		(441,593)		
Less: to other equity investments—FVOCI	E		(1,428)		
Balance under the New Financial Instrument Standards					**-**
Subtotal of financial assets at fair value through other comprehensive income		647,102	32,307	2,305	**681,714**

A. In accordance with the New Format of Enterprise Financial Statements, the interest receivables from financial instruments accrued based on the effective interest rate method as at 1 January 2019 is reflected under the carrying amounts of corresponding financial instruments. Interest receivable due but not received from related financial instruments as at 1 January 2019 is presented under other assets.

B. Certain loans and advances to customers held by the Group, and certain debt instruments originally classified as receivables were held within a business model whose objective on the transition date was to collect contractual cash flows and sell financial assets. In addition, their contractual cash flows were identified as solely payments of principal and interest on the principal amount outstanding. Therefore, these assets were classified as financial assets at FVOCI under the New Financial Instrument Standards.

C. Certain debt instruments originally classified as loans and receivables, held-to-maturity investments or available-for-sale financial assets, their contractual cash flows were not identified as solely payments of principal and interest on the principal outstanding. Therefore, these assets were classified as financial assets at FVTPL under the New Financial Instrument Standards. The reclassified and remeasured financial assets include certain non-trading equity investments (RMB 11,620 million) which the Group did not choose to designate as at FVOCI on the standards transition date.

D. Certain debt instruments originally classified as available-for-sale securities were held within a business model whose objective on the standards transition date was to collect contractual cash flows. In addition, their contractual cash flows were identified as solely payments of principal and interest on the principal outstanding. Therefore, these assets were classified as financial assets measured at amortised cost under the New Financial Instrument Standards.

E. The reclassified and remeasured financial assets include certain non-trading equity investments which the Group chose irrevocably to designate as at FVOCI on the standards transition date.

The following table reconciles the closing impairment allowance under old financial instrument standards to ECL allowance determined in accordance with New Financial Instrument Standards on the initial application date:

	Impairment allowance under the old financial instrument standards /contingent liabilities			Impairment allowance under the new financial instrument standards
Measured at amortised cost	31 December 2018	Reclassification	Remeasurement	1 January 2019
Deposits with banks and other financial institutions	16	-	187	**203**
Placements with banks and other financial institutions	60	-	342	**402**
Financial assets purchased under resale agreements	333	-	440	**773**
Loans and advances to customers	95,637	(1,658)	(4,055)	**89,924**
Held-to-maturity investments	137	(137)	-	**-**
Investments classified as receivables	17,803	(17,803)	-	**-**
Debt investments—AC	-	17,791	5,471	**23,262**
Other assets	1,787	-	316	**2,103**
Finance lease receivables	4,550	-	1,162	**5,712**
Fair value through other comprehensive income				
Loans and advances to customers	-	1,653	(997)	**656**
Available-for-sale financial assets	1,792	(1,792)	-	**-**
Other debt investments—FVOCI	-	537	619	**1,156**
Fair value through profit or loss				
Loans and advances to customers	-	5	(5)	**-**
Financial guarantees and credit commitments				
Credit commitments	-	-	4,972	**4,972**
Total	122,115	(1,404)	8,452	**129,163**

(3) CAS – 7 (2019)

The CAS 7 (2019) elaborates the applicability of standards on the exchange of non-monetary assets and clarifies the recognition timing of the assets received or the derecognition timing of the assets surrendered and the accounting treatment for the situation in which the recognition timing is inconsistent with the derecognition timing. The standard also revises the measurement principle for several assets to be received or surrendered at the same time during exchange of non-monetary assets at fair value. Additionally, the standard includes disclosure requirements on whether the exchange of non-monetary assets has commercial substance and the reasons behind this determination.

The CAS 7 (2019) took effect on 10 June 2019. Exchange of non-monetary assets between 1 January 2019 and the implementation date should be adjusted based on the revised standard. Retrospective adjustment is not required for the exchange of non-monetary assets prior to 1 January 2019. The adoption of the Standard did not have any material impact on the financial position and financial performance of the Group.

(4) CAS – 12 (2019)

The CAS 12 (2019) revises the definition of debt restructuring and clarifies the applicability of the standard. It also stipulates that the recognition, measurement and presentation of financial instruments involved in debt restructuring are subject to the requirements of relevant financial instruments standards. For debt restructuring by means of transfer of assets in settlement, the CAS 12 (2019) revises the initial recognition measurement for creditor’s non-financial assets received. The gains and losses from asset transfer and gains and losses from debt restructuring will no longer be differentiated in the presentation of debtor’s gains and losses arising from debt restructuring. For debt restructuring by means of conversion of debt into equity instruments, the CAS 12 (2019) revises the measurement principle for creditor’s shares at initial recognition and includes new guidances on the measurement principle for debtor’s initial recognition of equity instruments.

The CAS 12 (2019) took effect on 17 June 2019. Debt restructuring between 1 January 2019 and the implementation date should be adjusted based on the revised standard. Retrospective adjustment is not required for debt restructurings prior to 1 January 2019. The adoption of the Standard did not have any material impact on the financial position and financial performance of the Group.

V. TAXATION

1. Enterprise income tax

According to the Corporate Income Tax Law of the People's Republic of China, the income tax of domestic branches of the Bank and the Group's subsidiaries is calculated and settled at the tax rate of 15% or 25% (2018: 15% or 25%). Therein, the income tax rate for the Group's subsidiary Fujian Clearing Corp. is 15% (2018:15%).

The income tax of overseas branches of the Bank is calculated in accordance with the local tax rate, and the difference between the overseas tax rate and domestic tax rate is settled by the head office.

The deductible items of enterprise income tax are calculated in accordance with the relevant regulations. Enterprise income tax is prepaid by domestic branches of the Bank and conducted annual filing by the head office.

2. Value-added tax

The value-added tax ("VAT") on sales is calculated using applicable tax rate on the basis of the revenue from sales determined as per tax regulations, and is paid after deducting the VAT on purchases. According to the Announcement of the Ministry of Finance, the State Taxation Administration and the General Administration of Customs on Policies for Deepening the VAT Reform (MOF/STA/GACC Announcement [2019] No. 39), the Group's applicable VAT rate range was changed from 3%-16% to 3%-13% from 1 April 2019.

According to the Supplementary Notice on Issues relating to VAT Policies on Assets Management Products (Cai Shui [2017] No.2) and Notice on Issues relating to VAT Policies on Assets Management Products (Cai Shui [2017] No.56) issued by MOF and State Administration of Taxation, since 1 January 2018, the manager of asset management products will be the VAT taxpayer for VAT taxable behaviours occurred in the operation of asset management products. And the VAT is levied at the rate of 3% with a provisional application of simple taxation method.

3. City maintenance and construction tax

The Group's city maintenance and construction tax is calculated according to 1% ~ 7% of VAT.

4. Education surcharge

The Group's education surcharge and local education surcharge is calculated according to 3% ~ 5% of VAT.

VI. CONSOLIDATION SCOPE

1. Details of the Bank's principal subsidiaries included in the scope of consolidation are set out as follows:

Key subsidiaries	Main business place/ Place of registration	Business nature	Registered capital RMB in million	Total shareholding by the Group			
				31 December 2019		31 December 2018	
				Direct (%)	Indirect (%)	Direct (%)	Indirect (%)
Industrial Bank Financial Leasing Co., Ltd.	Tianjin	Financial leasing	9,000	**100**	**-**	100	-
China Industrial International Trust Limited [(1)]	Fuzhou	Trust	10,000	**73**	**-**	73	-
CIB Fund Management Co., Ltd.	Fuzhou	Fund management	1,200	**90**	**-**	90	-
Industrial Consumer Finance Co., Ltd. [(2)]	Quanzhou	Consumer finance	1,900	**66**	**-**	66	-
CIB Wealth Management Co., Ltd. [(3)]	Fuzhou	Assets management	5,000	**100**	**-**	-	-
CIIT Asset Management Co., Ltd. [(4)]	Shanghai	Assets management, equity investment, industrial investment, investment management and consulting	3,400	**-**	**100**	-	100
Industrial Wealth Asset Management Co., Ltd. [(4)]	Shanghai	Assets management	780	**-**	**100**	-	100
Industrial Future Co., Ltd. [(4)]	Ningbo	Assets management Merchandise futures brokerage, financial futures brokerage, futures investment consulting, asset management	500	**-**	**100**	-	100

(1) China Industrial International Trust Co., Ltd., the Bank's holding subsidiary, increased its share capital by RMB 5 billion in August 2019 using retained earnings, raising its registered capital to RMB 10 billion.

(2) In April 2019, the Bank increased the registered capital of its holding subsidiary Industrial Consumer Finance Co., Ltd. by RMB 462 million in proportion to its shareholding. After the capital increase, the registered capital of Industrial Consumer Finance Co., Ltd. became RMB 1,900 million.

(3) According to CBIRC's Reply to the Inauguration of CIB Wealth Management Co., Ltd. (CBIRC Reply [2019] No. 1127), the Bank was permitted to establish CIB Wealth Management Co., Ltd. in Fuzhou, Fujian Province. CIB Wealth Management Co., Ltd. is wholly owned by the Bank, with a registered capital of RMB 5 billion, and has completed industrial and commercial registration by 13 December 2019.

(4) The companies are the subsidiaries of the Bank's controlled subsidiaries.

2. Refer to No. VII, 48 for the information of consolidated structure entities included in the consolidation scope.

3. Exchange rates on principal financial statement line items of overseas operating entities

The exchange rate of USD, JPY, EUR, HKD, and GBP to RMB should be determined by the middle rate published by State Administration of Foreign Exchange (the “SAFE”). The exchange rate of other currency to RMB should be calculated by the benchmark rate of USD to RMB and rate of USD to other currencies offered by the SAFE.

VII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS

1. Cash and balances with Central Bank

		The Group		The Bank	
	Note	2019	2018	2019	2018
Cash on hand		**4,848**	5,191	**4,843**	5,191
Mandatory reserves with Central Bank	(1)	**389,293**	391,137	**389,289**	391,131
Excess reserves with Central Bank	(2)	**89,863**	77,820	**89,859**	77,820
Other deposits with Central Bank	(3)	**2,236**	1,633	**2,235**	1,633
Interest accrued		**204**	N/A	**204**	N/A
Total		**486,444**	475,781	**486,430**	475,775

(1) The domestic institution of the Bank places general deposit reserves mainly with the PBOC as required, including RMB deposit reserves and foreign deposit reserves. These deposit reserves are not available for the Group's daily operations and can't be transferred or used without the PBOC's approval. General deposit generates from organizations deposit, non-financial-budget deposit, individual deposit, enterprise deposit, net trust funds and other deposits. On 31 December 2019, the ratio of the Bank's RMB deposit reserves is 10.5% (31 December 2018: 12%), the ratio of foreign deposit reserves is 5% (31 December 2018: 5%). According to related regulations from the PBOC, foreign deposit reserves are non-interest bearing. The Group's subsidies' RMB reserve deposit ratio is in accordance with regulations of PBOC. Deposit ratio of statutory reserve in Hong Kong branch is in accordance with regulations from local regulators.

(2) Excess reserves with Central Bank are maintained with the PBOC mainly for the purpose of clearing, transferring, etc.

(3) The majority of other deposits with Central Bank are the fiscal deposits placed at Central Bank. Fiscal deposit at Central Bank refers to the fiscal deposit at PBOC by the Bank according to regulations, including the Bank's agent central budgetary revenues, local treasury deposits, etc. The fiscal deposits placed with the PBOC of institutions in mainland China are non-interest bearing.

2. Deposits with banks and other financial institutions

	The Group		The Bank	
	2019	2018	2019	2018
Banks operating in Mainland China	**47,986**	29,316	**42,565**	24,108
Other financial institutions operating in Mainland China	**6,080**	5,236	**6,076**	5,010
Banks operating outside Mainland China	**33,370**	18,694	**33,370**	18,694
Other financial institutions operating outside Mainland China	**23**	73	**23**	73
Interest accrued	**129**	N/A	**116**	N/A
Subtotal	**87,588**	53,319	**82,150**	47,885
Less: allowance for impairment losses	**(328)**	(16)	**(321)**	(16)
Net value	**87,260**	53,303	**81,829**	47,869

3. Placements with banks and other financial institutions

	The Group		The Bank	
	2019	2018	2019	2018
Banks operating in Mainland China	**34,074**	8,339	**46,529**	8,339
Other financial institutions operating in Mainland China	**151,002**	51,485	**151,002**	64,374
Banks operating outside Mainland China	**46,775**	38,585	**46,775**	38,585
Interest accrued	**697**	N/A	**696**	N/A
Subtotal	**232,548**	98,409	**245,002**	111,298
Less: allowance for impairment losses	**(1,073)**	(60)	**(1,073)**	(60)
Net value	**231,475**	98,349	**243,929**	111,238

4. Derivative financial instruments

The Group enters into derivative financial instruments related to foreign currency exchange rate, interest rate and precious metals for purposes of trading, asset and liability management and customer driven business.

The notional amounts of derivative instruments represent the value of the underlying asset or the reference rate as a basis to measure changes in derivative financial instruments, which provide an indication of the volume of business transacted by the Group, but don't stand for the relevant future cash flow or current fair value, thus, do not indicate the Group's exposure to credit or market risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates, foreign exchange rates or precious metal prices relative to their terms. The aggregate fair values of derivative financial assets and financial liabilities can fluctuate significantly from time to time.

The notional amount and fair value of the Group's derivative financial instruments are as follows:

The Group

	2019		
	Notional amount	Fair value	
		Assets	Liabilities
Exchange rate derivatives	**2,903,845**	**19,856**	**(19,588)**
Interest rate derivatives	**4,453,866**	**11,063**	**(11,291)**
Precious metal derivatives	**80,864**	**1,424**	**(495)**
Credit derivatives	**14,389**	**381**	**(70)**
Total		**32,724**	**(31,444)**

	2018		
	Notional amount	Fair value	
		Assets	Liabilities
Exchange rate derivatives	3,737,959	27,272	(24,773)
Interest rate derivatives	2,872,190	14,090	(13,440)
Precious metal derivatives	15,417	234	(413)
Credit derivatives	13,467	496	(197)
Total		42,092	(38,823)

The Bank

	2019		
	Notional amount	Fair value	
		Assets	Liabilities
Exchange rate derivatives	**2,903,532**	**19,854**	**(19,586)**
Interest rate derivatives	**4,453,866**	**11,063**	**(11,291)**
Precious metal derivatives	**80,864**	**1,424**	**(495)**
Credit derivatives	**14,389**	**381**	**(70)**
Total		**32,722**	**(31,442)**

	2018		
	Notional amount	Fair value	
		Assets	Liabilities
Exchange rate derivatives	3,737,959	27,272	(24,773)
Interest rate derivatives	2,872,190	14,090	(13,440)
Precious metal derivatives	15,417	234	(413)
Credit derivatives	13,467	496	(197)
Total		42,092	(38,823)

Fair value hedge

The Group uses the fair value hedges to hedge the influences of changes in fair value of financial assets caused by the changes of market interest rate. For interest rate risk of financial assets, the Group adopts interest rate swaps as hedging instruments. Included in the aforesaid derivative financial instruments, the hedging instruments designated by the Group and the Bank are as follows:

The Group and the Bank

	2019		
	Notional amount	Fair value	
		Assets	Liabilities
Derivatives designated as fair value hedging instruments:			
Interest rate swaps	**15,173**	**5**	**(233)**

	2018		
	Notional amount	Fair value	
		Assets	Liabilities
Derivatives designated as fair value hedging instruments:			
Interest rate swaps	22,527	125	(127)

The effectiveness of the hedging activities in the year which is reflected by the changes in fair value of hedging instruments and the net profit or loss from the hedged item attributable to the hedged risks is as follows:

The Group and the Bank

	2019	2018
Net gain (loss) from fair value hedge:		
Hedging instruments	**(226)**	(51)
Hedged item attributable to the hedged risk	**272**	58

Details of hedged exposure in fair value hedging strategy of the Group as below:

2019					
	Carrying amount of hedged items		Total amount of fair value adjustment of hedged items		Balance sheet items
	Assets	Liabilities	Assets	Liabilities	
Bonds	**15,400**	-	**240**	-	**Other debt investments**

5. Financial assets purchased under resale agreements

	The Group		The Bank	
	2019	2018	2019	2018
Bonds	**42,501**	76,098	**38,628**	72,810
Bills	-	1,318	-	1,318
Interest accrued	**69**	N/A	**69**	N/A
Subtotal	**42,570**	77,416	**38,697**	74,128
Less: allowance for impairment losses	**(709)**	(333)	**(709)**	(333)
Total	**41,861**	77,083	**37,988**	73,795

6. Loans and advances to customers

(1)Analysis of loans and advances to customers by person and corporate:

	The Group		The Bank	
	2019	2018	2019	2018
Measured at amortised cost:				
Personal loans and advances				
Residential and business mortgage loans	**910,879**	749,360	**910,879**	749,360
Credit cards	**349,312**	271,960	**349,312**	271,960
Others	**189,356**	145,084	**155,097**	124,390
Subtotal	**1,449,547**	1,166,404	**1,415,288**	1,145,710
Corporate loans and advances				
Loans and advances	**1,793,741**	1,608,207	**1,797,971**	1,611,711
Discounted bills	**-**	159,471	**-**	159,471
Subtotal	**1,793,741**	1,767,678	**1,797,971**	1,771,182
Less: allowance for impairment losses on loans and advances to customers measured at amortised cost	**(104,853)**	(95,637)	**(103,029)**	(94,817)
- Individually assessed	**N/A**	(20,798)	**N/A**	(20,798)
- Collectively assessed	**N/A**	(74,839)	**N/A**	(74,019)
Carrying amount of loans and advances to customers measured at amortised cost	**3,138,435**	2,838,445	**3,110,230**	2,822,075
Fair value through other comprehensive income:				
Corporate loans and advances				
Discounted bills	**195,824**	N/A	**195,824**	N/A
Subtotal	**195,824**	N/A	**195,824**	N/A
Fair value through profit or loss:				
Corporate loans and advances				
Loans and advances	**2,339**	N/A	**2,339**	N/A
Subtotal	**2,339**	N/A	**2,339**	N/A
Interest accrued	**8,582**	N/A	**8,217**	N/A
Net balance	**3,345,180**	2,838,445	**3,316,610**	2,822,075

As at 31 December 2019, the Group and Bank's allowance for impairment losses on loans and advances to customers measured at fair value through other comprehensive income was RMB 728 million (As at 31 December 2018: N/A).

(2) Analysis of loans and advances to customers (interest accrued excluded) by industry distribution:

	The Group				The Bank			
	2019		2018		2019		2018	
	Amount	(%)	Amount	(%)	Amount	(%)	Amount	(%)
Manufacturing	**354,788**	**10.31**	359,593	12.26	**354,588**	**10.40**	359,593	12.33
Leasing and commercial services	**286,222**	**8.32**	263,411	8.98	**290,627**	**8.52**	267,399	9.17
Retail and wholesale	**238,168**	**6.92**	224,723	7.66	**238,168**	**6.98**	224,723	7.70
Real estate	**251,859**	**7.32**	195,490	6.66	**251,859**	**7.38**	195,006	6.69
Water, environment and public facilities administration	**202,979**	**5.90**	173,268	5.91	**202,979**	**5.95**	173,268	5.93
Construction	**123,785**	**3.60**	95,487	3.25	**123,785**	**3.63**	95,487	3.27
Transport, logistics and postal service	**101,484**	**2.95**	79,355	2.70	**101,484**	**2.97**	79,355	2.72
Production and supply of power, gas and water	**80,332**	**2.33**	77,948	2.66	**80,332**	**2.35**	77,948	2.67
Extractive industry	**60,172**	**1.75**	59,421	2.03	**60,172**	**1.76**	59,421	2.04
Financial industry	**26,020**	**0.76**	21,537	0.73	**26,020**	**0.76**	21,537	0.74
Other corporate industries	**70,271**	**2.03**	57,974	1.97	**70,296**	**2.07**	57,974	1.99
Subtotal	**1,796,080**	**52.19**	1,608,207	54.81	**1,800,310**	**52.77**	1,611,711	55.25
Discounted bills	**195,824**	**5.69**	159,471	5.44	**195,824**	**5.74**	159,471	5.47
Personal loans	**1,449,547**	**42.12**	1,166,404	39.75	**1,415,288**	**41.49**	1,145,710	39.28
Gross loans and advances	**3,441,451**	**100.00**	2,934,082	100.00	**3,411,422**	**100.00**	2,916,892	100.00
Less: allowance for impairment losses	**(104,853)**		(95,637)		**(103,029)**		(94,817)	
- Individually assessed	**N/A**		(20,798)		**N/A**		(20,798)	
- Collectively assessed	**N/A**		(74,839)		**N/A**		(74,019)	
Loans and advances to customers (interest accrued excluded)	**3,336,598**		2,838,445		**3,308,393**		2,822,075	

(3) Analysis of loans and advances to customers (interest accrued excluded) by geographical distribution:

	The Group				The Bank			
	2019		2018		2019		2018	
	Amount	(%)	Amount	(%)	Amount	(%)	Amount	(%)
Head office (Note 1)	**359,167**	**10.44**	307,847	10.49	**359,167**	**10.53**	307,847	10.55
Fujian	**359,748**	**10.45**	313,459	10.68	**359,795**	**10.55**	315,031	10.80
Beijing	**179,249**	**5.21**	181,167	6.17	**177,948**	**5.22**	180,303	6.18
Shanghai	**151,732**	**4.41**	115,511	3.94	**141,987**	**4.16**	109,524	3.75
Guangdong	**395,599**	**11.49**	328,717	11.20	**393,175**	**11.52**	327,145	11.22
Zhejiang	**276,693**	**8.04**	208,879	7.12	**275,371**	**8.07**	207,796	7.12
Jiangsu	**336,525**	**9.78**	265,858	9.06	**333,484**	**9.78**	263,993	9.05
Others (Note 2)	**1,382,738**	**40.18**	1,212,644	41.34	**1,370,495**	**40.17**	1,205,253	41.33
Gross loans and advances	**3,441,451**	**100.00**	2,934,082	100.00	**3,411,422**	**100.00**	2,916,892	100.00
Less: allowance for impairment losses	**(104,853)**		(95,637)		**(103,029)**		(94,817)	
- Individually assessed	**N/A**		(20,798)		**N/A**		(20,798)	
- Collectively assessed	**N/A**		(74,839)		**N/A**		(74,019)	
Loans and advances to customers (interest accrued excluded)	**3,336,598**		2,838,445		**3,308,393**		2,822,075	

Note 1: Head office contains the credit card centre and the treasury centre.

Note 2: As at 31 December 2019, the Bank has 45 tier-1 branches, apart from the tier-1 branches mentioned above, the rest is categorized into "Others". Loans and advances originated by the Bank and the subsidiaries are presented by geographical distribution.

(4) Analysis of loans and advances (interest accrued excluded) to customers by security type:

	The Group		The Bank	
	2019	2018	2019	2018
Unsecured loans	**880,060**	728,050	**850,031**	711,344
Guaranteed loans	**709,810**	625,002	**709,810**	625,002
Collateralised loans	**1,655,757**	1,421,559	**1,655,757**	1,421,075
- Secured by mortgage	**1,352,975**	1,150,190	**1,352,975**	1,149,706
- Secured by collaterals	**302,782**	271,369	**302,782**	271,369
Discounted bills	**195,824**	159,471	**195,824**	159,471
Gross loans and advances	**3,441,451**	2,934,082	**3,411,422**	2,916,892
Less: allowance for impairment losses	**(104,853)**	(95,637)	**(103,029)**	(94,817)
- Individually assessed	**N/A**	(20,798)	**N/A**	(20,798)
- Collectively assessed	**N/A**	(74,839)	**N/A**	(74,019)
Loans and advances to customers (interest accrued excluded)	**3,336,598**	2,838,445	**3,308,393**	2,822,075

(5) Overdue loans (interest accrued excluded):

	The Group									
	2019					2018				
	1-90 days (including 90 days)	90-360 days (including 360 days)	360 days to 3 years (including 3 years)	Over 3 years	Total	1-90 days (including 90 days)	90-360 days (including 360 days)	360 days to 3 years (including 3 years)	Over 3 years	Total
Unsecured loans	**7,768**	**7,519**	**559**	**90**	**15,936**	5,498	4,242	619	60	10,419
Guaranteed loans	**5,228**	**6,771**	**6,744**	**787**	**19,530**	8,219	10,779	2,444	875	22,317
Collateralised loans	**9,297**	**9,945**	**8,169**	**1,116**	**28,527**	9,206	10,210	6,332	835	26,583
-Secured by mortgage	**8,265**	**7,451**	**7,992**	**1,084**	**24,792**	7,556	10,162	6,213	792	24,723
-Secured by collaterals	**1,032**	**2,494**	**177**	**32**	**3,735**	1,650	48	119	43	1,860
Total	**22,293**	**24,235**	**15,472**	**1,993**	**63,993**	22,923	25,231	9,395	1,770	59,319

	The Bank									
	2019					2018				
	1-90 days (including 90 days)	90-360 days (including 360 days)	360 days to 3 years (including 3 years)	Over 3 years	Total	1-90 days (including 90 days)	90-360 days (including 360 days)	360 days to 3 years (including 3 years)	Over 3 years	Total
Unsecured loans	**7,115**	**6,737**	**513**	**90**	**14,455**	5,207	3,904	492	59	9,662
Guaranteed loans	**5,228**	**6,771**	**6,744**	**787**	**19,530**	8,219	10,779	2,444	875	22,317
Collateralised loans	**9,297**	**9,945**	**8,169**	**1,116**	**28,527**	9,206	10,210	6,332	835	26,583
-Secured by mortgage	**8,265**	**7,451**	**7,992**	**1,084**	**24,792**	7,556	10,162	6,213	792	24,723
-Secured by collaterals	**1,032**	**2,494**	**177**	**32**	**3,735**	1,650	48	119	43	1,860
Total	**21,640**	**23,453**	**15,426**	**1,993**	**62,512**	22,632	24,893	9,268	1,769	58,562

Note: The loan will be categorized into overdue when principal or interest is overdue for one day.

(6) Allowance for loan impairment

As at 31 December 2019, changes in allowance for impairment losses on loans and advances to customers are as follows:

(a) Loans and advances to customers measured at amortised cost

The Group	
	Allowance for impairment losses
As at 31 December 2018	(95,637)
Changes in accounting policies	5,713
As at 1 January 2019	**(89,924)**

	The Group			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	
1 January 2019	**(48,271)**	**(12,128)**	**(29,525)**	**(89,924)**
Transfer:				
— to stage 1	**(4,686)**	**2,157**	**2,529**	**-**
— to stage 2	**292**	**(321)**	**29**	**-**
— to stage 3	**331**	**2,008**	**(2,339)**	**-**
Charge	**(4,710)**	**(2,866)**	**(39,044)**	**(46,620)**
Write-offs	**-**	**-**	**36,526**	**36,526**
Recoveries of amounts previously written off	**-**	**-**	**(6,080)**	**(6,080)**
Exchange difference and other movements	**-**	**-**	**1,245**	**1,245**
31 December 2019	**(57,044)**	**(11,150)**	**(36,659)**	**(104,853)**

The Bank	
	Allowance for impairment losses
As at 31 December 2018	(94,817)
Changes in accounting policies	5,771
As at 1 January 2019	**(89,046)**

	The Bank			
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
1 January 2019	**(47,875)**	**(12,040)**	**(29,131)**	**(89,046)**
Transfer:				
— to stage 1	**(4,670)**	**2,152**	**2,518**	**-**
— to stage 2	**289**	**(318)**	**29**	**-**
— to stage 3	**269**	**2,004**	**(2,273)**	**-**
Charge	**(4,083)**	**(2,849)**	**(37,945)**	**(44,877)**
Write-offs	**-**	**-**	**35,711**	**35,711**
Recoveries of amounts previously written off	**-**	**-**	**(6,062)**	**(6,062)**
Exchange difference and other movements	**-**	**-**	**1,245**	**1,245**
31 December 2019	**(56,070)**	**(11,051)**	**(35,908)**	**(103,029)**

Loans and advances to customers measured at fair value through other comprehensive income

	The Group			
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
1 January 2019	**(656)**	**-**	**-**	**(656)**
Transfer:				
— to stage 1	**-**	**-**	**-**	**-**
— to stage 2	**-**	**-**	**-**	**-**
— to stage 3	**-**	**-**	**-**	**-**
Charge	**(44)**	**(16)**	**(12)**	**(72)**
Write-offs	**-**	**-**	**-**	**-**
Recoveries of amounts previously written off	**-**	**-**	**-**	**-**
Exchange difference and other movements	**-**	**-**	**-**	**-**
31 December 2019	**(700)**	**(16)**	**(12)**	**(728)**

	The Bank			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	
1 January 2019	**(656)**	-	-	**(656)**
Transfer:				
— to stage 1	-	-	-	-
— to stage 2	-	-	-	-
— to stage 3	-	-	-	-
Charge	**(44)**	**(16)**	**(12)**	**(72)**
Write-offs	-	-	-	-
Recoveries of amounts previously written off	-	-	-	-
Exchange difference and other movements	-	-	-	-
31 December 2019	**(700)**	**(16)**	**(12)**	**(728)**

As at 31 December 2018, changes in allowance for impairment losses on loans and advances to customers are as follows:

	The Group			The Bank		
	Individually	Collectively	Total	Individually	Collectively	Total
Opening balance	(16,378)	(65,486)	(81,864)	(16,378)	(65,120)	(81,498)
Charge for the year	(22,689)	(15,378)	(38,067)	(22,689)	(14,737)	(37,426)
Write-offs and transfer out	21,099	6,999	28,098	21,099	6,811	27,910
Recoveries of loans and advances written off in previous years	(3,876)	(1,133)	(5,009)	(3,876)	(1,132)	(5,008)
Unwinding of discount on allowance	1,046	241	1,287	1,046	241	1,287
Fluctuation in exchange rate	-	(82)	(82)	-	(82)	(82)
Closing balance	(20,798)	(74,839)	(95,637)	(20,798)	(74,019)	(94,817)

7. Financial investments

		The Group		The Bank	
	Note	2019	2018	2019	2018
Trading assets	7.1	**652,034**	N/A	**628,253**	N/A
Debt investments	7.2	**1,444,176**	N/A	**1,431,325**	N/A
Other debt investments	7.3	**599,382**	N/A	**597,801**	N/A
Other equity investments	7.4	**1,929**	N/A	**1,929**	N/A
Total		**2,697,521**	N/A	**2,659,308**	N/A

7.1 Trading assets

	2019	
	The Group	The Bank
Held for trading purpose:		
Debt instrument investments:		
Government bonds	**16,419**	**15,111**
The Central Bank bills and policy financial bonds	**10,880**	**3,080**
Bonds issued by banks and other financial institutions	**15,624**	**11,571**
Interbank certificates of deposit	**16,489**	**14,738**
Corporate bonds and asset-backed securities	**91,108**	**55,281**
Equity instrument investments:		
Funds	**425,981**	**468,084**
Subtotal	**576,501**	**567,865**
Financial assets measured at fair value through profit or loss (mandatory):		
Debt securities:		
Bonds issued by banks and other financial institutions	**3,421**	**3,421**
Corporate bonds and asset-backed securities	**6,147**	**6,055**
Trust beneficiary rights and asset management plans	**50,942**	**46,534**
Wealth management products	**2,810**	**2,127**
Other investments	**5,933**	**-**
Equity instrument investments:		
Equity investments	**5,433**	**2,251**
Funds	**847**	**-**
Subtotal	**75,533**	**60,388**
Total	**652,034**	**628,253**

7.2 Debt investments

		2019	
	Note	The Group	The Bank
Government bonds		**643,791**	**642,291**
The Central Bank bills and policy financial bonds		**2,191**	**2,191**
Bonds issued by banks and other financial institutions		**25,431**	**25,431**
Interbank certificates of deposit		**21,939**	**21,939**
Corporate bonds and asset-backed securities		**94,022**	**93,761**
Trust beneficiary rights and asset management plans		**665,698**	**653,644**
Interest accrued		**15,213**	**15,073**
Subtotal		**1,468,285**	**1,454,330**
Less: allowance for impairment losses	**(1)**	**(24,109)**	**(23,005)**
Net value		**1,444,176**	**1,431,325**

(1) Changes in allowance for impairment losses on debt investments are as follows:

	The Group			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	
1 January 2019	**(11,206)**	**(2,926)**	**(9,130)**	**(23,262)**
Transfer:				
— to stage 1	**(827)**	**827**	**-**	**-**
— to stage 2	**462**	**(462)**	**-**	**-**
— to stage 3	**46**	**386**	**(432)**	**-**
Reversal (Charge)	**2,633**	**(761)**	**(6,505)**	**(4,633)**
Write-offs and transfer out	**-**	**-**	**4,219**	**4,219**
Exchange difference and other movements	**-**	**-**	**(433)**	**(433)**
31 December 2019	**(8,892)**	**(2,936)**	**(12,281)**	**(24,109)**

	The Bank			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	
1 January 2019	**(11,109)**	**(2,925)**	**(8,777)**	**(22,811)**
Transfer:				
— to stage 1	**(827)**	**827**	**-**	**-**
— to stage 2	**449**	**(449)**	**-**	**-**
— to stage 3	**46**	**386**	**(432)**	**-**
Reversal (Charge)	**2,581**	**(644)**	**(5,917)**	**(3,980)**
Write-offs and transfer out	**-**	**-**	**4,219**	**4,219**
Exchange difference and other movements	**-**	**-**	**(433)**	**(433)**
31 December 2019	**(8,860)**	**(2,805)**	**(11,340)**	**(23,005)**

7.3 Other debt investments

	2019	
	The Group	The Bank
Debt investments:		
Government bonds	**237,149**	**237,149**
The Central Bank bills and policy financial bonds	**15,642**	**15,642**
Bonds issued by banks and other financial institutions	**28,613**	**28,673**
Interbank certificates of deposit	**95,088**	**95,088**
Corporate bonds and asset-backed securities	**211,071**	**211,687**
Trust beneficiary rights and asset management plans	**5,794**	**3,565**
Interest accrued	**6,025**	**5,997**
Total	**599,382**	**597,801**

(1) Changes in fair value

		2019	
	Note	The Group	The Bank
Initial recognition cost		**598,659**	**596,971**
Fair value		**599,382**	**597,801**
Accumulate amount recognised in other comprehensive income		**483**	**590**
Accumulate amount recognised in profit or loss	(i)	**240**	**240**

(i) The Bank's Hong Kong branch uses interest rate swaps to hedge the changes in fair value caused by changes in bond interest rates of other debt investments held. Fair value changes of the part of hedged bonds are included in profit or loss.

(2) Changes in allowance for impairment losses on other debt investments are as follows:

	The Group			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	
1 January 2019	**(618)**	**(276)**	**(262)**	**(1,156)**
Transfer:				
— to stage 1	**(162)**	**162**	-	-
— to stage 2	**2**	**(2)**	-	-
— to stage 3	**1**	**18**	**(19)**	-
Reversal (Charge)	**83**	**24**	**(924)**	**(817)**
Exchange difference and other movements	**(9)**	-	-	**(9)**
31 December 2019	**(703)**	**(74)**	**(1,205)**	**(1,982)**

	The Bank			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	
1 January 2019	**(608)**	**(276)**	**(181)**	**(1,065)**
Transfer:				
— to stage 1	**(162)**	**162**	-	-
— to stage 2	**2**	**(2)**	-	-
— to stage 3	**1**	**18**	**(19)**	-
Reversal (Charge)	**107**	**34**	**(924)**	**(783)**
Exchange difference and other movements	**(9)**	-	-	**(9)**
31 December 2019	**(669)**	**(64)**	**(1,124)**	**(1,857)**

Other debt investments is a financial investment measured at fair value through other comprehensive income. Its allowance for impairment losses is recognized in other comprehensive income, and the impairment loss or gain is included in the current profit and loss, and the carrying amount of financial investment shown in the balance sheet is not reduced.

7.4 Other equity investments

	2019	
	The Group	The Bank
Designated at fair value through other comprehensive income	**1,929**	**1,929**

The Group designates non-trading equity investments as financial assets at fair value through other comprehensive income. As at 31 December 2019, the fair value of the equity investments is RMB 1,929 million. During the reporting period, dividend income of RMB 9 million recognized for such equity investments was included in the profit or loss.

Related analysis of other equity investments are as follows:

	2019	
	The Group	The Bank
Initial recognition cost	**2,092**	**2,092**
Fair value	**1,929**	**1,929**
Accumulate amount recognised in other comprehensive income	**(163)**	**(163)**

8. Financial assets at fair value through profit or loss

	2018	
	The Group	The Bank
Held-for-trading financial assets:		
Debt instrument investment:		
Government bonds	25,696	15,083
The Central Bank bills and policy financial bonds	8,788	3,969
Bonds of banks and other financial institutions	4,980	2,957
Interbank certificates of deposit	58,969	57,477
Corporate bonds and asset-backed securities	79,148	47,517
Subtotal of debt instruments investment	177,581	127,003
Equity instrument investment:		
Funds	271,755	283,803
Wealth management products	1,876	-
Others	9	-
Subtotal of equity instrument investment	273,640	283,803
Total of held-for-trading financial assets	451,221	410,806
Designated as financial assets at fair value through profit or loss:		
Debt instrument investment	8,089	2,209
Equity instrument investment	288	-
Total finanacial assets designated at fair value through profit or loss	8,377	2,209
Total	459,598	413,015

9. Available-for-sale financial assets

(1) Listed by types:

	2018	
	The Group	The Bank
Available-for-sale debt instrument:		
Government bonds	183,610	183,610
The Central Bank bills and policy financial bonds	21,560	21,560
Bonds issued by banks and other financial institutions	58,413	58,993
Interbank certificates of deposit	48,771	48,771
Corporate bonds and asset-backed securities	161,807	161,581
Wealth management products	2,972	1,999
Trust fund plans and other equity instrument	18,320	17,518
Subtotal	495,453	494,032
Available-for-sale equity instrument:		
Measured by fair value	149,433	170,849
Measured by cost	2,216	804
Subtotal	151,649	171,653
Total	647,102	665,685

(2) Related analysis for available-for-sale financial assets at fair value in the year-end :

	2018	
	The Group	The Bank
Available-for-sale debt instrument:		
Initial recognition cost	495,337	494,054
Fair value	495,453	494,032
Accumulate amount recognised in other comprehensive income	1,906	1,526
Accumulate provision of impairment	(1,790)	(1,548)
Available-for-sale equity instrument:		
Initial recognition cost	149,184	169,478
Fair value	149,433	170,849
Accumulate amount recognised in other comprehensive income	251	1,371
Accumulate provision of impairment	(2)	-
Total:		
Initial recognition cost	644,521	663,532
Fair value	644,886	664,881
Accumulate amount recognised in other comprehensive income	2,157	2,897
Accumulate provision of impairment	(1,792)	(1,548)

(3) Related analysis about available-for-sale financial assets at cost in the year-end:

Investee	The Group					
	Book balance			Provision for assets impairment	Proportion of share in Investee	Cash dividends for the year
	1 January 2018	Increase	31 December 2018			
China Union Pay Co., Ltd.	81	-	81	-	2.13	7
State Financing Guarantee Fund Co., Ltd.	-	500	500	-	3.03	-
Huafu Securities Co., Ltd.	359	-	359	-	4.35	-
China Trust Registration Co., Ltd.	60	-	60	-	2.00	-
Shanghai Commercial Paper Exchange Corporation Ltd.	50	-	50	-	2.71	-
China International Payment Service (Shanghai) Corp.	-	30	30	-	1.18	-
Zijin Mining Group Holding Group Finance Co., Ltd.	25	-	25	-	5.00	-
Others	1,265	(154)	1,111	-		-
Total	1,840	376	2,216	-		7

Investee	The Bank					
	Book balance			Provision for assets impairment	Proportion of share in Investee	Cash dividends for the year
	1 January 2018	Increase	31 December 2018			
China Union Pay Co., Ltd.	81	-	81	-	2.13	7
State Financing Guarantee Fund Co., Ltd.	-	500	500	-	3.03	-
Others	223	-	223	-		-
Total	304	500	804	-		7

(4) Related analysis about allowance for impairment losses on available-for-sale financial assets:

	The Group			The Bank		
	Available-for-sale debt instrument	Available-for-sale equity instrument	Total	Available-for-sale debt instrument	Available-for-sale equity instrument	Total
at 1 January 2018	(2,166)	(2)	(2,168)	(2,148)	-	(2,148)
Charge	(648)	-	(648)	(401)	-	(401)
Transfer	(1)	-	(1)	(1)	-	(1)
Write off	1,028	-	1,028	1,005	-	1,005
Effect of exchange rate	(3)	-	(3)	(3)	-	(3)
at 31 December 2018	(1,790)	(2)	(1,792)	(1,548)	-	(1,548)

10.Held-to-maturity investments

	2018	
	The Group	The Bank
Government bonds	345,594	344,093
The Central Bank bills and policy financial bonds	2,663	2,663
Bonds issued by banks and other financial institutions	12,278	12,278
Interbank certificates of deposit	9,118	9,118
Corporate bonds and asset-backed securities	25,626	25,542
Subtotal	395,279	393,694
Less: allowance for impairment losses	(137)	(137)
Net value	395,142	393,557

11. Investments classified as receivables

	2018	
	The Group	The Bank
Government bonds	365,355	365,355
Bonds issued by banks and other financial institutions	6,735	6,735
Corporate bonds and asset-backed securities	54,384	54,642
Wealth management products	1,688	858
Trust beneficiary rights and asset management plans	976,791	965,758
Subtotal	1,404,953	1,393,348
Less: allowance for impairment losses	(17,803)	(17,508)
Net value	1,387,150	1,375,840

12. Finance lease receivables

Presented by nature:

		The Group	
	Note	2019	2018
Finance lease receivables		**123,215**	122,155
Less: unrealized financing income		**(11,919)**	(13,352)
Present value of minimum finance lease receivables		**111,296**	108,803
Less: allowance for impairment losses	(1)	**(5,023)**	(4,550)
Net value		**106,273**	104,253

Listed as follows:

	Note	2019	2018
Within 1 year		**49,586**	36,402
1 to 2 years		**29,188**	31,239
2 to 3 years		**18,474**	21,209
3 to 5 years		**14,431**	18,014
Over 5 years		**8,826**	10,959
Undated*		**2,710**	4,332
Minimum lease receipts		**123,215**	122,155
Unrealized financing income		**(11,919)**	(13,352)
Present value of minimum finance lease receivables		**111,296**	108,803
Less: allowance for impairment losses	(1)	**(5,023)**	(4,550)
Net value		**106,273**	104,253
- Finance lease receivables due within 1 year		**43,888**	33,698
- Finance lease receivables due more than 1 year		**62,385**	70,555

*Undated amount refers to the part that was impaired or overdue for more than one month.

(1) Changes in allowance for impairment losses on finance lease receivables :

	The Group
	Allowance for impairment losses
31 December 2018	(4,550)
Changes in accounting policies	(1,162)
1 January 2019	**(5,712)**

	The Group			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	
1 January 2019	**(858)**	**(1,894)**	**(2,960)**	**(5,712)**
Transfer:				
— to stage 1	**(152)**	**152**	**-**	**-**
— to stage 2	**4**	**(4)**	**-**	**-**
— to stage 3	**6**	**425**	**(431)**	**-**
(Charge) reversal	**(357)**	**339**	**(608)**	**(626)**
Write-offs and transfer out	**-**	**-**	**1,316**	**1,316**
Exchange difference and other movements	**(1)**	**-**	**-**	**(1)**
31 December 2019	**(1,358)**	**(982)**	**(2,683)**	**(5,023)**

13. Long-term equity investments

The Group									
Investee	Accounting method	1 January 2019	Changes	31 December 2019	Proportion of equity interest (%)	Proportion of voting power in the investee (%)	Explanation of inconsistency between the proportion of equity interest and the proportion of voting power in the investee	Provisions	Cash dividends for this year
Bank of Jiujiang Co., Ltd.[1]	Equity method	**2,892**	**160**	**3,052**	**12.23**	**12.23**	**not applicable**	-	**24**
Others	Equity method	**332**	**29**	**361**			**not applicable**	-	**2**
Total		**3,224**	**189**	**3,413**				-	**26**

UNIT: RMB Million

The Bank									
Investee	Accounting method	1 January 2019	Changes	31 December 2019	Proportion of equity interest (%)	Proportion of voting power in the investee (%)	Explanation of inconsistency between the proportion of equity interest and the proportion of voting power in the investee	Provisions	Cash dividends for this year
Bank of Jiujiang Co., Ltd. [1]	Equity method	**2,892**	**160**	**3,052**	**12.23**	**12.23**	**not applicable**	-	**24**
Industrial Bank Financial Leasing Co., Ltd. (Note. VI)	Cost method	**7,000**	-	**7,000**	**100.00**	**100.00**	**not applicable**	-	-
China Industrial International Trust Limited (Note. VI)	Cost method	**6,395**	-	**6,395**	**73.00**	**73.00**	**not applicable**	-	**219**
CIB Fund Management Co., Ltd. (Note. VI)	Cost method	**900**	-	**900**	**90.00**	**90.00**	**not applicable**	-	-
Industrial Consumer Finance Co., Ltd (Note. VI)	Cost method	**792**	**462**	**1,254**	**66.00**	**66.00**	**not applicable**	-	**48**
CIB Wealth Management Co., Ltd. (Note. VI)	Cost method	-	**5,000**	**5,000**	**100.00**	**100.00**	**not applicable**	-	-
Total		**17,979**	**5,622**	**23,601**				-	**291**

(1) As the Bank held 12.23% shareholding ratio of Bank of Jiujiang and sent a director to the Bank of Jiujiang, the Bank has significant influence over the Bank of Jiujiang and the equity investment is accounted for using the equity method.

(2) There are no restrictions of the investees' capacities of capital transferring to the Group and the Bank on 31 December 2019.

14. Fixed assets

	The Group					
	Buildings	Fixed assets improvement	Office and machinery equipment	Transportation vehicles	Flight equipment	Total
Cost						
At 1 January 2019	**12,951**	**1,107**	**7,018**	**479**	**5,294**	**26,849**
Purchase	**602**	**9**	**1,287**	**42**	**970**	**2,910**
Transfers from constructions in progress	**5,856**	**57**	**6**	**-**	**-**	**5,919**
Sales/disposals	**(94)**	**(13)**	**(443)**	**(59)**	**-**	**(609)**
At 31 December 2019	**19,315**	**1,160**	**7,868**	**462**	**6,264**	**35,069**
Accumulated depreciation						
At 1 January 2019	**(3,061)**	**(444)**	**(4,950)**	**(309)**	**(424)**	**(9,188)**
Depreciation for the year	**(452)**	**(78)**	**(872)**	**(46)**	**(262)**	**(1,710)**
Eliminated on sales/disposals	**10**	**11**	**413**	**45**	**-**	**479**
At 31 December 2019	**(3,503)**	**(511)**	**(5,409)**	**(310)**	**(686)**	**(10,419)**
Net value						
At 1 January 2019	**9,890**	**663**	**2,068**	**170**	**4,870**	**17,661**
At 31 December 2019	**15,812**	**649**	**2,459**	**152**	**5,578**	**24,650**
Allowance for impairment losses						
At 1 January 2019	**(3)**	**-**	**-**	**-**	**-**	**(3)**
Charge for the year	**-**	**-**	**-**	**-**	**(6)**	**(6)**
At 31 December 2019	**(3)**	**-**	**-**	**-**	**(6)**	**(9)**
Net carrying amount						
At 1 January 2019	**9,887**	**663**	**2,068**	**170**	**4,870**	**17,658**
At 31 December 2019	**15,809**	**649**	**2,459**	**152**	**5,572**	**24,641**

On 31 December 2019, the cost of flight equipment leased out under operating lease business by the Group's subsidiary Industrial Bank Financial Leasing Co., Ltd. was RMB 6,264 million (31 December 2018: RMB 5,294 million).

Buildings cost RMB 1,340 million are in use but the legal ownership registrations were still in process as at 31 December 2019 (31 December 2018: RMB 1,325 million).

	The Bank				
	Buildings	Fixed assets improvement	Office and machinery equipment	Transportation vehicles	Total
Cost					
At 1 January 2019	**12,916**	**1,107**	**6,735**	**444**	**21,202**
Purchase	**603**	**9**	**1,225**	**38**	**1,875**
Transfers from constructions in progress	**5,856**	**57**	**6**	**-**	**5,919**
Sales/disposals	**(94)**	**(13)**	**(427)**	**(52)**	**(586)**
At 31 December 2019	**19,281**	**1,160**	**7,539**	**430**	**28,410**
Accumulated depreciation					
At 1 January 2019	**(3,049)**	**(444)**	**(4,789)**	**(293)**	**(8,575)**
Depreciation for the year	**(452)**	**(78)**	**(833)**	**(44)**	**(1,407)**
Eliminated on sales/disposals	**9**	**11**	**407**	**40**	**467**
At 31 December 2019	**(3,492)**	**(511)**	**(5,215)**	**(297)**	**(9,515)**
Net value					
At 1 January 2019	**9,867**	**663**	**1,946**	**151**	**12,627**
At 31 December 2019	**15,789**	**649**	**2,324**	**133**	**18,895**
Allowance for impairment losses					
At 1 January 2019	**(3)**	**-**	**-**	**-**	**(3)**
At 31 December 2019	**(3)**	**-**	**-**	**-**	**(3)**
Net carrying amount					
At 1 January 2019	**9,864**	**663**	**1,946**	**151**	**12,624**
At 31 December 2019	**15,786**	**649**	**2,324**	**133**	**18,892**

Buildings cost RMB 1,340 million are in use but the legal ownership registrations were still in process as at 31 December 2019 (31 December 2018: RMB 1,325 million).

15. Construction in progress

(1) Details of construction in progress are as follows:

	The Group					
	2019			2018		
	Carrying amount	Allowance for impairment loss	Net carrying amount	Carrying amount	Allowance for impairment loss	Net carrying amount
Operating building, Head office	**709**	**-**	**709**	618	-	618
Operating building, Jinan	**577**	**-**	**577**	526	-	526
Operating building, Changsha	**359**	**-**	**359**	-	-	-
Operating building, Nanchang	**351**	**-**	**351**	-	-	-
Operating building, Guiyang	**336**	**-**	**336**	1	-	1
Operating building, Nanning	**291**	**-**	**291**	259	-	259
Others	**840**	**-**	**840**	6,468	-	6,468
Total	**3,463**	**-**	**3,463**	7,872	-	7,872

	The Bank					
	2019			2018		
	Carrying amount	Allowance for impairment loss	Net carrying amount	Carrying amount	Allowance for impairment loss	Net carrying amount
Operating building, Head office	**709**	**-**	**709**	618	-	618
Operating building, Jinan	**577**	**-**	**577**	526	-	526
Operating building, Changsha	**359**	**-**	**359**	-	-	-
Operating building, Nanchang	**351**	**-**	**351**	-	-	-
Operating building, Guiyang	**336**	**-**	**336**	1	-	1
Operating building, Nanning	**291**	**-**	**291**	259	-	259
Others	**818**	**-**	**818**	6,448	-	6,448
Total	**3,441**	**-**	**3,441**	7,852	-	7,852

(2) Significant changes in construction in progress are as follows:

	The Group				
	2019				
	At 1 January 2019	Additions	Transfer to fixed assets	Transfer to long-term prepaid expenses	At 31 December 2019
Operating building, Head office	**618**	**91**	**-**	**-**	**709**
Operating building, Jinan	**526**	**51**	**-**	**-**	**577**
Operating building, Changsha	**-**	**359**	**-**	**-**	**359**
Operating building, Nanchang	**-**	**351**	**-**	**-**	**351**
Operating building, Guiyang	**1**	**335**	**-**	**-**	**336**
Operating building, Nanning	**259**	**32**	**-**	**-**	**291**
Others	**6,468**	**1,104**	**(5,919)**	**(813)**	**840**
Total	**7,872**	**2,323**	**(5,919)**	**(813)**	**3,463**

	The Bank				
	2019				
	At 1 January 2019	Additions	Transfer to fixed assets	Transfer to long-term prepaid expenses	At 31 December 2019
Operating building, Head office	**618**	**91**	**-**	**-**	**709**
Operating building, Jinan	**526**	**51**	**-**	**-**	**577**
Operating building, Changsha	**-**	**359**	**-**	**-**	**359**
Operating building, Nanchang	**-**	**351**	**-**	**-**	**351**
Operating building, Guiyang	**1**	**335**	**-**	**-**	**336**
Operating building, Nanning	**259**	**32**	**-**	**-**	**291**
Others	**6,448**	**1,102**	**(5,919)**	**(813)**	**818**
Total	**7,852**	**2,321**	**(5,919)**	**(813)**	**3,441**

16. Goodwill

	The Group				
	1 January 2019	Additions	Deductions	31 December 2019	Provision at 31 December 2019
China Industrial International Trust Limited	**532**	-	-	**532**	-

Goodwill arose from acquisition of China Industrial International Trust Limited in February 2011, and the overweight of China Industrial Future Limited by China Industrial International Trust Limited in March 2015.

At the end of the period, the Group performed impairment tests on goodwill based on expected future cash flow of the investee, meanwhile, calculated the expected present value of future cash flow of the investee by applying an appropriate discount rate to determine recoverable amount. No evidence shows that the recoverable amount of goodwill is less than the carrying amount and therefore no impairment is recognized.

17. Deferred tax asset and deferred tax liability

(1) Recognized deferred tax assets and liabilities

	The Group			
	2019		2018	
	Deductible (taxable) temporary differences	Deferred tax assets (liabilities)	Deductible (taxable) temporary differences	Deferred tax assets (liabilities)
Deferred tax assets				
Impairment losses on assets	**147,280**	**36,820**	116,896	29,224
Fair value changes of trading assets	**1,097**	**274**	N/A	N/A
Fair value changes of financial assets at fair value through profit or loss	**N/A**	**N/A**	1,160	290
Fair value changes of trading liabilities	**19**	**5**	10	2
Accrued but not paid employee benefits	**15,744**	**3,936**	13,093	3,273
Fair value changes of available-for-sale financial assets	**N/A**	**N/A**	740	185
Fair value changes of other equity investments	**163**	**41**	N/A	N/A
Others	**2,112**	**528**	3,222	806
Deferred tax assets before offset	**166,415**	**41,604**	135,121	33,780
Deferred tax liabilities				
Fair value changes of derivative financial instruments	**(425)**	**(106)**	(2,312)	(578)
Fair value changes of financial assets at fair value through profit or loss	**N/A**	**N/A**	(10)	(2)
Differences of fixed assets depreciation	**(1,073)**	**(268)**	(536)	(134)
Fair value changes of available-for-sale financial assets	**N/A**	**N/A**	(2,897)	(724)
Fair value changes of precious metals	**(14)**	**(4)**	(98)	(25)
Fair value changes of other debt investments	**(509)**	**(127)**	N/A	N/A
Others	**(1,198)**	**(300)**	-	-
Deferred tax liabilities before offset	**(3,219)**	**(805)**	(5,853)	(1,463)
Net amount after offset	**163,196**	**40,799**	129,268	32,317

	The Bank			
	2019		2018	
	Deductible (taxable) temporary differences	Deferred tax assets (liabilities)	Deductible (taxable) temporary differences	Deferred tax assets (liabilities)
Deferred tax assets				
Impairment losses on assets	**139,617**	**34,904**	112,580	28,145
Fair value changes of trading assets	**751**	**188**	N/A	N/A
Fair value changes of financial assets at fair value through profit or loss	**N/A**	**N/A**	1,160	290
Fair value changes of trading liabilities	**19**	**5**	3	1
Accrued but not paid employee benefits	**14,261**	**3,565**	11,897	2,974
Fair value changes of other equity investments	**163**	**41**	N/A	N/A
Others	**351**	**88**	612	153
Deferred tax assets before offset	**155,162**	**38,791**	126,252	31,563
Deferred tax liabilities				
Fair value changes of derivative financial instruments	**(425)**	**(106)**	(2,312)	(578)
Differences of fixed assets depreciation	**(1,073)**	**(268)**	(536)	(134)
Fair value changes of available-for-sale financial assets	**N/A**	**N/A**	(2,897)	(724)
Fair value changes of precious metals	**(14)**	**(4)**	(98)	(25)
Fair value changes of other debt investments	**(516)**	**(129)**	N/A	N/A
Others	**(1,198)**	**(300)**	-	-
Deferred tax liabilities before offset	**(3,226)**	**(807)**	(5,843)	(1,461)
Net amount after offset	**151,936**	**37,984**	120,409	30,102

The tax payment of domestic branches of the Bank can be aggregated in the way that the deferred tax assets and deferred tax liabilities are presented at the net amount after offset; overseas branches are individual taxable entities, and the deferred tax assets and deferred tax liabilities of the same entity can be presented at the net amount after offset. When there are net deferred tax assets/ liabilities in overseas branches, they are not offset against those in domestic branches. The subsidiaries of the Bank are individual taxable entities, and the deferred tax assets and deferred tax liabilities of the same entity can be presented at the net amount after offset.

(2) According to the Group's profit forecast, the Group believes that it is highly possible that sufficient taxable profits will be available in future periods to offset the deductible temporary differences. Therefore, the Group recognizes the deferred tax assets accordingly.

(3) Movements in deferred income tax assets and liabilities

	The Group	The Bank
31 December 2018	32,317	30,102
- Deferred tax assets	33,780	31,563
- Deferred tax liabilities	(1,463)	(1,461)
Changes in accounting policies	1,326	1,080
1 January 2019	**33,643**	**31,182**
Net changes of deferred tax recognized in income tax expenses	**6,325**	**6,109**
Net changes of deferred tax recognized in other comprehensive income	**831**	**693**
31 December 2019	**40,799**	**37,984**
- Deferred tax assets	**41,604**	**38,791**
- Deferred tax liabilities	**(805)**	**(807)**

18. Other assets

		The Group		The Bank	
	Note	2019	2018	2019	2018
Interest receivable	(1)	**1,785**	34,463	**1,745**	33,328
Other receivables	(2)	**14,213**	16,507	**11,728**	7,352
Prepaid purchase cost of lease assets		**1,174**	1,438	**-**	-
Foreclosed assets	(3)	**539**	981	**539**	981
Items in the process of clearance and settlement		**9,129**	4,256	**7,292**	4,256
Continuing involvement assets (Note XII, 3.1)		**13,400**	7,641	**10,472**	7,641
Long-term deferred expenses	(4)	**1,398**	1,430	**1,333**	1,382
Net assets of defined benefit plan (Note VII, 47.2)		**1,409**	1,088	**1,409**	1,088
Total		**43,047**	67,804	**34,518**	56,028

(1) Interest receivable

	The Group		The Bank	
	2019	2018	2019	2018
Amount due from Central Bank and financial institutions	**-**	443	**-**	433
Placements with banks and other financial institutions	**-**	406	**-**	584
Financial assets purchased under resale agreements	**-**	51	**-**	48
Loans and advances to customers	**890**	8,202	**867**	7,970
Bonds and other investments	**875**	25,244	**875**	24,258
Others	**20**	117	**3**	35
Total	**1,785**	34,463	**1,745**	33,328

In accordance with the requirements of Notice on Revision of 2018 Illustrative Financial Statements for Financial Entities, the Group's interest from financial instruments based on the effective interest rate method on 31 December 2019 is reflected under the carrying amount of corresponding financial instruments. Interest receivable due but not received from related financial instrument on 31 December 2019 is presented under other assets.

(2) Other receivables

Listed by aging:

	The Group				The Bank			
Account age	2019	Proportion %	2018	Proportion %	2019	Proportion %	2018	Proportion %
Within 1 year	**13,716**	**81.90**	15,176	83.17	**11,316**	**79.61**	6,192	68.11
1-2 years	**407**	**2.42**	610	3.35	**331**	**2.33**	439	4.83
2-3 years	**219**	**1.31**	194	1.06	**183**	**1.29**	194	2.13
Over 3 years	**2,406**	**14.37**	2,266	12.42	**2,384**	**16.77**	2,266	24.93
Subtotal	**16,748**	**100.00**	18,246	100.00	**14,214**	**100.00**	9,091	100.00
Less: Allowance for impairment losses	**(2,535)**		(1,739)		**(2,486)**		(1,739)	
Net value	**14,213**		16,507		**11,728**		7,352	

(3) Foreclosed assets

Analysed by category of the foreclosed assets:

	The Group and the Bank	
	2019	2018
Buildings and land use rights	**591**	1,028
Others	**1**	1
Subtotal	**592**	1,029
Less: Allowance for impairment losses	**(53)**	(48)
Net value	**539**	981

(4) Long-term deferred expenses

	The Group				
	1 January 2019	Changes	Transferred from construction in progress	Amortization	31 December 2019
Leasehold improvements	**1,349**	**(265)**	**813**	**(608)**	**1,289**
Others	**81**	**40**	**-**	**(12)**	**109**
Total	**1,430**	**(225)**	**813**	**(620)**	**1,398**

	The Bank				
	1 January 2019	Changes	Transferred from construction in progress	Amortization	31 December 2019
Leasehold improvements	**1,301**	**(311)**	**813**	**(579)**	**1,224**
Others	**81**	**40**	**-**	**(12)**	**109**
Total	**1,382**	**(271)**	**813**	**(591)**	**1,333**

19. Deposits from banks and other financial institutions

	The Group		The Bank	
	2019	2018	2019	2018
Amount from banks:				
Banks operating in Mainland China	**226,267**	318,725	**237,938**	318,748
Banks operating outside Mainland China	**110,254**	97,746	**110,254**	97,746
Deposits from other financial institutions:				
Other financial institutions operating in Mainland China	**891,312**	928,389	**891,312**	934,890
Other financial institutions operating outside Mainland China	**13**	23	**13**	23
Interest accrued	**6,091**	N/A	**6,091**	N/A
Total	**1,233,937**	1,344,883	**1,245,608**	1,351,407

20. Placements from banks and other financial institutions

	The Group		The Bank	
	2019	2018	2019	2018
Banks operating in Mainland China	**107,437**	157,077	**13,960**	63,188
Other financial institutions operating in Mainland China	**3,458**	4,648	**3,393**	4,648
Banks operating outside Mainland China	**80,094**	59,106	**78,939**	59,105
Interest accrued	**1,321**	N/A	**902**	N/A
Total	**192,310**	220,831	**97,194**	126,941

21. Trading liabilities

		The Group		The Bank	
	Note	2019	2018	2019	2018
Trading liabilities:					
Financial liabilities related to precious metals	(1)	**3,654**	-	**3,654**	-
Sold financing bonds		**30**	-	**30**	-
Others		**261**	97	**261**	97
Subtotal		**3,945**	97	**3,945**	97
Financial liabilities assigned as at fair value through profit or loss	(2)	**269**	2,497	**161**	2,290
Total		**4,214**	2,594	**4,106**	2,387

(1) The Group's financial liabilities related to the precious metals are matched with the precious metals or derivatives based on the risk management strategy and are included in the financial liabilities at fair value through profit or loss.

(2) The Group's other shareholder's equity and structured financial instruments that are included in the consolidated financial statements are designated as financial liabilities at fair value through profit or loss. No significant changes in fair value from changes in credit risk occurred on 31 December 2019 (31 December 2018: Nil).

22. Financial assets sold under repurchase agreements

	The Group		The Bank	
	2019	2018	2019	2018
Bonds	**143,966**	181,969	**134,626**	170,674
Bills	**49,089**	48,600	**49,089**	48,600
Interest accrued	**357**	N/A	**357**	N/A
Total	**193,412**	230,569	**184,072**	219,274

23. Deposits from customers

	The Group		The Bank	
	2019	2018	2019	2018
Demand deposits				
- Corporate	**1,176,810**	1,001,358	**1,179,079**	1,001,909
- Personal	**287,098**	253,500	**287,098**	253,500
Subtotal	**1,463,908**	1,254,858	**1,466,177**	1,255,409
Term deposits (including call deposits)				
- Corporate	**1,628,915**	1,541,943	**1,629,315**	1,541,943
- Personal	**374,634**	272,073	**374,634**	272,073
Subtotal	**2,003,549**	1,814,016	**2,003,949**	1,814,016
Guaranteed and margin deposits	**289,707**	231,867	**289,707**	231,867
Others	**1,899**	2,771	**1,899**	2,771
Interest accrued	**35,769**	N/A	**35,769**	N/A
Total	**3,794,832**	3,303,512	**3,797,501**	3,304,063

The pledged deposits included in deposits from customers are analysed as follows:

	The Group		The Bank	
	2019	2018	2019	2018
Bank acceptances	**163,958**	123,699	**163,958**	123,699
Letters of credit	**31,936**	18,494	**31,936**	18,494
Guarantee	**9,156**	8,717	**9,156**	8,717
Others	**84,657**	80,957	**84,657**	80,957
Total	**289,707**	231,867	**289,707**	231,867

24. Employee benefits payable

	The Group				The Bank			
	1 January 2019	Increase	Decrease	31 December 2019	1 January 2019	Increase	Decrease	31 December 2019
Salaries and bonus	**13,305**	**21,133**	**(18,972)**	**15,466**	**11,643**	**19,414**	**(17,306)**	**13,751**
Labor union expenditure and staff educational funds	**1,778**	**901**	**(647)**	**2,032**	**1,723**	**794**	**(531)**	**1,986**
Social insurance	**84**	**2,319**	**(2,333)**	**70**	**81**	**2,228**	**(2,243)**	**66**
Housing funds	**42**	**1,100**	**(1,101)**	**41**	**37**	**999**	**(1,000)**	**36**
Defined contribution plans	**132**	**2,555**	**(2,558)**	**129**	**85**	**2,409**	**(2,424)**	**70**
Total	**15,341**	**28,008**	**(25,611)**	**17,738**	**13,569**	**25,844**	**(23,504)**	**15,909**

The salaries, bonus, retirement benefits and other social insurance of employee benefits payable are granted or paid according to time limit set by relevant laws, regulations and the Group's policies. See defined contribution pension plans in Note VII, 47.1.

25. Tax payable

	The Group		The Bank	
	2019	2018	2019	2018
Enterprise income tax	**10,715**	7,959	**10,026**	7,125
Value added tax	**3,124**	2,733	**2,628**	2,404
City maintenance and construction tax	**221**	186	**212**	179
Others	**416**	419	**360**	337
Total	**14,476**	11,297	**13,226**	10,045

26. Provisions

	The Group		The Bank	
	2019	2018	2019	2018
Credit loss of off-balance sheet assets	**6,253**	-	**6,253**	-

As at 31 December 2019, movements of credit loss on off-balance sheet assets are as follows:

	The Group			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	
1 January 2019	**(4,371)**	**(320)**	**(281)**	**(4,972)**
Transfer:				
— to stage 1	**(86)**	**86**	**-**	**-**
— to stage 2	**3**	**(3)**	**-**	**-**
— to stage 3	**1**	**-**	**(1)**	**-**
Charge	**(361)**	**89**	**(1,005)**	**(1,277)**
Exchange difference and other movements	**(4)**	**-**	**-**	**(4)**
31 December 2019	**(4,818)**	**(148)**	**(1,287)**	**(6,253)**

	The Bank			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	
1 January 2019	**(4,371)**	**(320)**	**(281)**	**(4,972)**
Transfer:				
— to stage 1	**(86)**	**86**	**-**	**-**
— to stage 2	**3**	**(3)**	**-**	**-**
— to stage 3	**1**	**-**	**(1)**	**-**
Charge	**(361)**	**89**	**(1,005)**	**(1,277)**
Exchange difference and other movements	**(4)**	**-**	**-**	**(4)**
31 December 2019	**(4,818)**	**(148)**	**(1,287)**	**(6,253)**

27. Debt securities issued

	The Group		The Bank	
	2019	2018	2019	2018
Long-term subordinated bonds	**13,381**	20,957	**13,381**	20,957
Financial bonds	**143,015**	150,244	**120,702**	134,424
Secondary capital bonds	**83,427**	51,935	**81,397**	49,935
Interbank certificates of deposit	**650,853**	483,363	**650,853**	483,363
Certificates of deposit	**4,773**	9,757	**4,773**	9,757
Asset-backed securities	**-**	598	**-**	-
Private placement note	**1,400**	1,000	**-**	-
Corporate bonds	**2,267**	-	**-**	-
Total	**899,116**	717,854	**871,106**	698,436

Note: Debt securities issued by the Group include long-term subordinated bonds, financial bonds, secondary capital bonds, interbank certificates of deposit, certificates of deposit and asset-backed securities. The secondary capital bonds are issued by commercial banks and their subsidiaries to supplement the secondary capital. The secondary capital bonds and the long-term subordinated bonds are in the same liquidation sequence.

Details of debt securities issued are as follows:

			The Group	The Bank
Category of bonds	Issuing date	Interest payment frequency	2019	2019
Long-term subordinate bonds				
10 CIB debt [1]	2010-03-29	Yearly	**3,000**	**3,000**
11 CIB subordinated debt [2]	2011-06-28	Yearly	**10,000**	**10,000**
Interest accrued			**401**	**401**
Less: unamortised issuance cost			**(20)**	**(20)**
Subtotal			**13,381**	**13,381**
Financial bonds				
16 CIB green financial bond 03[3]	2016-11-15	Yearly	**20,000**	**20,000**
18 CIB green financial bond 01[4]	2018-11-01	Yearly	**30,000**	**30,000**
18 CIB green financial bond 02[4]	2018-11-22	Yearly	**30,000**	**30,000**
19 CIB green financial bond 01[5]	2019-07-16	Yearly	**20,000**	**20,000**
USD medium-term notes[6]	2016-09-21	Semi-annually	**2,093**	**2,093**
USD medium-term notes[6]	2018-03-05	Semi-annually	**4,186**	**4,186**
USD medium-term notes[6]	2018-03-05	Semi-annually	**1,744**	**1,744**
USD medium-term notes[6]	2018-03-05	Quarterly	**3,488**	**3,488**
EUR medium-term notes[6]	2018-03-05	Quarterly	**1,955**	**1,955**
USD green financial bond[6]	2018-11-13	Quarterly	**4,186**	**4,186**
EUR green financial bond[6]	2018-11-13	Quarterly	**2,346**	**2,346**
17 CIB leasing debt 01[7]	2017-03-08	Yearly	**450**	**-**
17 CIB leasing debt 02[7]	2017-05-19	Yearly	**2,000**	**-**
17 CIB leasing debt 03[7]	2017-08-10	Yearly	**4,000**	**-**
18 CIB leasing debt 01[8]	2018-06-05	Yearly	**3,490**	**-**
18 CIB leasing debt 02[8]	2018-11-21	Yearly	**3,500**	**-**
18 CIB leasing debt 03[8]	2018-11-30	Yearly	**3,000**	**-**
19 CIB leasing debt 01(8)	2019-03-04	Yearly	**2,500**	**-**
19 CIB consumer financial debt 01[9]	2019-08-15	Yearly	**2,000**	**-**
19 CIB consumer financial debt 02[9]	2019-11-20	Yearly	**1,000**	**-**
Interest accrued			**1,207**	**827**
Less: unamortised issuance cost			**(130)**	**(123)**
Subtotal			**143,015**	**120,702**
Secondary capital bonds				
16 CIB secondary [10]	2016-04-11	Yearly	**30,000**	**30,000**
19 CIB secondary 01 [10]	2019-08-23	Yearly	**30,000**	**30,000**
19 CIB secondary 02 [10]	2019-09-17	Yearly	**20,000**	**20,000**
17 CIB leasing secondary [10]	2017-09-15	Yearly	**2,000**	**-**
Interest accrued			**1,502**	**1,472**
Less: unamortised issuance cost			**(75)**	**(75)**
Subtotal			**83,427**	**81,397**

			The Group	The Bank
Category of bonds	Issuing date	Interest payment frequency	2019	2019
Interbank certificates of deposit				
Par value of interbank certificates of deposit (12)			**659,374**	**659,374**
Interest accrued			**47**	**47**
Less: unamortised issuance cost			**(8,568)**	**(8,568)**
Subtotal			**650,853**	**650,853**
Certificates of deposit				
Par value of certificates of deposit (13)			**4,818**	**4,818**
Interest accrued			**11**	**11**
Less: unamortised issuance cost			**(56)**	**(56)**
Subtotal			**4,773**	**4,773**
Private placement note				
18 CIAMC PPN001(14)	2018-12-19	Yearly	**1,000**	-
19 CIAMC PPN002(14)	2019-07-17	Maturity	**400**	-
Subtotal			**1,400**	-
Corporate bonds				
19 CIAMC 01(15)	2019-11-18	Yearly	**500**	-
19 CIAMC 02(15)	2019-11-18	Yearly	**440**	-
19 CIIT 01(16)	2019-12-30	Yearly	**1,330**	-
Less: unamortised issuance cost			**(3)**	-
Subtotal			**2,267**	-
Total			**899,116**	**871,106**

(1) In March 2010, the Group issued RMB 3 billion subordinated bond with a 15-year maturity, a fixed interest rate and a redemption right in the end of the tenth year. The annual coupon rate in first ten interest-bearing years is 4.80%, and the rate in last five years is 7.80% since the eleventh interest-bearing year to maturity of the bonds if the issuer does not exercise the option of redemption.

(2) In June 2011, the Group issued RMB 10 billion subordinated bond with a 15-year maturity, a fixed interest rate and a redemption right in the end of the tenth year. The annual coupon rate is 5.75% consistently.

(3) In November 2016, the Group issued a green financial bond of 5-year bonds amounting RMB 20 billion with fixed rate of 3.40%.

(4) In November 2018, the Group issued two kinds of green financial bonds of 3-year bonds amounting RMB 30,000 million with fixed rates of 3.99% and 3.89%.

(5) In July 2019, the Group issued a green financial bond of 3-year bonds amounting RMB 20,000 million with fixed rates of 3.55%.

(6) In September 2016, the Group set the medium-term notes issuing plan with limit of USD 5 billion at The Stock Exchange of Hong Kong Ltd. (the "SEHK"). According to the plan, the Hong Kong branch of the Bank initially issued 5-year medium-term notes amounting USD 300 million at fixed annual rates of 2.375%. The annual rate kept constant during the existence of bonds; in March 2018, the Hong Kong branch of the Bank issued 3-year medium-term notes amounting USD 600 million, 5-year medium-term notes amounting USD 250 million, 5-year medium-term notes amounting USD 500 million and 3-year medium-term notes amounting EUR 250 million at fixed annual rates of 3.50%, 3.750%, 105 basis points over the 3-month London rate for interbank lending, and 75 basis points over the 3-month Europe rate for interbank lending; in November 2018, the Hong Kong branch of the Bank issued 3-year overseas green financial bonds amounting USD 600 million and 3-year overseas green financial bonds amounting EUR 300 million at annual rates of 85 basis points over the 3-month London rate for interbank lending and 85 basis points over the 3-month Europe rate for interbank lending.

(7) In March 2017, May 2017 and August 2017, the Group's subsidiary China Industrial Finance Leasing Limited issued RMB 500 milion, RMB 2,000 million and RMB 4,000 million three-year fixed interest rate financial bonds at the annual rate of 4.5%, 5% and 4.7% respectively. As at 31 December 2019, the Bank holds "17 CIB leasing debt 01" of RMB 50 million issued by China Industrial Finance Leasing Limited in March 2017.

(8) In June 2018, November 2018, November 2018 and March 2019, the Group's subsidiary Industrial Bank Financial Leasing Co., Ltd. respectively issued RMB financial bonds of 3-year bonds amounting RMB 3,500 million, RMB 3,500 million, RMB 3,000 million and RMB 2,500 million with fixed rates of 4.88%, 3.98%, 3.95% and 3.52%. As of 31 December 2019, the "18 CIB leasing debt 01" of RMB 10 million issued by Industrial Bank Financial Leasing Co., Ltd. in June 2018 was held by the Bank.

(9) In August 2019 and November 2019, the Group's subsidiary Industrial Consumer Finance Co., Ltd. respectively issued RMB financial bonds of 3-year bonds amounting RMB 2,000 million and RMB 1,000 million with fixed rates of 3.77% and 3.79% respectively.

(10) In April 2016, August 2019 and November 2019, the Group issued RMB 30,000 million, RMB 30,000 million, RMB 20,000 subordinated bond with a 10-year maturity, a fixed interest rate and a redemption right at the end of the fifth year. The annual coupon rate is 3.74%, 4.15% and 4.12% consistently.

(11) In September 2017, the Group's subsidiary China Industrial Finance Leasing Limited issued RMB 2 billion 10-year secondary capital bonds with fixed interest rate and issuer's redemption right at the end of the 5th year. During the tenure of the bonds, the annual interest rate remains at 5.15%.

(12) As at 31 December 2019, the Group had 444 unpaid interbank certificates of deposit with total amount of RMB 659,374 million, including 3 USD non-negotiable certificates deposit, of which the issued par value was USD400 million (RMB 2,790 million) and the terms are within 1 year; 1 EUR interbank certificates of deposit, of which the issued par value is EUR113 million, with RMB 884 million due within 1 year; and 440 RMB interbank certificates of deposit, of which the issued par value is RMB 655,700 million, with RMB 650,500 million due within 1 year and the rest due in 3 years. The annual rate is 2.85% to 3.33%. Except for interest of 11 interest-bearing debts being paid quarterly, the interest of rest is paid upon maturity.

(13) As at 31 December 2019, Hong Kong branch had 9 unpaid interbank certificates of deposit, of with a total the amount was RMB 4,818 million and due within 1 year. The amount of 2 HKD certificates was HKD900 million (RMB 806 million); the amount of 7 USD certificates was USD 575 million (RMB 4,011 million). The annual interest rate was between 2.20% to 2.57%. The interest of all certificates is paid upon maturity.

(14) In December 2018 and July 2019, China Industrial Asset Management Co., Ltd., a subsidiary of China Industrial International Trust Limited, the Group's subsidiary, issued RMB 1,000 milion three-year fixed interest rate placement note at the annual rate of 4.85% and RMB 500 million eight-month fixed interest rate placement note at the annual rate of 3.73% respectively. As at 31 December 2019, the Bank holds "19 CIAMC PPN002" of RMB 100 million issued by China Industrial Asset Management Co., Ltd in July 2019.

(15) In November 2019, China Industrial Asset Management Co., Ltd., a subsidiary of China Industrial International Trust Limited, the Group's subsidiary, issued RMB 500 milion three-year fixed interest rate financial bond at the annual rate of 4.10% and RMB 500 million five-year fixed interest rate Corporate bond at the annual rate of 4.25% respectively. As at 31 December 2019, the Bank holds "19 CIAMC 02" of RMB 60 million issued by China Industrial Asset Management Co., Ltd. in November 2019.

(16) In December 2019, CIIT Asset Management Co., Ltd., a subsidiary of China Industrial International Trust Limited, the Group's subsidiary, issued RMB 1,900 milion three-year fixed interest rate Corporate bond at the annual rate of 4.4%. As at 31 December 2019, the Bank holds "19 CIIT 01" of RMB 570 million issued by CIIT Asset Management Co., Ltd. in November 2019.

28. Other liabilites

	The Group		The Bank	
	2019	2018	2019	2018
Interest payable	**42**	46,771	**42**	45,646
Bank promissory notes	**1,542**	848	**1,038**	848
Items in the process of clearance and settlement	**1,650**	5,304	**1,650**	5,304
Dividend payables	**1**	1	**1**	1
Continuing involvement liabilities (Note XII, 3.1)	**13,400**	7,641	**10,472**	7,641
Wealth management and entrusted investment fund	**177**	312	**96**	312
Deferred income	**1,128**	2,889	**1,076**	993
Other payables	**22,098**	21,103	**6,749**	5,678
Total	**40,038**	84,869	**21,124**	66,423

29. Share capital

	The Group and the Bank		
	1 January 2019	Change for the period	31 December 2019
Shares without limited sales restrictions RMB ordinary shares (A shares)	**19,052**	-	**19,052**
Shares with limited sales restrictions RMB ordinary shares (A shares)	**1,722**	-	**1,722**
Total shares	**20,774**	-	**20,774**

As at 31 December 2019, the share capital of the Bank is RMB 20,774 million (31 December 2018: RMB 20,774 million) with par value of RMB 1 per share.

30. Other equity instruments

(1) Outstanding preference shares in the end of the period are as follows:

	The Group and the Bank									
Outstanding financial instrument	Time	Classification	Rate	Price RMB/ share	Quantity RMB million share	Amount RMB million	Maturity date	Transfer requirement	Condition
preference shares	2014.12	Equity instrument	Note 1	100	130	13,000	N/A	Note 4	N/A
preference shares	2015.6	Equity instrument	Note 2	100	130	13,000	N/A	Note 4	N/A
preference shares	**2019.4**	**Equity instrument**	**Note 3**	**100**	**300**	**30,000**	**N/A**	**Note 4**	**N/A**

Note 1: For the initial issuance of the preference shares ("Xing Ye You 1"), every five year was an interest-bearing cycle starting from the payment deadline (i.e. 8 December 2014). The dividend rate was the same in every interest-bearing cycle. The dividend rate of first cycle was determined as 6.00% through inquiry by the Board of Directors authorized by shareholders' meeting and was in accordance with factors such as national policy, market conditions, specific circumstances of the Bank and requirements from investors at that time. The dividend rate of preference shares of this issuance was not higher than the annual weighted average ROE of ordinary shareholders over the last two fiscal years. The dividend rate of preference shares of this issuance was the sum of benchmark interest rate and basic interest rate. The benchmark interest rate of the first interest-bearing cycle (i.e. 3.45%, rounded to 0.01%) was determined by calculating the arithmetic mean of 20 trading days (before 8 December 2014) of the YTM regarding treasury bonds, with 5-year remaining terms. The data was obtained from the inter-bank fixed-rate treasury bond yield curve published by China Bond Information Website (or any other websites approved by Central Securities Depository Trust and Clearing Corporation Limited). The benchmark interest rate was adjusted every 5 years from the deadline for payment of preference shares issued. The basic spread was the dividend rate of first cycle deducting the benchmark interest rate, i.e. 2.55%. The basic spread would no longer be adjusted after the issuance. The subsequent coupon interest rate was determined by the current benchmark interest rate plus the basis spread. The benchmark interest rate of current interest-bearing cycle was determined by calculating the arithmetic mean of 20 trading days (before the benchmark interest adjustment date) of the YTM regarding treasury bonds, with 5-year remaining terms (rounded to 0.01%). If the YTM of 5-year treasury bonds is not available on the benchmark interest adjustment day, the benchmark interest rate or its principle will be determined under negotiations between the Bank and investors required by the regulator.

In December 2019, the dividend yield ratio of the "Xing Ye You 1" preferred stock for the second dividend period was adjusted in accordance with relevant provisions in the Prospectus. The current benchmark interest rate was the arithmetic mean (i.e. 3.00% rounded to 0.01%) of the yield to maturity of the 5-year treasury bond within the ChinaBond treasury bond yield curve (previously known as the ChinaBond interbank fixed interest rate treasury bond yield curve) in the 20 trading days (excluding the benchmark interest rate adjustment date) prior to the current benchmark interest rate adjustment date (8 December 2019) published on www.chinabond.com.cn or other websites recognised by China Central Depository & Clearing Co., Ltd., and the basic spread was 2.55%. Therefore, the dividend yield ratio of "Xing Ye You 1" for the second dividend period was changed to 5.55% from 8 December 2019.

Note 2: For the second issuance of the preference shares ("Xing Ye You 2"), every five year was an interest-bearing cycle starting from the payment deadline (i.e. 24 June 2015). The dividend rate was the same in every interest-bearing cycle. The dividend rate of first cycle was determined as 5.40% through inquiry by the Board of Directors authorized by shareholders' meeting and was in accordance with factors such as national policy, market conditions, specific circumstances of the Bank and requirements from investors at that time. The dividend rate of preference shares of this issuance was not higher than the annual weighted average ROE of ordinary shareholders over the last two fiscal years. The dividend rate of preference shares of this issuance was the sum of benchmark interest rate and basic interest rate. The benchmark interest rate of the first interest-bearing cycle, (i.e. 3.25%, rounded to 0.01%), was determined by calculating the arithmetic mean of 20 trading days (before 24 June 2015) of the YTM regarding treasury bonds, with 5-year remaining terms (rounded to 0.01%). The data was obtained from the inter-bank fixed-rate treasury bond yield curve published by China Bond Information Website (or any other websites approved by Central Securities Depository Trust and Clearing Corporation Limited). The benchmark interest rate was adjusted every 5 years from the deadline for payment of preference shares issued. The basic spread was the dividend rate of first cycle deducting the benchmark interest rate, i.e. 2.15%. The basic spread would no longer be adjusted after the issuance. The subsequent coupon interest rate was determined by the current benchmark interest rate plus the basis spread, the benchmark interest rate of current interest-bearing cycle is national debt (which period before payment is for 5 years) YTM's arithmetic mean (rounded to 0.01%), from the fixed-rate national debt yield curve in Bank Debt published on www.chinabond.com.cn (or any other websites approved by Central Securities Depository Trust and Clearing Corporation Limited), 20 days before benchmark interest rate adjustment date which's the date of each 5 years of the deadline for payment of preference shares issued (which is 24 June). If the YTM regarding treasury bonds, with 5-year remaining terms is not available on the benchmark interest adjustment date, the Bank and investors will negotiate with the investor to determine the subsequent benchmark interest rate or its determining principles at the request of the regulatory authorities.

Note 3: For the preference shares issued in 2019 ("Xing Ye You 3"), every five year was an interest-bearing cycle starting from the payment deadline (i.e. 10 April 2019). The dividend rate was the same in every interest-bearing cycle. The dividend rate of first cycle was determined as 4.90% through inquiry by the Board of Directors authorized by shareholders' meeting and was in accordance with factors such as national policy, market conditions, specific circumstances of the Bank and requirements from investors at that time. The dividend rate of preference shares of this issuance was not higher than the annual weighted average ROE of ordinary shareholders over the last two fiscal years. The dividend rate of preference shares of this issuance was the sum of benchmark interest rate and basic interest rate. The benchmark interest rate of the first interest-bearing cycle (i.e. 3.06%, rounded to 0.01%) was determined by calculating the arithmetic mean of 20 trading days (before 10 April 2019) of the YTM regarding treasury bonds, with 5-year remaining terms. The data was obtained from the inter-bank fixed-rate treasury bond yield curve published by China Bond Information Website (or any other websites approved by Central Securities Depository Trust and Clearing Corporation Limited). The benchmark interest rate was adjusted every 5 years from the deadline for payment of preference shares issued. The basic spread was the dividend rate of first cycle deducting the benchmark interest rate, i.e. 1.84%. The basic spread would no longer be adjusted after the issuance. The subsequent coupon interest rate was determined by the current benchmark interest rate plus the basis spread, the benchmark interest rate of current interest-bearing cycle is national debt (which period before payment is for 5 years) YTM's arithmetic mean (rounded off to 0.01%), from the fixed-rate national debt yield curve in Bank Debt published on www.chinabond.com.cn (or any other websites approved by Central Securities Depository Trust and Clearing Corporation Limited), 20 days before benchmark interest rate adjustment date which's the date of each 5 years of the deadline for payment of preference shares issued (which is 10 April). If the YTM of 5-year treasury bonds is not available on the benchmark interest adjustment day, the benchmark interest rate or its principle will be determined under negotiations between the Bank and investors required by the regulator.

Note 4: When the Bank's core tier one capital adequacy ratio falls to 5.125%, the preference shares issued this time will be completely converted to A shares of ordinary shares with the mandatory price after the examination and determination made by CBIRC in accordance with the relevant requirements of CBIRC. The conversion is irrevocable.

When triggered events of the secondary capital instruments issued by the Bank occur, the preference shares issued this time will be completely converted to A shares of ordinary shares with the mandatory price after the examination and determination made by CBIRC in accordance with the relevant requirements of CBIRC. The conversion is irrevocable. The secondary capital instruments triggering event is the earlier of the following two situations: 1) CBIRC considers the Bank unable to survive without conversion or writtenoff; 2) Relevant departments considers the Bank unable to survive without the contribution from public departments or the same effect of support provided.

(2) The principal terms of disclosure:

The Bank will pay preferred dividends in cash. The preference shares of this issuance uses a non-cumulative dividend payment, which means dividend that is not paid in full to preference shareholders will not accumulate to the next interest-bearing year. After the preference shareholders obtain distribution in accordance with the agreed dividend rate, they can no longer participate in the distribution of remaining profits with ordinary shareholders.

Under the premise of ensuring the capital adequacy ratio to satisfy the regulatory requirements, if there still is retained earnings in the Bank's financial statements caliber after covering losses, extracting statutory reserve and general reserve, the Bank could allocate dividends to preference shareholders. The priority of preference shareholders is higher than ordinary shareholders in dividend distribution. Payment of preference shares dividends is neither linked to ratings of the Bank, nor adjusted with the rating changes. The Bank can cancel payment of preference shares dividends in any case, which does not constitute an event of default. The Bank is entitled to arrange cancelled payment of preference shares dividends as repayment of other matured debts. Cancelling payment of dividends shall not constitute any further restrictions on the Bank except restrictions on profit distribution of ordinary shares. When the Bank exercises the aforesaid rights, it will take full account of the interests of preferrence shareholders. If payment of preference shares dividend is wholly or partly cancelled, the Bank shall not pay ordinary share dividend for the fiscal year.

The right of redemption for preference shares of this issuance belongs to the Bank. The Bank may exercise the right of redemption under the premise of obtaining CBIRC's approval. The Bank's preferrence shareholders do not have the right to request redemption of preference shares and should not expect that the preferrence shares will be redeemed.

The initial mandatory conversion price of the preference shares of this issuance is the arithmetic mean of 20 trading days of the Bank's A shares of ordinary shares before issuance of Board resolution which passed the issuance of the preference shares. Since the issuance plan of the preference shares is passed by the Bank's Board of Directors, when the Bank's shares change with the delivery of stock dividend, transferring of reserve to share capital, issuance of new shares (not including any share capital from conversion of financing instruments with terms that they could be converted to ordinary shares) or the allotment of shares, the mandatory conversion price of the preference shares will be accumulatively adjusted in turn in accordance with the established formula, and disclose relevant information in accordance with the provisions.

The Bank's preferrence shareholders are entitled with priority over ordinary shareholders of the remaining property distribution. The amount paid off is the sum of the neither cancelled nor paid dividends and the notional amount of the preference shares; if it can not be paid in full, the remaining property will be distributed in proportion to preference shares.

(3) Changes of outstanding preference shares are as follows:

	The Group and the Bank							
	1 January 2019		Addition		Less		31 December 2019	
	Quantity	Book value	Quantity	Book value	Quantity	Book value	Quantity	Book value
Preference shares	**260**	**26,000**	**300**	**30,000**	**-**	**-**	**560**	**56,000**
Fees		**(95)**		**(63)**		**-**		**(158)**
Total	**260**	**25,905**	**300**	**29,937**	**-**	**-**	**560**	**55,842**

As at 31 December 2019, the Bank issued the above-mentioned other equity instruments to supplement Tier 1 capital of RMB 55.842 billion.

(4) Attribution to holders of equity instrument:

	The Group	
	2019	2018
Equities attributable to shareholders of the Bank	**541,360**	465,953
Equities attributable to ordinary shareholders of the Bank	**485,518**	440,048
Equities attributable to preferrence shareholders of the Bank	**55,842**	25,905
Including: Net profit	**1,482**	1,482
Total comprehensive income	**1,482**	1,482
Distributed dividend of the year	**(1,482)**	(1,482)
Accumulated retained dividend	**-**	-
Equity attributable to non-controlling shareholders	**8,292**	6,631
Equity attributable to non-controlling ordinary shareholders	**6,298**	6,631
Equity attributable to non-controlling shareholders of other equity instruments	**1,994**	-

31. Capital reserve

	The Group				The Bank			
	1 January 2019	Increase	Decrease	31 December 2019	1 January 2019	Increase	Decrease	31 December 2019
Share premium	**74,978**	-	(97)	**74,881**	**75,227**	-	-	**75,227**
Others	**33**	-	-	**33**	**33**	-	-	**33**
Total	**75,011**	-	(97)	**74,914**	**75,260**	-	-	**75,260**

32. Surplus reserve

	The Group and the Bank	
	2019	2018
Statutory surplus reserve	**10,387**	10,387
Discretionary surplus reserve	**297**	297
Total	**10,684**	10,684

Under relevant PRC law, the Bank is required to transfer 10% of its net profit to a nondistributable statutory surplus reserve. Appropriation to the statutory surplus reserve may cease when the balance of this reserve has reached 50% of share capital. As of 31 December 2019, the Bank ceased to make appropriations to the statutory surplus reserves since the balance of them have reached 50% of the share capital of the Bank.

33. General reserve

	The Group		The Bank	
	2019	2018	2019	2018
General reserve	**78,525**	73,422	**74,829**	69,996

Pursuant to (CJ[2012] No. 20) Measures on General Provision for Bad and Doubtful Debts for Financial Institutions promulgated by the MOF, the Bank is required to transfer certain percentage of its net profit to establish and maintain a general reserve within shareholders' equity, through the appropriation of profit to address unidentified potential impairment losses. In principle, the general reserve, accounted as profit distribution, should not be lower than 1.5% of the closing balance of gross risk-bearing assets since it is a part of shareholders' equity. Gross risk-bearing assets include Loans and advances to customers, Debt investments, Other debt investments, Other equity investments, Long-term equity investments, Deposits with banks and other financial institutions, Placements with banks and other financial institutions, Foreclosed assets and Other receivables and so forth. The subsidiaries of the Bank determine the general reserve according to the regulation.

34. Retained earnings

	The Group		The Bank	
	2019	2018	2019	2018
Balance at the end of the previous year	**257,801**	214,977	**244,143**	204,005
Changes in accounting policies	**(5,361)**	-	**(3,918)**	-
Net profit	**65,868**	60,620	**62,299**	57,231
Appropriations to general reserve	**(5,103)**	(2,811)	**(4,833)**	(2,108)
Dividends distribution of ordinary shares	**(14,334)**	(13,503)	**(14,334)**	(13,503)
Dividends distribution of preference shares	**(1,482)**	(1,482)	**(1,482)**	(1,482)
Balance at the end of the year	**297,389**	257,801	**281,875**	244,143

(1) "2019 Profit Distribution Proposal of the Bank" approved by the Board of Directors on 28 April 2020 and submitted for approval by the annual general meeting is as follows :

(i) Appropriation of RMB 4,833 million to general and regulation reserve. As at 31 December 2019, the proposed appropriation of general and regulation reserve has been included in the general and regulation reserve.

(ii) Distribute cash dividends of RMB 7.62 per 10 shares (tax inclusive) on the basis of 20,774,190,751 ordinary shares of the Bank at the issuance date of the financial statements.

(iii) The interest period of preference shares issued in 2014 is from 1 January 2019 to 31 December 2019 (the nominal dividend yield of the first dividend period was 6%, and was adjusted to 5.55% for the second dividend period since 8 December 2019), the interest period of preference shares issued in 2015 is from 1 January 2019 to 31 December 2019 (the annual dividend rate is 5.4%), the interest period of preference shares issued in 2019 is from 10 April 2019 to 31 December 2019 (the annual dividend rate is 4.9%), the dividends payable of preference shares are RMB 2,549 million in total.

The above profit distribution plan has not been approved by the Annual General Meeting of the Bank. The accounting treatment of dividend distribution scheme before the approval is not carried out.

(2) "2018 Profit Distribution Proposal of the Bank" approved by the Board of Directors on 29 April 2019 and approved by the annual general meeting on 27 May 2019 is as follows:

(i) Appropriation of RMB 2,108 million to general and regulation reserve. As at 31 December 2018, the proposed appropriation of general and regulation reserve has been included in the general reserve.

(ii) Distribute a cash dividend of RMB 6.90 per 10 shares (tax inclusive) on the basis of 20,774,190,751 ordinary shares of the Bank at issuance date of the financial statements.

(iii) The interest period of preference shares issued in 2014 is from 1 January 2018 to 31 December 2018 (the annual dividend rate is 6%), the interest period of preference shares issued in 2015 is from 1 January 2018 to 31 December 2018 (the annual dividend rate is 5.4%), the preferred dividends payable is RMB 1,482 million in total.

As at 31 December 2019, the above-mentioned dividend distribution has been completed.

(3) Surplus reserve appropriated by subsidiaries

As at 31 December 2019, the balance of the Group's retained earnings include surplus reserve appropriated by subsidiaries amounting to RMB 1,917 million (31 December 2018: RMB 1,613 million).

35. Net interest income

	The Group		The Bank	
	2019	2018	2019	2018
Interest income				
Balances with Central Bank	**6,209**	6,545	**6,209**	6,545
Deposits with banks and other financial institutions	**2,209**	2,949	**2,060**	2,866
Placements with banks and other financial institutions	**4,792**	2,707	**5,145**	3,144
Financial assets purchased under resale agreements	**2,676**	2,824	**2,651**	2,714
Loans and advances to customers	**153,153**	124,819	**147,457**	122,165
Including: Corporate	**83,952**	75,480	**84,114**	75,696
Personal	**62,530**	45,786	**56,672**	42,916
Discounted bills	**6,671**	3,553	**6,671**	3,553
Bonds and other investment	**94,976**	123,781	**92,314**	121,390
Finance lease receivables	**5,291**	5,717	**-**	-
Others	**371**	1,236	**115**	843
Subtotal	**269,677**	270,578	**255,951**	259,667
Interest expense				
Borrowing from Central Bank	**(7,215)**	(8,639)	**(7,215)**	(8,639)
Deposits from banks and other financial institutions	**(34,548)**	(55,205)	**(34,662)**	(55,317)
Placements from banks and other financial institutions	**(6,289)**	(8,899)	**(2,630)**	(3,292)
Financial assets sold under repurchase agreements	**(3,888)**	(4,259)	**(3,615)**	(4,007)
Deposits from customers	**(86,691)**	(69,985)	**(86,710)**	(69,987)
Debt securities issued	**(27,812)**	(27,707)	**(26,792)**	(27,706)
Others	**(246)**	(227)	**(83)**	(83)
Subtotal	**(166,689)**	(174,921)	**(161,707)**	(169,031)
Net interest income	**102,988**	95,657	**94,244**	90,636

36. Net fee and commission income

	The Group		The Bank	
	2019	2018	2019	2018
Fee and commission income				
Settlement and clearing fee	**1,395**	1,682	**1,396**	1,682
Bank card fee	**30,174**	21,408	**30,174**	21,408
Agency fee	**3,269**	2,670	**3,074**	2,635
Credit commitment fee	**1,591**	1,526	**1,591**	1,526
Transactional service fee	**1,005**	942	**1,005**	942
Custodian fee	**2,707**	3,405	**2,875**	3,405
Consultancy and advisory fee	**9,272**	11,124	**8,133**	10,202
Trust service fee	**2,469**	2,118	**-**	-
Lease service fee	**841**	1,053	**-**	-
Others	**911**	1,134	**880**	575
Subtotal	**53,634**	47,062	**49,128**	42,375
Fee and commission expense	**(3,955)**	(4,084)	**(3,767)**	(3,621)
Net fee and commission income	**49,679**	42,978	**45,361**	38,754

37.Investment income

	The Group		The Bank	
	2019	2018	2019	2018
Trading assets	**19,920**	N/A	**21,103**	N/A
Other debt investments	**4,554**	N/A	**4,553**	N/A
Precious metal	**430**	88	**430**	88
Debt investments	**393**	N/A	**250**	N/A
Gains from long-term equity investments under the equity method	**205**	265	**184**	264
Other equity investments	**9**	N/A	**9**	N/A
Dividends declared by subsidiaries	**-**	-	**267**	-
Derivative financial instruments	**(529)**	8,506	**(538)**	8,506
Trading liabilities	**(571)**	(12)	**(571)**	(12)
Financial assets at fair value through profit or loss	**N/A**	9,339	**N/A**	9,862
Available-for-sale financial assets	**N/A**	6,595	**N/A**	7,464
Others	**581**	1,701	**579**	809
Total	**24,992**	26,482	**26,266**	26,981

38. Gains from changes in fair values

	The Group		The Bank	
	2019	2018	2019	2018
Precious metals	**(84)**	(360)	**(84)**	(360)
Derivative financial instruments and others	**377**	3,589	**377**	3,589
Trading assets	**1,345**	N/A	**1,157**	N/A
Financial assets at fair value through profit or loss	**N/A**	(320)	**N/A**	(517)
Trading liabilities	**(16)**	10	**(16)**	(1)
Total	**1,622**	2,919	**1,434**	2,711

39. Taxes and surcharges

	The Group		The Bank	
	2019	2018	2019	2018
City maintenance and construction tax	**845**	674	**790**	632
Education surcharge	**568**	460	**529**	431
Others	**343**	274	**316**	253
Total	**1,756**	1,408	**1,635**	1,316

40. General and administrative expenses

	The Group		The Bank	
	2019	2018	2019	2018
Employee benefits	**28,008**	26,229	**25,844**	23,981
Lease expenses	**3,107**	3,003	**2,932**	2,804
Depreciation and amortization	**2,199**	2,423	**2,110**	2,263
Others	**13,243**	10,409	**12,116**	10,038
Total	**46,557**	42,064	**43,002**	39,086

41. Credit impairment losses

	2019	
	The Group	The Bank
Loans and advances to customers	**46,692**	**44,949**
Debt investments	**4,633**	**3,980**
Other debt investments	**817**	**783**
Finance lease receivables	**626**	**-**
Credit loss of off-balance sheet assets	**1,277**	**1,277**
Others	**4,043**	**4,003**
Total	**58,088**	**54,992**

42. Impairment losses on assets

	2018	
	The Group	The Bank
Loans and advances to customers	38,067	37,426
Investments classified as receivables	5,409	5,168
Available-for-sale financial assets	648	401
Finance lease receivables	1,128	-
Others	1,152	1,614
Total	46,404	44,609

43. Income tax expenses

	The Group		The Bank	
	2019	2018	2019	2018
Current income tax	**14,115**	12,973	**12,369**	10,770
Deferred income tax	**(6,325)**	(6,192)	**(6,109)**	(5,205)
Adjustment for prior years	**11**	51	**5**	50
Total	**7,801**	6,832	**6,265**	5,615

The tax charges can be reconciled to the profit as follows:

	The Group		The Bank	
	2019	2018	2019	2018
Accounting profit	**74,503**	68,077	**68,564**	62,846
Tax calculated at applicable statutory tax rate of 25%	**18,626**	17,019	**17,141**	15,712
Adjustments on income tax:				
Income not taxable for tax purpose	**(12,324)**	(12,105)	**(12,286)**	(11,997)
Expenses not deductible for tax purpose	**1,488**	1,867	**1,405**	1,850
Adjustment for prior years	**11**	51	**5**	50
Total	**7,801**	6,832	**6,265**	5,615

44. Other comprehensive income

	The Group								
				Year ended 31 December 2019					
	31 December 2018	Changes in accounting policies	1 January 2019	Amount incurred before income tax	Other comprehensive income transferred to profit and loss	Income tax expense	Attributable to shareholders of the Bank after tax	Non-controlling interests after tax	31 December 2019
Other comprehensive income that will not be subsequently classified to profit and loss									
Including: Actuarial profits/losses on defined benefit plans	634	-	**634**	**363**	-	-	**363**	-	**997**
Fair value changes of other equity investments	N/A	(123)	**(123)**	**1**	-	-	**1**	-	**(122)**
Subtotal	634	(123)	**511**	**364**	-	-	**364**	-	**875**
Other comprehensive income that may be subsequently classified to profit and loss									
Including: Profit and loss arising from changes in fair value of available-for-sale financial assets	1,702	(1,702)	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**
Fair value changes of other debt investments (Note 1)	N/A	1,077	**1,077**	**3,519**	**(4,553)**	**258**	**(776)**	**(3)**	**301**
Credit losses on other debt investments (Note 2)	N/A	1,359	**1,359**	**888**	-	**(222)**	**666**	**8**	**2,025**
Translation differences of financial statements denominated in foreign currencies	24	-	**24**	**7**	-	-	**7**	-	**31**
Shares of other comprehensive income of associates and joint ventures accounted for under equity method	(4)	-	**(4)**	-	**4**	-	**4**	-	-
Subtotal	1,722	734	**2,456**	**4,414**	**(4,549)**	**36**	**(99)**	**5**	**2,357**
Total	2,356	611	**2,967**	**4,778**	**(4,549)**	**36**	**265**	**5**	**3,232**

Note 1: Fair value changes of other debt investments include changes in fair value of issued loans and advances measured at fair value through other comprehensive income.

Note 2: Provision for credit impairments of other debt investments include provision for impairments of issued loans and advances measured at fair value through other comprehensive income.

	The Bank						
				Year ended 31 December 2019			
	31 December 2018	Changes in accounting policies	1 January 2019	Amount incurred before income tax	Other comprehensive income transferred to profit and loss	Income tax expense	31 December 2019
Other comprehensive income that will not be subsequently classified to profit and loss							
Including: Actuarial profits/losses on defined benefit plans	634	-	**634**	**363**	**-**	**-**	**997**
Fair value changes of other equity investments	N/A	(123)	**(123)**	**1**	**-**	**-**	**(122)**
Subtotal	634	(123)	**511**	**364**	**-**	**-**	**875**
Other comprehensive income that may be subsequently classified to profit and loss							
Including: Profit and loss arising from changes in fair value of available-for-sale financial assets	2,172	(2,172)	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**
Fair value changes of other debt investments (Note 1)	N/A	1,150	**1,150**	**3,524**	**(4,553)**	**257**	**378**
Credit losses on other debt investments (Note 2)	N/A	1,291	**1,291**	**864**	**-**	**(216)**	**1,939**
Shares of other comprehensive income of associates and joint ventures accounted for under equity method	(4)	-	**(4)**	**-**	**4**	**-**	**-**
Subtotal	2,168	269	**2,437**	**4,388**	**(4,549)**	**41**	**2,317**
Total	2,802	146	**2,948**	**4,752**	**(4,549)**	**41**	**3,192**

Note 1: Fair value changes of other debt investments include changes in fair value of issued loans and advances measured at fair value through other comprehensive income.

Note 2: Provision for credit impairments of other debt investments include provision for impairments of issued loans and advances measured at fair value through other comprehensive income.

45. Earnings per share

	The Group	
	2019	2018
Current net profit attributable to ordinary shareholders of the Bank (RMB million)	**64,386**	59,138
Weighted average ordinary shares issued by the Bank (shares in million)	**20,774**	20,774
Basic and diluted earnings per share (RMB)	**3.10**	2.85

When calculating the earnings per share, the current net profit attributed to ordinary shareholders did not include preference shares dividends announced of insurance during the year ended 31 December 2019 and 31 December 2018. The conversion characteristic of preference shares enables the existence or ownership of ordinary shares to be issued. For the year ended 31 December 2019 and 31 December 2018, there was no trigger event for the conversion of shares, and the conversion characteristics of preference shares had no impact on the calculation of the basic and diluted earnings per share for the above period.

46. Supplementary information to the cash flow statement

(1) Reconciliation of net profit to cash flows from operating activities

	The Group		The Bank	
	2019	2018	2019	2018
1.Reconciliation of net profit to cash flows from operating activities				
Net profit	**66,702**	61,245	**62,299**	57,231
Add: Allowance for impairment losses on assets	**58,096**	46,404	**55,000**	44,609
Depreciation of fixed assets	**1,710**	1,787	**1,407**	1,524
Amortization of intangible assets	**124**	116	**112**	100
Amortization of long-term deferred expenses	**620**	671	**591**	639
Gains from disposal of fixed assets, intangible assets and other long-term assets	**(36)**	(20)	**(36)**	(20)
Interest income of bonds and other investments	**(94,976)**	(123,781)	**(92,314)**	(121,390)
Interest income of impaired financial assets	**(1,162)**	(1,287)	**(1,162)**	(1,287)
Gains from changes in fair value	**(1,622)**	(2,919)	**(1,434)**	(2,711)
Investment income	**(24,992)**	(26,482)	**(26,266)**	(26,981)
Interest expense for debt securities issued	**27,812**	27,707	**26,792**	27,706
Increase in deferred tax assets	**(7,060)**	(6,735)	**(6,706)**	(5,746)
(Decrease) increase in deferred tax liabilities	**(61)**	543	**(59)**	541
Increase in receivables of operating activities	**(783,178)**	(515,206)	**(759,854)**	(514,854)
Increase in payables of operating activities	**170,014**	181,858	**178,633**	183,632
Net cash flow from operating activities	**(588,009)**	(356,099)	**(562,997)**	(357,007)
2.Net changes in cash and cash equivalents				
Closing balance of cash and cash equivalents	**731,730**	549,177	**775,679**	543,622
Less: opening balance of cash and cash equivalents	**549,177**	470,321	**543,622**	480,627
Net increase of cash and cash equivalents	**182,553**	78,856	**232,057**	62,995

(2) Composition of cash and cash equivalents

Cash and cash equivalents stated in consolidated cash flow statement and cash flow statement comprise:

	The Group		The Bank	
	2019	2018	2019	2018
Cash on hand	**4,848**	5,191	**4,843**	5,191
Balances with Central Bank that can be withdrawn on demand	**89,863**	77,820	**89,859**	77,820
Original maturity less than three months:				
Deposits with banks and other financial institutions	**82,306**	36,216	**77,403**	32,456
Placements with banks and other financial institutions	**85,391**	54,508	**85,754**	54,508
Financial assets purchased under resale agreements	**42,494**	75,014	**38,629**	73,637
Bonds investment	**426,828**	300,428	**479,191**	300,010
Closing balance of cash and cash equivalents	**731,730**	549,177	**775,679**	543,622

47. Post-Employment Compensation

47.1 Defined contribution plans

The Group participates in the endowment insurance, unemployment insurance plans established by the government and the annuity plan established by the Group. According to these plans, the employees' salaries are paid to the plans proportionally each month. Except the expenses above, the Group undertakes no further payment duties. Certain expenses are charged in profit or loss of the period.

Expense recognized in profit or loss for the period:

	The Group		The Bank	
	2019	2018	2019	2018
Defined contribution plans	**2,555**	2,611	**2,409**	2,534

Amount of payable at the period-end:

	The Group		The Bank	
	2019	2018	2019	2018
Defined contribution plans	**129**	132	**70**	85

47.2 Defined benefit plans

The Group offers complementary retiring benefit plans to employees who start their service before 31 December 2007. The Group invited Tower Watson Consulting Group (Shanghai) to estimate the present value by actuary means based on expected cumulative benefits unit method. The project estimates the future cash outflow based on rate of inflation and rate of death, and recognizes its present value by discount rate. Discount rate is measured by the corresponding yield of the treasury bond which matches the period of defined benefit plans and currency on balance sheet date. The Group recognizes assets of this plan based on actuary results, related actuarial gains or losses recognized into other comprehensive income. Past service costs will be charged in profit or loss in the period of revising the plans. The interest net value is recognized by the defined benefit plans net liabilities or assets multiplying by appropriate discount rate.

The profit or loss charged by related influence from defined benefit plans is RMB 43 million. Actuary gains charging to other comprehensive income are RMB 363 million. Net assets of defined benefit plans are decreased by RMB 320 million for the period, and the balance at the end of the period is RMB 1,409 million, which is the net value of present value of defined benefit plans duties and fair value of defined benefit plans assets, and should be charged to other assets (Note VII, 18).

On 31 December 2019, the Group's defined benefit plans' average benefit obligation period was about 6 to 8 years (31 December 2018: about 7 to 8 years).

Defined benefit plan makes the Group face the actuarial risks that include interest rate risk and longevity risk. The decrease of the yield of government bond will lead to an increase in the present value of defined benefit plan obligations. The present value of defined benefit plan obligations is calculated based on the best estimate of the mortality rate of the employees participating in the scheme, and the increase in life expectancy will lead to an increase in plan liabilities.

Discount rate and mortality rate are the key actuarial factors in determining the present value of the defined benefit plan obligations. The discount rate is 3.00% as at 31 December 2019 (31 December 2018: 3.25%). Mortality assumptions are based on Male Pension Service Form and Female Pension Service Form of China Experience Life Table of Life Insurance (2010-2013) released by Chinese Insurance Regulatory Commission. The male workers retired at the age of 60 and female workers retired at the age of 55 are expected to have an average residual life of 25.34 years and 34.03 years respectively.

The following sensitivity analysis is based on the corresponding hypothesis with reasonable possible changes occurred at the end of the reporting period (assuming all other assumptions remain unchanged):

If the discount rate increases (decreases) by 25 basis points, then the present value of defined benefit plan obligations will be decreased by RMB 40 million (increased by RMB 42 million).

As part of hypothesis may have correlation and a hypothesis cannot be changed in an isolate way, the sensitivity analysis may not reflect the actual changes in the fair value of the defined benefit plan obligations.

In the aforesaid sensitivity analysis, the calculation method in determining the defined benefit plan obligations is the same as the recognition of the relevant liabilities in the balance sheet at the end of the reporting period.

Compared with the previous year, the method for sensitivity analysis and the hypothesis didn't change.

48. Structured entities

Consolidated structured entities

The consolidated structured entities of the Group are fund products, asset-backed securities, trust plans and asset management plans. As the manager/initiator of the fund products, asset-backed securities, trust plans and asset management plans, the Group considers whether it has control over the structured entities, and determine whether the consolidation is necessary based on the scope of asset manager's decision, power of trust holder, reward from management service offering and the risk exposure of variable profit. In 2019, the Group didn't offer financial support to the consolidated structured entities (2018: Nil).

Unconsolidated structured entities

(1) Structured entities sponsored by third party institutions in which the Group holds an interest

The Group holds an interest in some structured entities sponsored by third party institutions through investments in the notes issued by these structured entities. Such structured entities include funds, trust plans, asset management plans, asset-backed financings and wealth management products and the Group does not consolidate these structured entities. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors including the Group and are financed through the issue of investment products to investors. The Group earns interest income and investment income mainly through holding these structured entities equities. The Group does not consolidate these structured entities because the Group does not control them.

The following table sets out an analysis of the carrying amounts and the maximum risk exposure of interests held by the Group as at 31 December 2019 and 31 December 2018 in the structured entities sponsored by third party institutions:

	The Group					
	2019					
	Trading assets	Debt investments	Other debt investments	Carrying amount	Maximum risk exposure (note)	Type of income
Funds	**403,969**	**-**	**-**	**403,969**	**403,969**	**Investment income**
Trust plans	**3,899**	**330,386**	**1,746**	**336,031**	**336,031**	**Investment income, interest income**
Asset management plans	**32,994**	**87,619**	**1,784**	**122,397**	**122,397**	**Investment income, interest income**
Asset-backed securities	**7,235**	**16,245**	**93,862**	**117,342**	**117,342**	**Investment income, interest income**
Wealth management products	**2,127**	**-**	**-**	**2,127**	**2,127**	**Investment income**
Total	**450,224**	**434,250**	**97,392**	**981,866**	**981,866**	

	2018						
	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity investments	Investments classified as receivables	Carrying amount	Maximum risk exposure (note)	Type of income
Funds	271,755	142,333	-	-	414,088	414,088	Investment income
Trust plans	270	10,570	-	640,346	651,186	651,186	Investment income, interest income
Asset management plans	5,869	11,521	-	215,399	232,789	232,789	Investment income, interest income
Asset-backed securities	1,180	40,403	128	123,040	164,751	164,751	Investment income, interest income
Wealth management products	1,914	2,972	-	1,088	5,974	5,974	Investment income, interest income
Total	280,988	207,799	128	979,873	1,468,788	1,468,788	

Note : Maximum loss exposure to funds, trust plans, asset management plans, asset-backed securities and wealth management products is the amortised cost or fair value at the reporting date as recognized in the balance sheet.

(2) Structured entities sponsored by the Group which the Group did not consolidate but held an interest

The Group acted as sponsors of structured entities that provide specialised investment opportunities to investors. These structured entities generally finance the purchase of assets by issuing units of the products. The Group did not control these structured entities and therefore, these structured entities were not consolidated.

As at 31 December 2019, those structured entities sponsored by the Group consist primarily of wealth management products, trust plans, funds, asset management plans and asset-backed securities with principals not guaranteed by the Group. The Group earns commission income by providing management services to the investors of these structured entities.

As at 31 December 2019 and 31 December 2018, unconsolidated structured entities sponsored by the Group are set out as below:

	The Group	
	2019	2018
Wealth management products	**1,311,051**	1,215,684
Trust plans	**477,028**	724,056
Funds	**194,736**	202,071
Asset management plans	**148,868**	296,715
Asset-backed securities	**70,612**	18,621
Total	**2,202,295**	2,457,147

For the year ended 31 December 2019, the commission income earned from offering management service to the investors of these structured entities by the Group is RMB 9,409 million (year ended 31 December 2018: RMB 11,238 million).

(3) Unconsolidated structured entities sponsored by the Group during the year in which the Group does not have an interest at 31 December 2019

Unconsolidated structured entities sponsored after 1 January 2019 but matured before 31 December 2019 by the Group in which the Group does not have an interest at were mainly the non-principal-guaranteed wealth management products. For the year ended 31 December 2019, the amount of fee and commission income received from such category of non-principal-guaranteed wealth management products by the Group was RMB 691 million (year ended 31 December 2018: RMB 1,025 million).

The aggregated amount of the non-principal-guaranteed wealth management products sponsored and issued by the Group after 1 January 2019 but matured before 31 December 2019 was RMB 208,686 million (The aggregated amount of the non-principal-guaranteed wealth management products sponsored and issued by the Group after 1 January 2018 but matured before 31 December 2018 was RMB 567,183 million).

VIII. SEGMENT REPORTING

Senior management of the Group evaluates the operations of the Group in accordance with their economic areas of the respective branches and subsidiaries. Each branch serves its local customers and few customers in other regions. The Group does not deeply depend on one single external customer. Through the review of internal reports, the management of the Group conducts performance evaluation and determines the allocation of resources. Segment reporting is presented in a manner consistent with the Group's internal management and reports.

Segment accounting policies are consistent with the accounting policies of the consolidated financial statements. Inter-segment transfer transactions are measured at the actual transaction prices.

The Group includes the head office (including the head office and the operating institutions of the head office), Fujian, Beijing, Shanghai, Guangdong, Zhejiang, Jiangsu, northeast and other regions, western region, central region, a total of ten segments, of which branches within the northeast and other regions, western region, central region are presented in a consolidated manner.

Among them, the northeast and other regions includes: Harbin branch, Changchun branch, Shenyang branch, Dalian branch, Tianjin branch, Jinan branch, Qingdao branch, Haikou branch, Hong Kong branch and Industrial Bank Financial Leasing Co., Ltd.;

Western region includes: Chengdu branch, Chongqing branch, Guiyang branch, Xi'an branch, Kunming branch, Nanning branch, Urumqi branch, Lanzhou branch, Yinchuan branch, Xining branch and Lahsa branch;

Central region includes: Hohhot branch, Shijiazhuang branch, Zhengzhou branch, Taiyuan branch, Hefei branch, Changsha branch, Wuhan branch and Nanchang branch.

	The Group											
	2019											
	Head office	Fujian	Beijing	Shanghai	Guangdong	Zhejiang	Jiangsu	Northeast and other regions	Westem region	Central region	Eliminations	Total
Operating income	**72,294**	**20,874**	**7,408**	**5,209**	**11,998**	**6,833**	**11,135**	**16,082**	**14,229**	**15,246**	**-**	**181,308**
Net interest income	**9,997**	**16,383**	**6,664**	**4,482**	**11,077**	**6,389**	**10,250**	**12,005**	**12,663**	**13,078**	**-**	**102,988**
Including: Net inter-segment interest income	**(64,404)**	**6,478**	**13,567**	**9,789**	**12,828**	**1,451**	**2,505**	**5,282**	**5,755**	**6,749**	**-**	**-**
Net fee and commission income	**36,709**	**4,266**	**663**	**647**	**717**	**360**	**675**	**2,511**	**1,307**	**1,824**	**-**	**49,679**
Other income	**25,588**	**225**	**81**	**80**	**204**	**84**	**210**	**1,566**	**259**	**344**	**-**	**28,641**
Operating expenses	**(40,129)**	**(13,033)**	**(2,358)**	**(3,676)**	**(5,423)**	**(2,683)**	**(3,529)**	**(21,723)**	**(6,554)**	**(7,934)**	**-**	**(107,042)**
Operating profit	**32,165**	**7,841**	**5,050**	**1,533**	**6,575**	**4,150**	**7,606**	**(5,641)**	**7,675**	**7,312**	**-**	**74,266**
Add: Non-operating income	**85**	**126**	**3**	**6**	**45**	**34**	**12**	**10**	**17**	**30**	**-**	**368**
Less: Non-operating expenses	**(19)**	**(24)**	**(8)**	**-**	**(17)**	**(5)**	**(6)**	**(32)**	**(7)**	**(13)**	**-**	**(131)**
Total profit	**32,231**	**7,943**	**5,045**	**1,539**	**6,603**	**4,179**	**7,612**	**(5,663)**	**7,685**	**7,329**	**-**	**74,503**
Less: Income tax expenses												**(7,801)**
Net profit												**66,702**
Segment assets	**3,758,609**	**584,804**	**576,641**	**435,959**	**742,110**	**305,298**	**423,548**	**826,411**	**598,404**	**762,898**	**(1,909,800)**	**7,104,882**
Including: Investment in an associate												**3,413**
Undistributed assets												**40,799**
Total assets												**7,145,681**
Segment liabilities	**3,331,015**	**559,210**	**577,274**	**431,364**	**735,430**	**300,988**	**415,581**	**808,977**	**590,718**	**755,272**	**(1,909,800)**	**6,596,029**
Undistributed liabilities												**-**
Total liabilities												**6,596,029**
Supplemental information												
Credit commitments	**355,436**	**63,821**	**20,964**	**62,984**	**100,214**	**74,462**	**111,846**	**232,049**	**153,244**	**228,867**	**-**	**1,403,887**
Depreciation and amortization	**475**	**269**	**96**	**85**	**141**	**94**	**153**	**315**	**249**	**322**	**-**	**2,199**
Capital expenditures	**1,089**	**370**	**78**	**128**	**228**	**120**	**167**	**1,549**	**882**	**1,273**	**-**	**5,884**

	2018											
	Head office	Fujian	Beijing	Shanghai	Guangdong	Zhejiang	Jiangsu	Northeast and other regions	Westem region	Central region	Eliminations	Total
Operating income	62,453	19,892	7,089	6,340	9,943	3,825	5,988	14,243	14,486	14,028	-	158,287
Net interest income	18,638	13,982	6,422	5,508	8,716	3,171	5,274	9,200	13,016	11,730	-	95,657
Including: Net inter-segment interest income	(67,656)	6,579	11,729	9,726	11,878	1,596	1,148	5,874	10,546	8,580	-	-
Net fee and commission income	28,412	4,422	627	763	1,035	608	650	2,992	1,313	2,156	-	42,978
Other income	15,403	1,488	40	69	192	46	64	2,051	157	142	-	19,652
Operating expenses	(26,538)	(11,691)	(2,846)	(2,626)	(5,874)	(3,166)	(3,220)	(16,099)	(9,657)	(8,656)	-	(90,373)
Operating profit	35,915	8,201	4,243	3,714	4,069	659	2,768	(1,856)	4,829	5,372	-	67,914
Add: Non-operating income	64	68	7	27	62	10	13	48	13	23	-	335
Less: Non-operating expenses	(69)	(29)	(2)	(3)	(15)	(7)	(3)	(14)	(8)	(22)	-	(172)
Total profit	35,910	8,240	4,248	3,738	4,116	662	2,778	(1,822)	4,834	5,373	-	68,077
Less: Income tax expenses												(6,832)
Net profit												61,245
Segment assets	3,757,977	537,225	554,175	383,868	691,669	254,736	360,377	838,758	535,369	698,541	(1,933,355)	6,679,340
Including: Investment in an associate												3,224
Undistributed assets												32,317
Total assets												6,711,657
Segment liabilities	3,392,737	506,851	550,324	378,715	687,505	253,454	357,598	821,548	530,714	692,982	(1,933,355)	6,239,073
Undistributed liabilities												-
Total liabilities												6,239,073
Supplemental information												
Credit commitments	284,435	59,244	24,837	32,968	95,976	43,599	72,897	167,251	117,484	192,873	-	1,091,564
Depreciation and amortization	406	366	118	69	155	97	167	351	291	403	-	2,423
Capital expenditures	1,709	652	134	603	143	110	120	1,762	353	566	-	6,152

IX. RELATED PARTY RELATIONSHIP AND TRANSACTIONS

1.Related Party Relationship

The Group

Related parties with no controlling interest

(1) Shareholders holding more than 5% (inclusive) of the Bank's shares

Name	Economic nature	Place of registration	Registered capital RMB hundred million	Principal activities	Legal representative
The Finance Bureau of Fujian Province	Legal entity of government agencies	Fuzhou	-	Administration of Fujian provincial fiscal and tax policy	Yu Jun
People's Insurance Company of China [(1)]	Incorporated Company	Beijing	222.43	Insurance services	Miao Jianmin
China Life Insurance Company [(1)]	Incorporated Company	Beijing	257.61	Insurance services	Miao Jianmin
China National Tobacco Corporation [(1)]	Owned by the whole people	Beijing	570.00	Production, and sales of tobacco products	Zhang Jianmin
Haisheng Investment Management Company of Fujian Tobacco [(1)]	Limited Company	Xiamen	26.47	Investment management	Lu Xiaodong
China Tobacco Hunan Investment Management Company [(1)]	Limited Company	Changsha	2.00	Investment management	Deng Yongzhi
The People's Insurance Company (Group) of China Limited [(1)]	Incorporated Company	Beijing	424.24	Investment management and insurance services	Miao Jianmin
China National Tobacco Fujian Corporation [(1)]	Owned by the whole people	Fuzhou	1.37	Sales of tobacco products	LI Mindeng
China National Tobacco Guangdong Corporation [(1)]	Owned by the whole people	Guangzhou	1.40	Production, and sales of tobacco products	Liu Yiping

Number of shares held by Shareholders holding more than 5% (inclusive) of the Bank's shares:

Name	2019		2018	
	Shares Million shares	Proportion (%)	Shares Million shares	Proportion (%)
The Finance Bureau of Fujian Province	**3,902**	**18.78**	3,902	18.78
China Life Insurance Company [(1)]	**1,276**	**6.14**	1,276	6.14
People's Insurance Company of China [(1)]	**1,229**	**5.91**	1,229	5.91
China National Tobacco Corporation [(1)]	**1,110**	**5.34**	1,110	5.34
Haisheng Investment Management Company of Fujian Tobacco [(1)]	**441**	**2.13**	441	2.13
China Tobacco Hunan Investment Management Company [(1)]	**226**	**1.09**	226	1.09
The People's Insurance Company (Group) of China Limited [(1)]	**174**	**0.84**	174	0.84
China National Tobacco Fujian Corporation [(1)]	**132**	**0.64**	132	0.64
China National Tobacco Guangdong Corporation [(1)]	**99**	**0.48**	99	0.48
Total	**8,589**	**41.35**	8,589	41.35

Note: (1) Relationship between related parties: People's Insurance Company of China and China Life Insurance Company are both subsidiaries of The People's Insurance Company (Group) of China Limited. The aggregate proportion is 12.89%. Haisheng Investment Management Company of Fujian Tobacco, China Tobacco Hunan Investment Management Company, China National Tobacco Fujian Corporation and China National Tobacco Guangdong Corporation are subsidiaries of China National Tobacco Corporation. The aggregate proportion is 9.68%.

(2) Associates

Details of general information and related information of associates are set out in Note VII.13.

(3) Other related parties

Other related parties include key management personnel (director, supervisor, senior management of head office) and their close families, as well as other enterprises over which the key management personnel or their close families have control, common control or significant influence.

2. Related party transactions

The conditions and prices of related party transactions between the Group and the Bank are determined according to the Group's contract, and are examined and approved in accordance with the transaction type and content of transaction by corresponding decision-making authority.

(1) Interest income

Related party	2019	2018
Fujian Yango Holdings Group and its related parties	**178**	474
Associates	**103**	137
Zhejiang Energy Group Co., Ltd. and its related parties	**7**	1
Longyan Huijin Development Group Co., Ltd. and its related parties	**1**	-
The People's Insurance Company (Group) of China Limited and its related parties	**-**	84
Fujian Investment Development Group Co., Ltd. and its related parties	**Note**	30
Xiamen International Bank Co., Ltd.	**Note**	1
Other related parties	**33**	55
Total	**322**	782

Note: As at 31 December 2019, Fujian Investment Development Group Co., Ltd. and its related parties and Xiamen International Bank Co., Ltd. were no longer related party of the Group.

(2) Interest expense

Related party	2019	2018
The People's Insurance Company (Group) of China Limited and its related parties	**960**	369
China Tobacco and its related parties	**553**	1,619
The Finance Bureau of Fujian Province and its subsidiaries	**223**	325
Associates	**13**	12
Fujian Yango Holdings Group and its related parties	**8**	50
Zhejiang Energy Group Co., Ltd. and its related parties	**4**	26
Longyan Huijin Development Group Co., Ltd. and its related parties	**4**	11
Fujian Investment Development Group Co., Ltd. and its related parties	**Note**	44
Xiamen International Bank Co., Ltd.	**Note**	1
Others	**23**	40
Total	**1,788**	2,497

Note: As at 31 December 2019, Fujian Investment Development Group Co., Ltd. and its related parties and Xiamen International Bank Co., Ltd. were no longer related party of the Group.

(3) Investment income

Related party	2019 (i)
Associates	**35**
The People's Insurance Company (Group) of China Limited and its related parties	**13**
Total	**48**

Note (i): Due to the impact of the new financial instrument standard, interest income generated by "trading financial assets" under the new financial instrument standard is reclassified from "interest income" to "investment income". Comparative figure is therefore not applicable.

(4) Fee and commission income

Related party	2019	2018
Fujian Yango Holdings Group and its related parties	**23**	71
The People's Insurance Company (Group) of China Limited and its related parties	**18**	10
The Finance Bureau of Fujian Province and its subsidiaries	**1**	1
Associates	**-**	1
Fujian Investment Development Group Co., Ltd. and its related parties	**Note**	4
Others	**22**	20
Total	**64**	107

Note: As at 31 December 2019, Fujian Investment Development Group Co., Ltd. was no longer related party of the Group.

(5) Fees and commission expense

Related party	2019	2018
The People's Insurance Company (Group) of China Limited and its related parties	**6**	11
Others	**-**	4
Total	**6**	15

(6) General and administrative expenses-insurance

Related party	2019	2018
The People's Insurance Company (Group) of China Limited and its related parties	**450**	458

In 2019, the Bank was paid RMB 10 million in compensation from People's Insurance Company of China (2018: RMB 8 million).

(7) General and administrative expenses-rental expense

Related party	2019	2018
China Tobacco and its related parties	**29**	26

3. Unsettled amount of related party transactions

(1) Deposits with banks and other financial institutions

Related party	2019	2018
Associates	**643**	6
Fujian Yango Holdings Group and its related parties	**500**	400
Total	**1,143**	406

(2) Placements with banks and other financial institutions

Related party	2019	2018
Associates	**2,198**	734

(3) Derivative financial instruments

Related party	Transaction type	2019		2018	
		Notional amount	Assets/ Liabilities	Notional amount	Assets/ Liabilities
Others	Interest Rate Derivative	**20**	**-**	20	-
Xiamen International Bank Co., Ltd.	Interest Rate Derivative	**Note**	**Note**	50	-
Xiamen International Bank Co., Ltd.	Exchange Rate Derivative	**Note**	**Note**	94	(2)
Total		**20**	**-**	164	(2)

Note: As at 31 December 2019, Xiamen International Bank Co., Ltd. was no longer related party of the Group.

(4) Loans and advances to customers

Related party	2019	2018
Fujian Yango Holdings Group and its related parties	**7,284**	4,187
Longyan Huijin Development Group Co., Ltd. and its related parties	**116**	-
Zhejiang Energy Group Co., Ltd. and its related parties	**100**	250
The People's Insurance Company (Group) of China Limited and its related parties	**-**	50
Fujian Investment Development Group Co., Ltd. and its related parties	**Note**	3,151
Others	**651**	45
Total	**8,151**	7,683

Note: As at 31 December 2019, Fujian Investment Development Group Co., Ltd. and its related parties were no longer related parties of the Group.

(5) Debt investments

Related party	2019(i)
Associates	**6,219**
Fujian Yango Holdings Group and its related parties	**4,675**
Total	**10,894**

Note (i): The "debt investment" is an item under the new financial instrument standard. Data in comparison period is therefore not applicable.

(6) Financial assets at fair value through profit or loss

Related party	2018(i)
Xiamen International Bank Co., Ltd. (ii)	2,840
Fujian Yango Holdings Group and its related parties	441
Total	3,281

Note (i): "Financial assets at fair value through profit or loss" was a "trading financial assets" item under the original financial instrument standard. Data in comparison period is therefore not applicable.

Note (ii): As at 31 December 2019, Xiamen International Bank Co., Ltd. was no longer related party of the Group.

(7) Available-for-sale financial assets

Related party	2018[i]
Xiamen International Bank Co., Ltd. [ii]	400
Others	30
Total	430

Note (i): The "available-for-sale financial assets" is an item under the original financial instrument standard. Data for the period is therefore not applicable.

Note (ii): As at 31 December 2019, Xiamen International Bank Co., Ltd. was no longer related party of the Group.

(8) Investments classified as receivables

Related party	2018[i]
Fujian Yango Holdings Group and its related parties	5,781
Associates	4,949
The People's Insurance Company (Group) of China Limited and its related parties	600
Others	1,552
Total	12,882

Note (i): The "investment in receivables" is an item under the original financial instrument standard. Data for the period is therefore not applicable.

(9) Interest receivable

Related party	2018[i]
Fujian Yango Holdings Group and its related parties	63
Associates	63
The People's Insurance Company (Group) of China Limited and its related parties	7
Fujian Investment Development Group Co., Ltd. and its related parties[ii]	2
Xiamen International Bank Co., Ltd. [ii]	1
Others	2
Total	138

Note (i): Pursuant to the New Format of Enterprise Financial Statements issued by the Ministry of Finance, amount included in the original "interest receivable" item was reclassified to each asset item for calculation respectively during this period. Data under this item for the period is therefore not applicable.

Note (ii): As at 31 December 2019, Fujian Investment Development Group Co., Ltd. and its related parties, Xiamen International Bank Co., Ltd. were no longer related parties of the Group.

(10) Deposits from banks and other financial institution

Related party	2019	2018
Associates	**479**	31
Fujian Yango Holdings Group and its related parties	**397**	15
Xiamen International Bank Co., Ltd.	**Note**	2
Others	**770**	100
Total	**1,646**	148

Note: As at 31 December 2019, Xiamen International Bank Co., Ltd. was no longer related party of the Group.

(11) Deposits from customers

Related party	2019	2018
China Tobacco and its related parties	**33,961**	55,132
The People's Insurance Company (Group) of China Limited and its related parties	**21,694**	23,405
The Finance Bureau of Fujian Province and its subsidiaries	**7,811**	15,196
Fujian Yango Holdings Group and its related parties	**1,289**	4,566
Associates	**479**	1
Longyan Huijin Development Group Co., Ltd. and its related parties	**378**	541
Zhejiang Energy Group Co., Ltd. and its related parties	**1**	1,024
Fujian Investment Development Group Co., Ltd. and its related parties	**Note**	3,582
Xiamen Airlines Co., Ltd.	**Note**	21
Others	**740**	1,051
Total	**66,353**	104,519

Note: As at 31 December 2019, Fujian Investment Development Group Co., Ltd. and its related parties, Xiamen Airlines Co., Ltd. were no longer related parties of the Group.

(12) Interest payable

Related party	2018[i]
China Tobacco and its related parties	1,830
The Finance Bureau of Fujian Province and its subsidiaries	465
The People's Insurance Company (Group) of China Limited and its related parties	311
Longyan Huijin Development Group Co., Ltd. and its related parties	8
Fujian Yango Holdings Group and its related parties	7
Zhejiang Energy Group Co., Ltd. and its related parties	1
Fujian Investment Development Group Co., Ltd. and its related parties(ii)	1
Others	1
Total	2,624

Note (i): Pursuant to the New Format of Enterprise Financial Statements issued by the Ministry of Finance, amount included in the original "interest payable" item was reclassified to each liability item for calculation respectively during this period. Data under this item for the period is therefore not applicable.

Note (ii): As at 31 December 2019, Fujian Investment Development Group Co., Ltd. and its related parties were no longer related parties of the Group.

(13) Credit line

Related party	2019	2018
The People's Insurance Company (Group) of China Limited and its related parties	**54,000**	54,000
Fujian Yango Holdings Group and its related parties	**22,000**	18,000
China Tobacco and its related parties	**15,000**	15,000
Zhejiang Energy Group Co., Ltd. and its related parties	**8,000**	8,000
Longyan Huijin Development Group Co., Ltd. and its related parties	**1,000**	1,000
Fujian Investment Development Group Co., Ltd. and its related parties	**Note** [ii]	10,000
Xiamen International Bank Co., Ltd.	**Note** [ii]	12,300
Xiamen Airlines Co., Ltd.	**Note** [ii]	4,000
Total[i]	**100,000**	122,300

Note (i): Based on the principle of materiality, the above table only disclosed the credit lines of material related party annouced by the Group.

Note (ii): As at 31 December 2019, Fujian Investment Development Group Co., Ltd. and its related parties, Xiamen International Bank Co., Ltd. and Xiamen Airlines Co., Ltd. were no longer related parties of the Group.

(14) Off-balance sheet items

At the end of the period, the amount of Bank acceptance held by the subsidiaries of China National Tobacco Corporation and its related parties is RMB 46 million (2018: RMB 101 million); the balance of bank acceptances and letters of guarantee held by Fujian Yango Holdings Group and its related parties is RMB 897 million and 216 milliion respectively (2018: RMB 441 million and 197 million); the balance of Bank acceptances and letters of credit held by Zhejiang Energy Group Co., Ltd. and its related parties is RMB 195 million (2018: Nil) and RMB 100 million respectively (2018: Nil); the amount of Bank acceptance and letters of guarantee held by The People's Insurance Company (Group) of China Limited and its related parties is RMB 294 million (2018: Nil) and RMB 482 million respectively (2018: Nil) ; the balance of Bank acceptances and letters of credit held by Longyan Huijin Development Group Co., Ltd. and its related parties is RMB 29 million (2018: Nil) and RMB 61 million respectively (2018: Nil).

4.Key management personnel remuneration

	2019	2018
Salary and welfare	**15**	18

X. CONTINGENCIES AND COMMITMENTS

1. Pending litigations

As of the balance sheet date, the Group's management considers that there is no pending litigation which has a significant impact on the financial statements that needs to be disclosed.

2. Off-balance sheet items

	The Group and the Bank	
	Contractual amount	
	2019	2018
Credit card commitments	**355,436**	284,430
Letters of credit	**148,059**	112,002
Letters of guarantee	**120,318**	123,668
Bank acceptances	**761,032**	532,919
Irrevocable loan commitments	**19,042**	38,545
Total	**1,403,887**	1,091,564

3. Capital commitments

	Contractual amount of the Group		Contractual amount of the Bank	
	2019	2018	2019	2018
Authorized but not contracted for	**85**	187	**85**	187
Contracted but not paid for	**751**	353	**730**	349
	836	540	**815**	536

4. Operating lease commitments

As a tenant, according to the non-cancellable lease contracts, the required minimum lease payments by the Group and the Bank are as follows:

	The Group		The Bank	
	2019	2018	2019	2018
Within one year	**2,246**	2,023	**2,173**	1,939
One to five years	**4,180**	4,759	**4,102**	4,595
Over five years	**962**	1,602	**961**	1,601
Total	**7,388**	8,384	**7,236**	8,135

5. Collateral

Assets pledged

(i) The carrying amount of assets pledged as collateral under repurchase agreements is as follows:

	The Group		The Bank	
	2019	2018	2019	2018
Bonds	**148,041**	191,189	**138,681**	179,894
Bills	**49,089**	48,600	**49,089**	48,600
Total	**197,130**	239,789	**187,770**	228,494

As at 31 December 2019, included in Group's and the Bank's bills purchased under resale agreement, there was no bill used for carrying out business of sale under repurchase agreement (31 December 2018: Nil) .

(ii) As at 31 December 2019, the Group and the Bank pledged bonds amounting to RMB 518 million to credit derivative transaction (31 December 2018: RMB 1,390 million) .

Collateral accepted

In the resale agreement, the Group can sell pledged assets or transfer them in other transactions when the counterparty is not in breach of the contract. As at 31 December 2019, the fair value of pledged assets available for sale or convertible is RMB 2,456 million (31 December 2018: RMB 13 million).

6. Redemption commitment of certificate treasury bonds and saving treasury bonds

(1) The Group entrusted by the MOF as its agent issues certificate treasury bonds and saving treasury bonds. Holders of certificate treasury bonds and saving treasury bonds can require advance redemption, and the Group has the obligation to execute the redemption responsibility. Redemption amount for the certificate treasury bonds and saving treasury bonds includes principal and interest payable till redemption date.

As of 31 December 2019 and 31 December 2018, the cumulative principal balances of the certificate treasury bonds and saving treasury bonds which are issued by the Group under trust prior to maturity and not been paid are as follows:

	The Group and the Bank	
	Contractual amount	
	2019	2018
Certificate treasury bonds and saving treasury bonds	**2,849**	2,884

The Group believes the Group's redemption amount of these certificate treasury bonds and saving treasury bonds is not significant before their maturity.

(2) As at 31 December 2019, the Group has announced but unissued bonds underwriting amount of RMB 2,700 million (31 December 2018: 2,658 million).

7. Fiduciary Business

	The Group and the Bank	
	2019	2018
Fiduciary loans	**307,446**	420,046
Fiduciary wealth management products	**1,311,051**	1,215,684
Fiduciary investments	**14,524**	10,131

Fiduciary loans are loans that depositor designated specific third party as the loan party, and related credit risk of the loan is borne by depositors who designated borrowers.

Fiduciary wealth management products refer to a kind of service that the entrusted Group is responsible for the operation and management of customer assets. The investment risk of fiduciary wealth management products is borne by the trustor.

Fiduciary investments refers to a kind of service that the entrusted Group engaged in capital operation, investment management, investment advisory and other investment services based on the principal-agent relationship. The investment risk of fiduciary investment is borne by the trustor.

XI. FINANCIAL RISK MANAGEMENT

1. Overview

The Group is exposed to various types of risks due to its financing businesses including banking business. The Group identifies, assesses and monitors various risks on an on-going basis. The most significant types of risk to which the Group is exposed are credit risk, market risk, liquidity risk and operation risk, country risk, bank account interest rate risk, reputation risk, strategic risk, information technology risk.

The Group's risk management objectives are to achieve a proper balance between risks and benefits and run business safely and prudently under reasonable level of risk.

2. Risk management framework

Risk management is the basic safeguard of survival and development of commercial banks. The Group has taken risk management as one of its core competitiveness, formulated development strategy focus on business operation as well as risk management, established pre-during-post events risk control system with a core of risk asset management, and improved the risk management and operation instructions for various businesses; completed the mechanism of risk responsibilities and punishment, implemented credit business operation responsibilities, established risk fund for credit post personnel, enhanced risk constraints; including credit risk, market risk, liquidity risk, operational risk and other risks into the scope of risk management and continuously improve the risk management mechanism to wholly-owned and holding subsidiaries; Further defined the specific responsibilities of board of directors, board of supervisors, senior management and operation executives in respect of risk management, formed a defined, clear and effective overall risk management system. In daily risk management work, the Group's business sector, risk management department and internal audit department build up the "three defences"; they perform their respective functions and work together to achieve the objective of risk management. Among them, operation institutions and business sector form the first line of defences to conduct risk management according to the risk management rules and policies. Operation institutions take precautions against all the business and operating risk, while business sector is in charge of making its risk management policy, evaluating the effectiveness of risk management regularly and taking corrective actions if necessary. The risk management department is the second line of defences, which is responsible for the constitution of the risk management strategy, policy, regulations and process, and supervision of the execution. Meanwhile, the risk management department is responsible for the identification, evaluation and supervision of the risk that the Group faces, assessing the Group's risk condition periodically, taking measures for continuously improvement, pushing forward the outspread of overall risk management work. The internal audit department is the third line of defences. It is responsible for all process audits, continuously providing independent and prospective audit and supervision with emphasis.

3. Credit risk

Credit risk represents the potential loss that may arise from a customer or counterparty's failure to meet its obligation. Credit risk can also arise from operational failures that result in an unauthorised or inappropriate advance, commitment or investment of funds. The Group's major credit risks come from loans and receivables (enterprises and personal credit loans), treasury operations (including debt investment) and off-balance sheet related credit risk exposures. The Group manages and controls credit risk according to the following processes: customer investigation before granting of credit limits, credit review and approval and post-disbursement loan monitoring and collection.

The Group establish the risk management department, which is responsible for organizing, implementing the credit risk management policies of the Group, it is also responsible for making basic rules for the Group risk management affairs, in addition, it is also professionally managing, evaluating, guiding the general operation of the Group risk management together with inspecting and supervising the activities mentioned above. As the leading party, the risk management department formulates unified standards, responsible for the credit management on the whole. All the actions taken are to ensure the overall credit risk under control. The Group set up risk management department and professional risk management desk in all the three major lines called enterprise financial line, retail financial line and investment banking and financial markets line. Each of the risk departments is responsible for the credit management in its own line or professional operating department, and it is also responsible for making detailed regulation and operating rules and approving projects within the approving authority. The Group also sets up several specialized committees such as Credit Approval Committee and Credit Accountability Committee. The first one is responsible for the examination and approval of the loans within the authority. The other one is responsible for determining the responsibility of related loans.

The Group has formulated a whole set of credit policies on approval process and management procedure, and implemented throughout the Group. The credit management procedure for corporate and personal loans can be classified as credit investigation, credit examination, credit approval, credit disbursement, and post disbursement monitoring and recovery process. The Group issued Due Diligence of Credit approval to clarify the duties of different positions, to effectively control the credit risk, and to strengthen compliance of credit business.

In accordance with the discriminative credit policy of “protecting, controlling, and compressing”, the Group set up detailed rules for the implementation of credit policy, which has intensified the credit support for the real economy and optimized credit resources allocation. The Group preferentially develops credit businesses for industries which comply with national policy orientation, develop rapidly and have broad market prospects (including infrastructures, people’s livelihood, strategic emerging industries and modern agriculture); actively practices green credit principle, preferentially supports green and environment friendly industry with obvious social benefits, mature technology application and commercial operation; supports short-term cycle and people’s livelihood consumption industry like medical care, education, tourism and communication.

The Group has established a customer credit rating system which comprehensively and systematically investigated various factors and variation trends that influence customer solvency in future; disclosed and evaluated customers’ credit risks and capabilities based on qualitative and quantitative analysis. Credit rating results become an important foundation to draw up credit service polices, adjust and optimize client structure, as well as identify credit service of individual customer. According to new Basel Capital Accord and relevant guides of CBIRC, the Group developed and established customer internal rating system and has been continuously optimizing the model and system. Meanwhile, the related results of internal rating has continuously entered into various risk management areas including authorization management, industry access, limit management, economic capital measurement and asset impairment. Since the credit risk weighted assets (“CRWA”) measurement system was completed and launched, the Group had the capacity to measure CRWA using internal rating method. As the new capital accords related projects were completed successively, the Group got promoted in capacity of identification, measurement and control of credit risk.

The Group developed risk warning system, applying big data technology to fully integrate both internal and external risk information and analysing as per certain rules so as to form a warning indicator. With customers’ potential risks disclosed in time by monitoring the indicator, the active push, tracking, feedback and report generating by level of warning indicator can be achieved and the timeliness and accuracy of risk warning can be improved effectively. The risk warning system realized the online posting of warning information and carried out system hard control over processes including warning adjustment, cancellation etc. and provided basic guarantee for credit management.

The Group accurately identified risks conditions of credit asset, reasonably reflected the income after risk adjustment to guide capital allocation optimization in operation institutions and allocation of credit resources to strengthen risk awareness in operation institutions. Therefore, Credit Asset Risks Classification Implementation Method and Credit Asset Risks Classification Implementation Standards and others have been established to make sure branches adjust credit asset risks classification according to real conditions of projects. Based on 5 levels classified by CBIRC, the Group has classified its credit asset risks into 9 levels as level 1(normal), level 2(normal), level 3(normal), level 1(attention), level 2(attention), level 3(attention), sublevel, doubtful and loss. The Group has various management policies to each level.

Risks arising from credit commitments are similar to risks of loans and advances to customers in substance. Therefore, requirements for application, post-loan management and pledge and guarantees are the same with those in loans and advances to customers. According to substanceover-form principle, the Group includes the non-standard credit loans in the comprehensive risk management system and manages them by comparing to traditional loans. The Group provides uniform credit, carries out general control on risks, executes uniform credit policy in nationwide, carries out whole-process responsibilities management by comparing to traditional loans, implements risk classification and provides risk reserves.

ECL measurement

Stage of financial asset risks

The Group adopted a three-stage ECL model for the impairment of financial assets in accordance with the new standard requirements. The model is summarised as follows:

- Financial assets that have not increased significantly since the initial recognition or have a low credit risk at the reporting date are included in stage 1, and the Group continuously monitors its credit risk;
- Financial assets that have a significant increase (excluding the low credit risk of such financial instruments at the reporting date), but without objective impairment evidence are included in stage 2. Criteria of the Group's significant increase in credit risk, see Significant increase in credit risk;
- Financial assets with objective evidence of impairment at the reporting date are included in stage 3. The Group's definition of credit impairment and default, see Definition of asset defaulted and credit-impaired.
- Financial assets classified in stage 1 make provisions for ECL caused by defaults that may occur within 12 months after the reporting date, and the financial assets classified in the stage 2 and 3 make provisions for the entire lifetime ECL; calculation of the interest income of financial assets classified in stage 1 and 2 is based on the total carrying value of the assets, and interest income of the financial assets classified in stage 3 is calculated based on the net amount after deducting provisions for credit losses. Inputs, assumptions and estimation techniques utilised in ECL measurement, see Measurement of ECL – Explanation of inputs, assumptions and estimation techniques.
- The Group takes into account forward-looking information when measuring ECLs. For a description of how the Group considers forward-looking information into the ECL model, please refer to Forward-looking information incorporated in the ECL model;
- Purchased or originated credit-impaired (POCI) financial assets refer to financial assets with credit impairment at initial recognition. Loss provision of these assets are lifetime ECLs.

The key judgements and assumptions adopted by the Group when measuring the ECLs in accordance with the new standard are as follows:

Significant increase in credit risk

The Group identifies whether the credit risk has increased significantly by comparing default risk at the reporting date with the risk of default on the day of initial recognition. Main factors include: 1. The PD of impairment losses, e.g. the internal credit rating of corporate loans declined by 3 levels or more, and the external credit rating of bond investment declined by 3 levels or more in principle. 2. Other significant increase in credit risk. Generally, if the credit business is overdue for over 30 days, it should be considered a significant increase in credit risk. The Group reviews whether the evaluation criteria are applicable to the current situation on a regular basis.

Definition of asset defaulted and credit-impaired

The Group carefully considers whether different standards represent client defaults. When a financial asset meets one or more of the following conditions, the Group recognizes the financial asset as defaulted, and the standard is consistent with the definition of the credit-impaired:

(1) Quantitative criteria:

- Payment overdue for more than 90 days. If the borrower violates the prescribed overdraft limit or the re-approved overdraft limit is less than the current balance, the overdraft will be deemed to be overdue.

(2) Qualitative criteria:

- Any loan to the debtor ceases to bear interest or accrue interest is included in the off-balance sheet accounting;
- After the occurrence of the credit relationship, due to the deterioration of the financial situation of the debtor, the Group wrote off the loan or has made a certain proportion of loan loss provisions;
- The Group sells the loan and assumes a certain percentage of the book loss;
- Due to the deterioration of the financial situation of the debtor, the Group agreed to restructure and make non-commercial adjustments to the terms of the loan contract, including but not limited to the following: (a) The contract term changes lead to a decline in the scale of the debt; (b) the debtor is unable to repay the loan; (c) extension due to the debtor's inability to repay;
- The Group classifies the debtor as a bankrupt enterprise or a similar status;
- The debtor filed for bankruptcy, or has gone bankrupt, or is in a similar state of protection, and thus will not perform or postpone the settlement of the debts of the Group;
- Other circumstances identified by the Group that may result in the debtor not being able to fully repay the debt.

The above criteria apply to all financial instruments of the Group and are consistent with the definition of default used in internal credit risk management. The definition of default has been consistently applied to the model of Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD) in the Group's ECL calculation process.

Measurement of ECL – Explanation of inputs, assumptions and estimation techniques

According to whether there is a significant increase in credit risk and whether there is an impairment of assets, the Group measures the impairment loss for different financial assets according to its current risk stage with ECL of 12 months or the entire lifetime respectively. The expected credit losses taken by the Group are obtained by Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD), and discounted by discount factors. Definitions are as follows:

- PD refers to the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.
- The exposure to default risk refers to the amount that the Group should be repaid in the event of default in the next 12 months or throughout the remaining period;
- LGD is the Group's estimation regarding the extent of the EAD.

The estimates for each risk parameter are as follows:

- Estimation of PD: For non-retail credit assets, the PD is obtained through the main benchmark mapping of internal rating and the macroeconomic forward-looking adjustment is applied to obtain the PD applicable under the new standard; for retail credit assets, it is based on PD of division of pool, and the macroeconomic forward-looking adjustment is conducted to obtain the PD applicable under the new standard; for bond assets, the PD is mapped to the main benchmark mainly through external rating, and the applicable PD under the new criterion is obtained through macroeconomic forward-looking adjustment; PD for the entire lifetime of more than 12 months is estimated by a 12M PD and a forward-looking adjustment factor;
- Estimation of EAD: The EAD of financial assets in the first and third stages is the amortised cost; the EAD of financial assets in the second stage is the amortised cost and the cash discount of capital recovered in the following years;
- Estimation of LGD: For non-retail credit assets, it uses the LGD after mitigation, and a macroeconomic forward-looking adjustment is made to obtain the LGD applicable under the new standard; for retail credit assets, it is based on LGD of division of pool, and a macroeconomic forward-looking adjustment is conducted to obtain the LGD applicable under the new standard; for the loss without historical data collection and write-off of data assets, it is based on peer experience and regulatory factors, combined with expert's judgement.

The ECL is multiplied by the above estimated PD, EAD and LGD, and discounted to the reporting date. The discount rate used in the ECL calculation is the initial actual effective interest rate.

The Group monitors and reviews assumptions related to the calculation of ECL on a regular basis. There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

Forward-looking information incorporated in the ECL model

Risk parameters related to the calculation of ECL incorporates forward-looking information. The macroeconomic indicators considered by the Group include GDP growth rate, year-on-year growth of CPI , year-on-year growth of M2 monetary supply, cumulative year-on-year growth of fixed asset investment completion value, year-on-year growth of total cumulative value of retail sales of social consumer goods, year-on-year growth of cumulative value of real estate development investment, and the year-on-year growth of per capita disposable income of urban residents. The macroeconomic forward-looking adjustment factors are determined based on the historical situation of these macroeconomic indicators and the predicted values for the coming year. Considering that the changes in the future macro economy may differ from the estimations, the Group reviews and monitors the appropriateness of the estimation on a regular basis.

3.1 Concentration of credit risk

Concentration of credit risk exists when changes in geographic, economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is material in relation to the Group's total exposures. The Group's portfolio of financial instrument is diversified along geographic, industry and product sectors.

The Group mainly operates the lending and guarantee business in the PRC mainland only. Since there are different economic development characteristics in the different regions in China, the characteristics of credit risks are also different.

For the geographical and industrial concentration of the loans and advances to customers please refer to Note VII. 6.

3.2 Maximum exposure to credit risk

Despite any usable collateral, and other credit enhancement measures, the maximum credit risk exposure that the Group and the Bank can afford on balance sheet date is the related financial assets (including derivative instruments and deducted equity instruments) plus the amount of off-balance sheet book value in Note X. 2. As at 31 December 2019, the maximum credit risk exposure of the Group amounted to RMB 8,024,736 million (31 December 2018: RMB 7,265,112 million); the maximum credit risk exposure of the Bank amounted to RMB 7,811,204 million (31 December 2018: RMB 7,066,978 million).

Credit exposure

Loans and advances to customers

	The Group				
	2019				
	Stage 1	Stage 2	Stage 3	Purchased financial assets that have already been impaired	Total
Low risk	**3,313,348**	**18,032**	**1,218**	**-**	**3,332,598**
Medium risk	**-**	**54,145**	**7,646**	**-**	**61,791**
High risk	**-**	**-**	**53,305**	**-**	**53,305**
Total carrying amount	**3,313,348**	**72,177**	**62,169**	**-**	**3,447,694**
Allowance for impairment losses	**(57,044)**	**(11,150)**	**(36,659)**	**-**	**(104,853)**
Total	**3,256,304**	**61,027**	**25,510**	**-**	**3,342,841**

The Group classifies asset risk characteristics according to the quality of assets. "Low risk" means that the borrower can fulfill the contract, and there are not enough reasons to suspect that the principal and interest of the loan cannot be repaid in full on time; "Medium risk" means that the borrower is currently able to repay the principal and interest of the loan, but there are some factors that may adversely affect the repayment; "High risk" means that the borrower's repayment ability has obvious problems and loan principal and interest cannot be repaid in full by relying on normal business income. Even if the guarantee is enforced, losses may be incurred. The above maximum credit risk exposure information for loans and advances does not include loans and advances that are measured at fair value through profit or loss.

Off-Balance Sheet Items

	The Group				
	2019				
	Stage 1	Stage 2	Stage 3	Purchased financial assets that have already been impaired	Total
Low risk	**1,392,362**	**3,961**	**625**	**-**	**1,396,948**
Medium risk	**-**	**3,754**	**1,100**	**-**	**4,854**
High risk	**-**	**-**	**2,085**	**-**	**2,085**
Total carrying amount	**1,392,362**	**7,715**	**3,810**	**-**	**1,403,887**
Allowance for impairment losses	**(4,818)**	**(148)**	**(1,287)**	**-**	**(6,253)**
Total	**1,387,544**	**7,567**	**2,523**	**-**	**1,397,634**

Financial investments

	The Group				
	2019				
	Stage 1	Stage 2	Stage 3	Purchased financial assets that have already been impaired	Total
Low risk	**1,998,828**	**13,741**	**-**	**-**	**2,012,569**
Medium risk	**-**	**35,027**	**3,601**	**-**	**38,628**
High risk	**-**	**-**	**16,470**	**-**	**16,470**
Total carrying amount	**1,998,828**	**48,768**	**20,071**	**-**	**2,067,667**
Allowance for impairment losses	**(8,892)**	**(2,936)**	**(12,281)**	**-**	**(24,109)**
Total	**1,989,936**	**45,832**	**7,790**	**-**	**2,043,558**

The Group classifies the credit ratings of financial assets included in the ECL measurement as “low risk”, “medium risk” and “high risk” according to the characteristics of risk levels. “Low risk” means that the assets are of good quality, the possibility of future default is low, and it is less affected by external unfavourable factors; “medium risk” means the asset has certain solvency, but the persistent significant instability or poor commercial, financial or economic conditions may reduce its solvency; and “high risk” means the existence of unfavourable factors that have a material impact on solvency, a higher risk of default or assets that meet the definition of default by the Group.

Deposits with banks and other financial institutions

	The Group				
	2019				
	Stage 1	Stage 2	Stage 3	Purchased financial assets that have already been impaired	Total
Low risk	**362,681**	-	-	-	**362,681**
Medium risk	-	-	-	-	-
High risk	-	-	**25**	-	**25**
Total carrying amount	**362,681**	-	**25**	-	**362,706**
Allowance for impairment losses	**(2,085)**	-	**(25)**	-	**(2,110)**
Total	**360,596**	-	-	-	**360,596**

The Group classifies financial investment risk characteristics based on asset entry and internal rating changes. "Low risk" means that the issuer's initial internal rating is above the entry level, there are no reasons to suspect that the financial investment is expected to default; "Medium risk" means that although the issuer's internal rating is reduced to a certain extent, but there are not enough reasons to suspect that the financial investment is expected to default; "high risk" means that there are obvious problems may cause a default, or the financial investment indeed is defaulted.

3.3 Analysis of exposure to credit risk of the Group and the Bank about loans and advances to customers, inter-bank placements, investments and finance lease receivables

As at 31 December 2019, the credit risk stages of financial instruments are as follows:

	The Group							
	Gross carrying amount				Allowance for impairment losses			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Measured at amortised cost:								
Cash and balances with Central Bank	**486,444**	-	-	**486,444**	-	-	-	-
Deposits with banks and other financial institutions	**87,572**	-	**16**	**87,588**	**(312)**	-	**(16)**	**(328)**
Placements with banks and other financial institutions	**232,539**	-	**9**	**232,548**	**(1,064)**	-	**(9)**	**(1,073)**
Financial assets purchased under resale agreements	**42,570**	-	-	**42,570**	**(709)**	-	-	**(709)**
Loans and advances to customers								
- Corporate loans and advances	**1,687,624**	**60,288**	**50,769**	**1,798,681**	**(49,606)**	**(9,274)**	**(28,412)**	**(87,292)**
- Personal loans and advances	**1,430,079**	**11,745**	**11,365**	**1,453,189**	**(7,438)**	**(1,876)**	**(8,247)**	**(17,561)**
Financial investments	**1,402,836**	**45,931**	**19,518**	**1,468,285**	**(8,892)**	**(2,936)**	**(12,281)**	**(24,109)**
Finance lease receivables	**105,190**	**2,721**	**3,385**	**111,296**	**(1,358)**	**(982)**	**(2,683)**	**(5,023)**
Financial assets, Others	**26,301**	-	-	**26,301**	**(2,527)**	-	-	**(2,527)**
Total	**5,501,155**	**120,685**	**85,062**	**5,706,902**	**(71,906)**	**(15,068)**	**(51,648)**	**(138,622)**

	The Group							
	Gross carrying amount				Provision for expected credit losses			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Fair value through other comprehensive income:								
Loans and advances to customers								
- Corporate loans and advances	**195,645**	**144**	**35**	**195,824**	**(700)**	**(16)**	**(12)**	**(728)**
Other debt investments	**595,992**	**2,837**	**553**	**599,382**	**(703)**	**(74)**	**(1,205)**	**(1,982)**
Total	**791,637**	**2,981**	**588**	**795,206**	**(1,403)**	**(90)**	**(1,217)**	**(2,710)**
Credit commitments	**1,392,362**	**7,715**	**3,810**	**1,403,887**	**(4,818)**	**(148)**	**(1,287)**	**(6,253)**

3.3.1 Loans and advances to customers

As at 31 December 2019, loans and advances to customers were analysed by types of security as follows, excluding loans and advances measured at fair value through profit or loss:

	2019	
	The Group	The Bank
Stage 1		
Unsecured loans	**866,123**	**837,259**
Guaranteed loans	**656,561**	**656,561**
Collateralised loans		
- Secured by mortgage	**1,303,528**	**1,303,528**
- Secured by collaterals	**487,136**	**487,136**
Subtotal	**3,313,348**	**3,284,484**
Stage 2		
Unsecured loans	**12,975**	**12,468**
Guaranteed loans	**29,390**	**29,390**
Collateralised loans		
- Secured by mortgage	**24,722**	**24,722**
- Secured by collaterals	**5,090**	**5,090**
Subtotal	**72,177**	**71,670**
Stage 3		
Unsecured loans	**9,414**	**8,391**
Guaranteed loans	**23,859**	**23,859**
Collateralised loans		
- Secured by mortgage	**24,725**	**24,725**
- Secured by collaterals	**4,171**	**4,171**
Subtotal	**62,169**	**61,146**
Total	**3,447,694**	**3,417,300**
Fair value of collateral held against credit-impaired loans	**14,454**	**14,454**

The above collateral mainly includes land, buildings, machinery and equipment, etc. The fair value of collateral was estimated by the Group based on the latest external valuations values available, adjusted in light of disposal experience and current market conditions.

3.3.2 Deposits with banks and other financial institutions

Deposits with banks and other financial institutions include balances with banks and other financial institutions, placements with banks and other financial institutions and financial assets purchased under resale agreements of which counterparties are banks and non-bank financial institutions.

	2019	
	The Group	The Bank
Occurred credit impaired	**25**	**25**
Less: allowances for impairment losses	**(25)**	**(25)**
Subtotal	**-**	**-**
Neither past due nor credit-impaired		
- Grade A to AAA	**339,208**	**342,365**
- Grade B to BBB	**4,378**	**4,378**
- Unrated	**18,200**	**18,200**
Total	**361,786**	**364,943**
Interest accrued	**895**	**881**
Less: allowances for impairment losses	**(2,085)**	**(2,078)**
Subtotal	**(1,190)**	**(1,197)**
Total	**360,596**	**363,746**

Deposits with banks and other financial institutions are analysed above according to the Group and the Bank's internal credit rating. Exposure limits are set for banks and non-bank financial institutions.

3.3.3 Distribution of investments analysed by rating

The ratings are obtained from Standard & Poor's ratings, or major rating agencies where the issuers of the debt securities are located. The investments include debt investments in Financial investments.

	The Group					
	2019					
	Unrated	AAA	AA	A	Lower than A	Total
Occurred credit impaired						
- Other corporates	**15,953**	**858**	**454**	**-**	**2,806**	**20,071**
Allowance for impairment losses						**(12,281)**
Subtotal						**7,790**
Overdue nor credit impaired						
- Other corporates	**1,262**	**-**	**1,203**	**-**	**-**	**2,465**
Allowance for impairment losses						**(293)**
Subtotal						**2,172**
Neither overdue nor credit impaired						
- Government	**764,822**	**144,157**	**-**	**511**	**43**	**909,533**
- Policy banks	**28,621**	**-**	**-**	**419**	**-**	**29,040**
- Banking and non-banking financial institution	**176,982**	**58,449**	**2,254**	**10,988**	**3,079**	**251,752**
- Other corporates	**513,648**	**294,694**	**202,859**	**20,276**	**43,102**	**1,074,579**
Total	**1,484,073**	**497,300**	**205,113**	**32,194**	**46,224**	**2,264,904**
Allowance for impairment losses						**(11,535)**
Subtotal						**2,253,369**
Total						**2,263,331**

3.3.4 As at 31 December 2018, the analysis of exposure to credit risk of the Group and the Bank about loans and advances to customers, inter-bank placements, investments and finance lease receivables is as follows:

	The Group				
	2018				
	Loans and advances to customers	Inter-bank placements (1)	Financial Investments (2)	Finance lease receivables	Total
Impaired:					
Individual assessment					
Total assets	38,648	409	16,085	2,300	57,442
Allowance for impairment losses	(20,798)	(409)	(8,248)	(1,476)	(30,931)
Net value of assets	17,850	-	7,837	824	26,511
Collective assessment					
Total assets	7,492	-	-	-	7,492
Allowance for impairment losses	(5,310)	-	-	-	(5,310)
Net value of assets	2,182	-	-	-	2,182
Past due but not impaired:					
Total assets	20,022	-	4,838	2,104	26,964
Including:					
Within 90 days	20,022	-	4,768	829	25,619
90 to 360 days	-	-	70	-	70
360 days to 3 years	-	-	-	1,275	1,275
Collectively assessed allowance for impairment losses	(4,533)	-	(196)	(764)	(5,493)
Net value of assets	15,489	-	4,642	1,340	21,471
Neither past due nor impaired:					
Total assets	2,867,920	228,735	2,462,224	104,399	5,663,278
Collectively assessed allowance for impairment losses	(64,996)	-	(11,288)	(2,310)	(78,594)
Net value of assets	2,802,924	228,735	2,450,936	102,089	5,584,684
Total of net value of assets	2,838,445	228,735	2,463,415	104,253	5,634,848

(1) Inter-bank placements includes deposits with banks and other financial institutions, placements with banks and other financial institutions and financial assets purchased under resale agreements.

(2) Investments include financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and debt investments of investments classified as receivables.

3.4 Collateral and other credit enhancements

The amount and type of collateral required depend on the assessment of the credit risk of the counterparty. The pledge rate depends on the credit information, operation and management, and financial position of pledgers, the condition of collateral, the market price, the pledged periods, and the convertibility of collateral. In addition, the Collateral Guideline of the Group set an upper limit of the pledged rate. Furthermore, the Group classifies and manages collateral by the difficulty of appraisal and management, the stability of market price and the convertibility of collateral. Following are the main types of collateral:

- For reverse repurchase agreements, collateral mainly includes bills, loans and securities;
- For commercial loans, collateral mainly includes land, properties, equipment and shares, etc;
- For retail loans, collateral mainly includes properties.

The management will monitor the market value of the collateral, ask the borrowers to increase collateral if necessary according to the agreements and monitor the changes in the market value of the collateral when reviewing the adequacy of impairment.

3.5 Rescheduled loans

Rescheduled loans refer to the loan projects generated by the the Group to re-determine the terms of the loan at the discretion of the borrower who is unable to repay the loan according to the original loan terms. If conditions permit, the Group will seek to reschedule the loan instead of obtaining ownership of the collateral. The Group assessed the rescheduled loans as impaired loans in an individual manner when rescheduling. On 31 December 2019, the carrying amount of the Group's rescheduled loans was RMB 4,769 million.

4. Market risk

Market risk is the risk of loss, in respect of the Group's on and off-balance sheet activities, arising from movements in market rates including interest rates, foreign exchange rates, commodity prices and stock prices. Market risk arises from both the Group's proprietary and customer driven business. The Group's market risk management objective is to control the market risk within a reasonable scope in order to achieve the optimal risk adjusted benefit.

According to the Group's market risk management structure, market risk management is critical for the management of the Group's assets and liabilities. Any major events should be reported to the Asset and Liability Management Committee for review and then authorized by President of the Bank. The planning and financial department is responsible for implementing the Group's asset and liability management policy, analysing and monitoring the implementation status of each type of indicators.

For daily control and management of treasury business, investment banking department and the risk management department of financial market built up mid-stage risk control system to carry out an implanting risk management and report to the risk management department of the Group.

4.1 Interest rate risk

The interest rate risk of the Group includes repricing risk, yield curve risk, benchmark risk and optional risk, among which repricing risk is the main risk. It is the risk arising from the mismatch between the agreed maturity date (fixed interest rate day) and the repricing date (floating interest rate) of interest bearing assets and interest payment liabilities. Currently, the Group has fully carried out the internal capital transfer pricing. The Group determined the transfer pricing by different products and terms, and gradually centralized the interest rate risk to the Head Office, so as to improve the efficiency of management and control the interest rate risk.

For the interest risk management of bank accounts, the Group mainly evaluates the interest rate risk of balance sheet through gap analysis. The Group dynamically monitors and controls the interest rate sensitive gap of balance sheet through information systems like assets-liabilities management system, and simply calculates the interest rate sensitivity affected by revenue and economic value on the basis of gap analysis. The revenue analysis emphasizes on the effect of the interest rate fluctuation on short-term income, while the economic value analysis emphasizes on the effect of the interest rate fluctuation on present value of net cash flow.

For the interest risk management of transaction accounts, the Group mainly achieves the real-time monitoring of the interest rate risk of the trading accounts through the quota system, the use of financial transactions and analysis system and the scientific exposure measurement models. According to regulatory requirement, the Group has strengthened the management of market risk measurement models, standardized the developing, testing and commissioning process, and built on regular evaluation mechanisms to ensure the accuracy of measurement models. The Group applies the on-line trading and analysis system to timely measure and control the interest rate risk exposure of transaction accounts, which provides effective technical support to control the interest rate risk of transaction accounts.

At the balance sheet date, an analysis of contractual reprising date or maturity date, whichever is earlier, of the financial assets and financial liabilities are as follows:

	The Group					
	2019					
	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
Financial assets:						
Cash and balances with Central Bank	**481,596**	**-**	**-**	**-**	**4,848**	**486,444**
Deposits with banks and other financial institutions	**85,636**	**1,624**	**-**	**-**	**-**	**87,260**
Placements with banks and other financial institutions	**117,798**	**113,173**	**504**	**-**	**-**	**231,475**
Derivative financial assets	**-**	**-**	**-**	**-**	**32,724**	**32,724**
Financial assets purchased under resale agreements	**41,861**	**-**	**-**	**-**	**-**	**41,861**
Loans and advances to customers	**2,628,868**	**655,404**	**53,633**	**7,275**	**-**	**3,345,180**
Financial investments:						
Trading assets	**29,045**	**63,092**	**69,914**	**47,907**	**442,076**	**652,034**
Debt investments	**334,500**	**146,971**	**567,403**	**395,302**	**-**	**1,444,176**
Other debt investments	**73,446**	**144,385**	**278,670**	**102,881**	**-**	**599,382**
Other equity investments	**-**	**-**	**-**	**-**	**1,929**	**1,929**
Finance lease receivables	**91,244**	**8,736**	**6,277**	**16**	**-**	**106,273**
Other assets	**1,494**	**-**	**-**	**-**	**24,807**	**26,301**
Total financial assets	**3,885,488**	**1,133,385**	**976,401**	**553,381**	**506,384**	**7,055,039**
Financial liabilities:						
Borrowing from Central Bank	**-**	**30,900**	**137,359**	**-**	**-**	**168,259**
Deposits from banks and other financial institutions	**902,769**	**256,482**	**74,686**	**-**	**-**	**1,233,937**
Placements from banks and other financial institutions	**85,769**	**89,041**	**15,400**	**2,100**	**-**	**192,310**
Trading liabilities	**261**	**191**	**8**	**-**	**3,754**	**4,214**
Derivative financial liabilities	**-**	**-**	**-**	**-**	**31,444**	**31,444**
Financial assets sold under repurchase agreements	**172,195**	**21,217**	**-**	**-**	**-**	**193,412**
Deposits from customers	**2,378,411**	**525,748**	**885,156**	**26**	**5,491**	**3,794,832**
Debt securities issued	**233,806**	**431,929**	**231,351**	**2,030**	**-**	**899,116**
Other liabilities	**242**	**5**	**7**	**-**	**25,256**	**25,510**
Total financial liabilities	**3,773,453**	**1,355,513**	**1,343,967**	**4,156**	**65,945**	**6,543,034**
Net position	**112,035**	**(222,128)**	**(367,566)**	**549,225**	**440,439**	**512,005**

	2018					
	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
Financial assets:						
Cash and balances with Central Bank	459,676	-	-	-	16,105	475,781
Deposits with banks and other financial institutions	44,140	9,163	-	-	-	53,303
Placements with banks and other financial institutions	62,753	35,596	-	-	-	98,349
Financial assets at fair value through profit or loss	13,662	92,920	67,873	11,215	273,928	459,598
Derivative financial assets	-	-	-	-	42,092	42,092
Financial assets purchased under resale agreements	76,503	-	580	-	-	77,083
Loans and advances to customers	2,283,450	522,598	27,244	5,153	-	2,838,445
Available-for-sale financial assets	60,488	111,814	266,812	56,339	151,649	647,102
Investments classified as receivables	458,751	196,285	504,249	227,865	-	1,387,150
Finance lease receivables	101,639	2,024	590	-	-	104,253
Held-to-maturity investments	15,694	42,773	141,257	195,418	-	395,142
Other assets	5,286	1,653	-	-	49,924	56,863
Total financial assets	3,582,042	1,014,826	1,008,605	495,990	533,698	6,635,161
Financial liabilities:						
Borrowing from Central Bank	56,500	212,000	-	-	-	268,500
Deposits from banks and other financial institutions	1,145,772	199,111	-	-	-	1,344,883
Placements from banks and other financial institutions	134,333	76,074	10,424	-	-	220,831
Financial liabilities at fair value through profit or loss	1,004	1,251	132	-	207	2,594
Derivative financial liabilities	-	-	-	-	38,823	38,823
Financial assets sold under repurchase agreements	215,203	15,366	-	-	-	230,569
Deposits from customers	2,071,938	689,821	505,589	33,708	2,456	3,303,512
Debt securities issued	215,333	325,047	105,263	72,211	-	717,854
Other liabilities	590	1,758	400	-	71,591	74,339
Total financial liabilities	3,840,673	1,520,428	621,808	105,919	113,077	6,201,905
Net position	(258,631)	(505,602)	386,797	390,071	420,621	433,256

The following tables illustrate the potential impact of a parallel upward or downward shift of 100 basis points in all currencies' yield curves on the Group's net interest income and other comprehensive income, based on the Group's positions of financial assets and financial liabilities at the balance sheet date.

	The Group			
	2019		2018	
	Net interest income increase (decrease)	Other comprehensive income (decrease) increase	Net interest income increase (decrease)	Other comprehensive income (decrease) increase
+100 basis points	**12,957**	**(11,200)**	6,821	(18,228)
- 100 basis points	**(12,957)**	**12,579**	(6,821)	19,281

The sensitivity analysis on net interest income is based on reasonably possible changes in interest rates with the assumption that the structure of financial assets and financial liabilities held at the period end remains unchanged.

The sensitivity analysis on other comprehensive income is the effect on changes of fixed rate debt instruments at fair value through other comprehensive income at the period end after adjusting in accordance with the reasonably possible changes in interest rates.

The above prediction assumes that all yield curves of assets and liabilities, except demand deposit, shift upward or downward parallel. Therefore it does not reflect the potential impact of non-parallel shift in yield curves. The prediction also assumes that all positions are held to maturity. The Group anticipates that the amount of sensitivity analysis is insignificant if a position is not held to maturity.

The assumption does not represent the Group's capital and interest rate risk management policy. Therefore the above analysis may differ from the actual situation.

In addition, the impact of interest rate fluctuation is only for illustrating purpose, showing the anticipated net interest income and other comprehensive income of the Group under the current interest rate risk situation, and such impact has not taken into account the potential interest rate risk control activities carried out by the management.

4.2 Foreign currency risk

The Group conducts its businesses mainly in RMB, with certain businesses denominated in USD or other currencies. RMB is the functional currency. The exchange rate for RMB converting to USD or other foreign currencies is regulated by the PBOC.

The Group is mainly exposed to currency risk resulting from currency mismatches of assets and liabilities, foreign currency transactions and foreign currency capital, etc.

The capital operation department of the Bank centrally manages the currency risk. The currency risk that arises from all types of foreign exchange transactions at the branch level should be centralized to head office to manage the risk exposure and squares positions through the core business system.

The currency risk exposure between foreign currencies is managed on the basis of "overnight position limit" and "day time self-trading positions". The positions are centralized to the capital operation department in a timely way and managed centrally. This kind of position is relatively small compared to the Group's asset scale and is controllable.

Regarding the currency risk exposure between RMB and foreign currencies, the Group is mainly exposed to currency risk resulting from the comprehensive positions of the RMB market maker and the position of the foreign currency capital. As an active RMB market maker, the Group controls the position limit properly. The comprehensive positions of the market maker are managed close to zero and the overnight positions are kept at low level.

The following tables are the structure analysis of the relevant financial assets and financial liabilities by currency.

	The Group			
	2019			
	RMB	USD equivalent to RMB	Other currencies equivalent to RMB	Total
Financial assets:				
Cash and balances with Central Bank	**474,490**	**302**	**11,652**	**486,444**
Deposits with banks and other financial institutions	**51,631**	**35,345**	**284**	**87,260**
Placements with banks and other financial institutions	**172,056**	**59,101**	**318**	**231,475**
Derivative financial assets	**29,566**	**3,140**	**18**	**32,724**
Financial assets purchased under resale agreements	**41,179**	**682**	**-**	**41,861**
Loans and advances to customers	**3,175,265**	**103,576**	**66,339**	**3,345,180**
Financial investments:				
Trading assets	**606,234**	**44,904**	**896**	**652,034**
Debt investments	**1,403,414**	**37,273**	**3,489**	**1,444,176**
Other debt investments	**509,515**	**88,616**	**1,251**	**599,382**
Other equity investments	**1,872**	**57**	**-**	**1,929**
Finance lease receivables	**105,326**	**947**	**-**	**106,273**
Other assets	**23,213**	**336**	**2,752**	**26,301**
Total financial assets	**6,593,761**	**374,279**	**86,999**	**7,055,039**
Financial liabilities:				
Borrowing from Central Bank	**168,259**	**-**	**-**	**168,259**
Deposits from banks and other financial institutions	**1,094,788**	**138,929**	**220**	**1,233,937**
Placements from banks and other financial institutions	**97,358**	**94,823**	**129**	**192,310**
Trading liabilities	**4,053**	**161**	**-**	**4,214**
Derivative financial liabilities	**27,565**	**3,873**	**6**	**31,444**
Financial assets sold under repurchase agreements	**178,461**	**14,933**	**18**	**193,412**
Deposits from customers	**3,558,885**	**50,432**	**185,515**	**3,794,832**
Debt securities issued	**870,580**	**22,539**	**5,997**	**899,116**
Other liabilities	**21,202**	**750**	**3,558**	**25,510**
Total financial liabilities	**6,021,151**	**326,440**	**195,443**	**6,543,034**
Net position	**572,610**	**47,839**	**(108,444)**	**512,005**

	2018			
	RMB	USD equivalent to RMB	Other currencies equivalent to RMB	Total
Financial assets:				
Cash and balances with Central Bank	463,173	12,113	495	475,781
Deposits with banks and other financial institutions	29,086	18,427	5,790	53,303
Placements with banks and other financial institutions	61,800	22,294	14,255	98,349
Financial assets at fair value through profit or loss	435,016	23,272	1,310	459,598
Derivative financial assets	38,122	3,910	60	42,092
Financial assets purchased under resale agreements	77,070	13	-	77,083
Loans and advances to customers	2,676,609	91,019	70,817	2,838,445
Available-for-sale financial assets	535,376	109,339	2,387	647,102
Investments classified as receivables	1,363,343	22,901	906	1,387,150
Finance lease receivables	103,144	1,109	-	104,253
Held-to-maturity investments	381,101	9,888	4,153	395,142
Other assets	52,175	4,430	258	56,863
Total financial assets	6,216,015	318,715	100,431	6,635,161
Financial liabilities:				
Borrowing from Central Bank	268,500	-	-	268,500
Deposits from banks and other financial institutions	1,230,612	95,251	19,020	1,344,883
Placements from banks and other financial institutions	129,738	78,250	12,843	220,831
Financial liabilities at fair value through profit or loss	304	2,290	-	2,594
Derivative financial liabilities	35,045	3,751	27	38,823
Financial assets sold under repurchase agreements	199,094	31,014	461	230,569
Deposits from customers	3,067,627	171,422	64,463	3,303,512
Debt securities issued	677,698	30,278	9,878	717,854
Other liabilities	69,721	4,066	552	74,339
Total financial liabilities	5,678,339	416,322	107,244	6,201,905
Net position	537,676	(97,607)	(6,813)	433,256

The table below indicates the potential effect of an appreciation or depreciation of RMB spot and forward exchange rate against all other currencies by 5% on the foreign exchange gains or losses:

	The Group	
	2019	2018
	Foreign exchange increase(decrease)	Foreign exchange (decrease) increase
5% appreciation	**2,437**	(1,685)
5% depreciation	**(2,437)**	1,685

The above sensitivity analysis is measured on the basis that all assets and liabilities have a static currency risk structure. The relevant assumptions are:

(1) The exchange rate sensitivity represents the exchange gains or losses arisen from a 5% change of the closing exchange rates (middle price) of the different foreign currencies against RMB at the balance sheet date;

(2) The exchange rate changes of different foreign currencies against RMB move in the same direction simultaneously.

The aforesaid effect on foreign exchange gains or loss is based on the assumption that the Group's net positions of foreign exchange sensitivity and foreign exchange derivative instruments at the end of the reporting period remain unchanged. The Group mitigates its foreign currency risk through active management of its foreign currency exposures and appropriate use of derivative instruments, based on the management expectation of future foreign currency movements, and therefore the above sensitivity analysis may differ from the actual situation.

4.3 Other price risk

Other price risk mainly derives from equity investment, held-for-trading precious metals investment and other bonds and derivatives linked to commodity price.

The Group considers that the market risk of commodity price or stock price from portfolio is insignificant.

5. Liquidity risk

Liquidity risk refers to the risk of being unable to acquire sufficient funds in time or failing to acquire sufficient funds at a reasonable cost to meet repayment obligations for asset growth or other business. The Group's liquidity risk mainly derives from advanced or concertrated withdrawal, principal-guaranteed wealth management products redemption, deferred loan repayment and mismatches of assets and liabilities.

The assets and liabilities management committee of the Group monitors and manages the liquidity risk of the Group. The committee will determine the liquidity risk management strategy, the monitoring indicators and the alarming index, regularly analyse and discuss the liquidity risk assessment report submitted, and determine the liquidity risk management measures.

The financial planning department is responsible for: drafting liquidity risk management policies and measures; monitoring different types of liquidity ratios and exposure indicators. The planning and financial department monitors the liquidity risk ratios monthly by reviewing the assets' and liabilities' structure. If there are any ratios close to or over the alarming limits, the department has to investigate the reasons and make recommendations to adjust the assets' and liabilities' structure accordingly; analysing the liquidity risk and reporting to the assets and liabilities management committee regularly; and daily operation of liquidity management, establishment of a cash position forecast system at the Bank level in order to meet the cash payment needs and assure the liquidity for the business development requirements.

The Group regularly monitors the surplus reserve ratio, liquidity ratio, liquidity coverage ratio, net stable fund ratio, ratio of dependence on interbank liabilities and sets alarming and tolerance limits for each ratio. The Group also prepares general liquidity analysis report based on liquidity indicators recorded and net cash flow position of assets and liabilities, incorporating the consideration of macro economy and interbank liquidity status. The report is submitted to the assets and liabilities management committee for assessment. The assessment report will be submitted together with liquidity risk, credit risk, interest rate risk, and operation risk to the risk management committee for the analysis of the Group's overall risk assessment to determine the management strategy accordingly.

5.1 Undiscounted contractual cash flows classified by the maturity date of contracts

The following tables are the structure analysis of non-derivative financial assets and financial liabilities by contractual maturities at the balance sheet date. The amounts disclosed in each term are the undiscounted contractual cash flows.

	The Group							
	2019							
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Past due/ undated	Total
Non-derivative financial assets:								
Cash and balances with Central Bank	**390,869**	**-**	**-**	**-**	**-**	**-**	**97,317**	**488,186**
Deposits with banks and other financial institutions	**53,074**	**27,611**	**5,030**	**1,663**	**-**	**-**	**-**	**87,378**
Placements with banks and other financial institutions	**77**	**94,837**	**23,074**	**115,862**	**540**	**-**	**-**	**234,390**
Financial assets purchased under resale agreements	**-**	**41,889**	**-**	**-**	**-**	**-**	**-**	**41,889**
Loans and advances to customers	**-**	**486,949**	**250,130**	**907,908**	**1,009,623**	**1,694,727**	**71,461**	**4,420,798**
Financial investments:								
Trading assets	**423,808**	**14,046**	**5,550**	**67,758**	**79,650**	**55,013**	**75,803**	**721,628**
Debt investments	**-**	**31,289**	**57,913**	**181,850**	**769,013**	**644,582**	**36,288**	**1,720,935**
Other debt investments	**-**	**10,436**	**24,517**	**149,622**	**322,986**	**165,454**	**7,429**	**680,444**
Other equity investments	**-**	**-**	**-**	**-**	**-**	**-**	**1,929**	**1,929**
Financial lease receivables	**-**	**4,060**	**9,490**	**35,459**	**62,093**	**8,826**	**3,287**	**123,215**
Other non-derivative financial assets	**17,262**	**1,230**	**2,907**	**533**	**1,531**	**158**	**6,736**	**30,357**
Total non-derivative financial assets:	**885,090**	**712,347**	**378,611**	**1,460,655**	**2,245,436**	**2,568,760**	**300,250**	**8,551,149**
Non-derivative financial liabilities:								
Borrowing from Central Bank	**-**	**-**	**-**	**30,958**	**140,189**	**-**	**-**	**171,147**
Deposits from banks and other financial institutions	**616,190**	**130,532**	**156,981**	**260,375**	**74,685**	**-**	**-**	**1,238,763**
Placements from banks and other financial institutions	**-**	**50,273**	**36,774**	**91,394**	**16,078**	**2,193**	**-**	**196,712**
Trading liabilities	**92**	**510**	**3,578**	**40**	**9**	**-**	**-**	**4,229**
Financial assets sold under repurchase agreements	**-**	**147,994**	**24,328**	**21,387**	**-**	**-**	**-**	**193,709**
Deposits from customers	**21,829**	**2,091,527**	**254,751**	**540,979**	**885,701**	**46**	**-**	**3,794,833**
Debt securities issued	**-**	**39,389**	**192,377**	**439,720**	**150,276**	**129,290**	**-**	**951,052**
Other non-derivative financial liabilities	**13,993**	**705**	**787**	**1,449**	**1,236**	**91**	**9,046**	**27,307**
Total non-derivative financial liabilities	**652,104**	**2,460,930**	**669,576**	**1,386,302**	**1,268,174**	**131,620**	**9,046**	**6,577,752**
Net position	**232,986**	**(1,748,583)**	**(290,965)**	**74,353**	**977,262**	**2,437,140**	**291,204**	**1,973,397**

	2018							
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Past due/ undated	Total
Non-derivative financial assets:								
Cash and balances with Central Bank	84,644	-	-	-	-	-	391,341	475,985
Deposits with banks and other financial institutions	35,119	6,366	2,853	9,452	-	-	16	53,806
Placements with banks and other financial institutions	-	50,367	13,034	36,296	-	-	60	99,757
Financial assets at fair value through profit or loss	211,114	66,959	8,821	101,584	77,468	18,751	865	485,562
Financial assets purchased under resale agreements	-	76,517	-	-	660	-	333	77,510
Loans and advances to customers	-	390,197	199,339	901,223	787,204	1,394,579	59,779	3,732,321
Available-for-sale financial assets	45,118	8,936	39,910	217,684	313,201	87,927	7,420	720,196
Investments classified as receivables	-	52,473	112,331	275,828	816,809	503,973	17,968	1,779,382
Financial lease receivables	-	2,712	6,506	26,875	70,947	11,742	3,373	122,155
Held-to-maturity investments	-	3,303	14,177	54,645	186,241	236,972	137	495,475
Other non-derivative financial assets	7,431	4,506	3,735	2,515	3,547	175	491	22,400
Total non-derivative financial assets:	383,426	662,336	400,706	1,626,102	2,256,077	2,254,119	481,783	8,064,549
Non-derivative financial liabilities:								
Borrowing from Central Bank	-	12,395	45,969	219,103	-	-	-	277,467
Deposits from banks and other financial institutions	541,782	352,397	258,691	205,016	-	-	-	1,357,886
Placements from banks and other financial institutions	-	91,367	46,835	77,090	10,954	-	-	226,246
Financial liabilities at fair value through profit or loss	171	527	501	1,289	173	-	-	2,661
Financial assets sold under repurchase agreements	-	196,640	19,162	15,535	-	-	-	231,337
Deposits from customers	1,366,645	359,331	293,036	768,361	592,053	33,846	-	3,413,272
Debt securities issued	-	62,845	119,967	360,875	143,339	80,458	-	767,484
Other non-derivative financial liabilities	16,124	1,775	779	2,886	4,886	507	611	27,568
Total non-derivative financial liabilities	1,924,722	1,077,277	784,940	1,650,155	751,405	114,811	611	6,303,921
Net position	(1,541,296)	(414,941)	(384,234)	(24,053)	1,504,672	2,139,308	481,172	1,760,628

5.2 Liquidity risk analysis of derivative instruments

(1) Derivatives settled on a net basis

Derivatives that were settled on a net basis by the Group include: interest rate derivatives, exchange rate derivatives, credit derivatives and precious metal derivatives, etc. The tables below set forth the Group's net derivative financial instruments positions by remaining contractual maturities at the balance sheet date. The amounts disclosed in the tables are the undiscounted contractual cash flows:

	The Group					
	2019					
	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Interest rate derivatives	**2**	**(31)**	**208**	**(249)**	**(158)**	**(228)**
Exchange rate derivatives	**499**	**1,092**	**(211)**	**2**	**-**	**1,382**
Other derivatives	**34**	**835**	**86**	**285**	**-**	**1,240**
Total	**535**	**1,896**	**83**	**38**	**(158)**	**2,394**

	2018					
	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Interest rate derivatives	1	127	248	257	42	675
Exchange rate derivatives	704	539	2,004	38	-	3,285
Other derivatives	(66)	(70)	282	(26)	-	120
Total	639	596	2,534	269	42	4,080

(2) Derivatives settled on a gross basis

The Group's derivatives that will be settled on a gross basis refer to exchange rate derivatives. The tables below set forth the Group's positions by remaining contractual maturities at the balance sheet date. The amounts disclosed in the tables are the undiscounted contractual cash flows:

	The Group					
	2019					
	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Exchange rate derivatives						
- Cash inflow	**284,670**	**294,703**	**490,642**	**96,180**	**38,245**	**1,204,440**
- Cash outflow	**(285,264)**	**(295,237)**	**(491,279)**	**(97,683)**	**(38,311)**	**(1,207,774)**
Total	**(594)**	**(534)**	**(637)**	**(1,503)**	**(66)**	**(3,334)**

	2018					
	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Exchange rate derivatives						
- Cash inflow	321,874	160,506	382,350	49,239	-	913,969
- Cash outflow	(322,060)	(160,123)	(382,573)	(49,411)	-	(914,167)
Total	(186)	383	(223)	(172)	-	(198)

5.3 Liquidity risk analysis of off-balance sheet items

The Group's off-balance sheet items mainly include credit card commitments, letter of credit, letter of guarantee and bank acceptances. The tables below set forth the liquidity of the off-balance sheet items:

	The Group							
	2019				2018			
	Less than 1 year	1-5 years	Over 5 years	Total	Less than 1 year	1-5 years	Over 5 years	Total
Credit card commitments	**355,436**	**-**	**-**	**355,436**	284,430	-	-	284,430
Letters of credit	**147,815**	**244**	**-**	**148,059**	111,867	135	-	112,002
Letters of guarantee	**61,588**	**51,173**	**7,557**	**120,318**	51,365	46,477	25,826	123,668
Bank acceptances	**761,032**	**-**	**-**	**761,032**	532,919	-	-	532,919
Irrevocable loan commitments	**2,543**	**7,287**	**9,212**	**19,042**	32	4,721	33,792	38,545
Total	**1,328,414**	**58,704**	**16,769**	**1,403,887**	980,613	51,333	59,618	1,091,564

6. Capital management

During the reporting period, the Group had conscientiously implemented the capital management policy according to the regulations of China Banking and Insurance Regulatory Commission Administrative Measures for the Capital of Commercial Banks (for Trial Implementation). The Group will ensure capital adequacy ratio and the overall strategic development match with risk preference and risk management capabilities, in order to achieve healthy, sustainable and rapid development.

In 2019, the Group implemented capital intensive operation and management to continuously improve and optimize risk-weighted asset amount allocation and governing system: oriented by risk-weighted asset yields, the Group makes overall arrangements in operation institutions, risk-weighted assets scale of business lines to reasonably adjust industry structure and promote capital allocation.

According to related guidelines of CBIRC, "Administrative Measures for the Capital of Commercial Banks (for Trial Implementation)" and other regulations, the Group monitors its capital adequacy and capital application in real time.

	The Group	
	2019	2018
Core tier 1 capital – net	**484,935**	440,365
Tier 1 capital - net	**540,887**	466,335
Capital - net	**684,547**	577,582
Total risk weighted assets	**5,123,362**	4,734,315
Core tier 1 capital adequacy ratio	**9.47%**	9.30%
Tier 1 capital adequacy ratio	**10.56%**	9.85%
Capital adequacy ratio	**13.36%**	12.20%

(1) The scope of consolidation for the purpose of calculating the Group's Capital Adequacy Ratios includes domestic and overseas operating units and other financial subsidiaries specified in the capital rules.

(2) The Group's Core Tier-one Capital includes ordinary shares, the capital reserve (subject to regulatory limitations), surplus reserve, general reserve, retained earnings, non-controlling interests (to the extent permitted in the Core Tier-one Capital under the Regulation), and other qualified capital instruments.

(3) The Group's core Tier 1 capital supervision deductions include the net amount of goodwill after deduction of related deferred tax liabilities and the net amount of other intangible assets (excluding land use rights) after deduction of related net deferred tax liabilities.

(4) The Group's other Tier 1 Capital includes preference shares and non-controlling interests to the extent permitted by the capital rules.

(5) The Group's Tier 2 Capital includes: Tier 2 capital instruments and related premium (to the extent allowed under the Regulation), excessive allowance for loan losses, and non-controlling interests to the extent permitted by the capital rules.

(6) Risk-weighted Assets include Credit Risk-weighted Assets, Market Risk-weighted Assets and Operational Risk-weighted Assets. The Group adopts risk weighting approach, standardized approach and basic indicator approach to measure Credit Risk-weighted Assets, Market Risk-weighted Assets and Operational Risk-weighted Assets respectively.

7. Fair value of financial instruments

7.1 Method of fair value recognition

Part of the financial assets and financial liabilities of the Group is measured at fair value. Fair value are measured through appropriate method and parameters, and regularly reviewed by the Board of Directors to keep its applicability. The Group determined and disclosed the fair value of financial instruments based on:

Level 1 inputs: Unadjusted public quoted prices in active markets that are observable at the measurement date for identical assets or liabilities.

Level 2 inputs: All parameters that have a significant impact on the valuation results are market information that can be directly or indirectly observable with the utilisation of valuation techniques; and

Level 3 inputs: Part of the parameters that have a significant impact on the valuation results are market information that are not observable with the utilisation of valuation techniques.

When recognizing the fair value of the financial instrument, to those financial instruments which can obtain unadjusted price of same assets and liabilities in the active market, the Group regards the unadjusted price in the active market as the best evidence of fair value. And then the Group recognizes the fair value and classifies it to level 1. The financial instruments of the Group divided into the first level include equity securities and public funds listed on the exchange.

If the parameters of the estimation are observable and acquirable in the active market, such financial instruments (including equity instrument and derivative financial instrument) should be classified to level 2. Financial instruments classified as level 2 by the Group were mainly bond investment, bill business, foreign exchange forwards and swaps, interest rate swaps, foreign exchange options and precious metal contracts, etc. In terms of the fair value of RMB bonds, the Group mainly adopted the valuation results issued by China Central Depository & Clearing Co., Ltd. or China Securities Depository and Clearing Corporation Limited according to the different bond exchange markets; the fair value of foreign currency bonds was based on the valuation results published by Bloomberg; bill business was discounted by a discounted cash flow model which uses the interbank lending rate as a benchmark to adjust the spread based on credit risk and liquidity to build an interest rate curve; non-derivative financial instruments and some derivative financial instruments (including interest rate swaps, foreign exchange forwards, etc.) that cannot obtain quotes from active markets were valued using a cash flow discount model which includes main parameters such as recent transaction price, relevant yield curve, exchange rate, early compensation rate and counterparty credit spread; and option derivative valuation valued using the Black-Scholes option pricing model which includes the relevant yield curve, exchange rate, volatility, and counterparty credit spread etc.. All significant valuation parameters are based on observable market information.

7.2 Financial assets and financial liabilities at fair value on recurring basis

For financial assets and financial liabilities at fair value on recurring basis, three levels of fair value measurement are analysed as follows:

	The Group							
	2019				2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets:								
Trading assets	**246,522**	**383,604**	**21,908**	**652,034**	N/A	N/A	N/A	N/A
Other debt investments	**-**	**593,744**	**5,638**	**599,382**	N/A	N/A	N/A	N/A
Other equity investments	**716**	**-**	**1,213**	**1,929**	N/A	N/A	N/A	N/A
Loans and advances to customers								
At fair value through profit or loss	**-**	**2,339**	**-**	**2,339**	N/A	N/A	N/A	N/A
At fair value through other comprehensive income	**-**	**195,824**	**-**	**195,824**	N/A	N/A	N/A	N/A
Derivative financial assets	**-**	**32,724**	**-**	**32,724**	-	42,092	-	42,092
Financial assets at fair value through profit or loss	**N/A**	**N/A**	**N/A**	**N/A**	211,075	242,680	5,843	459,598
Available-for-sale financial assets	**N/A**	**N/A**	**N/A**	**N/A**	44,834	575,220	24,832	644,886
Total	**247,238**	**1,208,235**	**28,759**	**1,484,232**	255,909	859,992	30,675	1,146,576
Financial liabilities:								
Trading liabilities	**108**	**4,106**	**-**	**4,214**	171	2,423	-	2,594
Derivative financial liabilities	**-**	**31,444**	**-**	**31,444**	-	38,823	-	38,823
Total	**108**	**35,550**	**-**	**35,658**	171	41,246	-	41,417

In 2019 and 2018, the Group did not transfer the fair value of financial instruments from level 1 and level 2 to level 3, nor did it transfer the fair value of financial instruments from level 1 to level 2.

Movement in level 3 financial instruments measured at fair value:

	The Group			
	Trading assets	Other debt investments	Other equity investments	Total
At 1 January 2019	**41,721**	**6,027**	**713**	**48,461**
Gains or losses				
- in profit or loss	**(1,174)**	**554**	**-**	**(620)**
- in other comprehensive income	**-**	**(963)**	**-**	**(963)**
Purchase	**13,818**	**5,495**	**500**	**19,813**
Sold and settle	**(32,457)**	**(5,475)**	**-**	**(37,932)**
At 31 December 2019	**21,908**	**5,638**	**1,213**	**28,759**
Unrealized gains or losses for the year ended 31 December 2019 included in profit or loss for assets held at 31 December 2019	**(1,468)**	**-**	**-**	**(1,468)**

	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Total
At 1 January 2018	3,565	21,352	24,917
Gains or losses			
- in other comprehensive income	-	1,507	1,507
Purchase	2,278	5,864	8,142
Settle	-	(3,891)	(3,891)
At 31 December 2018	5,843	24,832	30,675
Unrealized gains or losses for the year ended 31 December 2018 included in profit or loss for assets held at 31 December 2018	(68)	-	(68)

Information of Level 3 financial instruments:

	The Group	
Items	Fair value on 31 December 2019	Value Tech
Trading assets		
- Trust beneficiary rights and asset management plans	**8,454**	Discounted cash flow method
- Wealth management products	**2,260**	Discounted cash flow method
- Equity investments	**5,218**	Net asset value method
- Debt	**43**	Discounted cash flow method
- Others	**5,933**	Discounted cash flow method
Other debt investments		
- Trust beneficiary rights and asset management plans	**4,278**	Discounted cash flow method
- Debt	**1,360**	Discounted cash flow method
Other equity investments	**1,213**	Net asset value method
Total	**28,759**	

Items	Fair value on 31 December 2018	Value Tech
Debt instrument investment	26,397	Discounted cash flow method
Equity instrument investments	4,278	Net asset value method
Total	30,675	

7.3 Financial assets and liabilities measured not by fair value

All financial instruments are carried at amounts not materially different from their fair value not measured at fair value except as follows:

	The Group				
	2019				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets:					
Debt investments	**1,444,176**	**1,462,527**	**-**	**813,519**	**649,008**
Total	**1,444,176**	**1,462,527**	**-**	**813,519**	**649,008**
Financial liabilities:					
Debt securities issued	**899,116**	**894,531**	**-**	**894,531**	**-**
Total	**899,116**	**894,531**	**-**	**894,531**	**-**

	2018				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets:					
Held-to-maturity investments	395,142	406,992	-	406,992	-
Investments classified as receivables	1,387,150	1,385,763	-	416,236	969,527
Total	1,782,292	1,792,755	-	823,228	969,527
Financial liabilities:					
Debt securities issued	717,854	713,469	-	713,469	-
Total	717,854	713,469	-	713,469	-

Quantitative information of level 2, 3 at fair value:

	The Group			
Items	Fair value at 31 December 2019	Fair value at 31 December 2018	Valuation Technique	Inputs
Debt investments	**1,462,527**	N/A	Discounted cash flow method	Yield rate of bonds,default rate, loss given default, discount rate
Held-to-maturity investments	**N/A**	406,992	Discounted cash flow method	Yield rate of bonds
Investments classified as receivables	**N/A**	1,385,763	Discounted cash flow method	Default rate, loss given default, discount rate
Debt securities issued	**894,531**	713,469	Discounted cash flow method	Yield rate of bonds

All of the above-mentioned assumptions and methods provide a consistent basis for the calculation of the fair values of the Group's assets and liabilities. However, other institutions may use different assumptions and methods. Therefore, the fair values disclosed by different financial institutions may not be entirely comparable.

XII. OTHER SIGNIFICANT EVENTS

1. Financial assets and financial liabilities measured at fair value

	The Group				
	2019				
	Opening balance	Profit or loss arising from changes in fair value for the year	Accumulated changes in fair value included in other comprehensive income	Provision for impairment losse`s for the year	Closing balance
Financial assets:					
Derivative financial assets	**42,092**	**(9,368)**	**-**	**-**	**32,724**
Loans and advances to customers measured at fair value through profit or loss	**552**	**-**	**-**	**-**	**2,339**
Loans and advances to customers measured at fair value through other comprehensive income	**159,451**	**-**	**(86)**	**(72)**	**195,824**
Trading assets	**690,918**	**1,345**	**-**	**-**	**652,034**
Other debt investments	**520,835**	**292**	**483**	**(817)**	**599,382**
Other equity investments	**1,428**	**-**	**(163)**	**-**	**1,929**
Total financial assets	**1,415,276**	**(7,731)**	**234**	**(889)**	**1,484,232**
Financial liabilities [(1)]	**(41,417)**	**7,363**	**-**	**-**	**(35,658)**

	The Bank				
	2019				
	Opening balance	Profit or loss arising from changes in fair value for the year	Accumulated changes in fair value included in other comprehensive income	Provision for impairment losses for the year	Closing balance
Financial assets:					
Derivative financial assets	**42,092**	**(9,370)**	**-**	**-**	**32,722**
Loans and advances to customers measured at fair value through profit or loss	**552**	**-**	**-**	**-**	**2,339**
Loans and advances to customers measured at fair value through other comprehensive income	**159,451**	**-**	**(86)**	**(72)**	**195,824**
Trading assets	**661,360**	**1,157**	**-**	**-**	**628,253**
Other debt investments	**520,526**	**292**	**590**	**(783)**	**597,801**
Other equity investments	**1,428**	**-**	**(163)**	**-**	**1,929**
Total financial assets	**1,385,409**	**(7,921)**	**341**	**(855)**	**1,458,868**
Financial liabilities [(1)]	**(41,210)**	**7,365**	**-**	**-**	**(35,548)**

(1) Financial liabilities include trading liabilities and derivative financial liabilities.

(2) The items of assets and liabilities listed on the above tables have no inevitable relationship.

2. Financial assets and financial liabilities denominated in foreign currencies

	The Group				
	2019				
	Opening balance	Profit or loss arising from changes in fair value for the year	Accumulated changes in fair value included in other comprehensive income	(Charge) reversal for impairment losses for the year	Closing balance
Cash and balances with Central Bank	**12,613**	-	-	-	**11,954**
Deposits with banks and other financial institutions	**24,238**	-	-	**(61)**	**35,629**
Placements with banks and other financial institutions	**36,639**	-	-	**(51)**	**59,419**
Derivative financial assets	**3,970**	**(812)**	-	-	**3,158**
Financial assets purchased under resale agreement	**13**	-	-	**(8)**	**682**
Loans and advances to customers	**162,706**	-	-	**(1,837)**	**169,950**
Financial investments:					
Trading assets	**30,569**	**2,486**	-	-	**45,800**
Debt investments	**37,094**	-	-	**(67)**	**40,762**
Other debt investments	**106,792**	-	**(1,007)**	**256**	**89,867**
Other equity investments	**39**	-	**53**	-	**57**
Finance lease receivables	**1,109**	-	-	**(20)**	**947**
Other financial assets	**4,736**	-	-	-	**3,088**
Total of financial assets	**420,518**	**1,674**	**(954)**	**(1,788)**	**461,313**
Financial liabilities [(1)]	**(527,169)**	**(101)**	-	-	**(521,883)**

	The Bank				
	2019				
	Opening balance	Profit or loss arising from changes in fair value for the year	Accumulated changes in fair value included in other comprehensive income	(Charge) reversal for impairment losses for the year	Closing balance
Cash and balances with Central Bank	**12,613**	-	-	-	**11,954**
Deposits with banks and other financial institutions	**24,238**	-	-	**(61)**	**35,629**
Placements with banks and other financial institutions	**37,325**	-	-	**(51)**	**59,419**
Derivative financial assets	**3,970**	**(812)**	-	-	**3,158**
Financial assets purchased under resale agreement	**13**	-	-	**(8)**	**682**
Loans and advances to customers	**162,706**	-	-	**(1,837)**	**169,950**
Financial investments:					
Trading assets	**30,569**	**2,486**	-	-	**45,800**
Debt investments	**37,094**	-	-	**(67)**	**40,762**
Other debt investments	**106,792**	-	**(1,007)**	**256**	**89,867**
Other equity investments	**39**	-	**53**	-	**57**
Other financial assets	**4,736**	-	-	-	**3,088**
Total of financial assets	**420,095**	**1,674**	**(954)**	**(1,768)**	**460,366**
Financial liabilities [1]	**(527,078)**	**(101)**	-	-	**(517,004)**

(1) Financial liabilities include Borrowing from Central Bank, Deposits from banks and other financial institutions, Placements from banks and other financial institutions, Trading liabilities, Derivative financial liabilities, Financial assets sold under repurchase agreements, Deposits from customers and Debt securities issued, etc.

(2) The items of assets and liabilities listed on the above tables have no inevitable relationship.

3. Transfer of financial assets

3.1 Assets-securitized

The Group conducts asset-backed securities transactions during normal operations. The Group sells part of its financial assets to the special purpose trust established by the Group as an originating institution and then the special purpose trust issues asset-backed securities to investors. The Group determines whether it combines the special purpose trust based on whether it has power over such special purpose trust and whether it is involved in related activities of the special purpose trust to enjoy variable returns, and whether the Group has the ability to use its power over the special purpose trust to affect its returns.

Once a special purpose trust is established, it shall be distinguished from other property for which the Group has not set up a trust. When the Group is dissolved according to law, revoked according to law, and declared bankrupt, if the Group is the sole beneficiary, the special purpose trust shall be terminated and the trust property shall be deemed as the liquidation property; if the Group is not the sole beneficiary, the special purpose trust shall survive and the trust property shall not be deemed as the liquidation property; however, the trust beneficial rights held by the Group is its liquidation property.

In the course of the transfer of the aforesaid financial assets, the Group has not recognized the gains or losses since the transferring consideration is same as the book value of the transferred financial assets. Subsequently, the Group as a financial asset service institution will charge a certain service fee.

The Group analyses and judges if the relevant financial assets transferred to be derecognized based on the degree of transfer of risk and return:

- When the Group transfers substantially all the risks (mainly include credit risk, early repayment risk and interest rate risk of the transferred assets) and rewards of ownership of the financial assets to other investors in the course of the transfer of the underlying financial assets, the Group derecognizes the transferred financial assets. The Group has no securitized financial assets in 2019 (2018: RMB 15,179 million). Meanwhile, the Group subscribed for a certain percentage of asset-backed securities. As at 31 December 2019, the above asset-backed securities held by the Group amounted to RMB 7,815 million (31 December 2018: RMB 7,817 million).
- The Group did not transfer substantially all the risks (mainly include credit risk, early repayment risk and interest rate risk of the transferred assets) and rewards of ownership of the financial assets to other investors in the process of transferring related financial assets, and the Group did not derecognize of the transferred financial assets. The Group has no the aforesaid nonderecognized finance assets in 2019 (2018: Nil). As at 31 December 2019, the aforesaid non-derecognized finance lease receivables held by the Group are RMB 0 million (31 December 2018: RMB 1,420 million), the aforesaid non-derecognized investments classified as receivables held by the Group are RMB 0 million (31 December 2018: RMB 400 million), and the consideration received from the transfer of financial assets amounting to RMB 0 million (31 December 2018: RMB 598 million) is presented as " Debt securities issued ".
- In 2019, the Group's transferred assets include financial assets with carrying amount of RMB 50,571 million (2018: RMB 46,320 million), where the Group neither transferred nor retained substantially all the risks (mainly include the credit risk, early repayment risk and interest rate risk of the transferred assets) and rewards of the ownership, and retained the control and has continuing involvement in these financial assets. As at 31 December 2019, the Group continued to recognize the financial assets with carrying amount of RMB 13,400 million (31 December 2018: RMB 7,641 million) based on its extent of continuing involvement in the assets, and recognized assets and liabilities with continuing involvement as other assets and other liabilities.

3.2 Repurchase agreements

Repurchase agreements refer to agreements made by the Group and the counter-parities that financial assets (or financial assets that share the same substance) are settled a fixed price of repurchasing when they are sold at a fixed date. Due to the fixed repurchasing price, the Group shoulders almost all the credit and market risks and benefit of the assets. The sold financial assets (cannot be used within the period) should not be recognized in the financial statement, but should be regarded as guarantees because the Group retains all the risks and returns. Besides, the Group recognizes the financial liabilities by the price received. In these trading, the counter-parties' right to the Group is not limited within the transferred financial assets.

As at 31 December 2019 and 31 December 2018, the Group conducted trading of bonds and bills under repurchase agreements. The price of selling these financial assets is called financial assets sold under repurchase agreements price (Note VII, 22).

Included in the repurchase agreement, the book value of the financial assets which had been transferred but continued to be recognized by the Group and relevant liabilities are as follows:

Item	The Group			
	2019		2018	
	Bond	Bill	Bond	Bill
Assets book value	**148,041**	**49,089**	191,189	48,600
Liabilities book value	**143,966**	**49,089**	181,969	48,600

XIII. COMPARATIVE FIGURES

Certain comparative figures have been re-presented by the Group to meet the presentation of the financial reporting.

XIV. NON-ADJUSTING EVENTS AFTER BALANCE SHEET DATE

Assessment of the impact of COVID-19

COVID-19 has been basically contained in China after the outbreak in January 2020, but it is still rampaging in the rest of the world, affecting commercial and economic activities. This may to some extent affect the quality of the Group's credit assets and investment assets or ROE of the Group, depending on the level of containment, the duration of the pandemic, the effectiveness of control measures, and the Group's response.

During the pandemic, the Group proactively implements the government's decisions and plans, fully plays its role to support the real economy, and offers comprehensive services to facilitate the containment. Meanwhile, the Group will keep a close eye on the development of the pandemic and China's countermeasures, make proactive responses and try its best to seek opportunities in the crisis, and assess the pandemic's impact on the Group's financial position and operating results. As at the reporting date, the assessment is still in process.

As at the approval date of the financial statements, there is no material post balance sheet date events which should be disclosed by the Group, except for COVID-19's impacts and dividend distribution. For dividend distribution details, see Note VII. 34.

XV. FINANCIAL STATEMENTS APPROVED

The financial statements were approved by the Board of Directors of the Bank on 28 April 2020.

Supplementary Financial Information

(Expressed in millions of Renminbi, unless otherwise stated)

I. Breakdown of non-recurring profit or loss

The following table is in accordance with the requirement of Information Disclosure and Presentation Rules for Companies Making Public Offering of Securities No. 1 - Non-recurring Profit or Loss (2008) (ZJHGG [2008] No.43) issued by China Securities Regulatory Commission.

	The Group	
	2019	2018
		(Restated)
Gains and losses on the disposal of non-current assets	**36**	20
Government grants recognized in profit or loss	**363**	655
Net non-operating income and expenses in addition to the above	**239**	144
Subtotal	**638**	819
Impact on income tax expenses	**(177)**	(231)
Total	**461**	588
Total non-recurring profit or loss attributable to ordinary shareholders of the Bank	**410**	572
Total non-recurring profit or loss attributable to non-controlling interests	**51**	16
Net profit attributable to ordinary shareholders of the Bank, after deduction of non-recurring profit or loss	**63,976**	58,566

Non-recurring profit or loss refers to the profit or loss not related to normal business or the profit or loss which is related to normal business but affects the user of financial statements to make correct judgement for the Bank's financial position and financial performance because of its distinctiveness and non-recurring. Considering the nature of its normal business, Industrial Bank Co., Ltd. (hereinafter referred to as "the Bank") does not include "Trading assets, Debt investments, Other debt investments and Other equity investments" in non-recurring profit or loss.

The Group deletes the "Recovery of assets written off" when calculating non-recurring gains and losses, and restates the comparative figures.

II. Return on net assets ("ROE") and earnings per share ("EPS")

The related data is calculated in accordance with the provisions in the Rule No.9 for the Preparation of Information Disclosure of Companies with Public Offering – the Calculation and Disclosure of ROE and EPS (revised in 2010). In the related period, basic EPS is calculated by dividing net profit by weighted average ordinary shares issued.

	The Group	
	2019	
	Weighted average ROE(%)	Basic EPS(RMB)
Net profit attributable to ordinary shareholders of the Bank	**14.02**	**3.10**
Net profit attributable to ordinary shareholders of the Bank, after deduction of non-recurring profit or loss	**13.93**	**3.08**

	2018	
	Weighted average ROE(%)	Basic EPS(RMB)
Net profit attributable to ordinary shareholders of the Bank	14.27	2.85
Net profit attributable to s ordinary shareholders of the Bank, after deduction of non-recurring profit or loss (restated)	14.13	2.82

The issuance of RMB 26 billion domestic preference shares approved by the Bank in November 2014 has been successfully completed in June 2015, and the issuance of RMB 30 billion domestic preference shares approved in August 2018 has been successfully completed in April 2019. When the Group calculated EPS, current net profit attributable to the Company's ordinary shareholders does not include the dividends of preference shares that have been declared in 2019 and 2018. In addition, it had no impact on the calculation of the basic and diluted earnings per share for the above period.

The Group deletes the "Recovery of assets written off" when calculating non-recurring gains and losses during this period, and restated the comparative figures of weighted average net return on assets and EPS.

AUDITORS' REPORT

De Shi Bao (Shen) Zi (19) No. P02695

To the Shareholders of Industrial Bank Co., Ltd.

I. Opinion

We have audited the financial statements of Industrial Bank Co., Ltd. (the "Bank"), which comprise the consolidated and bank's balance sheets as at 31 December 2018, and the consolidated and bank's income statements, the consolidated and bank's cash flow statements, the consolidated and bank's statement of changes in equity for the year then ended, and notes to the financial statements.

In our opinion, the financial statements of the Bank present fairly, in all material respects, the Bank's financial position as at 31 December 2018, and the results of its operations and cash flows for the year then ended in accordance with Accounting Standards for Business Enterprises.

II. Basis for the Opinion

We conducted our audit in accordance with China Standard on Auditing. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the China Code of Ethics for Certified Public Accountants, and we have fulfilled our other ethical responsibilities in accordance with the code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

III. Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements of the current period. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the following matters as the key audit matters that need to be communicated in our report:

1. Provision for impairment of loans and advances to customers and investments classified as receivables

Description of the matter:

At 31 December 2018, as stated in Note VIII, 7 to the financial statements, the loans and advances to customers comprise of loans and advances to enterprises and individuals, totalling RMB2,934,082 million, with an impairment provision of RMB95,637 million; as stated in Note VIII, 10, the investments classified as receivables totals RMB1,404,953 million, with an impairment provision of RMB17,803 million.

The major accounting policies and significant accounting estimates and judgements used to determine the provision for impairment of loans and advances to customers and investments classified as receivables are set out in Note IV, 8 and Note V, 1 to the financial statements.

The determination of the recoverability of loans and advances to customers and investments classified as receivables requires significant judgements on the factors which mainly include the financial position of the borrower and guarantor, risks associated with collaterals and specific transaction.

In view of the significance of the total amount of loans and advances to customers and investments classified as receivables to the financial statements and the fact that the provision for impairment of loans and advances to customers and investments classified as receivables involves significant management judgement and estimate, we identified the provision for impairment of loans and advances to customers and investments classified as receivables as a key audit matter.

Audit response:

Our procedures on provision for impairment of loans and advances to customers and investments classified as receivables include:

(1) We understood and tested the operating effectiveness of the internal controls related to the impairment provision. These controls include both manual and automatic controls to identify the impairment of loans and advances to customers and investments classified as receivables in a timely manner, as well as the controls over impairment calculation model, including the data input and calculation of impairment provision.

(2) For loans and advances to customers and investments classified as receivables, we selected samples to perform credit review so as to assess whether an impairment has incurred and whether the Bank has identified such impairment in a proper and timely manner.

(3) For loans and advances to customers and investments classified as receivables that are assessed individually, we tested the management's forecast on future cash flows of the borrower, including the estimated recoverable amount from collaterals, and re-calculated the amount of impairment provision and compared it with the impairment provision assessed by the management, so as to assess whether a material misstatement exists.

(4) For loans and advances to customers and investments classified as receivables that are assessed collectively, we referred to industrial experience and market practices, and reviewed the applicability of the impairment model adopted by the management, and sampled and examined the historical data and the accuracy of the results of calculation.

2. Consolidation of structured entities

Description of the matter:

As stated in Note VIII, 48 to the financial statements, the structured entities include the financial products, fund, asset-backed securities, trust investment programs and assets management programs etc. that are issued, managed and/or invested by the Bank.

The management determines whether the Bank is required to include the structured entities in the scope of the consolidated financial statements by assessing the Bank's power to direct the decisions on structured entities, and the Bank's exposure to variable returns in the structured entities as well as its ability to use its power to affect such variable returns. The Bank determines whether it is acting as a principal or agent and whether the structured entities should be consolidated on the basis of the factors including scope of decision of the manager of the structured entities, the power of other parties, the rewards from rendering management service and the risk exposures of variable returns etc.

The major accounting policies and significant accounting estimates and judgements used to determine the whether to include the structured entities in the scope of consolidated financial statements or not are set out in Note IV, 5 and Note V, 7 to the financial statements.

In view of that the determination on whether the structured entities need to be included in the scope of the consolidated financial statements involves significant management judgement and has significant influence on the consolidated financial statements, we have identified the consolidation of structured entities as a key audit matter.

Audit response:

Our procedures on consolidation of structured entities include:

(1) We understood and tested the operating effectiveness of the Bank's internal controls over determination on the consolidation scope of structured entities.

(2) We obtained the list of structured entities, and sampling checked related contracts, and assessed whether the Bank has control over the structured entities by performing the following audit procedures:

a. Analysed the contract terms and business structure, so as to understand the purpose of establishing the structured entities and the Bank's extent of involvement in the structured entities, and assessed the management judgement on whether the Bank has power over the structured entities;

b. Examined the terms in the structured entities' contracts that involve variable returns, including rate of management fee, expected rate of return etc., and checked them with relevant information used in management assessment; re-calculated the magnitude and variability of the Bank's variable returns in the structured entities based on the contract terms on variable returns.

c. Analysed the Bank's scope of decision, level of remuneration obtained for rendering management service to the structured entities, risk of variable returns for holding other interests in the structured entities and other parties' substantive rights, assessed whether the Bank is acting as a principal or agent in exercising the decision-making right, and compared the results of assessment with the results of management's assessment.

3. Derecognition of financial assets

Description of the matter:

As stated in Note XII, 3.1 and Note XII, 3.3 to the financial statements, the Bank had various types of financial assets transfer transactions, including asset securitization and transfer of non-performing loan.

The management analyse the contractual rights and obligations agreed in the financial assets transfer transactions so as to assess whether the financial assets transfer transactions meet the criteria of transfer of financial assets in relevant accounting standards, and assess whether the Bank has transferred substantially all the risks and rewards of the ownership of the financial assets, determine whether the criteria of derecognition of financial assets are satisfied; under the circumstance that the Bank neither transferred nor retained substantially all the risks and rewards of the ownership, analyse whether the Bank has lost the control over the financial assets, so as to determine whether the criteria of derecognition are satisfied.

The major accounting policies and significant accounting estimates and judgements used to determine the derecognition of financial assets are set out in Note IV, 8 and Note V, 8 to the financial statements.

In view of the management's significant judgement on whether the transferred financial assets can be derecognized, and the significant amount of related financial assets, we have identified the derecognition of financial assets as a key audit matter.

Audit response:

Our procedures on derecognition of financial assets include:

(1). We understood and tested the operating effectiveness of management's internal controls over transfer of financial assets, including the design of transaction structure and review and approval of the terms of contract, approval of the model, key parameters and assumptions adopted to test the transfer of risks and rewards of the ownership, as well as the review and approval of the result of assessment of accounting treatment.

(2). We obtained the list of transferred assets from the management, sampling checked the specific terms of financial assets transfer agreement and other related legal documents, so as to assess whether the Bank has transferred the right to receive the contractual cash flow of financial assets to another party, or whether the arrangement that the Bank receives the contractual cash flow and makes payment to another party satisfies the requirements of "pass-through test".

(3). Based on the industrial experience and practice, we performed sampling check and assessed the key assumptions and parameters used by the management in the risks and rewards transfer model, including future cash flow forecast and discount rate under multiple economic scenarios. Meanwhile, we tested the accuracy of the data calculation of the model.

(4) For financial assets that have been transferred and the Bank neither transferred nor retained substantially all the risks and rewards of the ownership, we sampling analysed the contractual terms, so as to assess whether the Bank has retained control over the transferred financial assets, and determine whether it has continuing involvement in the transferred financial assets.

IV. Other information

The Bank's management is responsible for other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditors' report thereon.

Our opinion on the 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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.

V. Responsibilities of the Management and Those Charged With Governance for the Financial Statements

The Bank's management is responsible for the preparation and fair presentation of the financial statements in accordance with Accounting Standards for Business Enterprises, and designing, implementing and maintaining internal control that is necessary to enable the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank'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 management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial statements process.

VI. Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with China Standards on Auditing 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 financial statements.

As part of an audit in accordance with China Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

(1) Identify and assess the risks of material misstatement of the 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.

(2) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.

(3) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

(4) Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank'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 financial statements or, if such disclosures are inadequate, to express modified opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

(5) Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

(6) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Bank to express an opinion on the 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 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.

Deloitte Touche Tohmatsu CPA LLP

Shanghai, China

Chinese Certified Public Accountant

(Engagement Partner)

Hu Xiaojun

Chinese Certified Public Accountant

Zhang Hua

29 April 2019

The auditors' report and the accompanying financial statements are English translations of the Chinese auditors' report and statutory financial statements prepared under accounting principles and practices generally accepted in the People's Republic of China. These financial statements are not intended to present the financial position and results of operations in accordance with accounting principles and practices generally accepted in other countries and jurisdictions. In case the English version does not conform to the Chinese version, the Chinese version prevails.

THE CONSOLIDATED AND BANK'S BALANCE SHEETS

AT 31 DECEMBER 2018 UNIT: RMB IN MILLION

		The Group		The Bank	
	Note VIII	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Assets					
Cash and balances with Central Bank	1	**475,781**	466,403	**475,775**	466,392
Deposits with banks and other financial institutions	2	**53,303**	77,559	**47,869**	67,478
Precious metals		**3,350**	30,053	**3,350**	30,053
Placements with banks and other financial institutions	3	**98,349**	31,178	**111,238**	36,412
Financial assets at fair value through profit or loss	4	**459,598**	362,072	**413,015**	337,965
Derivative financial assets	5	**42,092**	28,396	**42,092**	28,396
Financial assets purchased under resale agreements	6	**77,083**	93,119	**73,795**	89,464
Loans and advances to customers	7	**2,838,445**	2,348,831	**2,822,075**	2,341,397
Available-for-sale financial assets	8	**647,102**	504,221	**665,685**	516,016
Held-to-maturity investments	9	**395,142**	337,483	**393,557**	337,483
Investments classified as receivables	10	**1,387,150**	1,913,382	**1,375,840**	1,899,969
Finance lease receivables	11	**104,253**	103,495	**-**	-
Long-term equity investments	12	**3,224**	3,008	**17,979**	16,964
Fixed assets	13	**17,658**	14,874	**12,624**	10,607
Construction in progress	14	**7,872**	7,124	**7,852**	7,122
Intangible assets		**602**	551	**556**	514
Goodwill	15	**532**	532	**-**	-
Deferred tax assets	16	**32,317**	27,297	**30,102**	26,233
Other assets	17	**67,804**	67,264	**56,028**	42,102
Total assets		**6,711,657**	**6,416,842**	**6,549,432**	**6,254,567**

(Continued)

The accompanying notes form part of the financial statements.

The financial statements on pages 133 to 281 were signed by the following:

Gao Jianping	Tao Yiping	Lai Furong
Chairman of the Board Legal Representative	President Person in Charge of the Accounting Body	Financial Director

AT 31 DECEMBER 2018 UNIT: RMB IN MILLION

		The Group		The Bank	
	Note VIII	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Liabilities					
Borrowing from Central Bank		**268,500**	245,000	**268,500**	245,000
Deposits from banks and other financial institutions	19	**1,344,883**	1,446,059	**1,351,407**	1,449,053
Placements from banks and other financial institutions	20	**220,831**	187,929	**126,941**	85,149
Financial liabilities at fair value through profit or loss	21	**2,594**	6,563	**2,387**	5,725
Derivative financial liabilities	5	**38,823**	29,514	**38,823**	29,514
Financial assets sold under repurchase agreements	22	**230,569**	229,794	**219,274**	223,885
Due to customers	23	**3,303,512**	3,086,893	**3,304,063**	3,087,919
Employee benefits payable	24	**15,341**	14,037	**13,569**	12,684
Tax payable	25	**11,297**	8,128	**10,045**	7,427
Debt securities issued	26	**717,854**	662,958	**698,436**	648,032
Other liabilities	27	**84,869**	77,215	**66,423**	56,680
Total liabilities		**6,239,073**	**5,994,090**	**6,099,868**	**5,851,068**
Equity					
Share capital	28	**20,774**	20,774	**20,774**	20,774
Other equity instruments	29	**25,905**	25,905	**25,905**	25,905
Including: preference shares		**25,905**	25,905	**25,905**	25,905
Capital reserve	30	**75,011**	75,011	**75,260**	75,260
Other comprehensive income	45	**2,356**	(1,067)	**2,802**	(1,017)
Surplus reserve	31	**10,684**	10,684	**10,684**	10,684
General and regulatory reserve	32	**73,422**	70,611	**69,996**	67,888
Retained earnings	33	**257,801**	214,977	**244,143**	204,005
Equity attributable to equity holders of the Bank		**465,953**	416,895	**449,564**	403,499
Non-controlling interests in equity		**6,631**	5,857	**-**	-
Total equity		**472,584**	**422,752**	**449,564**	**403,499**
Total liabilities and equity		**6,711,657**	**6,416,842**	**6,549,432**	**6,254,567**

The accompanying notes form part of the financial statements.

The financial statements on pages 133 to 281 were signed by the following:

Gao Jianping	Tao Yiping	Lai Furong
Chairman of the Board Legal Representative	President Person in Charge of the Accounting Body	Financial Director

THE CONSOLIDATED AND BANK'S INCOME STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

UNIT: RMB IN MILLION

		The Group		The Bank	
	Note VIII	2018	2017	2018	2017
I. Operating income		**158,287**	139,975	**147,994**	131,577
Net interest income	34	**95,657**	88,451	**90,636**	84,134
Interest income	34	**270,578**	252,644	**259,667**	243,275
Interest expense	34	**(174,921)**	(164,193)	**(169,031)**	(159,141)
Net fee and commission income	35	**42,978**	38,739	**38,754**	34,790
Fee and commission income	35	**47,062**	42,027	**42,375**	37,980
Fee and commission expense	35	**(4,084)**	(3,288)	**(3,621)**	(3,190)
Investment income	36	**26,482**	4,514	**26,981**	5,273
Including: income from investments in an associate		**265**	292	**264**	272
Gains (Losses) from changes in fair value	37	**2,919**	(622)	**2,711**	(70)
Foreign exchange (losses) gains		**(11,298)**	7,386	**(11,418)**	7,068
Income from disposal of assets		**19**	69	**19**	28
Other income		**637**	257	**103**	43
Other operating income		**893**	1,181	**208**	311
II. Operating expenses		**(90,373)**	(75,162)	**(85,270)**	(71,630)
Business taxes and surcharges	38	**(1,408)**	(975)	**(1,316)**	(886)
General and administrative expenses	39	**(42,064)**	(38,130)	**(39,086)**	(35,733)
Impairment losses on assets	40	**(46,404)**	(35,507)	**(44,609)**	(34,767)
Other operating expenses		**(497)**	(550)	**(259)**	(244)
III. Operating profit		**67,914**	64,813	**62,724**	59,947
Add: non-operating income	41	**335**	373	**285**	285
Less: non-operating expenses	42	**(172)**	(433)	**(163)**	(431)
IV. Total profit		**68,077**	64,753	**62,846**	59,801
Less: income tax expenses	43	**(6,832)**	(7,018)	**(5,615)**	(5,794)
V. Net profit		**61,245**	57,735	**57,231**	54,007

(Continued)

The accompanying notes form part of the financial statements.

The financial statements on pages 133 to 281 were signed by the following:

Gao Jianping	Tao Yiping	Lai Furong
Chairman of the Board Legal Representative	President Person in Charge of the Accounting Body	Financial Director

		The Group		The Bank	
	Note VIII	2018	2017	2018	2017
1. Categorized by the nature of continuing operation:					
(1) Net profit from continuing operations		**61,245**	57,735	**57,231**	54,007
(2) Net profit from discontinued operations		**-**	-	**-**	-
2. Categorized by ownership:					
(1) Net profit attributable to equity holders of the Bank		**60,620**	57,200	**57,231**	54,007
(2) Non-controlling interests		**625**	535	**-**	-
VI. Earnings per share					
Basic earnings per share (RMB Yuan)	44	**2.85**	2.74	**-**	-
Diluted earnings per share (RMB Yuan)	44	**2.85**	2.74	**-**	-
VII. Other comprehensive income - net of tax	45	**3,352**	(2,167)	**3,819**	(2,122)
Other comprehensive income attributable to equity holders of the Bank		**3,423**	(2,152)	**3,819**	(2,122)
1. Items that may be reclassified subsequently to profit or loss:					
(1) Gains or losses on changes in fair value of financial assets available-for-sale		**3,587**	(3,004)	**4,007**	(2,974)
(2) Translation differences of financial statements denominated in foreign currencies		**24**	-	**-**	-
2. Items that will not be reclassified subsequently to profit or loss:					
Actuarial (losses) profits on defined benefit plans		**(188)**	852	**(188)**	852
Other comprehensive income attributable to non-controlling interests		**(71)**	(15)	**-**	-
VIII. Total comprehensive income		**64,597**	55,568	**61,050**	51,885
Total comprehensive income attributable to:					
Equity holders of the Bank		**64,043**	55,048	**61,050**	51,885
Non-controlling interests		**554**	520	**-**	-

The accompanying notes form part of the financial statements.

The financial statements on pages 133 to 281 were signed by the following:

Gao Jianping	Tao Yiping	Lai Furong
Chairman of the Board Legal Representative	President Person in Charge of the Accounting Body	Financial Director

THE CONSOLIDATED AND BANK'S CASH FLOW STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018 UNIT: RMB IN MILLION

		The Group		The Bank	
	Note VIII	2018	2017	2018	2017
Cash flows from operating activities:					
Net increase in due to customers and deposits from banks and other financial institutions		**113,004**	117,193	**116,059**	113,430
Net decrease in balances with Central Bank and deposits with banks and other financial institutions		**48,698**	-	**47,193**	-
Net increase in borrowing from banks and other financial institutions and financial assets sold under repurchase agreements		**33,677**	120,242	**37,181**	100,746
Net decrease in placements with banks and other financial institutions and financial assets purchased under resale agreements		**-**	8,314	**-**	9,053
Net increase in borrowing from Central Bank		**23,500**	47,000	**23,500**	47,000
Cash receipts from interest, fee and commission		**195,667**	164,915	**182,868**	153,873
Other cash receipts relating to operating activities		**51,888**	34,149	**11,325**	11,103
Sub-total of cash inflows from operating activities		**466,434**	491,813	**418,126**	435,205
Net increase in loans and advances to customers		**532,140**	370,643	**522,562**	370,109
Net increase in finance leases		**1,886**	16,602	**-**	-
Net increase in placements with banks and other financial institutions and financial assets purchased under resale agreements		**30,736**	-	**37,295**	-
Net increase in balances with Central Bank and deposits with banks and other financial institutions		**-**	60,437	**-**	63,740
Cash payments to interest, fee and commission		**145,164**	132,525	**138,207**	128,300
Cash payments to and on behalf of employees		**24,925**	23,666	**23,096**	21,943
Cash payments of various types of taxes		**18,435**	22,266	**15,881**	19,912
Other cash payments relating to operating activities		**69,247**	28,316	**38,092**	3,162
Sub-total of cash outflows from operating activities		**822,533**	654,455	**775,133**	607,166
Net cash flow from operating activities	46	**(356,099)**	(162,642)	**(357,007)**	(171,961)
Cash flows from investing activities:					
Cash receipts from disposal/redemption of investments		**5,489,179**	6,063,282	**5,397,632**	5,908,643

(Continued)

The accompanying notes form part of the financial statements.

The financial statements on pages 133 to 281 were signed by the following:

Gao Jianping	Tao Yiping	Lai Furong
Chairman of the Board Legal Representative	President Person in Charge of the Accounting Body	Financial Director

	Note VIII	The Group 2018	The Group 2017	The Bank 2018	The Bank 2017
Cash receipts from returns on investment income		**120,784**	123,980	**118,100**	121,951
Cash receipts from disposals of fixed assets, intangible assets and other long-term assets		**228**	5,280	**93**	586
Other cash receipts relating to investing activities		**20**	6,566	**20**	6,566
Sub-total of cash inflows from investing activities		**5,610,211**	6,199,108	**5,515,845**	6,037,746
Cash payments for investments		**5,180,506**	5,923,105	**5,098,552**	5,767,370
Cash payments for purchasing fixed assets, intangible assets and other long-term assets		**6,395**	6,400	**5,163**	3,156
Other cash payments relating to investing activities		**920**	1,342	**920**	1,302
Sub-total of cash outflows from investing activities		**5,187,821**	5,930,847	**5,104,635**	5,771,828
Net cash flow from investing activities		**422,390**	268,261	**411,210**	265,918
Cash flows from financing activities:					
Proceeds from capital contributions		**220**	27,118	**-**	26,000
Including: proceeds from capital contributions from non-controlling shareholders of subsidiary		**220**	1,118	**-**	-
Proceeds from issuance of bonds		**1,425,549**	1,459,687	**1,414,572**	1,447,826
Other proceeds relating to financing activities		**3,641**	1,609	**-**	-
Sub-total of cash inflows from financing activities		**1,429,410**	1,488,414	**1,414,572**	1,473,826
Cash repayments of borrowings		**1,370,689**	1,512,900	**1,364,168**	1,509,470
Cash payments for distribution of dividends, profits or settlement of interest expenses		**43,728**	42,430	**43,728**	42,084
Including: payments for distribution of dividends to non-controlling shareholders of subsidiary		**-**	10	**-**	-
Other cash payments relating to financing activities		**4,557**	151	**-**	99
Sub-total of cash outflows from financing activities		**1,418,974**	1,555,481	**1,407,896**	1,551,653
Net cash flow from financing activities		**10,436**	(67,067)	**6,676**	(77,827)
Effect of foreign exchange rate changes on cash and cash equivalents		**2,129**	(1,294)	**2,116**	(1,286)
Net increase in cash and cash equivalents	46	**78,856**	37,258	**62,995**	14,844
Add: opening balance of cash and cash equivalents		**470,321**	433,063	**480,627**	465,783
Closing balance of cash and cash equivalents	46	**549,177**	470,321	**543,622**	480,627

The accompanying notes form part of the financial statements.

The financial statements on pages 133 to 281 were signed by the following:

Gao Jianping	Tao Yiping	Lai Furong
Chairman of the Board Legal Representative	President Person in Charge of the Accounting Body	Financial Director

THE CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

UNIT: RMB IN MILLION

		2018									
		Attributable to equity holders of the Bank									
	Note VIII	Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Surplus reserve	General and regulatory reserve	Retained earnings	Non-controlling interests	Total
I. As at 1 January 2018		20,774	25,905	75,011	(1,067)	10,684	70,611	214,977	5,857	**422,752**
II. Changes for the year										
(I) Net profit		-	-	-	-	-	-	60,620	625	**61,245**
(II) Other comprehensive income	45	-	-	-	3,423	-	-	-	(71)	**3,352**
Subtotal of (I) and (II)		-	-	-	3,423	-	-	60,620	554	**64,597**
(III) Capital contribution from shareholders		-	-	-	-	-	-	-	220	**220**
1. Contribution from shareholders		-	-	-	-	-	-	-	220	**220**
(IV) Profit distribution		-	-	-	-	-	2,811	(17,796)	-	**(14,985)**
1. Appropriation to general and regulatory reserve		-	-	-	-	-	2,811	(2,811)	-	-
2. Dividends paid to ordinary shareholders		-	-	-	-	-	-	(13,503)	-	**(13,503)**
3. Dividends paid to preference shareholders		-	-	-	-	-	-	(1,482)	-	**(1,482)**
4. Appropriation to surplus reserve		-	-	-	-	-	-	-	-	-
III. As at 31 December 2018		**20,774**	**25,905**	**75,011**	**2,356**	**10,684**	**73,422**	**257,801**	**6,631**	**472,584**

The accompanying notes form part of the financial statements.

The financial statements on pages 133 to 281 were signed by the following:

Gao Jianping	Tao Yiping	Lai Furong
Chairman of the Board Legal Representative	President Person in Charge of the Accounting Body	Financial Director

FOR THE YEAR ENDED 31 DECEMBER 2018 UNIT: RMB IN MILLION

		2017								
		Attributable to equity holders of the Bank								
	Note VIII	Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Surplus reserve	General and regulatory reserve	Retained earnings	Non-controlling interests	Total
I. As at 1 January 2017		19,052	25,905	50,861	1,085	9,824	69,878	173,524	4,281	**354,410**
II. Changes for the year										
(I) Net profit		-	-	-	-	-	-	57,200	535	**57,735**
(II) Other comprehensive income	45	-	-	-	(2,152)	-	-	-	(15)	**(2,167)**
Subtotal of (I) and (II)		-	-	-	(2,152)	-	-	57,200	520	**55,568**
(III) Capital contribution from shareholders		1,722	-	24,150	-	-	-	-	1,066	**26,938**
1. Contribution from shareholders		1,722	-	24,179	-	-	-	-	1,118	**27,019**
2. Others		-	-	(29)	-	-	-	-	(52)	**(81)**
(IV) Profit distribution		-	-	-	-	860	733	(15,747)	(10)	**(14,164)**
1. Appropriation to general and regulatory reserve		-	-	-	-	-	733	(733)	-	**-**
2. Dividends paid to ordinary shareholders		-	-	-	-	-	-	(12,672)	(10)	**(12,682)**
3. Dividends paid to preference shareholders		-	-	-	-	-	-	(1,482)	-	**(1,482)**
4. Appropriation to surplus reserve		-	-	-	-	860	-	(860)	-	**-**
III. As at 31 December 2017		**20,774**	**25,905**	**75,011**	**(1,067)**	**10,684**	**70,611**	**214,977**	**5,857**	**422,752**

The accompanying notes form part of the financial statements.

The financial statements on pages 133 to 281 were signed by the following:

Gao Jianping	Tao Yiping	Lai Furong
Chairman of the Board Legal Representative	President Person in Charge of the Accounting Body	Financial Director

THE BANK'S STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

UNIT: RMB IN MILLION

		2018							
	Note VIII	Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Surplus reserve	General and regulatory reserve	Retained earnings	Total owners' equity
I. As at 1 January 2018		20,774	25,905	75,260	(1,017)	10,684	67,888	204,005	**403,499**
II. Changes for the year									
(I) Net profit		-	-	-	-	-	-	57,231	**57,231**
(II) Other comprehensive income	45	-	-	-	3,819	-	-	-	**3,819**
Subtotal of (I) and (II)		-	-	-	3,819	-	-	57,231	**61,050**
(III) Capital contribution from shareholders		-	-	-	-	-	-	-	**-**
1. Contribution from shareholders		-	-	-	-	-	-	-	**-**
(IV) Profit distribution		-	-	-	-	-	2,108	(17,093)	**(14,985)**
1. Appropriation to general and regulatory reserve		-	-	-	-	-	2,108	(2,108)	**-**
2. Dividends paid to ordinary shareholders		-	-	-	-	-	-	(13,503)	**(13,503)**
3. Dividends paid to preference shareholders		-	-	-	-	-	-	(1,482)	**(1,482)**
III. As at 31 December 2018		**20,774**	**25,905**	**75,260**	**2,802**	**10,684**	**69,996**	**244,143**	**449,564**

The accompanying notes form part of the financial statements.

The financial statements on pages 133 to 281 were signed by the following:

Gao Jianping	Tao Yiping	Lai Furong
Chairman of the Board Legal Representative	President Person in Charge of the Accounting Body	Financial Director

FOR THE YEAR ENDED 31 DECEMBER 2018 UNIT: RMB IN MILLION

		2017							
	Note VIII	Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Surplus reserve	General and regulatory reserve	Retained earnings	Total owners' equity
I. As at 1 January 2017		19,052	25,905	51,081	1,105	9,824	67,744	165,156	**339,867**
II. Changes for the year									
(I) Net profit		-	-	-	-	-	-	54,007	**54,007**
(II) Other comprehensive income	45	-	-	-	(2,122)	-	-	-	**(2,122)**
Subtotal of (I) and (II)		-	-	-	(2,122)	-	-	54,007	**51,885**
(III) Capital contribution from shareholders		1,722	-	24,179	-	-	-	-	**25,901**
1. Contribution from shareholders		1,722	-	24,179	-	-	-	-	**25,901**
(IV) Profit distribution		-	-	-	-	860	144	(15,158)	**(14,154)**
1. Appropriation to general and regulatory reserve		-	-	-	-	-	144	(144)	**-**
2. Dividends paid to ordinary shareholders		-	-	-	-	-	-	(12,672)	**(12,672)**
3. Dividends paid to preference shareholders		-	-	-	-	-	-	(1,482)	**(1,482)**
4. Appropriation to surplus reserve		-	-	-	-	860	-	(860)	**-**
III. As at 31 December 2017		**20,774**	**25,905**	**75,260**	**(1,017)**	**10,684**	**67,888**	**204,005**	**403,499**

The accompanying notes form part of the financial statements.

The financial statements on pages 133 to 281 were signed by the following:

Gao Jianping	Tao Yiping	Lai Furong
Chairman of the Board Legal Representative	President Person in Charge of the Accounting Body	Financial Director

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

I. GENERAL INFORMATION

Industrial Bank Co., Ltd. (hereinafter referred to as “the Bank”) which was formerly referred to as Fujian Industrial Bank Co., Ltd., is a joint-stock commercial bank approved by the People’s Bank of China (the "PBOC"), with the document YF [1988] No. 347 issued on 20 July 1988, in accordance with the Ratification for Deepening Reform and Opening and Accelerating the Development of Export-oriented Economy in Fujian Province (GH [1988] No.58) approved by the State Council, the Bank was listed on the Shanghai Stock Exchange on 5 February 2007 with the stock code 601166.

The Bank operates under financial services certificate No. B0013H135010001 issued by China Banking and Insurance Regulatory Commission (formerly known as China Banking Regulatory Commission, hereinafter referred to as the "CBIRC"), and business license No. 91350000158142711F issued by Fujian Provincial Administration of Industry and Commerce, the registered office of the Bank is located at154 Hudong Road, Fuzhou, Fujian Province, the PRC. The legal representative of the Bank is Mr. Gao Jian Ping.

The principal activities of the Bank comprise the provision of banking service, which includes accepting deposits from the public; granting short-term, medium-term and long-term loans; domestic and overseas settlement services; issuance of discount and acceptance bills and notes; issuing financial bonds; agency issue and encashment, underwriting and trading of government bonds; trading of government and financial bonds and debentures; agency trading and trading of marketable securities except stock; asset custody business; inter-bank lending and borrowings; sale and purchase of foreign exchange; bank card business; letters of credit and letters of guarantee; remittance and insurance agent services; safety deposit box services; financial advisory services; credit investigation, advisory and attestation services and other banking activities approved by the CBRC.

The principal activities of the Bank's subsidiaries comprise finance leasing, trust services, fund raising and marketing, asset management for specific clients, asset management, consumer finance, equity investment, industrial investment, investment management and consulting(excluding brokerage); financial consulting, business consulting, enterprise management consulting, financial data processing, commodity futures brokerage, financial futures brokerage, futures investment consulting, economic information consulting service, application software development and operational services, system integration services; Investment and assets management, participating the batch acquisition, transfer and disposal of non-performing assets of financial institutions within the province, acquisition, transfer and disposal of non-performing assets of non-financial institutions; other banking activities approved by the CBRC as well as other businesses permitted by China Securities Regulatory Commission (the "CSRC").

II. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Bank and its subsidiaries (collectively, “the Group”) has adopted the Accounting Standards for Business Enterprises (the "ASBE") issued and implemented by the Ministry of Finance of People's Republic of China (the "MOF").

In addition, the Group has disclosed relevant financial information in accordance with Information Disclosure and Presentation Rules for Companies Offering Securities to the Public No. 15- General Provisions on Financial Reporting (Revised in 2014) and the relevant regulations released by the China Securities Regulatory Commission.

The report is prepared on a going concern basis.

III. STATEMENT OF COMPLIANCE WITH THE ASBE

The financial statements of the Bank have been prepared in accordance with ASBE, and present truly and completely, the Bank's and consolidated financial position as of 31 December 2018, and the Bank's and consolidated results of operations and cash flows for the year then ended.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

1. Accounting period

The Group has adopted the calendar year as its accounting year, i.e. from 1 January to 31 December.

2. Basic of accounting and principle of measurement

The Group has adopted the accrual basis of accounting. Except for certain financial instruments which are measured at fair value, the Group adopts the historical cost as the principle of measurement in the financial statements. Where assets are impaired, allowance for impairment losses are made in accordance with relevant requirements.

Under historical cost, assets are recorded at the amount of cash or cash equivalents paid or the fair value of the consideration given to acquire them at the time of their acquisition. Liabilities are recorded at the amount of proceeds or assets received in exchange for the present obligation, or the amount payable under contract for assuming the present obligation, or at the amount of cash or cash equivalents expected to be paid to satisfy the liability in the normal course of business.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement and disclosure of fair value in the financial statements are based on the fair value regardless of whether it is directly observable or estimated using valuation technique.

The fair value measurement is categorized into 3 levels subject to the observability of input and the significance of the input to the entire measurement:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

3. Functional currency

The Group and its domestic subsidiaries choose Renminbi (“RMB”) as their functional currency, while its subsidiaries overseas choose their functional currency depends on the primary economic environment in which the subsidiaries operate. The Group adopts RMB to prepare its financial statements.

4. The accounting treatment of business combinations involving enterprises under common control and business combinations not involving enterprises under common control

Business combinations are classified into business combinations involving enterprises under common control and business combinations not involving enterprises under common control.

4.1 Business combinations involving enterprises under common control

A business combination involving enterprises under common control is a business combination in which all of the combining enterprises are ultimately controlled by the same party or parties both before and after the combination, and that control is not transitory.

Assets and liabilities obtained shall be measured at their respective carrying amounts as recorded by the combining entities at the date of the combination. The difference between the carrying amount of the net assets obtained and the carrying amount of the consideration paid for the combination is adjusted to the share premium in capital reserve. If the share premium is not sufficient to absorb the difference, any excess shall be adjusted against retained earnings.

Costs that are directly attributable to the combination are charged to profit or loss in the period in which they are incurred.

4.2 Business combinations not involving enterprises under common control and goodwill

A business combination not involving enterprises under common control is a business combination in which all of the combining enterprises are not ultimately controlled by the same party or parties before and after the combination.

The cost of combination is the aggregation of the fair values, at the acquisition date, of the assets given, liabilities incurred or assumed, and the equity securities issued by the acquirer in exchange for control of the acquire. Where a business combination not involving enterprises under common control is achieved in stages that involve multiple transactions, the cost of combination is the sum of the consideration paid at the acquisition date and the fair value at the acquisition date of the acquirer's previously held interest in the acquiree. The intermediary expenses incurred by the acquirer in respect of auditing, legal services, valuation and consultancy services, etc. and other associated administrative expenses attributable to the business combination are recognised in profit or loss when they are incurred.

The acquiree’s identifiable assets, liabilities and contingent liabilities acquired by the acquirer in a business combination that meet the recognition criteria shall be measured at fair value at the acquisition date.

Where the cost of combination exceeds the acquirer’s interest in the fair value of the acquiree’s identifiable net assets, the difference is treated as an asset and recognised as goodwill, which is measured at cost on initial recognition. Where the cost of combination is less than the acquirer’s interest in the fair value of the acquiree’s identifiable net assets, the acquirer firstly reassesses the measurement of the fair values of the acquiree’s identifiable assets, liabilities and contingent liabilities and measurement of the cost of combination. If after that reassessment, the cost of combination is still less than the acquirer’s interest in the fair value of the acquiree’s identifiable net assets, the acquirer recognises the remaining difference immediately in profit or loss for the current period.

Goodwill arising on a business combination is measured at cost less accumulated impairment losses, and is presented separately in the consolidated financial statements. It is tested for impairment at least at the end of each year.

5. Preparation of consolidated financial statements

The scope of consolidated financial statements is determined on the basis of control. Control refers to the power an investor has over an investee, by virtue of which the investor enjoys variable returns by participating in related activities of the investee, and has the ability to use its power over the investee to influence the amount of its returns. Once the change in relevant facts and circumstances leads to a change in relevant elements involved in the definition of control, the Group will conduct reassessment.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of subsidiary.

For subsidiaries disposed by the Group, their results of operation and cash flows prior to the disposal date (the date when control is lost) are included in the consolidated statements of comprehensive income and consolidated statement of cash flows, as appropriate.

For subsidiaries acquired through a business combination not involving enterprises under common control, their results of operation and cash flows from the acquisition date(the date when control is obtained) are included in the consolidated statements of comprehensive income and consolidated statement of cash flows, as appropriate.

No matter when the business combination occurs in the reporting period, subsidiaries acquired through a business combination involving enterprises under common control are included in the Group's scope of consolidation as if they had been included in the scope of consolidation from the date when they first came under the common control of the ultimate controlling party. Their operating results and cash flows from the beginning of the earliest reporting period are included in the consolidated income statement and consolidated statement of cash flows, as appropriate.

The significant accounting policies and accounting periods adopted by the subsidiaries are determined based on the uniform accounting policies and accounting periods set out by the Bank.

All significant intergroup accounts and transactions between the Bank and its subsidiaries or between subsidiaries are eliminated in full amount on consolidation.

The portion of subsidiaries' equity that is not attributable to the Bank is treated as non-controlling interests in equity and presented as "non-controlling interests in equity" in the consolidated statements of financial position within shareholders' equity. The portion of net profits or losses of subsidiaries for the period attributable to non-controlling interests is presented as "non-controlling interests" in the consolidated statements of comprehensive income below the "net profit" line item.

When the amount of loss for the period attributable to the non-controlling shareholders of a subsidiary exceeds the non-controlling shareholders' portion of the opening balance of owners' equity of the subsidiary, the excess amount are still allocated against non-controlling interests.

Acquisition of non-controlling interests or disposal of interest in a subsidiary that does not result in the loss of control over the subsidiary is accounted for as equity transactions. The carrying amounts of the equity attributable to equity holders of the bank and non-controlling interests in equity are adjusted to reflect the changes in their relative interests in the subsidiary. The difference between the amount by which the non-controlling interests in equity are adjusted and the fair value of the consideration paid or received is adjusted to capital reserve. If the capital reserve is not sufficient to absorb the difference, the excess are adjusted against retained earnings.

For the stepwise acquisition of equity interest till acquiring control after a few transactions and leading to business combination not involving enterprises under common control, this should be dealt with based on whether this belongs to 'package deal': if it belongs to 'package deal', transactions will be dealt as transactions to acquire control. If it does not belong to 'package deal', transactions to acquire control on acquisition date will be under accounting treatment, the fair value of acquirees' shares held before acquisition date will be revalued, and the difference between fair value and book value will be recognized in profit or loss of the current period; if acquirees' shares held before acquisition date involve in changes of other comprehensive income and other equity of owners under equity method, this will be transferred to income of acquisition date.

When the Group loses control over a subsidiary due to disposal of certain equity interest or other reasons, any retained interest is re-measured at its fair value at the date when control is lost. The difference between (i) the aggregate of the consideration received on disposal and the fair value of any retained interest and (ii) the share of the former subsidiary's net assets cumulatively calculated from the acquisition date according to the original proportion of ownership interest is recognised as investment income in the period in which control is lost. Other comprehensive income associated with investment in the former subsidiary is reclassified to investment income in the period in which control is lost.

Structured entities refers to the entities that voting rights or similar rights do not constitute decisive factors when recognise the controlling party, such as when voting rights are associated with the administration, or related activities are led by the contractual arrangements. Wealth management products, fund, trust fund plans and fund management plans could be used as examples of the structured entities.

6. Recognition criteria of cash and cash equivalents

Cash comprises cash on hand and deposits that can be readily withdrawn on demand. Cash equivalents are the Group's short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

7. Transactions denominated in foreign currencies and translation of foreign currency financial statements

7.1 Transactions denominated in foreign currencies

A foreign currency transaction is recorded, on initial recognition, by applying the spot exchange rate on the date of the transaction.

At the balance sheet date, foreign currency monetary items are translated into functional currency using the spot exchange rates at the balance sheet date. Exchange differences arising from the differences between the spot exchange rates prevailing at the balance sheet date and those on initial recognition or at the previous balance sheet date are recognised in profit or loss for the period, except that exchange differences arising from changes in the carrying amounts (other than the amortised cost) of available-for-sale monetary items are recognised as other comprehensive income.

Involving in business overseas when preparing consolidated financial statements, such as foreign currency monetary items which essentially constitute net investment in a foreign operation, exchange differences arising from changes in exchange rate interests is presented as "foreign currency report translation differences" item in other comprehensive income and recognized in profit or loss disposal when disposing business overseas.

Foreign currency non-monetary items measured at historical cost are translated to the amounts in functional currency at the spot exchange rates on the dates of the transactions and the amounts in functional currency remain unchanged. Foreign currency non-monetary items measured at fair value are re-translated at the spot exchange rate on the date the fair value is determined. Difference between the re-translated functional currency amount and the original functional currency amount is treated as changes in fair value (including changes of exchange rate) and is recognised in profit and loss or as other comprehensive income.

7.2 Transactions for foreign currency financial statements

When preparing consolidated financial statements, financial statements of overseas operations in foreign currency are translated into financial statements in RMB in the following methods: All assets and liabilities in the statements of financial position are translated by applying the spot exchange rates at the balance sheet date; shareholders' equities except retained earnings are translated by applying the spot exchange rate on the date of the transaction; statements of comprehensive income and items reflecting profit distribution occurred are translated by exchange rates similar with the spot exchange rate on the date of the transaction; retained earnings at the beginning of this yeas equal to the retained earnings after translation at the end of previous year; retained earnings at the end of period are presented as profit distributions after translation; differences between assets after translation and liabilities &shareholders' equity after translation are presented as "other comprehensive income" in shareholders' equity.

Cash flow in foreign currency and cash flow of overseas institutions are translated by applying the spot exchange rates at the cash flow occurred date. Affected amount of cash and cash equivalents by exchange rate changes is presented separately as "effect of exchange rate changes on cash and cash equivalents" in the cash flow statement, as an adjustment item.

The opening balances and the comparative figures of previous year are presented at the translated amounts in the previous year's financial statements.

8. Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. For financial assets and financial liabilities at fair value through profit or loss, transaction costs are immediately recognised in profit or loss. For other financial assets and financial liabilities, transaction costs are included in their initial recognised amounts.

8.1 Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or a group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period, using the effective interest rate. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial asset or financial liability or, where appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial asset or financial liability (without considering future credit losses), and also considers all fees paid or received between the parties to the contract giving rise to the financial asset and financial liability that are an integral part of the effective interest rate, transaction costs, and premiums or discounts, etc.

8.2 Classification, recognition and measurement of financial assets

On initial recognition, the Group's financial assets are classified into one of the four categories, including financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables, and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis.

8.2.1 Financial Assets at Fair Value through Profit or Loss ("FVTPL")

Financial assets at FVTPL include financial assets held for trading and those assigned as at fair value through profit or loss.

A financial asset is classified as held for trading if one of the following conditions is satisfied: (1) It has been acquired principally for the purpose of selling in the near term or repurchasing; or (2) On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and there is objective evidence that the Group has a recent actual pattern of short-term profit-taking; or (3) it is a derivative that is not designated and effective hedging instrument, or a financial guarantee contract, or a derivative that is linked to and must be settled by delivery of an unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured.

A financial asset is assigned as financial assets at fair value through profit or loss, on initial recognition, if one of the following conditions is satisfied: (1) the recognition could eliminate or significantly reduce profit or loss differences in recognition or measurement due to the difference in measurement basis of financial assets; or (2) It has been stated in formal written document of the Group's risk management or investment strategy, that managing and evaluating the group of financial assets or financial assets & financial liabilities on the basic of fair value, and reporting it to key management personnel; or (3) The hybrid financial instrument combines financial asset with embedded derivatives.

Financial assets at fair value through profit or loss are subsequently measured at fair value. Any gains or losses arising from changes in the fair value and any dividend or interest income earned on the financial assets are recognized in profit or loss.

8.2.2 Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group's management has the positive intention and ability to hold to maturity.

Held-to-maturity investments are subsequently measured at amortised cost using the effective interest method. Gain or loss arising from derecognition, impairment or amortisation is recognised in profit or loss.

8.2.3 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financial assets classified as loans and receivables by the Group include balances with Central Bank, deposits with banks and other financial institutions, placements with banks and other financial institutions, financial assets purchased under resale agreements, interest receivables, loans and advances to customers, investments classified as receivables, finance lease receivables and other receivables, etc.

Loans and receivables are subsequently measured at amortised cost using the effective interest method. Gain or loss arising from derecognition, impairment or amortisation is recognised in profit or loss.

8.2.4 Available-for-sale financial assets

Available-for-sale financial assets include non-derivative financial assets that are designated on initial recognition as available for sale, and financial assets that are not assigned as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

Available-for-sale financial assets are subsequently measured at fair value, and gains or losses arising from changes in the fair value are recognised as other comprehensive income, except that impairment losses and exchange differences related to amortised cost of monetary financial assets denominated in foreign currencies are recognised in profit or loss, until the financial assets are derecognised, at which time the gains or losses are released and recognised in profit or loss.

Interests obtained and the cash dividends declared by the investee during the period in which the available-for-sale financial assets are held, are recognised in interest income and investment gains, respectively.

For investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, and derivative financial assets that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost.

8.3 Impairment of financial assets

The Group assesses at each balance sheet date the carrying amounts of financial assets other than those at fair value through profit or loss. If there is objective evidence that a financial asset is impaired, the Group determines the amount of any impairment provision. Objective evidence that a financial asset is impaired is evidence that, arising from one or more events that occurred after the initial recognition of the asset, the estimated future cash flows of the financial asset, which can be reliably measured, have been affected.

Objective evidence that a financial asset is impaired includes the following observable events:

(1) Significant financial difficulty of the issuer or obligor;

(2) A breach of contract by the borrower, such as a default or delinquency in interest or principal payments;

(3) The Group, for economic or legal reasons relating to the borrower’s financial difficulty, granting a concession to the borrower;

(4) It becoming probable that the borrower will enter bankruptcy or other financial reorganisations;

(5) The disappearance of an active market for that financial asset because of financial difficulties of the issuer;

(6) Upon an overall assessment of a group of financial assets, observable data indicates that there is a measurable decrease in the estimated future cash flows from the group of financial assets since the initial recognition of those assets,

although the decrease cannot yet be identified with the individual financial assets in the group. Such observable data includes:

- Adverse changes in the payment status of borrower in the group of assets;

- Economic conditions in the country or region of the borrower which may lead to a failure to pay the group of assets;

(7) Significant adverse changes in the technological, market, economic or legal environment in which the issuer operates, indicating that the cost of the investment in the equity instrument may not be recovered by the investor;

(8) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

(9) Other objective evidence indicating there is an impairment of a financial asset.

8.3.1 Impairment of financial assets measured at amortised cost

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. 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.

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.

8.3.2 Impairment of available-for-sale financial assets

Objective evidence that an available-for-sale financial asset is impaired includes significant or prolonged decline in the fair value of an investment in an equity instrument below its cost. The Group assesses each available-for-sale equity instrument investment individually on balance sheet date. Impairment is indicated when the fair value of an equity instrument is lower than its initial investment cost over 50% (including 50%) or the fair value has been lower than its initial investment cost for over 12 months (including 12 months).

When an available-for-sale financial asset is impaired, the cumulative loss arising from decline in fair value previously recognised directly in other comprehensive income is reclassified from the other comprehensive income to profit or loss. The amount of the cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

If, subsequent to the recognition of an impairment loss on available-for-sale financial assets, there is objective evidence of a recovery in value of the financial assets which can be related objectively to an event occurring after the impairment is recognised, the previously recognised impairment loss is reversed. The amount of reversal of impairment loss on available-for-sale equity instruments is recognised as other comprehensive income, while the amount of reversal of impairment loss on available-for-sale debt instruments is recognised in profit or loss.

8.3.3 Impairment of financial assets measured at cost

If an impairment loss has been incurred on an investment in unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured, or on a derivative financial asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the carrying amount of the financial asset is reduced to the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. The amount of reduction is recognised as an impairment loss in profit or loss. The impairment loss on such financial asset is not reversed once it is recognised.

8.4 Transfer of financial assets and derecognition of financial assets

The Group's financial assets are transferred if one of the following conditions is satisfied:

(1) Contractual rights to receive cash flow of the financial asset has been transferred; or

(2) Although the financial asset has been transferred, the Group keeps the contractual rights to receive cash flow of the financial asset and undertake the obligation to pay the received cash flow to the final transferee, and if the following conditions are satisfied simultaneously:

• The Group has the obligation to pay to the final recipient when receiving peer cash flow from the financial asset. It's deemed to satisfy this condition when the Group pays short-term advances, but it is entitled to recover the full amount of the advances and receive interest accrued in accordance with the market interest rate of bank loan.

• According to the contract, the financial asset could not be sold or pledged, but it could be offered as guarantee for paying cash flow to the final recipient.

• The Group has the obligation to pay the received cash flow to the final recipient promptly. The Group is not entitled to reinvest with the cash flow, except for the investment in cash or cash equivalent in accordance with the contract during the interval between two consecutive payments. If the Group reinvests according to the contract, it should pay the investment income to the final recipient in accordance with the provisions of the contract.

The Group derecognises a financial asset if one of the following conditions is satisfied:

(1) The contractual rights to the cash flows from the financial asset expire; or

(2) The financial asset has been transferred, and if one of the following conditions is satisfied:

• All the risks and rewards of ownership of the financial asset is transferred to the transferee; or

• The Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset but has not retained control of the financial asset.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of a financial asset, and it retains control of the financial asset, it recognises the financial asset to the extent of its continuing involvement in the transferred financial asset.

For a transfer of a financial asset in its entirety that satisfies the derecognition criteria, the difference between (1) the carrying amount of the financial asset transferred; and (2) the sum of the consideration received from the transfer and any cumulative gain or loss that has been recognised in other comprehensive income, is recognised in profit or loss.

If a part of the transferred financial asset qualifies for derecognition, the carrying amount of the transferred financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the respective fair values of those parts. The difference between (1) the carrying amount allocated to the part derecognised; and (2) the sum of the consideration received for the part derecognised and any cumulative gain or loss allocated to the part derecognised which has been previously recognised in other comprehensive income, is recognised in profit or loss.

8.5 Asset-backed securities business

The Group securitises a portion of assets by selling these assets to structured entities, and then issue securities to its investors. Conditions of derecognising the relevant financial assets refer to Note IV 8.4. When applying the derecognising conditions of financial assets, the Group has already taken into account the extent of transfer of the risks and rewards of those assets transferred to the other structured entity, as well as the extent of control over such entity by the Group. If the derecognising conditions of securities are not satisfied, the related financial assets are not derecognised, but the funds raising from third party investors will be treated as financial liabilities; When the Group neither transfers nor retains substantially all the risks and rewards of ownership of the asset-backed securities, it shall determine whether it has retained control over the financial asset. If the Group has not retained control, it shall derecognise the financial asset and recognise the rights retained or obligations arising from the transfer as an asset or a liability respectively. If the Group has retained control, it shall recognise the financial asset to the extent of its continuing involvement in the financial asset.

8.6 Classification, recognition and measurement of financial liabilities

The Group recognises a financial liability if one of the following conditions is satisfied: (1) Contractual obligations to deliver cash or other financial assets to other parties, or (2) Contractual obligations to exchange financial assets or financial liabilities with other parties under potential adverse conditions, or (3) Non-derivative contracts provide the Group shall or may measure business with its own equity instruments in the future, and will deliver a variable number of its own equity instruments, or (4) Derivative contracts provide the Group shall or may settle business with its own equity instruments in the future, except for the derivative contracts deliver a fixed number of its own equity instruments to exchange a fixed amount of cash or other financial assets.

At initial recognition, the Group classified financial instrument as financial liabilities or equity instruments according to the contractual terms of issued financial instruments and the reflected economic substance rather than its legal form only, combining with the definition of financial liabilities and equity instruments.

On initial recognition, financial liabilities are classified into financial liabilities at fair value through profit or loss and other financial liabilities.

8.6.1 Financial liabilities at fair value through profit or loss

Financial liabilities at FVTPL consist of financial liabilities held for trading and those assigned as at FVTPL on initial recognition.

A financial liability is classified as held for trading if one of the following conditions is satisfied: (1) It has been acquired principally for the purpose of repurchasing in the near term; or (2) On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and there is objective evidence that the Group has a recent actual pattern of short-term profit-taking; or (3) It is a derivative, except for a derivative that is a designated as effective hedging instrument, or a financial guarantee contract, or a derivative that is linked to and must be settled by delivery of an unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured.

A financial liability is assigned as financial assets at fair value through profit or loss, on initial recognition, if one of the following conditions is satisfied: (1) the recognition could eliminate or significantly reduce profit or loss differences in recognition or measurement due to the difference in measurement basis of financial liability; or (2) It has been stated in formal written document of the Group's risk management or investment strategy, that managing and evaluating the group of financial liabilities or financial assets & financial liabilities on the basic of fair value, and reporting it to key management personnel; or (3) The hybrid financial instrument embedded with derivatives.

Financial liabilities at FVTPL are subsequently measured at fair value. Any gains or losses arising from changes in the fair value or any dividend or interest expenses related to the financial liabilities are recognised in profit or loss.

8.6.2 Other financial liabilities

For a derivative liability that is linked to and must be settled by delivery of an unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured, it is subsequently measured at cost. Other financial liabilities except those arising from financial guarantee contracts or loan commitments are subsequently measured at amortised cost using the effective interest method, with gain or loss arising from derecognition or amortisation recognised in profit or loss.

8.6.3 Financial guarantee contracts and loan commitments

A financial guarantee contract is a contract by which the guarantor and the lender agree that the guarantor would settle the debts or bear obligations in accordance with terms of the contract in case the borrower fails to settle the debts. Financial guarantee contracts that are not assigned as financial liabilities at fair value through profit or loss, or loan commitments to provide a loan at a below-market interest rate, which are not designated at fair value through profit or loss, are initially measured at their fair values less the directly attributable transaction costs. Subsequent to initial recognition, they are measured at the higher of: (i) the amount determined in accordance with Accounting Standard for Business Enterprises No. 13 – Contingencies; and (ii) the amount initially recognised less cumulative amortisation recognised in accordance with the principles set out in Accounting Standard for Business Enterprises No. 14 – Revenue.

8.7 Derecognition of financial liabilities

The Group derecognises a financial liability (or part of it) only when the underlying present obligation (or part of it) is discharged. An agreement between the Group (an existing borrower) and an existing lender to replace the original financial liability with a new financial liability with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

When the Group derecognises a financial liability or a part of it, it recognises the difference between the carrying amount of the financial liability (or part of the financial liability) derecognised and the consideration paid (including any non-cash assets transferred or new financial liabilities assumed) in profit or loss.

8.8 Derivatives and embedded derivatives

Derivative financial instruments include forward exchange contracts, currency swaps, debenture income swaps, interest rate swaps, precious metal derivative contract and foreign exchange options, etc. Derivatives are initially measured at fair value at the date when the derivative contracts are entered into and are subsequently re-measured at fair value. The resulting gain or loss is recognized in profit or loss.

An embedded derivative is separated from the hybrid instrument, where the hybrid instrument is not assigned as a financial asset or financial liability at fair value through profit or loss, and treated as a standalone derivative if 1) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; and 2) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative. If the Group is unable to measure the embedded derivative separately either at acquisition or at a subsequent balance sheet date, it assigns the entire hybrid instrument as a financial asset or financial liability at fair value through profit or loss.

8.9 Hedge accounting

Upon initial designation of hedging relationship, the Group formally designates relevant hedging relationship and records the hedging relationship, risk management objective and strategy with formal documents. The content of the records include the hedging instruments, hedged items or transactions, and the nature of hedged risk, as well as how does the Group assess the effectiveness of the hedging instruments to offset the changes in fair value or cash flows arising from the hedged risk to which the hedged item is attributable to. The Group anticipates that these hedges is highly effective in offsetting the changes in fair value, meanwhile, the hedge is assessed for effectiveness by the Group on an ongoing basis so as to determine whether the hedge is highly effective throughout the accounting periods for which the hedging relationship was designated.

8.9.1 Fair value hedges

The fair value hedge represent the hedge against the risks of changes in fair value of the Group recognized assets or liabilities, unrecognized firm commitments and the identifiable portion of such assets or liabilities, unrecognized firm commitments, where the change in fair value is caused by certain specific risk and will affect the profit or loss for the period. For fair value hedges, the fair value change gains or losses on the hedged item attributable to the hedged risk is recognised in profit or loss, with a corresponding adjustment to the carrying amount of the hedged item; the fair value change gains or losses on the hedging instruments attributable to the hedged risk is recognised in profit or loss, with a corresponding adjustment to the carrying amount of the hedging instruments.

For a hedged item of fair value hedge, if such item was previously measured at amortized cost, its carrying amount is adjusted using hedging accounting and then amortized over the period from the adjustment date to maturity date using the effective interest rate re-calculated at the adjustment date.

Where an unrecognized firm commitment is designated as the hedged item, the cumulative fair value change on such unrecognized firm commitment attributable to the hedged risk is recognized as an asset or liability, with relevant gain or loss recognized in the profit or loss for the period.

For fair value hedge of a firm commitment to purchase assets or undertake liabilities, the cumulative fair value change on such unrecognized firm commitment attributable to the hedged risk (already recognized as an asset or liability) is adjusted against the initial recognized amount of the assets obtained or liabilities assumed for performing the firm commitment.

When the hedging instrument is expired, sold, contractually terminated or exercised, or the hedging relationship no longer satisfy the criteria of hedging amounting, or the Group cancels the designation of the hedging relationship, the Group shall cease to use fair value hedging amounting. When the hedged item is terminated, the unamortized fair value is included in profit or loss for the period.

8.10 Offsetting financial assets and financial liabilities

Where the Group has a legal right that is currently enforceable to set off the 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 simultaneously, a financial asset and a financial liability shall be offset and the net amount is presented in the statements of financial position. Except for the above circumstances, financial assets and financial liabilities shall be presented separately in the statements of financial position and shall not be offset.

8.11 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. The Group classified financial instruments as equity instruments when all of the following conditions is satisfied: (1) the financial instruments should not include contractual obligations to deliver cash or other financial assets to other parties or to exchange financial assets or financial liabilities with other parties under potential adverse conditions; and (2) the Group shall or may measure business with its own equity instruments in the future. If it is a non-derivative instrument, contractual obligations settled by delivering its own variable equity instruments shall not be included; if it is a derivative instrument, the Group can settle the financial instrument only through exchanging fixed amount of cash or other financial assets with fixed amount of its own equity instruments. Equity instruments issued (including refinanced), repurchased, sold and written off by the Group are recognized as changes of equity. Change of fair value of equity instruments is not recognized by the Group. Transaction costs related to equity transaction are deducted from equity.

The Group recognizes the distribution to holders of the equity instruments as distribution of profits, and dividends paid do not affect total amount of shareholders equity.

9. Precious metal

Non-trading precious metal of the Group is initially measured at cost at acquisition, and subsequently re-measured at the lower of cost and realizable value. Trading precious metal of the Group is initially measured and subsequently re-measured at fair value. The changes in fair value arising from re-measurement are recognized in profit or loss.

10. Long-term equity investments

10.1 Determination of joint control or significant influence over investee

Control refers to the power an investor has over an investee, by virtue of which the investor enjoys variable returns by participating in related activities of the investee, and has the ability to use its power over the investee to influence the amount of its returns. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. 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. When determining whether an investing enterprise is able to exercise control or significant influence over an investee, the effect of potential voting rights of the investee (for example, warrants and convertible debts) held by the investing enterprises or other parties that are currently exercisable or convertible shall be considered.

10.2 Determination of initial investment cost

For the acquisition of long-term equity investments involving enterprises under the common control, the Group measures the initial cost of the long-term equity investment as the share of the carrying amount of the owner's equity of the acquired enterprise at that date. The difference between the initial costs of the long-term equity investment and cash paid or non-cash assets transferred as well as the carrying amount of the debts borne by the Group shall offset against the capital reserve. If the capital reserve is insufficient to observe the difference, the retained earnings shall be adjusted. The investment cost which adopts the equity securities issued as the consideration should be adopted as the initial investment cost of the long-term equity investment according to the proportion carrying amount of combined party's shareholder equity in the consolidated financial statement of the final controlling part, and adjust the capital reserves by the difference between the initial investment cost of long-term equity investment and the amount of issued stock's face value, which is regarded as capital stock. If the capital reserves are insufficient to absorb the difference, retained income should be adjusted. For the acquisition of enterprises under the common control through several steps of trading, it should be confirmed whether it's a package deal. If it is, these deals should be measured as one acquiring-control deal. If not, the Group measures the initial cost of the long-term equity investment as the share of the carrying amount of the owner's equity of the acquired enterprise at that date. The difference between the initial costs of the long-term equity investment and the carrying amount of long-term equity investment before acquiring control as well as the carrying amount of the debts for more shares on the acquisition date shall offset against the capital reserve. If the capital reserve is insufficient to absorb the difference, the retained earnings shall be adjusted.

For a long-term equity investment acquired through business combination not involving enterprises under common control, the initial investment cost of the long-term equity investment is the cost of acquisition on the acquisition date. For the acquisition of enterprises under the common control through several steps of trading, it should be confirmed whether it's a package deal. If it is, these deals should be measured as one acquiring-control deal. If not, the carrying amount of long-term equity investment before acquiring control and the cost of new investment is the cost of acquisition measured under cost method.

Acquisition-related costs including auditing fees, legal services fees, valuation advice fees and other relevant management fees are generally recognised in profit or loss as incurred.

Long-term equity investments other than those arising from business combination, is initially measured at cost. When the Group increases its ownership interest in the investee to the extent that the Group has joint control or significant influence, but not control, over the investee, the cost of the long-term equity investment is the aggregation of fair value of its prior ownership interest recognized in accordance with the Accounting Standards for Enterprises No. 22 - Recognition and Measurement of Financial Instruments and the additional investment cost at that date.

10.3 Subsequent measurement and recognition of profit or loss

10.3.1 Long-term equity investment accounted for using the cost method

The Bank uses the cost method for the long-term equity investment in subsidiaries in the financial statements. The subsidiary refers to the investee that controlled by the group.

Under the cost method, a long-term equity investment is measured at initial investment cost. Increasing or reducing investment will adjust the cost of long term equity investment accordingly. Investment income is recognised in the period in accordance with the attributable share of cash dividends or profit distributions declared by the investee.

10.3.2 Long-term equity investment accounted for using the equity method

The Group accounts for investment in associates using the equity method. Associates are those that the group is able to exercise significant influence over the investee.

Under the equity method, where the initial investment cost of a long-term equity investment exceeds the Group's share of the fair value of the investee’s identifiable net assets at the time of acquisition, no adjustment is made to the initial investment cost. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the initial cost of the investment, after reassessment of the long-term equity investment, is recognised immediately in profit or loss in the period in which the investment is acquired.

Under the equity method, the Group recognizes investment income and other comprehensive income based on the Group's share of net profit or loss and other comprehensive income of the investee and adjust the carrying amount of long-term equity investment accordingly. The carrying amount of the investment decreases regarding the attributable share of cash dividends or profit distributions declared by the investee. Changes in shareholders' equity of the investee other than net profits or losses, other comprehensive income or profit distribution are correspondingly adjusted to the carrying amount of the long-term equity investment, and recognized as capital reserve. The Group recognizes its share of the investee's net profit or loss based on the fair value of the investee's identifiable assets after the adjustment of investee's net profit. When the accounting policy and accounting period adopted by the investee are inconsistent with the Group’s, the investment income and other comprehensive income are recognized based on the adjusted financial statements of the investee in accordance with the Group's accounting policies and accounting period. Unrealized profits or losses resulting from the Group's transactions with its associates and joint ventures are recognized as investment income or loss to the extent that those attributable to the Group's equity interest are eliminated. However, unrealized losses resulting from the Group's transactions with its investees in respect of impairment losses on the transferred assets shouldn’t be eliminated.

The Group discontinues recognising its share of net losses of the investee after the carrying amount of the long-term equity investment together with any long-term interests that in substance form part of its net investment in the investee is reduced to zero. If the Group has incurred obligations to assume additional losses of the investee, a provision is recognized according to the expected obligation, and recorded as investment loss for the period. Where net profits are subsequently made by the investee, the Group resumes recognising its share of those profits only after its share of the profits exceeds the share of losses previously not recognized.

10.4 Disposal of long-term equity investments

On disposal of a long term equity investment, the difference between the proceeds actually received and the carrying amount is recognised in profit or loss for the period. When the Group reduces its ownership interest in investee but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the investee's disposal of the related assets or liabilities. Then the equity recognized by the Group other than the change of the net profits and loss, other comprehensive income and profit distribution of the invested entity is reclassified to profit and losses on proportion. When the Group reduces its ownership interest but the Group continues to use the cost method, for the other comprehensive income recognized by the Group using equity method prior to the control over the investee or under financial instrument recognition and measurement standard, the Group reclassifies to profit or loss the proportion of the gain or loss relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the investee's disposal of the related assets or liabilities. Then the other changes in owners'' equity recognized by the Group using equity method, not arising from the change of the net profits and loss, other comprehensive income or profit distribution of the invested entity is reclassified to profit and loss on proportion.

11. Fixed assets

11.1 Recognition criteria for fixed assets

Fixed assets are tangible assets that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and have useful lives of more than one accounting year. A fixed asset is recognised only when it is probable that economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. Fixed assets are initially measured at cost.

Subsequent expenditures incurred for the fixed asset are included in the cost of the fixed asset if it is probable that economic benefits associated with the asset will flow to the Group and the cost 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.

11.2 Depreciation of each category of fixed assets

A fixed asset is depreciated over its useful life using the straight-line method since the month subsequent to the one in which it is ready for intended use. The depreciation period, estimated net residual value rate and annual depreciation rate of each category of fixed assets are as follows:

Category	Depreciation period	Estimated Residual value rate (%)	Annual depreciation rate (%)
Buildings	20-30 years	0-3	3.23-5.00
Fixed assets improvement	The lower of improvement period and remaining useful life	0	
Office and machinery equipment	3-20 years	0-5	4.75-33.33
Transportation vehicles	5-8 years	0-3	12.50-20.00
Flight equipment	25 years or 20 years	5 or 15	3.8 or 4.25

Estimated net residual value of a fixed asset is the estimated amount that the Group would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

11.3 Identification basis, valuation methods and depreciation methods for fixed assets acquired under finance leases

At the commencement of the lease term, the Group records the leased asset at an amount equal to the lower of the fair value of the leased asset and the present value of the minimum lease payments at the inception of the lease, and recognises a long-term payable at an amount equal to the minimum lease payments. The difference between the recorded amounts is accounted for as unrecognised finance charge. Besides, initial direct costs that are attributable to the leased item incurred during the process of negotiating and securing the lease agreement are also added to the amount recognised for the leased asset.

The Group adopts a depreciation policy for a fixed asset held under a finance lease which is consistent with that for its owned fixed asset. If there is reasonable certainty that the Group will obtain ownership of the leased asset at the end of the lease term, the leased asset is depreciated over its useful life. If there is no reasonable certainty that the Group will obtain ownership of the leased asset at the end of the lease term, the leased asset is depreciated over the shorter of the lease term and its useful life.

11.4 Other explanations

If a fixed asset is upon disposal or no future economic benefits are expected to be generated from its use or disposal, the fixed asset is derecognised. When a fixed asset is sold, transferred, retired or damaged, the amount of any proceeds on disposal of the asset net of the carrying amount and related taxes is recognised in profit or loss for the period.

The Group reviews the useful life and estimated net residual value rate of a fixed asset and the depreciation method applied at least once at each financial year-end, and accounts for any change as a change in an accounting estimate.

12. Construction in progress

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 fixed asset or other asset when it is ready for intended use.

13. Intangible assets

Intangible assets include land use rights, franchising, etc.

An intangible asset is measured initially at cost. Expenses related to the intangible assets are recognised in the cost of intangible assets when (i) it is probable that the associated economic benefits will flow to the Group; and (ii) the associated costs can be measured reliably. Other expenses related to the intangible assets are recognized in profit or loss for the period in which it is incurred.

The acquired land use right is recognized as intangible assets. Expenses related to land use right and construction cost from buildings such as self-built factory, etc. are recognized as intangible assets and fixed assets, respectively. In the case of purchased buildings, it allocates related cost between land use right and buildings. If related cost cannot be allocated reasonably, it is recognized as fixed assets.

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 the period, and accounts for any change as a change in an accounting estimate. For an intangible asset with an infinite useful life, the Group reviews the useful life. If it is evident that the duration of associated economic benefits is predictable, then estimate the useful life pursuant to amortization policies for intangible assets with finite useful life.

14. Impairment of long-term assets

The Group checks whether long-term equity investment, fixed assets, construction in progress, and intangible assets with a finite useful life will impair in every balance sheet date. If the indication of impairment of these assets exists, the Group estimates their recoverable amount. 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.

Estimation of recoverable amount of the assets is based on individual asset. If the recoverable amount is difficult to estimate, the amount should be estimated by the assets group which the asset belongs to. Recoverable amount is the higher of the two: net fair value of the assets or assets group after disposal expenses, or present value of the expected cash flow from the assets.

If asset's recoverable amount is lower than its carrying amount, the allowance for impairment losses should be recognized by their balances in profit or loss for the period.

The goodwill should be tested of impairment at least in the end of the each year with related assets group or combination of assets group. In purchase date, the carrying amount of goodwill should be allocated reasonably to assets group or combinations which can benefit from the synergy of enterprise merger. If the recoverable amount of assets group or combinations of allocated goodwill is lower than its carrying amount, impairment loss should be recognized. The amount of impairment loss should offset the carrying value which is allocated to the goodwill of certain assets group or combinations at first, then it should offset the carrying amount of other assets proportionally according to the proportion of other assets' carrying amount of assets group or combination after goodwill.

The impairment losses cannot be reversed once they are recognized.

15. Long-term prepaid expenses

Long-term prepaid expenses represent expenses incurred that should be borne and amortised over the current and subsequent periods (together of more than one year). Long-term prepaid expenses are amortised using the straight-line method over the expected periods in which benefits are derived.

16. Employee benefits

16.1 Accounting method of short-term employee benefits

In an accounting period in which an employee has rendered service to the Group, the Group recognizes the short-term employee benefits for that service as a liability, and the expenditure incurred for the period is recorded in profit or loss. The employee's welfare incurred is recognized in the profit or loss for the period as well. Non-monetary benefit included in employee's welfare expenses are recorded at fair value.

Payment made by the Group regarding social security contributions for employees such as contributions on medical insurance, work injury insurance and maternity insurance, etc. and payments of housing funds, as well as trade union fund and employee education fund provided in accordance with relevant requirements, are calculated according to prescribed bases and percentages in determining the amount of employee benefits and recognized as relevant liabilities, with a corresponding charge to the profit or loss for the period in the accounting period in which employees provide services.

16.2 Accounting method of post-employment benefits

Termination benefits are classified as defined contribution pension plans and defined benefit plans.

In an accounting period in which an employee has rendered service to the Group, the Group recognises the employee benefits for that service as a liability and included in profit or loss for the period.

For the defined benefit plan, the Group recognizes the obligations arising from such plan based on formula under estimated cumulated welfare method in the period in which employees render service and included in profit or loss for the period. The classifications of the costs are as follows:

• Service costs (including service costs of the period, service costs in the past, and profit and loss).

• Net value of interests from net liabilities or net assets of defined benefit plans (including interest income of planned assets, obligated interest cost of defined benefit plans and interest of influence of assets upper limit).

• The changes of recalculating the net liabilities and net assets of defined benefit plans.

Net interests of service costs and net liabilities and net assets of defined benefit plans are recorded in the profit and loss. The changes of recalculating the net liabilities and net assets of defined benefit plans, including actuarial gains or loss, planned assets yield deducting net value of interests from net liabilities or net assets of defined benefit plans, change rising from upper limit of assets deducting net value of interests from net liabilities or net assets of defined, are recorded in other comprehensive income.

The difference between the present value of defined benefit obligation and the fair value of defined benefit asset is recognized as a net asset or liability of defined benefit plans. If there is surplus, the net assets of defined benefit plans should be measured by the lower of the two: 1. the surplus of defined benefit plans; 2. upper limit of assets.

16.3 Accounting method of termination benefits

In an accounting period in which an employee has rendered service to the Group, a liability for a termination benefit and an expense accordingly are recognized at the earlier of when the Company entity can no longer withdraw the offer of the termination benefit and when the entity recognizes any related restructuring costs.

17. Assets transferred under repurchase agreements

17.1 Financial assets purchased under resale agreements

The financial assets are not recognized in the statements of financial position if they are committed to be resold at a specific price at a specific date in the future. The cost of purchasing such assets is presented under "financial assets purchased under resale agreements" in the statements of financial position. The difference between the purchasing price and reselling price is recognized as interest income during the term of the agreement using the effective interest method.

17.2 Financial assets sold under repurchase agreements

Financial assets sold subject to agreements with a commitment to repurchase at a specific future date and price are not derecognised in the statements of financial position. The proceeds from selling such assets are presented under "financial assets sold under repurchase agreements" in the statements 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.

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 balance sheet 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.

19. Interest income and expense

Interest income and expense is carried at amortized cost of related financial assets and liabilities using the effective interest rate method, and recognized in profit or loss. If the difference between effective interest rate and contract interest rate is an insignificant amount, contract interest rate also can be applied.

20. Fee and commission income

Fee and commission income is recognized on accrual basis when providing related service.

21. Government grants

Government grants are transfer of monetary assets and non-monetary assets from the government to the Group at no consideration, except the capital from the government as the owner. A government grant is recognised only when the Group can comply with the conditions attaching to the grant and the Group will receive the grant.

If a government grant is in the form of a transfer of a monetary asset, it is measured at the amount received or receivable. If a government grant is in the form of a non-monetary asset, it is measured at fair value. If the fair value cannot be reliably determined, it is measured at a nominal amount. A government grant measured at a nominal amount is recognised immediately in profit or loss for the period. Government grants are classified into government grants related to assets and government grants related to income according the subjects required by the Government documents.

A government grant related to an asset is offset against the carrying amount of related asset. For a government grant related to income, if the grant is a compensation for related costs or losses to be incurred in subsequent periods, the grant is recognised as deferred income, and recognised in profit or loss over the periods in which the related costs or losses are recognised. If the grant is a compensation for related expenses or losses already incurred, the grant is recognised immediately in profit or loss for the period.

A government grant related to the Group's daily activities is included in other income according to the economic business substance. A government not related to the Group's daily activities is included in non-operating income and expense.

For the repayment of a government grant already recognized, if the carrying value of related assets is written off upon initial recognition, the carrying value of the assets is adjusted; if there is any related deferred income, the repayment is offset against the carrying amount of the deferred income, and any excess is recognized in profit or loss for the period; if there is no related deferred income, it is recognized immediately in profit or loss for the period.

22. Deferred tax assets/deferred tax liabilities

The income tax expenses include current income tax and deferred income tax.

22.1 Current income tax

At the balance sheet date, current income tax liabilities (or assets) for the current and prior periods are measured at the amount expected to be paid (or recovered) according to the requirements of tax laws.

22.2 Deferred tax assets and deferred tax liabilities

For temporary differences between the carrying amounts of certain assets or liabilities and their tax base, or between the nil carrying amount of those items that are not recognised as assets or liabilities and their tax base that can be determined according to tax laws, deferred tax assets and liabilities are recognised using the balance sheet liability method.

Deferred tax is generally recognised for all temporary differences. Deferred tax assets for deductible temporary differences are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be utilised. However, for temporary differences associated with the initial recognition of goodwill and the initial recognition of an asset or liability arising from a transaction (not a business combination) that affects neither the accounting profit nor taxable profits (or deductible losses) at the time of transaction, no deferred tax asset or liability is recognised.

For deductible losses and tax credits that can be carried forward, deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deductible losses and tax credits can be utilised.

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 timing of 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 taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

At the balance sheet date, deferred tax assets and liabilities are measured at the tax rates, according to tax laws, that are expected to apply in the period in which the asset is realised or the liability is settled.

Current and deferred tax expenses or income are recognised in profit or loss for the period, except when they arise from transactions or events that are directly recognised in other comprehensive income or in shareholders' equity, in which case they are recognised in other comprehensive income or in shareholders' equity; and when they arise from business combinations, in which case they adjust the carrying amount of goodwill.

At the balance sheet date, the carrying amount of deferred tax assets is reviewed and reduced if it is no longer probable that sufficient taxable profits will be available in the future to allow the benefit of deferred tax assets to be utilised. Such reduction in amount is reversed when it becomes probable that sufficient taxable profits will be available.

When the Group has a legal right to settle on a net basis and intends either to settle on a net basis or to realise the assets and settle the liabilities simultaneously, current tax assets and current tax liabilities are offset and presented on a net basis.

When the Group has a legal right to settle current tax assets and liabilities on a net basis, and deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax assets and liabilities on a net basis or to realise the assets and liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be reversed, deferred tax assets and deferred tax liabilities are offset and presented on a net basis.

23. Fiduciary activities and agent business

The Group acts in a fiduciary activities and agent business as a trustee or an agent for customers. Customers should bear the risk and return generated by such activities. The Group only charges fee and commission. The fiduciary activities and agent business are excluded from the financial statements.

24. Lease

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.

24.1 Accounting treatment of operation leases

24.1.1 The Group as lessee under operating leases

Operating lease payments are recognized on a straight-line basis over the term of the relevant lease, and are recorded in profit or loss for the period. Initial direct costs incurred are charged to profit or loss for the period. Contingent rents are charged to profit or loss in the period in which they are actually incurred.

24.1.2 The Group as lessor under operating leases

Rental income from operating leases is recognized in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs with more than an insignificant amount are capitalized when incurred, and are recognized in profit or loss on the same basis as rental income over the lease term. Other initial direct costs with an insignificant amount are charged to profit or loss in the period in which they are incurred. Contingent rents are charged to profit or loss in the period in which they actually arise.

24.2 Accounting treatment of finance leases

24.2.1 The Group as lessor under operating leases

The accounting treatments are set out in Note (IV) "11.3 Identification basis, valuation methods and depreciation methods for fixed assets acquired under finance leases".

Unrecognised finance charges are recognised as finance charge 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 minimum lease payments less unrecognised finance charges is presented as other liabilities.

24.2.2 The Group as lessor under operating leases

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. The net amount of financial lease receivables less unearned finance income is listed in "financial lease receivables" for presentation.

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.

25. Other significant accounting policies and accounting estimates

Foreclosed asset

Foreclosed asset is initially measured at its fair value. At the balance sheet date, foreclosed asset is measured at the lower of carrying amount and net realizable value. The difference by which the net realizable value is lower than the carrying amount of the assets shall be provided for the current period.

On disposal of a foreclosed asset, the difference between (i) income from disposal and (ii) the carrying amount of the foreclosed asset is charged to income from disposal of assets.

If the foreclosed asset is transferred for self-use, it should be measured at the carrying amount at the transfer date. Provision is to taken into account if applicable.

26. Significant changes in accounting policies

The Group has adopted the Notice of the Revised Format of 2018 Financial Statements for General Business Enterprise (Cai Kuai (2018) No. 15, hereinafter referred to as the "Cai Kuai No.15 Document") released by MoF on 15 June 2018 since the preparation of financial statements for the year of 2018. Cai Kuai No.15 Document revised the presenting accounts in the balance sheet and income statement, the presenting contents of the line items of "Other Assets" and "Other Liabilities", and removed the line items of "Interest Receivable" and "Interest Payable". For the above changes in presenting accounts, the Group has re-presented the comparable data for prior year.

V.CRITICAL ACCOUNTING JUDGEMENTS AND KEY ASSUMPTIONS AND UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note IV, the management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The aforementioned estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The followings are the key items of financial statements that the Group has made critical judgement, estimation and assumption at the balance sheet date.

1. Impairment on loans and advances to customers and investments classified as receivables

The Group reviews its loan and investments classified as receivables portfolio to assess impairment on a periodic basis. In determining whether an impairment loss should be recognized in profit or loss, the Group makes judgments as to whether there is any observable data indicating that there is an objective evidence of impairment which will have a measurable decrease in the estimated future cash flows from a portfolio of loans and advances and investments classified as receivables. When the decrease may not have been identified individually or the individual loan and investments classified as receivables is not significant, management uses estimates based on historical loss experience on a collective basis with similar credit risk characteristics to assess the impairment loss while estimating expected future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

2. Fair value of financial instruments

The Group uses various valuation techniques to determine the fair value of financial instruments which are not quoted in an active market. Valuation techniques include the use of discounted cash flows analysis, option pricing models or other valuation methods as appropriate. To the extent practical, models use only observable data; however areas such as credit risk of the Group and the counterparty, volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the estimated fair value of financial instruments.

3. Impairment of available-for-sale financial assets

The determination of whether an available-for-sale financial asset is impaired requires significant judgement from the management. In making this judgement, the Group evaluates the duration and extent to which the fair value of an investment of equity instrument is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, technology innovation, credit ratings, delinquency rates and counterparty risk etc.

4. Classification of held-to-maturity investments

The Group classifies non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group's management has the positive intention and ability to hold to maturity as held-to-maturity investments. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to hold these investments to maturity other than for specific circumstances (such as selling an insignificant amount close to maturity), it will be required to reclassify the entire portfolio of held-to-maturity investments as available-for-sale financial assets.

5. Impairment of held-to-maturity investments

The determination of whether a held-to-maturity financial asset is impaired requires significant judgement from the management. Objective evidence that a financial asset or group of assets is impaired includes a breach of contract, such as a default or delinquency in interest or principal payments, etc. In making such judgement, the impact of objective evidence for impairment on expected future cash flows of the investment is taken into account.

The followings are the key items of financial statements that the Group has made critical judgement, estimation and assumption at the balance sheet date. – continued

6. Income taxes

There are certain transactions and activities for which the ultimate tax determination is uncertain during the ordinary course of business. Whether some items can be charged before tax requires assertion from tax authority. 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.

7. Consolidation of structured entities

For structured entities managed or invested by the Group, assess whether the Group is acting as a principal or an agent so as to evaluate whether the Group has control over the structured entities. The Group determines whether it is acting as a principal or an agent and whether the structured entities should by consolidated by considering the factors including decision scope of asset manager, power of other trust holders, reward from offering management service and the risk exposure to variable return.

8. Derecognition of Transfer of Financial Assets

The Group transfers financial assets in a variety of ways through regular trading, asset securitization, and repurchase agreements in daily operations. The Group needs to make significant judgments and estimates in determining whether a transferred financial asset can be fully or partially derecognized. In assessing and judging, the Group takes into account a wide range of factors and determines whether the conditions for the derecognition of the financial assets are met by using a reasonable model to measure the degree of transfer of risk and return associated with the ownership of financial assets.

VI. TAXATION

1. Enterprise income tax

According to the Corporate Income Tax Law of the People's Republic of China, the income tax of domestic branches of the Bank and the Group's subsidiaries is calculated and settled at the tax rate of 15% or 25% (2017: 0% or 15% or 25%). Therein, the income tax rate for the Group's subsidiary Fujian Clearing Corp. is 15% (2017:15%); and the income tax rate for the Group's subsidiary CIB FINTECH is 25% (2017: 0%).

The income tax of overseas branches of the Bank is calculated in accordance with the local tax rate, and the difference between the overseas tax rate and domestic tax rate is settled by the head office.

The deductible items of enterprise income tax are calculated in accordance with the relevant regulations. Enterprise income tax is prepaid by domestic branches of the Bank and conducted annual filing by the head office.

2. Value-added tax

The value-added tax ("VAT") on sales is calculated using applicable tax rate on the basis of the revenue from sales determined as per tax regulations, and is paid after deducting the VAT on purchases. In accordance with the Notice on Adjustment to VAT Rates (Cai Shui [2018] No. 32) issued by MoF and State Administration of Taxation, the VAT rate for the Group is adjusted from 3%-17% to 3%-16% since 1 May 2018.

According to the Supplementary Notice on Issues relating to VAT Policies on Assets Management Products (Cai Shui [2017] No.2) and Notice on Issues relating to VAT Policies on Assets Management Products (Cai Shui [2017] No.56) issued by MoF and State Administration of Taxation, since 1 January 2018, the manager of asset management products will be the VAT taxpayer for VAT taxable behaviours occurred in the operation of asset management products. And the VAT is levied at the rate of 3% with a provisional application of simple taxation method.

3. City maintenance and construction tax

The Group's city maintenance and construction tax is calculated according to 1% ~ 7% of VAT.

4. Education surcharge

The Group's education surcharge and local education surcharge is calculated according to 3% ~ 5% of VAT.

VII. CONSOLIDATION SCOPE

1. Details of the Bank's principal subsidiaries included in the scope of consolidation are set out as follows:

Key subsidiaries	Main business place/ Place of registration	Business nature	Registered capital (RMB in Million)	Total shareholding by the Group			
				31/12/2018		31/12/2017	
				Direct (%)	Indirect (%)	Direct (%)	Indirect (%)
Industrial Bank Financial Leasing Co., Ltd.	Tianjin	Financial leasing	9,000	**100**	**-**	100	-
China Industrial International Trust Limited	Fuzhou	Trust	5,000	**73**	**-**	73	-
CIB Fund Management Co., Ltd. (1)	Fuzhou	Fund management	1,200	**90**	**-**	90	-
Industrial Consumer Finance Co., Ltd.(1)	Quanzhou	Consumer finance	1,200	**66**	-	66	-
CIIT Asset Management Co., Ltd. (2) (3)	Shanghai	Assets management, equity investment, industrial investment, investment management and consulting	3,400	**-**	**100**	-	100
Industrial Wealth Asset Management Co., Ltd (2)	Shanghai	Assets management	780	**-**	**100**	-	100
Industrial Futures Co., Ltd. (2)	Ningbo	Merchandise, financial futures investment and consulting service	500	**-**	**100**	-	100

(1) In February 2018, the Bank increased the registered capital of its shareholding subsidiary CIB Fund Management Co., Ltd. by RMB450 million in proportion to its shareholding. After the capital increase, the registered capital of CIB Fund Management Co., Ltd. became RMB1,200 million. In June 2018, the Bank increased the registered capital of its holding subsidiary Industrial Consumer Finance Co., Ltd. by RMB330 million in proportion to its shareholding. After the capital increase, the registered capital of Industrial Consumer Finance Co., Ltd. became RMB1,200 million.

(2) The companies are the subsidiaries of the Bank’s holding subsidiaries.

(3) In June 2018, the Bank's holding subsidiary China Industrial International Trust Limited increased the registered capital of its wholly-owned subsidiary China Industrial Asset Management Limited by RMB300 million. After the capital increase, the registered capital of China Industrial Asset Management Limited is RMB3,400 million, with 100% shares held by China Industrial International Trust Limited.

2. Refer to No. VIII 48 for information of consolidated structure entities

3. Foreign exchange rate of principle items in financial statements of overseas operating entities

The operating entity of the Group converts the financial statement from foreign currency to RMB based on the following method: all assets and liabilities in the statement of financial position should be converted by spot rate at balance sheet date; equity of shareholders except for the retained earnings should be converted by spot rate when occurs; all subjects in the statements of comprehensive income and subjects which reflect the accrual distributed profit should be converted by approximate spot rate when occurs.

The exchange rate of USD, JPY, EUR, HKD, and GBP to RMB should be determined by the middle rate published by China's State Administration of Foreign Exchange (the "SAFE"). The exchange rate of other currency to RMB should be calculated by the benchmark rate of USD to RMB and rate of USD to other currency offered by SAFE.

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS

1. CASH AND BALANCES WITH CENTRAL BANK

UNIT: RMB Million

	The Group		The Bank	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Cash	**5,191**	5,535	**5,191**	5,535
Mandatory reserves (1)	**391,137**	444,091	**391,131**	444,082
Surplus deposit reserves (2)	**77,820**	13,989	**77,820**	13,987
Other reserve (3)	**1,633**	2,788	**1,633**	2,788
Total	**475,781**	**466,403**	**475,775**	**466,392**

(1) The domestic institution of the Bank places mandatory reserves mainly with the PBOC as required, including RMB reserves and foreign reserves. These reserves are not available for the Group's daily operations and can't be transferred or used without the PBOC's approval. General deposit generates from organizations deposit, non-financial-budget deposit, individual deposit, enterprise deposit, net trust funds and other deposit. On 31 December 2018, the ratio of the Bank's RMB reserves is 12% (31 December 2017: 15%), the ratio of foreign reserves is 5% (31 December 2017: 5%). According to related regulations from the PBOC, foreign reserves are non-interest bearing. The Group's subsidies' RMB reserve deposit ratio is in accordance with regulations of PBOC. Deposit ratio of mandatory reserve in Hong Kong branch is in accordance with regulations from local regulators.

(2) Surplus reserves are reserve in excess of mandatory reserve maintained with the PBOC mainly for the purpose of clearing, and transferring, etc.

(3) The majority of other deposits are the fiscal deposits placed with the Central Bank. Fiscal deposit at Central Bank refers to the fiscal deposit at PBOC by the Bank according to regulations, including the Bank's agent central budgetary revenues, local treasury deposits, etc. The fiscal deposits placed with the PBOC of institutions in mainland China are non-interest bearing.

2. DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

UNIT: RMB Million

	The Group		The Bank	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Deposits with:				
Domestic banks	**29,316**	61,425	**24,108**	51,427
Other domestic financial institutions	**5,236**	4,232	**5,010**	4,149
Overseas banks	**18,694**	11,918	**18,694**	11,918
Other overseas financial institutions	**73**	-	**73**	-
Subtotal	**53,319**	77,575	**47,885**	67,494
Less: Allowance for impairment losses	**(16)**	(16)	**(16)**	(16)
Net value	**53,303**	**77,559**	**47,869**	**67,478**

3. PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

UNIT: RMB Million

	The Group		The Bank	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Placements with:				
Domestic banks	**8,339**	1,774	**8,339**	1,774
Other domestic financial institutions	**51,485**	12,396	**64,374**	17,630
Overseas financial institutions	**38,585**	17,068	**38,585**	17,068
Subtotal	**98,409**	31,238	**111,298**	36,472
Less: Allowance for impairment losses	**(60)**	(60)	**(60)**	(60)
Net value	**98,349**	**31,178**	**111,238**	**36,412**

4. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

UNIT: RMB Million

	The Group		The Bank	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Trading financial assets:				
Debt instrument investments:				
Government bonds	**25,696**	22,335	**15,083**	11,079
The Central Bank bills and policy financial bonds	**8,788**	6,992	**3,969**	3,583
Bonds issued by financial institutions	**4,980**	4,869	**2,957**	3,373
Corporate bonds	**79,148**	67,834	**47,517**	47,144
Non-negotiable certificates of deposit	**58,969**	34,701	**57,477**	30,791
Subtotal of debt instruments investments	**177,581**	136,731	**127,003**	95,970
Equity instrument investments:				
Funds	**271,755**	216,485	**283,803**	237,256
Trust plan of assembled funds	**9**	-	**-**	-
Stocks	**-**	142	**-**	-
Wealth management products	**1,876**	-	**-**	-
Subtotal of equity instrument investment	**273,640**	216,627	**283,803**	237,256
Total of trading financial assets	**451,221**	353,358	**410,806**	333,226
Financial assets designated at fair value through profit and loss:				
Debt instrument investment	**8,089**	8,302	**2,209**	4,739
Equity instrument investment	**288**	412	**-**	-
Financial assets designated at fair value through profit and loss	**8,377**	8,714	**2,209**	4,739
Total	**459,598**	**362,072**	**413,015**	**337,965**

5. DERIVATIVE FINANCIAL INSTRUMENTS

The Group enters into foreign currency exchange rate, interest rate and precious metals related derivative financial instruments for purposes of trading, asset and liability management and customer driven business.

The notional amounts of derivative instruments represent the value of the underlying asset or the reference rate as a basis to measure changes in derivative financial instruments, which provide an indication of the volume of business transacted by the Group, but don't stand for the relevant future cash flow or current fair value, thus, do not indicate the Group's exposure to credit or market risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates, foreign exchange rates or precious metal prices relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The notional amount and fair value of the Group's derivative financial instruments:

UNIT: RMB Million

	The Group and the Bank					
	31/12/2018			31/12/2017		
		Fair value			Fair value	
	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities
Interest rate derivatives	**2,872,190**	**14,090**	**13,440**	1,911,173	4,590	3,800
Exchange rate derivatives	**3,737,959**	**27,272**	**24,773**	2,354,545	22,965	24,973
Precious metal derivatives	**15,417**	**234**	**413**	74,569	553	723
Credit derivatives	**13,467**	**496**	**197**	14,248	288	18
Total		**42,092**	**38,823**		**28,396**	**29,514**

Fair value hedging

The Group uses the fair value hedges to hedge the influences of changes in fair value of financial assets caused by the changes of market interest rate. For interest rate risk of financial assets, the Group adopts interest rate swaps as hedging instruments and available-for-sale bonds as the hedged item.

Included in the aforesaid derivative financial instruments, the hedging instruments designated by the Group and the Bank are as follows:

UNIT: RMB Million

	The Group & the Bank					
	12/31/2018			12/31/2017		
		Fair value			Fair value	
	Nominal amount	Assets	Liabilities	Nominal amount	Assets	Liabilities
Derivatives designated as fair value hedging instruments:						
Interest rate swaps	**22,527**	**125**	**127**	**7,922**	**70**	**-**

The effectiveness of the hedging activities in the year which is reflected by the changes in fair value of hedging instruments and the net profit or loss from the hedged item attributable to the hedged risks is as follows:

UNIT: RMB Million

	The Group & the Bank	
	12/31/2018	12/31/2017
Net gain/(loss) from fair value hedge:		
Hedging instruments	**51**	74
Hedged item attributable to the hedged risk	**(58)**	(83)

6. FINANCIAL ASSETS PURCHASED UNDER RESALE AGREEMENTS

UNIT: RMB Million

	The Group		The Bank	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Bonds	**76,098**	88,684	**72,810**	85,029
Bills	**1,318**	333	**1,318**	333
Beneficial rights of trust and others (Note 1)	**-**	4,102	**-**	4,102
Subtotal	**77,416**	93,119	**74,128**	89,464
Less: Allowance for impairment losses	**(333)**	-	**(333)**	-
Net value	**77,083**	**93,119**	**73,795**	**89,464**

Note 1: Beneficial rights of trust and others mainly comprised of the investment to trust plans and asset management plans operated by trust companies, securities companies and asset management companies.

7. LOANS AND ADVANCES TO CUSTOMERS

(1) Analysis of loans and advances to customers by personal and corporate:

UNIT: RMB Million

	The Group		The Bank	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Personal loans and advances				
Residential and business mortgage loans	**749,360**	603,047	**749,360**	603,047
Credit cards	**271,960**	186,256	**271,960**	186,256
Others	**145,084**	121,521	**124,390**	111,651
Subtotal	**1,166,404**	910,824	**1,145,710**	900,954
Corporate loans and advances				
Loans and advances	**1,608,207**	1,482,362	**1,611,711**	1,484,432
Discounted bills	**159,471**	37,509	**159,471**	37,509
Subtotal	**1,767,678**	1,519,871	**1,771,182**	1,521,941
Gross loans and advances	**2,934,082**	2,430,695	**2,916,892**	2,422,895
Less: Allowance for impairment losses	**(95,637)**	(81,864)	**(94,817)**	(81,498)
- Individually assessed	**(20,798)**	(16,378)	**(20,798)**	(16,378)
- Collectively assessed	**(74,839)**	(65,486)	**(74,019)**	(65,120)
Loans and advances to customers	**2,838,445**	2,348,831	**2,822,075**	2,341,397

(2) Analysis of loans and advances to customers by industry distribution:

UNIT: RMB Million

	The Group				The Bank			
	31/12/2018	(%)	31/12/2017	(%)	31/12/2018	(%)	31/12/2017	(%)
Manufacturing	**359,593**	**12.26**	335,445	13.80	**359,593**	**12.33**	335,445	13.84
Leasing and commercial services	**263,411**	**8.98**	226,770	9.34	**267,399**	**9.17**	230,410	9.51
Retail and wholesale	**224,723**	**7.66**	223,649	9.20	**224,723**	**7.70**	223,649	9.23
Real estate	**195,490**	**6.66**	151,488	6.23	**195,006**	**6.69**	149,918	6.19
Water, environment and public facilities administration	**173,268**	**5.91**	163,577	6.73	**173,268**	**5.93**	163,577	6.75
Construction	**95,487**	**3.25**	89,581	3.69	**95,487**	**3.27**	89,581	3.70
Transport, logistics and postal service	**79,355**	**2.70**	69,794	2.87	**79,355**	**2.72**	69,794	2.88
Production and supply of power, gas and water	**77,948**	**2.66**	72,413	2.98	**77,948**	**2.67**	72,413	2.99
Extractive industry	**59,421**	**2.03**	65,503	2.69	**59,421**	**2.04**	65,503	2.70
Finance industry	**21,537**	**0.73**	23,865	0.98	**21,537**	**0.74**	23,865	0.98
Other corporate industries	**57,974**	**1.97**	60,277	2.48	**57,974**	**1.99**	60,277	2.49
Discounted bills	**159,471**	**5.44**	37,509	1.54	**159,471**	**5.47**	37,509	1.55
Personal loans	**1,166,404**	**39.75**	910,824	37.47	**1,145,710**	**39.28**	900,954	37.19
Gross loans and advances	**2,934,082**	**100.00**	**2,430,695**	**100.00**	**2,916,892**	**100.00**	**2,422,895**	**100.00**
Less: Allowance for impairment losses	**(95,637)**		(81,864)		**(94,817)**		(81,498)	
-Individually assessed	**(20,798)**		(16,378)		**(20,798)**		(16,378)	
-Collectively assessed	**(74,839)**		(65,486)		**(74,019)**		(65,120)	
Loans and advances to customers	**2,838,445**		2,348,831		**2,822,075**		2,341,397	

(3) Analysis of loans and advances to customers by geographical distribution:

UNIT: RMB Million

	The Group				The Bank			
	31/12/2018	(%)	31/12/2017	(%)	31/12/2018	(%)	31/12/2017	(%)
Head office (Note 1)	**307,847**	**10.49**	196,298	8.08	**307,847**	**10.55**	196,298	8.10
Fujian	**313,459**	**10.68**	302,458	12.44	**315,031**	**10.80**	304,296	12.56
Beijing	**181,167**	**6.17**	154,237	6.35	**180,303**	**6.18**	154,237	6.37
Shanghai	**115,511**	**3.94**	121,291	4.99	**109,524**	**3.75**	119,897	4.95
Guangdong	**328,717**	**11.20**	250,615	10.31	**327,145**	**11.22**	249,506	10.30
Zhejiang	**208,879**	**7.12**	161,574	6.65	**207,796**	**7.12**	160,923	6.64
Jiangsu	**265,858**	**9.06**	206,352	8.49	**263,993**	**9.05**	205,430	8.48
Other (Note 2)	**1,212,644**	**41.34**	1,037,870	42.69	**1,205,253**	**41.33**	1,032,308	42.60
Gross loans and advances	**2,934,082**	**100.00**	**2,430,695**	**100.00**	**2,916,892**	**100.00**	**2,422,895**	**100.00**
Less: Allowance for impairment losses	**(95,637)**		(81,864)		**(94,817)**		(81,498)	
-Individually assessed	**(20,798)**		(16,378)		**(20,798)**		(16,378)	
-Collectively assessed	**(74,839)**		(65,486)		**(74,019)**		(65,120)	
Loans and advances to customers	**2,838,445**		2,348,831		**2,822,075**		2,341,397	

Note 1: Head office contains the credit card centre and the treasury operation centre.

Note 2: As at 31 December 2018, the Bank has 45 tier-1 branches, apart from the tier-1 branches mentioned above, the rest is categorised into "Others". Loans and advances of the subsidiaries of the Bank are presented by geographical distribution.

(4) Analysis of loans and advances to customers by security type:

UNIT: RMB Million

	The Group		The Bank	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Unsecured loans	**728,050**	585,734	**711,344**	579,504
Guaranteed loans	**625,002**	582,000	**625,002**	581,250
Collateralised loans	**1,421,559**	1,225,452	**1,421,075**	1,224,632
-Secured by mortgage	**1,150,190**	977,266	**1,149,706**	976,446
-Secured by collaterals	**271,369**	248,186	**271,369**	248,186
Discounted bills	**159,471**	37,509	**159,471**	37,509
Gross loans and advances	**2,934,082**	2,430,695	**2,916,892**	2,422,895
Less: Allowance for impairment losses	**(95,637)**	(81,864)	**(94,817)**	(81,498)
-Individually assessed	**(20,798)**	(16,378)	**(20,798)**	(16,378)
-Collectively assessed	**(74,839)**	(65,486)	**(74,019)**	(65,120)
Loans and advances to customers	**2,838,445**	2,348,831	**2,822,075**	2,341,397

(5) Overdue loans

UNIT: RMB Million

	The Group									
	31/12/2018					31/12/2017				
	1-90 days (including 90 days)	90-360 days (including 360 days)	360 days to 3 years (including 3 years)	over 3 years	Total	1-90 days (including 90 days)	90-360 days (including 360 days)	360 days to 3 years (including 3 years)	over 3 years	Total
Unsecured loans	5,498	4,242	619	60	**10,419**	2,546	2,742	546	61	**5,895**
Guaranteed loans	8,219	10,779	2,444	875	**22,317**	4,732	3,802	3,927	1,161	**13,622**
Collateralised loans	9,206	10,210	6,332	835	**26,583**	6,542	5,724	6,490	329	**19,085**
-Secured by mortgage	7,556	10,162	6,213	792	**24,723**	6,380	5,643	6,228	225	**18,476**
-Secured by collaterals	1,650	48	119	43	**1,860**	162	81	262	104	**609**
Total	**22,923**	**25,231**	**9,395**	**1,770**	**59,319**	**13,820**	**12,268**	**10,963**	**1,551**	**38,602**

UNIT: RMB Million

	The Bank									
	31/12/2018					31/12/2017				
	1-90 days (including 90 days)	90-360 days (including 360 days)	360 days to 3 years (including 3 years)	over 3 years	Total	1-90 days (including 90 days)	90-360 days (including 360 days)	360 days to 3 years (including 3 years)	over 3 years	Total
Unsecured loans	5,207	3,904	492	59	**9,662**	2,350	2,629	444	61	**5,484**
Guaranteed loans	8,219	10,779	2,444	875	**22,317**	4,732	3,802	3,927	1,161	**13,622**
Collateralised loans	9,206	10,210	6,332	835	**26,583**	6,542	5,724	6,490	329	**19,085**
-Secured by mortgage	7,556	10,162	6,213	792	**24,723**	6,380	5,643	6,228	225	**18,476**
-Secured by collaterals	1,650	48	119	43	**1,860**	162	81	262	104	**609**
Total	**22,632**	**24,893**	**9,268**	**1,769**	**58,562**	**13,624**	**12,155**	**10,861**	**1,551**	**38,191**

Note: The loan will be categorized into overdue when principal or interest is overdue for one day.

(6) Allowance for impairment losses on loans and advances to customers

UNIT: RMB Million

The Group	2018			2017		
	Individually	Collectively	Total	Individually	Collectively	Total
Opening balance	16,378	65,486	**81,864**	12,669	59,779	**72,448**
Charge for the year	22,689	15,378	**38,067**	22,313	6,308	**28,621**
Write-off/Transfer out	(21,099)	(6,999)	**(28,098)**	(20,482)	(1,047)	**(21,529)**
-Recoveries of loans and advances written off in previous years	3,876	1,133	**5,009**	2,837	707	**3,544**
-Unwinding of discount on allowance	(1,046)	(241)	**(1,287)**	(959)	(214)	**(1,173)**
Fluctuation in exchange rate	-	82	**82**	-	(47)	**(47)**
Closing balance	**20,798**	**74,839**	**95,637**	**16,378**	**65,486**	**81,864**

UNIT: RMB Million

The Bank	2018			2017		
	Individually	Collectively	Total	Individually	Collectively	Total
Opening balance	16,378	65,120	**81,498**	12,669	59,594	**72,263**
Charge for the year	22,689	14,737	**37,426**	22,313	6,116	**28,429**
Write-off/Transfer out	(21,099)	(6,811)	**(27,910)**	(20,482)	(1,031)	**(21,513)**
-Recoveries of loans and advances written off in previous years	3,876	1,132	**5,008**	2,837	702	**3,539**
-Unwinding of discount on allowance	(1,046)	(241)	**(1,287)**	(959)	(214)	**(1,173)**
Fluctuation in exchange rate	-	82	**82**	-	(47)	**(47)**
Closing balance	**20,798**	**74,019**	**94,817**	**16,378**	**65,120**	**81,498**

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

(1) Listed by types:

UNIT: RMB Million

	The Group		The Bank	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Available-for-sale debt instruments				
Government bonds	**183,610**	116,726	**183,610**	116,726
The Central Bank bills and policy financial bonds	**21,560**	28,791	**21,560**	28,791
Bonds issued by banks and other financial institutions	**58,413**	98,679	**58,993**	99,099
Corporate bonds	**161,807**	139,941	**161,581**	139,381
Non-negotiable certificates of deposit	**48,771**	4,818	**48,771**	4,818
Wealth management products	**2,972**	2,848	**1,999**	-
Trust fund plans and other equity instrument (Note 1)	**18,320**	21,107	**17,518**	20,803
Credit assets	**11,510**	15,019	**11,431**	14,935
Bonds	**4,728**	4,575	**4,728**	4,575
Funds	**2,082**	1,513	**1,359**	1,293
Subtotal	**495,453**	412,910	**494,032**	409,618
Available-for-sale equity instruments:				
Measured at fair value	**149,433**	89,471	**170,849**	106,094
Measured at cost	**2,216**	1,840	**804**	304
Subtotal	**151,649**	91,311	**171,653**	106,398
Total available-for-sale financial assets	**647,102**	504,221	**665,685**	516,016

Note 1: Trust fund plans and others are the beneficial rights of trust which are designated as available-for-sale financial assets when initially invested by the Group. These products' investment directions are mainly the trust loans or fund management plans run by the trust companies, asset management companies or securities companies as entrusted fund administrators. According to the liquidity management or operation management, these beneficial rights of trust or fund management plans will be probably for sale.

(2) Related analysis for available-for-sale financial assets at fair value in the year-end:

UNIT: RMB Million

	The Group		The Bank	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Available-for-sale debt instrument:				
Amortized cost	**495,337**	417,600	**494,054**	414,319
Fair value	**495,453**	412,910	**494,032**	409,618
Accumulative appropriation to other comprehensive income	**1,906**	(2,524)	**1,526**	(2,553)
Accumulative appropriation to allowance for impairment losses	**(1,790)**	(2,166)	**(1,548)**	(2,148)
Available-for-sale equity instrument:				
Cost	**149,184**	89,480	**169,478**	105,987
Fair value	**149,433**	89,471	**170,849**	106,094
Accumulative appropriation to other comprehensive income	**251**	(7)	**1,371**	107
Accumulative appropriation to allowance for impairment losses	**(2)**	(2)	**-**	-
Total				
Amortized cost of debt instruments/ cost of equity instrument	**644,521**	507,080	**663,532**	520,306
Fair value	**644,886**	502,381	**664,881**	515,712
Accumulative appropriation to other comprehensive income	**2,157**	(2,531)	**2,897**	(2,446)
Accumulative appropriation to allowance for impairment losses	**(1,792)**	**(2,168)**	**(1,548)**	**(2,148)**

(3) Related analysis for available-for-sale financial assets at cost in the year-end

UNIT: RMB Million

Investee	The Group					
	Book balance			Provision	Proportion of share in Investee	Cash dividends for the year
	Opening	Increase	Closing			
China Union Pay Co., Ltd.	81	-	81	-	2.13	7
State Financing Guarantee Fund Co., Ltd.	-	500	500	-	3.03	-
Huafu Securities Co., Ltd.	359	-	359	-	4.35	-
China Trust Registration Co., Ltd.	60	-	60	-	2.00	-
Shanghai Commercial Paper						
Exchange Corporation Ltd.	50	-	50	-	2.71	-
China International Payment Service (Shanghai) Corp.	-	30	30	-	1.18	-
Zijin Mining Group Holding Group Finance Co., Ltd.	25	-	25	-	5.00	-
Others	1,265	(154)	1,111	-		-
Total	**1,840**	**376**	**2,216**	**-**		**7**

UNIT: RMB Million

Investee	The Bank					
	Book balance			Provision	Proportion of share in Investee	Cash dividends for the year
	Opening	Decrease	Closing			
China Union Pay Co., Ltd	81	-	81	-	2.13	7
State Financing Guarantee Fund Co., Ltd.	-	500	500	-	3.03	-
Others	223	-	223	-		-
Total	**304**	**500**	**804**	**-**		**7**

(4) Related analysis for allowance for impairment losses on available-for-sale financial assets

UNIT: RMB Million

	The Group			The Bank		
	Available-for-sale debt instrument	Available-for-sale equity instrument	Total	Available-for-sale debt instrument	Available-for-sale equity instrument	Total
Opening	2,166	2	2,168	2,148	-	2,148
Provision	648	-	648	401	-	401
Transfer	1	-	1	1	-	1
Write off	(1,028)	-	(1,028)	(1,005)	-	(1,005)
Exchange rate effect	3	-	3	3	-	3
Closing	**1,790**	**2**	**1,792**	**1,548**	**-**	**1,548**

9. HELD-TO-MATURITY INVESTMENTS

UNIT: RMB Million

	The Group		The Bank	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Government bonds	**345,594**	287,900	**344,093**	287,900
The Central Bank bills and policy financial bonds	**2,663**	746	**2,663**	746
Bonds issued by banks and other financial institutions	**12,278**	14,486	**12,278**	14,486
Corporate bonds	**25,626**	23,133	**25,542**	23,133
Non-negotiable certificates of deposit	**9,118**	11,349	**9,118**	11,349
Subtotal	**395,279**	337,614	**393,694**	337,614
Less: Allowance for impairment losses	**(137)**	(131)	**(137)**	(131)
Net value	**395,142**	**337,483**	**393,557**	**337,483**

10. INVESTMENTS CLASSIFIED AS RECEIVABLES

UNIT: RMB Million

	The Group		The Bank	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Government bonds	**365,355**	397,626	**365,355**	397,626
Bonds issued by banks and other financial institutions	**6,735**	44,131	**6,735**	44,131
Corporate bonds	**54,384**	47,064	**54,642**	47,574
Wealth management products (Note 1)	**1,688**	85,173	**858**	85,173
Trust fund plans and others (Note 2)	**976,791**	1,356,354	**965,758**	1,342,377
Credit assets	**735,199**	896,775	**727,878**	887,491
Paper assets	**97,136**	110,435	**97,136**	110,435
Bonds	**109,991**	231,789	**109,942**	231,789
Interbank deposits	**1,250**	68,793	**1,250**	68,793
Funds	**18,599**	38,656	**14,936**	34,471
Others	**14,616**	9,906	**14,616**	9,398
Subtotal	**1,404,953**	1,930,348	**1,393,348**	1,916,881
Less: Allowance for impairment losses	**(17,803)**	(16,966)	**(17,508)**	(16,912)
Net value	**1,387,150**	**1,913,382**	**1,375,840**	**1,899,969**

Note 1: Wealth management products are fixed-period financial products issued by other financial institutions.

Note 2: Trust fund plans and others are the beneficial rights of the trust and fund management plans, etc. These products' investment directions are mainly the trust loans or fund management plans operated by the trust companies, securities companies and asset management companies as entrusted fund administrators.

11. FINANCE LEASE RECEIVABLES

Set out by nature:

UNIT: RMB Million

	The Group	
	12/31/2018	12/31/2017
Finance lease receivables	**122,155**	120,070
Less: unrealized financing income	**(13,352)**	(13,153)
Subtotal	**108,803**	106,917
Less: Allowance for impairment losses	**(4,550)**	(3,422)
- Individually assessed	**(1,476)**	(355)
- Collectively assessed	**(3,074)**	(3,067)
Net value	**104,253**	103,495

List as follows:

UNIT: RMB Million

	12/31/2018	12/31/2017
1st year subsequent to the balance sheet date	**39,484**	36,028
2nd year subsequent to the balance sheet date	**31,516**	27,799
3rd year subsequent to the balance sheet date	**21,413**	23,177
Subsequent periods	**29,742**	33,066
Subtotal	**122,155**	120,070
Unrealized financing income	**(13,352)**	(13,153)
Subtotal	**108,803**	106,917
Less: Allowance for impairment losses	**(4,550)**	(3,422)
- Individually assessed	**(1,476)**	(355)
- Collectively assessed	**(3,074)**	(3,067)
Net value	**104,253**	103,495
- Finance lease receivables due less than 1 year	**33,698**	32,921
- Finance lease receivables due more than 1 year	**70,555**	70,574

12. LONG-TERM EQUITY INVESTMENTS

Breakdown of long-term equity investments:

UNIT: RMB Million

The Group										
Investee	Accounting method	Initial investment	01/01/2018	Additions (reduction)	31/12/2018	Proportion of equity interest	Proportion of voting power in the investee	Explanation on inconsistency between the proportion of equity interest and the proportion of voting power in the investee	Provisions	Cash dividends for this year
Bank of Jiujiang Co., Ltd. (1)	Equity method	561	2,657	235	2,892	12.23	12.23	not applicable	-	29
Others	Equity method	352	351	(19)	332			not applicable	-	-
Total			**3,008**	**216**	**3,224**				**-**	**29**

The Bank										
Investee	Accounting method	Initial investment	01/01/2018	Additions (reduction)	31/12/2018	Proportion of equity interest	Proportion of voting power in the investee	Explanation on inconsistency between the proportion of equity interest and the proportion of voting power in the investee	Provisions	Cash dividends for this year
Bank of Jiujiang Co., Ltd. (1)	Equity method	561	2,657	235	2,892	12.23	12.23	not applicable	-	29
Industrial Bank Financial Leasing Co., Ltd. (Note VII)	Cost method	5,000	7,000	-	7,000	100.00	100.00	not applicable	-	-
China Industrial International Trust Limited (Note VII)	Cost method	6,395	6,395	-	6,395	73.00	73.00	not applicable	-	-
CIB Fund Management Co., Ltd. (Note VII)	Cost method	450	450	450	900	90.00	90.00	not applicable	-	-
Industrial Consumer Finance Co., Ltd. (Note VII)	Cost method	198	462	330	792	66.00	66.00	not applicable	-	-
Total			**16,964**	**1,015**	**17,979**				**-**	**29**

(1) In accordance with the YJF [2008] No.449, approved by the CBIRC on 4 November, 2008, the Bank has acquired 102.2 million shares of Bank of Jiujiang Co., Ltd. (refers to as Bank of Jiujiang hereafter) for the price of RMB2.9 Yuan per share. As the result, the Bank holds 20% of the total shares of the Bank of Jiujiang after it expanded its share capital. In 2009, Bank of Jiujiang increases 4 shares for every 10 shares to all recorded shareholders based on the share capital by the end of August 2009 by utilizing capital reserve. The Bank currently holds 143.08 million shares of Bank of Jiujiang. In 2010, Bank of Jiujiang increases its registered capital RMB400.66 million, offered privately and subscribed in cash for the price of RMB3.3 Yuan per share. The Bank has acquired 80.12 million shares. After the acquisition, the Bank holds 223.20 million shares and the proportion of equity interest remains 20% of the total shares of the Bank of Jiujiang after it expanded its share capital. On 14 December 2011, Bank of Jiujiang increased its registered capital by RMB400 million, none of which was subscribed by the Bank, and the proportion of equity interest of the Bank was diluted to 14.72% after the capital increase. On 17 March 2017, Bank of Jiujiang issued 484 million shares through private placement. The Bank subscribed 71.2 million shares at the price of RMB6.87 per share. After the subscription, the Bank holds total 294.4 million shares in Bank of Jiujiang with its proportion of shareholding remained at 14.72% of the total share capital of Bank of Jiujiang after the capital increase. On 10 July 2018, the Bank of Jiujiang was list on the main board of SEHK, after which the shareholding ratio by the Bank was diluted to 12.23%. As the Bank sent a director to the Bank of Jiujiang and has significant influence over the Bank of Jiujiang, the equity investment is accounted for using the equity method.

(2) There are no restrictions of the investees' capital transferring capacities to the Group and the Bank on 31 December 2018.

13. FIXED ASSETS

UNIT: RMB Million

	The Group					
	Buildings	Fixed assets improvement	Office and machinery equipment	Transportation vehicles	Flight equipment	Total
Cost						
1/1/2018	10,690	1,059	6,065	473	4,307	**22,594**
Purchase	50	56	1,380	48	987	**2,521**
Transfers from constructions in progress	2,211	22	2	-	-	**2,235**
Sales/disposals	-	(30)	(429)	(42)	-	**(501)**
12/31/2018	12,951	1,107	7,018	479	5,294	**26,849**
Accumulated depreciation						
1/1/2018	2,648	421	4,160	278	210	**7,717**
Depreciation for the year	413	53	1,054	53	214	**1,787**
Eliminated on sales/disposals	-	(30)	(264)	(22)	-	**(316)**
12/31/2018	3,061	444	4,950	309	424	**9,188**
Net value						
1/1/2018	8,042	638	1,905	195	4,097	**14,877**
12/31/2018	9,890	663	2,068	170	4,870	**17,661**
Allowance for impairment losses						
1/1/2018	(3)	-	-	-	-	**(3)**
Charged for the year	-	-	-	-	-	**-**
Eliminated on sales/disposals	-	-	-	-	-	**-**
12/31/2018	(3)	-	-	-	-	**(3)**
Net carrying amount						
1/1/2018	8,039	638	1,905	195	4,097	**14,874**
12/31/2018	**9,887**	**663**	**2,068**	**170**	**4,870**	**17,658**

On 31 December 2018, the cost of fight equipment leased out under operating lease business by the Group's subsidiary Industrial Bank Financial Leasing Co., Ltd. was RMB5,294 million (31 December 2017: RMB4,307 million).

Buildings cost RMB1,325 million are in use but the legal ownership registrations were still in process as at 31 December 2018 (31 December 2017: RMB1,256 million).

UNIT: RMB Million

	The Bank				
	Buildings	Fixed assets improvement	Office and machinery equipment	Transportation vehicles	Total
Cost					
1/1/2018	10,655	1,059	5,812	437	**17,963**
Purchase	50	56	1,203	44	**1,353**
Transfers from constructions in progress	2,211	22	2	-	**2,235**
Sales/disposals	-	(30)	(282)	(37)	**(349)**
12/31/2018	12,916	1,107	6,735	444	**21,202**
Accumulated depreciation					
1/1/2018	2,637	421	4,031	264	**7,353**
Depreciation for the year	412	53	1,010	49	**1,524**
Sales/disposals	-	(30)	(252)	(20)	**(302)**
12/31/2018	3,049	444	4,789	293	**8,575**
Net value					
1/1/2018	8,018	638	1,781	173	**10,610**
12/31/2018	9,867	663	1,946	151	**12,627**
Allowance for impairment losses					
1/1/2018	(3)	-	-	-	**(3)**
Charge for the year	-	-	-	-	**-**
Sales/disposals	-	-	-	-	**-**
12/31/2018	(3)	-	-	-	**(3)**
Net carrying amount					
1/1/2018	8,015	638	1,781	173	**10,607**
12/31/2018	**9,864**	**663**	**1,946**	**151**	**12,624**

Buildings cost RMB1,325 million are in use but the legal ownership registrations were still in process as at 31 December 2018 (31 December 2017: RMB1,256 million).

14. CONSTRUCTION IN PROGRESS

(1) Details of construction in progress are as follows:

UNIT: RMB Million

	The Group					
	12/31/2018			12/31/2017		
	Carrying amount	Allowance for impairment loss	Net carrying amount	Carrying amount	Allowance for impairment loss	Net carrying amount
Operating building, Lujiazui Shanghai	**4,194**	**-**	**4,194**	3,678	-	3,678
Operating building, Head office	**618**	**-**	**618**	546	-	546
Operating building, Jinan	**526**	**-**	**526**	457	-	457
Operating building, Changchun	**397**	**-**	**397**	2	-	2
Operating building, Guangzhou	**393**	**-**	**393**	365	-	365
Operating building, Zhangzhou	**321**	**-**	**321**	277	-	277
Others	**1,423**	**-**	**1,423**	1,799	-	1,799
Total	**7,872**	**-**	**7,872**	**7,124**	**-**	**7,124**

UNIT: RMB Million

	The Bank					
	12/31/2018			12/31/2017		
	Carrying amount	Allowance for impairment loss	Net carrying amount	Carrying amount	Allowance for impairment loss	Net carrying amount
Operating building, Lujiazui Shanghai	**4,194**	**-**	**4,194**	3,678	-	3,678
Operating building, Head office	**618**	**-**	**618**	546	-	546
Operating building, Jinan	**526**	**-**	**526**	457	-	457
Operating building, Changchun	**397**	**-**	**397**	2	-	2
Operating building, Guangzhou	**393**	**-**	**393**	365	-	365
Operating building, Zhangzhou	**321**	**-**	**321**	277	-	277
Others	**1,403**	**-**	**1,403**	1,797	-	1,797
Total	**7,852**	**-**	**7,852**	**7,122**	**-**	**7,122**

(2) Significant changes in construction in progress are as follows:

UNIT: RMB Million

	The Group				
	2018				
	1/1/2018	Additions (decrease)	Transfer to fixed assets	Transfer to long-term prepaid expenses	31/12/2018
Operating building, Lujiazui Shanghai	3,678	516	-	-	**4,194**
Operating building, Head office	546	72	-	-	**618**
Operating building, Jinan	457	69	-	-	**526**
Operating building, Changchun	2	395	-	-	**397**
Operating building, Guangzhou	365	28	-	-	**393**
Operating building, Zhangzhou	277	44	-	-	**321**
Others	1,799	2,364	2,235	505	**1,423**
Total	**7,124**	**3,488**	**2,235**	**505**	**7,872**

UNIT: RMB Million

	The Bank				
	2018				
	1/1/2018	Additions (decrease)	Transfer to fixed assets	Transfer to long-term prepaid expenses	31/12/2018
Operating building, Lujiazui Shanghai	3,678	516	-	-	**4,194**
Operating building, Head office	546	72	-	-	**618**
Operating building, Jinan	457	69	-	-	**526**
Operating building, Changchun	2	395	-	-	**397**
Operating building, Guangzhou	365	28	-	-	**393**
Operating building, Zhangzhou	277	44	-	-	**321**
Others	1,797	2,346	2,235	505	**1,403**
Total	**7,122**	**3,470**	**2,235**	**505**	**7,852**

15. GOODWILL

UNIT: RMB Million

	The Group				
Investee	1/1/2018	Additions	Deductions	31/12/2018	31/12/2018 Provision
China Industrial International Trust Limited	532	-	-	**532**	**-**

Goodwill arose from acquisition of China Industrial International Trust Limited in February 2011, and the overweight of China Industrial Future Limited by China Industrial International Trust Limited in March, 2015.

At the end of the year, the Group performed impairment tests on goodwill based on expected future cash flow of the investee, applying appropriate discount rate, reflecting current time value of money and the risk of specific assets. No evidence shows that the recoverable amount of goodwill is less than the carrying amount as at December 2018, therefore no impairment is recognised.

16. DEFERRED TAX ASSET AND DEFERRED TAX LIABILITY

Recognized deferred tax assets and liabilities

UNIT: RMB Million

	The Group				The Bank			
	31/12/2018		31/12/2017		31/12/2018		31/12/2017	
	Deductible (taxable) temporary differences	Deferred tax assets (liabilities)	Deductible (taxable) temporary differences	Deferred tax assets (liabilities)	Deductible (taxable) temporary differences	Deferred tax assets (liabilities)	Deductible (taxable) temporary differences	Deferred tax assets (liabilities)
Deferred tax assets								
Impairment losses on assets	116,896	29,224	92,601	23,150	112,580	28,145	89,601	22,400
Fair value changes of financial assets at fair value through profit or loss	1,160	290	643	161	1,160	290	643	161
Fair value changes of financial liability at fair value through profit or loss	10	2	20	5	3	1	2	1
Accrued but not paid employee benefits	13,093	3,273	12,014	3,004	11,897	2,974	10,977	2,744
Fair value changes of available-for-sale financial assets	740	185	2,558	640	-	-	2,446	612
Fair value changes of derivative financial instruments	-	-	1,277	319	-	-	1,277	319
Others	3,222	806	885	221	612	153	769	192
Deferred tax assets before offset	135,121	33,780	109,998	27,500	126,252	31,563	105,715	26,429
Deferred tax liabilities								
Fair value changes of derivative financial instruments	(2,312)	(578)	-	-	(2,312)	(578)	-	-
Fair value changes of financial assets at fair value through profit or loss	(10)	(2)	-	-	-	-	-	-
Difference of fixed asset impairment tax	(536)	(134)	(324)	(81)	(536)	(134)	(324)	(81)
Fair value changes of available-for-sale financial assets	(2,897)	(724)	(27)	(7)	(2,897)	(724)	-	-
Fair value changes of precious metals	(98)	(25)	(458)	(115)	(98)	(25)	(458)	(115)
Deferred tax liabilities before offset	(5,853)	(1,463)	(809)	(203)	(5,843)	(1,461)	(782)	(196)
Net amount after offset	129,268	32,317	109,189	27,297	120,409	30,102	104,933	26,233

The tax payment of various domestic branches of Bank can be aggregated, and the deferred tax assets and deferred tax liabilities are presented at the net amount after offset; the overseas branches being individual taxable entity, the deferred tax assets and deferred tax liabilities of the respective entity can be presented at the net amount after offset. When there is net deferred tax/liabilities in overseas branches, they are not offset against those in domestic branches. The subsidiaries of the Bank being individual taxable entity, the deferred tax assets and deferred tax liabilities of the respective entity can be presented at the net amount after offset.

UNIT: RMB Million

	The Group	The Bank
	2018	2018
Opening balance of net value	**27,297**	**26,233**
- Deferred tax assets	**27,500**	**26,429**
- Deferred tax liabilities	**(203)**	**(196)**
Net changes of deferred tax recognised in income tax expenses	**6,192**	**5,205**
Net changes of deferred tax recognised in other comprehensive income	**(1,172)**	**(1,336)**
Closing balance of net value	**32,317**	**30,102**
- Deferred tax assets	**33,780**	**31,563**
- Deferred tax liabilities	**(1,463)**	**(1,461)**

(2) According to the Group's future profit forecast, the Group believes that it is probable that sufficient taxable profits will be available in future periods to offset the deductible temporary differences and deductible losses. Therefore, the Group can recognize the deferred tax assets.

17. OTHER ASSETS

UNIT: RMB Million

		The Group		The Bank	
		31/12/2018	31/12/2017	31/12/2018	31/12/2017
Interest receivable	(1)	**34,463**	30,406	**33,328**	29,258
Other receivables	(2)	**16,507**	15,496	**7,352**	7,289
Prepaid purchase cost of finance lease assets		**1,438**	15,753	**-**	-
Foreclosed assets	(3)	**981**	463	**981**	463
Receivables to be settled and deposits		**4,256**	170	**4,256**	170
Assets with continuing involvement (Note XII, 3.1)		**7,641**	2,101	**7,641**	2,101
Long term prepaid expenses	(4)	**1,430**	1,463	**1,382**	1,409
Net assets of defined benefit plan (Note VIII, 47.2)		**1,088**	1,412	**1,088**	1,412
Total		**67,804**	**67,264**	**56,028**	**42,102**

(1) Interest receivable

UNIT: RMB Million

	The Group		The Bank	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Interests of deposits with Central Bank and financial institutions	**457**	733	**433**	696
Interests of placements with banks and other financial institutions	**398**	93	**584**	155
Interests of financial assets purchased under resale agreements	**51**	49	**48**	45
Interests of loans and advances to customers	**8,202**	6,686	**7,970**	6,566
Interests of bonds and other investments	**25,244**	22,475	**24,258**	21,691
Other	**111**	370	**35**	105
Total	**34,463**	**30,406**	**33,328**	**29,258**

(2) Other receivables

Listed by aging:

UNIT: RMB Million

Account age	The Group				The Bank			
	31/12/2018		31/12/2017		31/12/2018		31/12/2017	
	Amount	Proportion	Amount	Proportion	Amount	Proportion	Amount	Proportion
Within 1 year	**15,176**	**83.17**	14,035	82.39	**6,192**	**68.11**	5,849	66.26
1-2 years	**610**	**3.35**	421	2.47	**439**	**4.83**	400	4.53
2-3 years	**194**	**1.06**	2,169	12.73	**194**	**2.13**	2,169	24.57
Over 3 years	**2,266**	**12.42**	409	2.41	**2,266**	**24.93**	409	4.64
Subtotal	**18,246**	**100.00**	17,034	100.00	**9,091**	**100.00**	8,827	100.00
Less: Allowance for impairment losses	**(1,739)**		(1,538)		**(1,739)**		(1,538)	
Net value	**16,507**		**15,496**		**7,352**		**7,289**	

(3) Foreclosed assets

Analysed by category of the foreclosed assets:

UNIT: RMB Million

	The Group and the Bank	
	31/12/2018	31/12/2017
Buildings	**943**	392
Land use rights	**85**	85
Others	**1**	3
Subtotal	**1,029**	480
Less: Allowance for impairment losses	**(48)**	(17)
Net value	**981**	463

(4) Long term prepaid expenses

UNIT: RMB Million

	The Group				
	1/1/2018	Additions	Transferred from construction in progress	Amortization	31/12/2018
Leasehold improvements	1,370	123	502	(646)	**1,349**
Others	93	10	3	(25)	**81**
Total	**1,463**	**133**	**505**	**(671)**	**1,430**

UNIT: RMB Million

	The Bank				
	1/1/2018	Additions	Transferred from construction in progress	Amortization	31/12/2018
Leasehold improvements	1,316	97	502	(614)	**1,301**
Others	93	10	3	(25)	**81**
Total	**1,409**	**107**	**505**	**(639)**	**1,382**

18. ALLOWANCE FOR IMPAIRMENT LOSSES ON ASSETS

UNIT: RMB Million

	The Group					
	2018					
	1/1/2018	Charge/ (Reversal)	Transfer in/(out)	Write-off	Exchange rate influence	31/12/2018
Allowance for impairment losses on deposits with banks and other financial institutions	16	-	-	-	-	**16**
Allowance for impairment losses on placements with banks and other financial institutions	60	-	-	-	-	**60**
Allowance for impairment losses on financial assets purchased under resale agreements	-	333	-	-	-	**333**
Allowance for impairment losses on loans and advances to customers	81,864	38,067	3,722	(28,098)	82	**95,637**
Allowance for impairment losses on held-to-maturity investments	131	-	-	-	6	**137**
Allowance for impairment losses on for available-for-sale financial assets	2,168	648	1	(1,028)	3	**1,792**
Allowance for impairment losses on investments classified as receivables	16,966	5,409	332	(4,904)	-	**17,803**
Allowance for impairment losses on finance lease receivables	3,422	1,128	-	-	-	**4,550**
Allowance for impairment losses on fixed assets	3	-	-	-	-	**3**
Allowance for impairment losses on foreclosed assets	17	35	-	(4)	-	**48**
Allowance for impairment losses on prepaid purchase cost of finance lease assets	471	(462)	-	-	-	**9**
Allowance for impairment losses on other assets	1,538	1,246	73	(1,118)	-	**1,739**
Total	**106,656**	**46,404**	**4,128**	**(35,152)**	**91**	**122,127**

UNIT: RMB Million

	The Bank					
	2018					
	1/1/2018	Charge/ (Reversal)	Transfer in/(out)	Write-off	Exchange rate influence	31/12/2018
Allowance for impairment losses on deposits with banks and other financial institutions	16	-	-	-	-	**16**
Allowance for impairment losses on placements with banks and other financial institutions	60	-	-	-	-	**60**
Allowance for impairment losses on financial assets purchased under resale agreements	-	333	-	-	-	**333**
Allowance for impairment losses on loans and advances to customers	81,498	37,426	3,721	(27,910)	82	**94,817**
Allowance for impairment losses on held-to-maturity investments	131	-	-	-	6	**137**
Allowance for impairment losses on for available-for-sale financial assets	2,148	401	1	(1,005)	3	**1,548**
Allowance for impairment losses on investments classified as receivables	16,912	5,168	332	(4,904)	-	**17,508**
Allowance for impairment losses on fixed assets	3	-	-	-	-	**3**
Allowance for impairment losses on foreclosed assets	17	35	-	(4)	-	**48**
Allowance for impairment losses on other assets	1,538	1,246	73	(1,118)	-	**1,739**
Total	**102,323**	**44,609**	**4,127**	**(34,941)**	**91**	**116,209**

19. DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

UNIT: RMB Million

	The Group		The Bank	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Deposits from banks:				
Domestic banks	**318,725**	315,782	**318,748**	315,782
Foreign banks	**97,746**	80,864	**97,746**	80,864
Deposits from other financial institutions:				
Other domestic financial institutions	**928,389**	1,049,413	**934,890**	1,052,407
Other overseas financial institutions	**23**	-	**23**	-
Total	**1,344,883**	**1,446,059**	**1,351,407**	**1,449,053**

20. PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

UNIT: RMB Million

	The Group		The Bank	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Placements from:				
Domestic banks	**157,077**	139,711	**63,188**	39,100
Other domestic financial institutions	**4,648**	2,731	**4,648**	2,731
Overseas banks	**59,106**	45,487	**59,105**	43,318
Total	**220,831**	**187,929**	**126,941**	**85,149**

21. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

UNIT: RMB Million

	The Group		The Bank	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Trading financial liabilities:				
Sold financing bonds	**-**	873	**-**	873
Others	**97**	123	**97**	123
Financial liabilities assigned as at fair value through profit or loss	**2,497**	5,567	**2,290**	4,729
Total	**2,594**	**6,563**	**2,387**	**5,725**

22. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

UNIT: RMB Million

	The Group		The Bank	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Bonds	**181,969**	209,658	**170,674**	203,749
Bills	**48,600**	20,136	**48,600**	20,136
Total	**230,569**	**229,794**	**219,274**	**223,885**

23. DUE TO CUSTOMERS

UNIT: RMB Million

	The Group	
	31/12/2018	31/12/2017
Demand deposits		
Corporate	**1,001,358**	1,083,505
Personal	**253,500**	227,134
Subtotal	**1,254,858**	1,310,639
Term deposits (including call deposits)		
Corporate	**1,541,943**	1,373,402
Personal	**272,073**	194,172
Subtotal	**1,814,016**	1,567,574
Guaranteed and margin deposits	**231,867**	205,923
Others	**2,771**	2,757
Total	**3,303,512**	**3,086,893**

Analyzed by business/products for which guaranteed and margin deposits are required:

UNIT: RMB Million

	12/31/2018	12/31/2017
Bank acceptances	**123,699**	107,853
Letters of credit	**18,494**	14,486
Guarantee	**8,717**	14,124
Others	**80,957**	69,460
Total	**231,867**	**205,923**

UNIT: RMB Million

	The Bank	
	12/31/2018	12/31/2017
Demand deposits		
Corporate	**1,001,909**	1,084,291
Personal	**253,500**	227,134
Subtotal	**1,255,409**	1,311,425
Term deposits (including call deposits)		
Corporate	**1,541,943**	1,373,642
Personal	**272,073**	194,172
Subtotal	**1,814,016**	1,567,814
Guaranteed and margin deposits	**231,867**	205,923
Others	**2,771**	2,757
Total	**3,304,063**	**3,087,919**

Analyzed by business/products for which guaranteed and margin deposits are required:

UNIT: RMB Million

	12/31/2018	12/31/2017
Bank acceptances	**123,699**	107,853
Letters of credit	**18,494**	14,486
Guarantee	**8,717**	14,124
Others	**80,957**	69,460
Total	**231,867**	**205,923**

24. EMPLOYEE BENEFITS PAYABLE

UNIT: RMB Million

	The Group				The Bank			
	1/1/2018	Increase	Decrease	31/12/2018	1/1/2018	Increase	Decrease	31/12/2018
Salaries and bonus	12,207	19,629	(18,531)	**13,305**	10,941	17,693	(16,991)	**11,643**
Labor union expenditure and staff educational funds	1,575	744	(541)	**1,778**	1,530	709	(516)	**1,723**
Social insurance	104	2,259	(2,279)	**84**	82	2,107	(2,108)	**81**
Housing funds	44	986	(988)	**42**	40	938	(941)	**37**
Defined contribution plans	107	2,611	(2,586)	**132**	91	2,534	(2,540)	**85**
Total	**14,037**	**26,229**	**(24,925)**	**15,341**	**12,684**	**23,981**	**(23,096)**	**13,569**

The salaries, bonus, retirement benefits and other social insurance of employee benefits payable are granted or paid according to time limit set by relevant laws, regulations and the Group's policies. See defined contribution pension plans in Note VIII, 47.1.

25. TAX PAYABLE

UNIT: RMB Million

	The Group		The Bank	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Income tax	**7,959**	6,160	**7,125**	5,643
Value added tax	**2,733**	1,399	**2,404**	1,401
City maintenance and construction tax	**186**	82	**179**	72
Others	**419**	487	**337**	311
Total	**11,297**	**8,128**	**10,045**	**7,427**

26. DEBT SECURITIES ISSUED

UNIT: RMB Million

	The Group		The Bank	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Long term subordinated bonds	**20,957**	20,953	**20,957**	20,953
Financial bonds	**150,244**	97,530	**134,424**	86,471
Secondary capital bonds	**51,935**	51,930	**49,935**	49,930
Non-negotiable certificates of deposit	**483,363**	471,058	**483,363**	471,058
Certificates of deposit	**9,757**	19,620	**9,757**	19,620
Asset-backed securities	**598**	1,867	**-**	-
Private placement (Note)	**1,000**	-	**-**	-
Total	**717,854**	**662,958**	**698,436**	**648,032**

Note: Debt securities issued by the Group include long-term subordinated bonds, financial bonds, secondary capital bonds, non-negotiable certificates of deposit, certificates of deposit, asset-backed securities and private placement note. The secondary capital bonds are issued by commercial banks to supply the secondary capital. The secondary capital bonds and the long term subordinated bonds are in the same liquidation sequence.

Detailed information for debt securities issued as follows:

UNIT: RMB Million

			The Group	The Bank
Category of bonds	Issuing date	Interest payment frequency	31/12/2018	31/12/2018
Long-term subordinate bonds				
09 CIB 02(1)	2009-09-09	Yearly	**7,995**	**7,995**
10 CIB debt(2)	2010-03-29	Yearly	**3,000**	**3,000**
11 CIB subordinated debt(3)	2011-06-28	Yearly	**10,000**	**10,000**
Less: Unamortized issuance cost			**(38)**	**(38)**
Subtotal			**20,957**	**20,957**
Financial bonds				
16 CIB green financial bond 01(4)	2016-01-28	Yearly	**10,000**	**10,000**
16 CIB green financial bond 02(4)	2016-07-14	Yearly	**20,000**	**20,000**
16 CIB green financial bond 03(4)	2016-11-15	Yearly	**20,000**	**20,000**
18 CIB green financial bond 01(5)	2018-11-01	Yearly	**30,000**	**30,000**
18 CIB green financial bond 02(5)	2018-11-22	Yearly	**30,000**	**30,000**
USD medium-term notes(6)	2016-09-21	Half-year	**4,804**	**4,804**
USD medium-term notes(6)	2016-09-21	Half-year	**2,059**	**2,059**
USD medium-term notes(6)	2018-03-05	Half-year	**4,118**	**4,118**
USD medium-term notes(6)	2018-03-05	Half-year	**1,716**	**1,716**
USD medium-term notes(6)	2018-03-05	Quarterly	**3,432**	**3,432**
EUR medium-term notes(6)	2018-03-05	Quarterly	**1,963**	**1,963**
USD green financial bond(6)	2018-11-13	Quarterly	**4,118**	**4,118**
EUR green financial bond(6)	2018-11-13	Quarterly	**2,356**	**2,356**
17 CIB leasing debt 01(7)	2017-03-08	Yearly	**400**	**-**
17 CIB leasing debt 02(7)	2017-05-19	Yearly	**2,000**	**-**
17 CIB leasing debt 03(7)	2017-08-10	Yearly	**3,580**	**-**
18 CIB leasing debt 01(8)	2018-06-05	Yearly	**3,340**	**-**
18 CIB leasing debt 02(8)	2018-11-16	Yearly	**3,500**	**-**
18 CIB leasing debt 03(8)	2018-11-30	Yearly	**3,000**	**-**
Less: Unamortized issuance cost			**(142)**	**(142)**
Subtotal			**150,244**	**134,424**

UNIT: RMB Million

			The Group	The Bank
Type-continued	Issuing date	Interest payment frequency	31/12/2018	31/12/2018
Secondary capital bonds				
14 CIB secondary [9]	2014-06-18	Yearly	**20,000**	**20,000**
16 CIB secondary [10]	2016-04-11	Yearly	**30,000**	**30,000**
17 CIB leasing secondary [11]	2017-09-15	Yearly	**2,000**	**-**
Less: Unamortized issuance cost			**(65)**	**(65)**
Subtotal			**51,935**	**49,935**
Non-negotiable certificates of deposit				
Carrying value of non-negotiable certificate of deposit [12]			**490,200**	**490,200**
Less: Unamortized issuance cost			**(6,837)**	**(6,837)**
Subtotal			**483,363**	**483,363**
Certificate of deposit				
Carrying value of certificate of deposit [13]			**9,761**	**9,761**
Accrued interest			**50**	**50**
Less: Unamortized issuance cost			**(54)**	**(54)**
Subtotal			**9,757**	**9,757**
Asset-backed securities				
Jinxin 2017 Series 1 leasing asset-backed security [14]			**598**	**-**
Subtotal			**598**	**-**
Private placement note				
18 CIB assets PPN001(15)	2018-12-20	Yearly	**1,000**	**-**
Subtotal			**1,000**	**-**
Total			**717,854**	**698,436**

(1) In September 2009, the Group issued RMB7,995 million subordinated bonds with a 15-year maturity, a fixed interest rate and a redemption option in the end of the tenth year. The annual coupon rate in first ten interest-bearing years is 5.17%, and the rate in late five years is 8.17% if the issuer does not exercise the option of redemption.

(2) In March 2010, the Group issued RMB3,000 million subordinated bond with a 15-year maturity, a fixed interest rate and a redemption right in the end of the tenth year. The annual coupon rate in first ten interest-bearing years is 4.80%, and the rate in late five years is 7.80% if the issuer does not exercise the option of redemption.

(3) In June 2011, the Group issued RMB10,000 million subordinated bond with a 15-year maturity, a fixed interest rate and a redemption right in the end of the tenth year. The annual coupon rate is 5.75% consistently.

(4) In January 2016, July 2016 and November 2016, the Group respectively issued green financial bonds of 3-year bonds amounting RMB10,000 million, 3-year bonds amounting RMB20,000 million and 5-year bonds amounting RMB20 billion with fixed rate of 2.95%, 3.20% and 3.40%.

(5) In November 2018, the Group issued two kinds of green financial bonds of 3-year bonds amounting RMB30,000 million with fixed rates of 3.99% and 3.89%.

(6) In September 2016, the Group set the medium-term notes issuing plan with limit of USD5 billion at The Stock Exchange of Hong Kong Ltd. (the "SEHK"). According to the plan, the Hong Kong branch of the Bank initially issued 3-year medium-term notes amounting USD700 million and 5-year medium-term notes amounting USD300 million at fixed annual rates of 2.00% and 2.375% respectively. The annual rate kept constant during the existence of bonds; in March 2018, the Hong Kong branch of the Bank issued 3-year medium-term notes amounting USD600 million, 5-year medium-term notes amounting USD250 million, 5-year medium-term notes amounting USD500 million and 3-year medium-term notes amounting EUR250 million at fixed annual rates of 3.50%, 3.750%, 105 basis points over the 3-month London rate for interbank lending, and 75 basis points over the 3-month Europe rate for interbank lending; in November 2018, the Hong Kong branch of the Bank issued 3-year overseas green financial bonds amounting USD600 million and 3-year overseas green financial bonds amounting EUR300 million at annual rates of 85 basis points over the 3-month London rate for interbank lending and 85 basis points over the 3-month Europe rate for interbank lending.

(7) In March 2017, May 2017 and August 2017, the Group's subsidiary China Industrial Finance Leasing Limited issued RMB500 million, RMB2,000 million and RMB4,000 million three-year fixed interest rate financial bonds at the annual rate of 4.5%, 5% and 4.7% respectively. As at 31 December 2018, the Bank holds 17 CIB leasing debt 01 of RMB100 million and 17 CIB leasing debt 03 of RMB420 million issued by China Industrial Finance Leasing Limited in March 2017 and August 2017 respectively.

(8) In June 2018, November 2018 and November 2018, the Group's subsidiary Industrial Bank Financial Leasing Co., Ltd. issued three-year fixed interest rate financial bonds amounting RMB3,500 million, RMB3,500 million and RMB3,000 million at the annual rate of 4.88%, 3.98% and 3.95% respectively. As at 31 December 2018, the "18 CIB leasing debt 01" of RMB160 million issued by Industrial Bank Financial Leasing Co., Ltd. in June 2018 was held by the Bank.

(9) In June 2014, the Group issued RMB20,000 million subordinated bond with a 10-year maturity, a fixed interest rate and a redemption right in the end of the fifth year. The annual coupon rate is 6.15% consistently.

(10) In April 2016, the Group issued RMB30,000 million subordinated bond with a 10-year maturity, a fixed interest rate and a redemption right at the end of the fifth year. The annual coupon rate is 3.74% consistently.

(11) In September 2017, the Group's subsidiary China Industrial Finance Leasing Limited issued RMB2 billion 10-year secondary capital bonds with fixed interest rate and issuer's redemption right at the end of the 5th year. During the tenure of the bonds, the annual interest rate remains at 5.15%.

(12) As at 31 December 2018, the Group had 311 unpaid non-negotiable certificates of deposit with total amount of RMB490,200 million, including 12 USD non-negotiable certificates of deposit, of which the issued par value was USD820 million (RMB5,628 million) and the terms are within 1 year; 1 HKD non-negotiable certificates of deposit, of which the issued par value was HKD200 million, with RMB175 million due within 1 year;. 1 EUR non-negotiable certificates of deposit, of which the issued par value was EUR 85 million, with RMB67 million due within 1 year; and 297 non-negotiable certificates of deposit, of which the issued par value was RMB484,330 million, with RMB465,530 million due within 1 year and the rest due in 2 to 3 years. The annual rate ranged from 2.8% to 4.9%. Except for the 39 interest-bearing debts were paid quarterly, the interest of the rest debts were paid upon maturity.

(13) As at 31 December 2018, Hong Kong branch had 21 unpaid non-negotiable certificates of deposit, of which the amount was RMB9,761 million and the terms are all less than 1 year. The amount of 10 HKD certificates was HKD5,750 million (RMB5,039 million); the amount of 10 USD certificates of deposit was USD650 million (RMB4,461 million). 1 GBP certificates of deposit with issued par value of GBP30 million (RMB261 million). The annual interest rate ranged from 1.16% to 3.56%. The interest of all certificates is paid upon maturity.

(14) In May 2017, the Group's subsidiary, Industrial Bank Financial Leasing Co., Ltd. issued "Jin Xin 2017 Series 1 leasing asset-backed security" amounting RMB4,721 million. As at 31 December 2018, the existing amount of "Jin Xin 2017 Series 1 leasing asset-backed security" is RMB1,420 million, including RMB801 million held by the initiator and RMB21 million held by the Bank. The amount held by the initiator and the bank has been offset in the consolidated financial statements.

(15) In December 2018, the Group's subsidiary, China Industrial International Trust Limited issued a three-year placement note of RMB1,000 million with an annual fixed interest rate of 4.85%.

27. OTHER LIABILITIES

UNIT: RMB Million

		The Group		The Bank	
		31/12/2018	31/12/2017	31/12/2018	31/12/2017
Interest payable	(1)	**46,771**	41,293	**45,646**	39,945
Bank promissory notes		**848**	119	**848**	119
Items in the process of clearance and settlement		**5,304**	2,111	**5,304**	2,111
Dividend payables		**1**	1	**1**	1
Liabilities with continuing involvement		**7,641**	2,101	**7,641**	2,101
Wealth management and entrusted investment fund		**312**	74	**312**	74
Deferred income		**2,889**	3,488	**993**	1,348
Other payables		**21,103**	28,028	**5,678**	10,981
Total		**84,869**	**77,215**	**66,423**	**56,680**

(1) Interest payable

UNIT: RMB Million

	The Group		The Bank	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Interest of borrowings from Central Bank	**4,312**	3,581	**4,312**	3,581
Interest of deposits from banks and other financial institutions	**6,719**	7,589	**6,743**	7,599
Interest of placements from banks and other financial institutions	**1,655**	1,416	**824**	356
Interest of debt securities issued	**3,512**	4,505	**3,200**	4,237
Interest of financial assets sold under repurchase agreements	**443**	386	**443**	386
Interest due to customers	**29,939**	23,352	**29,939**	23,352
Others	**191**	464	**185**	434
Total	**46,771**	**41,293**	**45,646**	**39,945**

28. SHARE CAPITAL

UNIT: RMB Million

	The Group and the Bank		
	1/1/2018	Change for the year	31/12/2018
Shares without limited sales restrictions RMB ordinary shares (A shares)	19,052	-	**19,052**
Shares with limited sales restrictions RMB ordinary shares (A shares)	1,722	-	**1,722**
Total shares	**20,774**	**-**	**20,774**

As at 31 December 2018, the share capital of the Bank is RMB20,774 million (31 December 2017: RMB20,774 million) with par value of RMB1 Yuan per share.

29. OTHER EQUITY INSTRUMENTS

The Bank are approved by CSRC to non-publicly issue domestic preference shares no further than RMB26 billion on 24/11/2014, in which RMB13 billion is initially issued with face value of RMB100 per share and completed in December 2014,which was verified by Deloitte Touche Tohmatsu Certified Public Accountants LLP. In June 2015, the Bank issued the second term of non-publicly domestic preference shares for RMB13 billion, with face value of RMB100 per share, which was verified by Deloitte Touche Tohmatsu Certified Public Accountants LLP. The Bank completed the issue of RMB26 billion domestic preference shares, approved in November 2014, successfully in June 2015.

Outstanding preference shares in the end of the year are as follows:

The Group and the Bank									
Outstanding financial instrument	Time	Classification	Rate	Price (RMB/ Share)	Quantity (RMB million shares)	Amount (RMB million)	Maturity date	Conversion requirement	Condition
Preference shares	12/2014	Equity instrument	Note 1	100	130	13,000	N/A	Note 3	N/A
Preference shares	06/2015	Equity instrument	Note 2	100	130	13,000	N/A	Note 3	N/A

Note 1: For the first issue of the preference shares, every five year is an interest-bearing cycle from the payment deadline 8 December 2014, the dividend rate is the same in every interest-bearing cycle. The dividend rate of first cycle is determined to be 6.00% through inquiring, by the Board of Directors in according with the shareholders' meeting authorized combining with some factors such as national policy when issued, market conditions, specific circumstances of the Bank and requirements of investors. The dividend rate of preference shares of this issue is not higher than annual weighted average ROE of ordinary shareholders in the last two fiscal years. The dividend rate of preference shares of this issue is the sum of benchmark interest rate and basic interest rate, the benchmark interest rate of the first interest-bearing cycle is national debt (which period before payment is for 5 years) YTM's arithmetic mean (i.e. 3.45%, rounded off to 0.01%), from the fixed-rate national debt yield curve in Bank Debt published by China Bond Information Website (or any other websites approved by Central Securities Depository Trust and Clearing Corporation Limited), 20 days before 8 December 2014 which is the date of the deadline for payment of preference shares issued (excluding the day). The benchmark interest rate adjusts every 5 years from the deadline for payment of preference shares issued. The basic interest rate is the dividend rate of first cycle deducting the benchmark interest rate, which is 2.55%. The basic interest rate will no longer be adjusted since the issue of determining. The coupon interest rate of follow-up period is current dividend benchmark interest rate plus an interest margin, the benchmark interest rate of current interest-bearing cycle

is national debt (which period before payment is for 5 years) YTM's arithmetic mean (rounded off to 0.01%), from the fixed-rate national debt yield curve in Bank Debt published by China Bond Information Website (or any other websites approved by Central Securities Depository Trust and Clearing Corporation Limited), 20 days before benchmark interest rate adjustment date which is the date of each 5 years of the deadline for payment of preference shares issued (which is 8 December). If the YTM of 5-year treasury bonds with 5-year maturity is not available on the benchmark interest adjustment day, the benchmark interest rate or determination principal will be determined under negotiations between the Bank and investors required by regulator.

Note 2: For the second issue of preference shares, every five year is an interest-bearing cycle from the payment deadline 24 June 2015, the dividend rate is the same in every interest-bearing cycle. The dividend rate of first cycle is determined to be 5.40% through inquiring, by the Board of Directors in according with the shareholders' meeting authorized combining with some factors such as national policy when issued, market conditions, specific circumstances of the Bank and requirements of investors. The dividend rate of preference shares of this issue is not higher than annual weighted average ROE of ordinary shareholders in the last two fiscal years. The dividend rate of preference shares of this issue is the sum of benchmark interest rate and basic interest rate, the benchmark interest rate of the first interest-bearing cycle is national debt (which period before payment is for 5 years) YTM's arithmetic mean (i.e. 3.25%, rounded off to 0.01%), from the fixed-rate national debt yield curve in Bank debt published on www.chinabond.com.cn (or any other websites approved by Central Securities Depository Trust and Clearing Corporation Limited), 20 days before 24 June 2015 which is the date of the deadline for payment of preference shares issued (excluding the day). The benchmark interest rate adjusts every 5 years from the deadline for payment of preference shares issued. The basic interest rate is the dividend rate of first cycle deducting the benchmark interest rate, which is 2.15%. The basic interest rate will no longer be adjusted since the issue of determining. The coupon interest rate of follow-up period is current dividend benchmark interest rate plus an interest margin, the benchmark interest rate of current interest-bearing cycle is national debt (which period before payment is for 5 years) YTM's arithmetic mean (rounded off to 0.01%), from the fixed-rate national debt yield curve in Bank Debt published on www.chinabond.com.cn (or any other websites approved by Central Securities Depository Trust and Clearing Corporation Limited), 20 days before benchmark interest rate adjustment date which is the date of each 5 years of the deadline for payment of preference shares issued (which is 24 June). If the YTM of 5-year national debt with 5-year maturity is not available on the benchmark interest adjustment day, the benchmark interest rate or determination principal will be determined under negotiations between the Bank and investors required by regulator.

Note 3: (1) When the Bank's core tier one capital adequacy ratio fell to 5.125%, the preference shares of this issue will be examined and decided by the CBIRC in accordance with the relevant requirements of, in accordance with the full mandatory conversion price into ordinary shares of the Bank, when the preference shares converted into A shares of ordinary share, under any conditions no longer be restored to preference shares.

(2) When triggered event of the secondary capital instruments issued by the Bank occurs, the preference shares of this issue will be examined and decided by the CBIRC in accordance with the relevant requirements of, in accordance with the full mandatory conversion price into ordinary shares of the Bank, when the preference shares converted into A shares of ordinary share, under any conditions no longer be restored to preference shares. Among them, the secondary capital instruments triggering event is the earlier of the following two situations: ① the CBIRC identifies if it was not conversion or written down, the Bank will be unable to survive; ② Relevant departments identify if the public sectors don't inject or offer the same effect support, the Bank will not survive.

The principal terms of disclosure (applicable to first and second issue of domestic preference shares):

The Bank will pay preferred dividends in cash. The preference shares of this issue use a non-cumulative dividend payment, which means dividend that is not paid in full to preference shareholders do not accrue interest to next year. After the preference shareholders of this issue obtain distribution in accordance with the agreed dividend rate, they can no longer participate in the distribution of profits remaining.

Under the premise of ensuring the capital adequacy ratio from the regulatory requirements, after the Bank covers losses, extracts mandatory reserve and other reserve, under the case of there still is retained earnings in the Bank's financial statements caliber, the Bank could allocate dividends to preference shareholders. The priority of preference shareholders dividends is higher than ordinary shareholders, payment of preference shares dividends is neither linked to ratings of banks, nor adjusted with the rating changes. The Bank could cancel payment of dividend in any case, and it does not constitute an event of default. The Bank can freely cancel the dividends distribution without constituting a breach of contract. The Bank is entitled to arrange cancelled income as payment to other debts with maturity. Canceling paying dividend shall not constitute any further restrictions on the Bank except income distribution of ordinary shares. When the Bank exercises these rights, it will take full account into the interests of preference shareholders. If payment of dividend for preference shareholders is all or part canceled, the Bank shall not pay ordinary share dividend for the fiscal year.

The right of redemption for preference shares of this issue belongs to the Bank, the Bank exercised the right of conditional redemption is under the premise of the CBIRC's approval, the Bank's preference shareholders do not have the right to request redemption of preference shares and should not form expectations that the preference shares will be redeemed.

The initial mandatory conversion price of the preference shares of this issue is the Bank A shares of ordinary share trading price on the date of 20 days before consideration by the Board of Directors of this preference shares issued, which means that mandatory initial conversion price of preference shares of this issue is RMB9.86 / share. Since the day that the issuance of preference shares program is passed by the Bank's Board of Directors, when the Bank shares change with the delivery of the stock dividend, share capital, issuance of new shares (not including any increasing share capital from conversion of financing instruments with terms that could be converted to ordinary shares) or the allotment of shares, the preference shares will be cumulatively adjusted in turn the forced conversion price in accordance with the established formula , and disclose relevant information in accordance with the provisions.

The Bank's preference shareholders are entitled with priority to ordinary shareholders of the remaining property dividing, the amount paid off is the sum of the neither canceled nor distributed dividends and the total nominal amount of the held preference shares; if it could not cover, then assign by the preference shareholders in proportion to their shareholding.

As of 30 June 2015, the Bank's net proceeds of RMB25,905 million dollars have been all used to supplement the first level capital.

Changes of outstanding preference shares are as follows:

UNIT: RMB Million

	The Group and the Bank							
	1/1/2018		Addition		Less		31/12/2018	
	Quantity (Million)	Carrying value	Quantity (Million)	Carrying value	Quantity (Million)	Carrying value	Quantity (Million)	Carrying value
Preference shares	260	26,000	-	-	-	-	260	**26,000**
Fees		(95)		-		-		**(95)**
Total	260	25,905	-	-	-	-	260	**25,905**

Attributing to holders of equity instrument

UNIT: RMB Million

	The Group	
	31/12/2018	31/12/2017
Equities attributable to equity holders of parent company		
Equities attributable to ordinary shareholders of parent company	**440,048**	390,990
Equities attributable to other equity holders of parent company	**25,905**	25,905
Net profit	**1,482**	1,482
Total comprehensive income	**1,482**	1,482
Distributed dividend of the period	**(1,482)**	(1,482)
Accumulated retained dividend	**-**	-
Equities attributable to non-controlling interests in equity	**6,631**	5,857

30. CAPITAL RESERVE

UNIT: RMB Million

	The Group				The Bank			
	1/1/2018	Increase	Decrease	31/12/2018	1/1/2018	Increase	Decrease	31/12/2018
Share premium	74,978	-	-	**74,978**	75,227	-	-	**75,227**
Others	33	-	-	**33**	33	-	-	**33**
Total	**75,011**	**-**	**-**	**75,011**	**75,260**	**-**	**-**	**75,260**

31. SURPLUS RESERVE

UNIT: RMB Million

	The Group and the Bank	
	12/31/2018	12/31/2017
Statutory surplus reserve	**10,387**	10,387
Discretionary surplus reserve	**297**	297
Total	**10,684**	10,684

Under relevant PRC law, the Bank is required to transfer 10% of its net profit to a non-distributable statutory surplus reserve. Appropriation to the statutory surplus reserve may cease when the balance of this reserve has reached 50% of share capital. As of 31 December 2018, the Bank ceased to make appropriations to the statutory surplus reserves since the balance of them have reached 50% of the share capital of the Bank.

32. GENERAL AND REGULATION RESERVE

UNIT: RMB Million

	The Group		The Bank	
	2018	2017	2018	2017
General and regulatory reserve	**73,422**	**70,611**	**69,996**	**67,888**

Pursuant to (CJ[2012] No. 20) Measures on General Provision for Bad and Doubtful Debts for Financial Institutions promulgated by the MOF, the Bank is required to transfer certain percentage of its net profit to establish and maintain a general reserve within shareholders' equity, through the appropriation of profit to address unidentified potential impairment losses. In principle, the general and regulatory reserve, accounted as profit distribution, should not be lower than 1.5% of the closing balance of gross risk-bearing assets since it is a part of shareholders' equity. Gross risk-bearing assets, include loans and advances to customers, available-for-sale financial assets, held-to-maturity investments, investments classified as receivables, long-term equity investments, deposits with banks and other financial institutions, placements with banks and other financial institutions, foreclosed assets and other receivables and so forth. As at 31 December 2018, the balance of the provision of general risk is 1.5% of the balance of risk-bearing assets at the end of the year. The subsidiaries of the Bank determine the general and regulatory reserve according to the regulation.

33. RETAINED EARNINGS

UNIT: RMB Million

	The Group		The Bank	
	2018	2017	2018	2017
Opening balance	**214,977**	173,524	**204,005**	165,156
Net profit for the year	**60,620**	57,200	**57,231**	54,007
Appropriations to statutory surplus reserve	**-**	(860)	**-**	(860)
Appropriations to general and regulatory reserve	**(2,811)**	(733)	**(2,108)**	(144)
Dividends distribution of ordinary shares	**(13,503)**	(12,672)	**(13,503)**	(12,672)
Dividends distribution of preference shares	**(1,482)**	(1,482)	**(1,482)**	(1,482)
Closing balance	**257,801**	**214,977**	**244,143**	**204,005**

(1) "2018 Profit Distribution Proposal of the Bank" approved by the Board of Directors on 29 April 2019 and submitted for approval by the annual general meeting is as follows:

(i) Appropriation of RMB2,108 million to general and regulation reserve. As at 31 December 2018, the proposed appropriation of general and regulation reserve has been included in the general risk reserve.

(ii) Distribute a cash dividend of RMB6.90 per 10 shares (tax inclusive) on the basis of 20,774,190,751 ordinary shares of the Bank at issuance date of the financial statements.

(iii) The interest period of preference shares issued in 2014 is from 1 January 2018 to 31 December 2018 (the annual dividend rate is 6%), the interest period of preference shares issued in 2015 is from 1 January 2018 to 31 December 2018 (the annual dividend rate is 5.4%), the preferred dividends payable is RMB1,482 million in total.

The above profit distribution plan has not been approved by the Annual General Meeting of the Bank. The accounting treatment of dividend distribution scheme before the approval is not carried out.

(2) "2017 Profit Distribution Proposal of the Bank" approved by the Board of Directors on 24 April 2018 and approved by the annual general meeting on 25 May 2018 is as follows:

(i) Appropriation of RMB860 million to statutory surplus reserve on the basis of the Bank's net profit for 2017 amounting to RMB54,007 million . As at 31 December 2017, the proposed appropriation to statutory surplus reserve has been included in the surplus reserve.

(ii) Appropriation of RMB144 million to general and regulation reserve. As at 31 December 2017, the proposed appropriation of general and regulation reserve has been included in the general risk reserve.

(iii) Distribute a cash dividend of RMB6.50 per 10 shares (tax inclusive) on the basis of 20,774,190,751 ordinary shares of the Bank at issuance date of the financial statements.

(iv) The interest period of preference shares issued in 2014 is from 1 January 2017 to 31 December 2017 (the annual dividend rate is 6%), the interest period of preference shares issued in 2015 is from 1 January 2017 to 31 December 2017(the annual dividend rate is 5.4%), the preferred dividends payable is RMB1,482 million in total.

As at 31 December 2018, the above-mentioned dividend distribution has been completed.

(3) Surplus reserve appropriated by subsidiaries

As at 31 December 2018, the balance of the Group's retained earnings include surplus reserve appropriated by subsidiaries amounting to RMB1,613 million (31 December 2017: RMB1,360 million).

34. NET INTEREST INCOME

UNIT: RMB Million

	The Group		The Bank	
	2018	2017	2018	2017
Interest income				
Balances with Central Bank	**6,545**	6,813	**6,545**	6,813
Deposits with banks and other financial institutions	**2,949**	1,991	**2,866**	1,809
Placements with banks and other financial institutions	**2,707**	1,337	**3,144**	1,545
Financial assets purchased under resale agreements	**2,824**	2,879	**2,714**	2,505
Loans and advances to customers	**124,819**	104,760	**122,165**	103,497
Including: Corporate	**75,480**	66,725	**75,696**	66,732
Personal	**45,786**	36,885	**42,916**	35,615
Discounted bills	**3,553**	1,150	**3,553**	1,150
Bonds and other investment	**123,781**	128,567	**121,390**	126,281
Finance lease	**5,717**	5,472	**-**	-
Others	**1,236**	825	**843**	825
Total	**270,578**	252,644	**259,667**	243,275
Interest expense				
Borrowing from Central Bank	**(8,639)**	(7,105)	**(8,639)**	(7,105)
Deposits from banks and other financial institutions	**(55,205)**	(64,123)	**(55,317)**	(64,189)
Placements from banks and other financial institutions	**(8,899)**	(6,185)	**(3,292)**	(1,696)
Financial assets sold under repurchase agreements	**(4,259)**	(3,358)	**(4,007)**	(3,255)
Due to customers	**(69,985)**	(54,891)	**(69,987)**	(54,903)
Debt securities issued	**(27,707)**	(28,390)	**(27,706)**	(27,933)
Others	**(227)**	(141)	**(83)**	(60)
Total	**(174,921)**	(164,193)	**(169,031)**	(159,141)
Net interest income	**95,657**	88,451	**90,636**	84,134
Including: Interest income accrued on impaired financial assets	**1,287**	1,173	**1,287**	1,173

35. NET FEE AND COMMISSION INCOME

UNIT: RMB Million

	The Group		The Bank	
	2018	2017	2018	2017
Fee and commission income				
Settlement and clearing fee	**1,682**	1,190	**1,682**	1,190
Bank card fee	**21,408**	13,228	**21,408**	13,228
Agency fee	**2,670**	3,059	**2,635**	3,032
Credit commitment fee	**1,526**	1,673	**1,526**	1,673
Transactional service fee	**942**	602	**942**	602
Custodian fee	**3,405**	4,063	**3,405**	4,063
Consultancy and advisory fee	**11,124**	14,416	**10,202**	13,458
Trust service fee	**2,118**	1,631	**-**	-
Lease service fee	**1,053**	1,060	**-**	-
Others	**1,134**	1,105	**575**	734
Subtotal	**47,062**	42,027	**42,375**	37,980
Fee and commission expense				
Settlement and clearing expenses	**(1,204)**	(810)	**(1,196)**	(803)
Bank card expenses	**(1,349)**	(1,454)	**(1,349)**	(1,454)
Service fee for bond underwriting	**(278)**	(109)	**(278)**	(109)
Others	**(1,253)**	(915)	**(798)**	(824)
Subtotal	**(4,084)**	(3,288)	**(3,621)**	(3,190)
Net fee and commission income	**42,978**	38,739	**38,754**	34,790

36. INVESTMENT INCOME

UNIT: RMB Million

	The Group		The Bank	
	2018	2017	2018	2017
Precious metal	**88**	(687)	**88**	(687)
Financial assets at fair value through profit of loss	**9,339**	9,565	**9,862**	10,242
Derivative financial instruments	**8,506**	(6,464)	**8,506**	(6,464)
Available-for-sale financial assets	**6,595**	1,580	**7,464**	2,037
Long-term equity investments (equity method)	**265**	292	**264**	272
Long-term equity investments (cost method)	**-**	-	**-**	20
Financial liabilities at fair value through profit of loss	**(12)**	(32)	**(12)**	(32)
Others	**1,701**	260	**809**	(115)
Total	**26,482**	**4,514**	**26,981**	**5,273**

37. GAINS (LOSSES) FROM CHANGES IN FAIR VALUE

UNIT: RMB Million

	The Group		The Bank	
	2018	2017	2018	2017
Precious metal	**(360)**	1,153	**(360)**	1,153
Financial assets at fair value through profit of loss	**(320)**	(763)	**(517)**	(231)
Derivative financial instruments	**3,589**	(990)	**3,589**	(990)
Financial liabilities at fair value through profit of loss	**10**	(22)	**(1)**	(2)
Total	**2,919**	**(622)**	**2,711**	**(70)**

38. BUSINESS TAXES AND SURCHARGES

UNIT: RMB Million

	The Group		The Bank	
	2018	2017	2018	2017
City maintenance and construction tax	**674**	589	**632**	558
Education surcharge	**460**	409	**431**	387
Others	**274**	(23)	**253**	(59)
Total	**1,408**	**975**	**1,316**	**886**

39. GENERAL AND ADMINISTRATIVE EXPENSES

UNIT: RMB Million

	The Group		The Bank	
	2018	2017	2018	2017
Employee benefits	**26,229**	23,787	**23,981**	21,895
Depreciation and amortization	**2,423**	2,052	**2,263**	1,949
Lease expenses	**3,003**	2,889	**2,804**	2,719
R&D expenses	**630**	457	**564**	411
Others	**9,779**	8,945	**9,474**	8,759
Total	**42,064**	**38,130**	**39,086**	**35,733**

40. IMPAIRMENT LOSSES ON ASSETS

UNIT: RMB Million

	The Group		The Bank	
	2018	2017	2018	2017
Loans and advances to customers	**38,067**	28,621	**37,426**	28,429
Investments classified as receivables	**5,409**	6,290	**5,168**	6,236
Available-for-sale financial assets	**648**	(598)	**401**	(597)
Finance lease receivables	**1,128**	462	**-**	-
Others	**1,152**	732	**1,614**	699
Total	**46,404**	**35,507**	**44,609**	**34,767**

41. NON-OPERATING INCOME

UNIT: RMB Million

	The Group		The Bank	
	2018	2017	2018	2017
Penalties and fines received	**53**	29	**53**	29
Gains from dormant accounts	**15**	10	**15**	10
Government grants	**18**	105	**6**	36
Others	**249**	229	**211**	210
Total	**335**	**373**	**285**	**285**

42. NON-OPERATING EXPENSES

UNIT: RMB Million

	The Group		The Bank	
	2018	2017	2018	2017
Donation expenses	**37**	21	**31**	20
Penalties and fines paid	**86**	389	**86**	389
Others	**49**	23	**46**	22
Total	**172**	**433**	**163**	**431**

43. INCOME TAX EXPENSES

UNIT: RMB Million

	The Group		The Bank	
	2018	2017	2018	2017
Current income tax	**12,973**	9,915	**10,770**	8,531
Deferred income tax	**(6,192)**	(2,835)	**(5,205)**	(2,666)
Adjustment in respect of income tax of prior year	**51**	(62)	**50**	(71)
Total	**6,832**	**7,018**	**5,615**	**5,794**

The tax charges can be reconciled to the profit as follows:

UNIT: RMB Million

	The Group		The Bank	
	2018	2017	2018	2017
Accounting profit	**68,077**	64,753	**62,846**	59,801
Tax calculated at applicable statutory tax rate of 25%	**17,019**	16,188	**15,712**	14,950
Adjustments:				
Income not subject to tax	**(12,105)**	(9,511)	**(11,997)**	(9,399)
Items not deductible for tax purposes	**1,867**	403	**1,850**	314
Adjustment in respect of income tax of prior year	**51**	(62)	**50**	(71)
Total	**6,832**	**7,018**	**5,615**	**5,794**

44. EARNINGS PER SHARE

UNIT: RMB Million

	The Group	
	2018	2017
Current net profit attributable to ordinary shareholders of the Bank	**59,138**	55,718
Weighted average ordinary shares issued by the Bank (shares in million)	**20,774**	20,344
Basic and diluted earnings per share (RMB)	**2.85**	2.74

The RMB26,000 million preference shares of the Bank approved in November 2014 were successfully issued in June 2015. When calculating the earnings per share, the current net profit attributed to ordinary shareholders did not include preference shares dividends announced of insurance. In addition, it had no influence on basic earnings per share and diluted earnings per share in 2018 and 2017.

45. OTHER COMPREHENSIVE INCOME

UNIT: RMB Million

	The Group						
	2018						
	31/12/2017	Amount incurred before income tax	Other comprehensive income transferred to profit and loss	Income tax expense	Belong to shareholders of the bank after tax	Belong to non-controlling interests after tax	31/12/2018
Other comprehensive income that will not be subsequently classified to profit and loss							
Including: Actuarial profits/losses on defined benefit plans	822	(188)	-	-	(188)	-	**634**
Subtotal	822	(188)	-	-	(188)	-	**634**
Other comprehensive income that may be subsequently classified to profit and loss							
Including: Profit and loss arising from changes in fair value of available-for-sale financial assets	(1,885)	(16,399)	21,087	(1,172)	3,587	(71)	**1,702**
Translation differences of financial statements denominated in foreign currencies	-	24	-	-	24	-	**24**
Shares of other comprehensive income of associates and joint ventures accounted for under equity method	(4)	-	-	-	-	-	**(4)**
Subtotal	(1,889)	(16,375)	21,087	(1,172)	3,611	(71)	**1,722**
Total	**(1,067)**	**(16,563)**	**21,087**	**(1,172)**	**3,423**	**(71)**	**2,356**

UNIT: RMB Million

	The Bank				
	2018				
	12/31/2017	Amount incurred before income tax	Other comprehensive income transferred to profit and loss	Income tax expense	31/12/2018
Other comprehensive income that will not be subsequently classified to profit and loss					
Including: Actuarial profits/losses on defined benefit plans	822	(188)	-	-	**634**
Subtotal	822	(188)	-	-	**634**
Other comprehensive income that may be subsequently classified to profit and loss					
Including: Profit and loss arising from changes in fair value of available-for-sale financial assets	(1,835)	(15,769)	21,112	(1,336)	**2,172**
Shares of other comprehensive income of associates and joint ventures accounted for under equity method	(4)	-	-	-	**(4)**
Subtotal	(1,839)	(15,769)	21,112	(1,336)	**2,168**
Total	**(1,017)**	**(15,957)**	**21,112**	**(1,336)**	**2,802**

46. SUPPLEMENTARY INFORMATION TO THE CASH FLOW STATEMENT

(1) Supplementary information to the cash flow statement

UNIT: RMB Million

	The Group		The Bank	
	2018	2017	2018	2017
1. Reconciliation of net profit to cash flows from operating activities				
Net profit	**61,245**	57,735	**57,231**	54,007
Add: Impairment losses on assets	**46,404**	35,507	**44,609**	34,767
Depreciation of fixed assets	**1,787**	1,551	**1,524**	1,181
Amortization of intangible assets	**116**	102	**100**	89
Amortization of long-term prepaid expenses	**671**	704	**639**	679
Gains from disposal of fixed assets, intangible assets and other long-term assets	**(20)**	(70)	**(20)**	(29)
Interest income of bonds and other investments	**(123,781)**	(128,567)	**(121,390)**	(126,281)
Interest income of impairment financial assets	**(1,287)**	(1,173)	**(1,287)**	(1,173)
(Gains) Losses from changes in fair value	**(2,919)**	622	**(2,711)**	70
Investment income	**(26,482)**	(4,514)	**(26,981)**	(5,273)
Interest expense for debt securities issued	**27,707**	28,390	**27,706**	27,933
Increase in deferred tax assets	**(6,735)**	(2,943)	**(5,746)**	(2,775)
Increase in deferred tax liabilities	**543**	108	**541**	109
Increase in receivables of operating activities	**(515,206)**	(437,550)	**(514,854)**	(427,653)
Increase in payables of operating activities	**181,858**	287,456	**183,632**	272,388
Net cash flow from operating activities	**(356,099)**	(162,642)	**(357,007)**	(171,961)
2. Changes in cash and cash equivalents				
Closing balance of cash and cash equivalents	**549,177**	470,321	**543,622**	480,627
Less: Opening balance of cash and cash equivalents	**470,321**	433,063	**480,627**	465,783
Net increase of cash and cash equivalents	**78,856**	37,258	**62,995**	14,844

(2) Composition of cash and cash equivalents

UNIT: RMB Million

	The Group		The Bank	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Cash on hand	**5,191**	5,535	**5,191**	5,535
Balances with Central Bank that can be withdrawn on demand	**77,820**	13,989	**77,820**	13,987
Deposits with banks and other financial institutions with original maturity less than three months	**36,216**	65,883	**32,456**	58,978
Placements with banks and other financial institutions with original maturity less than three months	**54,508**	20,921	**54,508**	20,921
Financial assets purchased under resale agreements with original maturity less than three months	**75,014**	88,202	**73,637**	85,362
Investment with original maturity less than three months	**300,428**	275,791	**300,010**	295,844
Closing balance of cash and cash equivalents	**549,177**	**470,321**	**543,622**	**480,627**

47. POST-EMPLOYMENT COMPENSATION

47.1 Defined contribution plans

The Group participates in the endowment insurance, unemployment insurance plans established by the government and the annuity plan established by the Group. According to these plans, the employees' salaries are paid to the plans proportionally each month. Except the expenses above, the Group shoulders no further payment duties. Certain expenses are charged in profit and loss of the period.

Expense recognised in profit or loss for the period:

UNIT: RMB Million

	The Group		The Bank	
	2018	2017	2018	2017
Defined contribution plans	**2,611**	2,261	**2,534**	**2,179**

Amount of payable in the year-end:

UNIT: RMB Million

	The Group		The Bank	
	2018	2017	2018	2017
Defined contribution plans	**132**	107	**85**	91

47.2 Defined benefit plans

The Group offers complementary retiring benefit plans to employees who start their service before 31 December 2007. The Group invited Tower Watson Consulting Group (Shanghai) to estimate the present value. The project estimates the future cash flow based on rate of inflation and rate of death, and recognizes its present value by discount rate. Discount rate is measured by the national debt market income rate in which the period of defined benefit plans and currency on balance sheet date. Past service costs will be charged in profit and loss in the period of revising the plans. The net interest is recognized by the net liabilities or assets of defined benefit plans timing appropriate discount rate.

In the Current year, the effect of defined benefit plans recognized as expenses is RMB136 million; actuary losses included in other comprehensive income is RMB188 million. The closing balance of net assets of defined benefit plans amounting to RMB1,088 million, representing the fair value of the defined benefit plans assets net of the present value of defined benefit plans obligation, is charged to other assets. (Note VIII, 17).

As of 31 December 2018, the Group benefit plans set was in the period of the average benefit obligation for about 7-8 years (31 December 2017:10-11 years).

Defined benefit plan makes the Group face the actuarial risks that include interest rate risk and longevity risk. Government bond yielding down will lead to a defined benefit plan duty value added. The present value of defined benefit plan duty is calculated based on the best estimate of employees participating in the scheme of the mortality rate, and the increase in life expectancy will lead to an increase in plan liabilities.

In determining the set of major actuarial present value using the benefit plan obligations assumed discount rate, mortality rate. The discount rate is 3.25% (2017: 4.00%) as at 31 December 2018. Mortality assumptions are based on the men and women pension service table released by Chinese Insurance Regulatory Commission (China experience life table of life insurance "2010-2013"). The men and women workers retire at the age of 60 and retired at the age of 55 on average expected residual life for 25.34 years and 34.03 years respectively.

The following sensitivity analysis is based on the reasonably possible changes of corresponding hypothesis that occurring at the end of the reporting period (all other assumptions unchanged):

If the discount rate increase (decrease) by 25 basis points, then the present value of defined benefit plan duty will be reduced by RMB43 million (an increase of RMB45 million).

As part of hypothesis may have relevance, a hypothesis cannot be isolated to change, so the sensitivity analysis cannot reflect the actual changes in benefit obligations set value.

In the sensitivity analysis, the net debt of defined benefit plan and the related debt recognized in the statement of financial position share the same calculation method.

Compared with the previous year, the method for sensitivity analysis and the hypothesis didn’t change.

48. STRUCTURED ENTITIES

48.1 Consolidated structured entities

The consolidated structured entities of the Group are funds, asset-backed securities, trust plans and asset management plans. As the manager/initiator of the products, asset-backed securities, trust plans and asset management plans, the Group considers whether it has control over the structured entities, and determine whether the consolidation is necessary based on the decision scope of asset manager, power of trust holder, reward from offering management service and the risk exposure of variable return. In 2018 and 2017, the Group didn't offer financial support to the consolidated structured entities.

48.2 Unconsolidated structured entities

48.2.1 Structured entities without the scope managed by the Group

The Group initiates and establishes structured entities which offer specific investment opportunities. Such structured entities conduct financing and investing through issuing products. The Group enjoys no control over such structured entities. Therefore, such structured entities are unconsolidated. Up to 31 December 2018 and 31 December 2017, the consolidated entities issued by the Group mainly include wealth management products, funds, asset-backed securities, trust plans and asset management plans. And the Group earns commission income mainly from offering management service to the investors of these structured entities.

In 2018 and 2017, the Group did not offer financial support to other structured entities excluded from the consolidation scope.

Up to 31 December 2018 and 31 December 2017, the information of unconsolidated structured entities initiated by the Group is listed below:

UNIT: RMB Million

	The Group		
	Scale	Scale	Type
	31/12/2018	31/12/2017	
Wealth management products	**1,215,684**	1,152,282	Commission income
Funds	**202,071**	283,388	Commission income
Asset-backed securities	**18,621**	29,081	Commission income
Trust plans	**724,056**	915,867	Commission income
Asset management plans	**296,715**	293,106	Commission income
Total	**2,457,147**	**2,673,724**	

In 2018, the commission income earned from offering management service to the investors of these structured entities by the Group is RMB11,238 million (2017: RMB14,550 million).

48.2.2 Equity enjoyed by the Group in structured entities without the scope

To utilize the capital better, the equity enjoyed by the Group in structured entities without the scope in 31 December 2018 mainly includes wealth management products, funds, asset-backed securities, trust plans and asset management plans issued or managed by the Group or individual third parties. The Group earns interest income and investment income mainly through holding these structured entities equities. The Group does not consolidate these structured entities because the Group does not control them.

The Group did not offer financial support to the structured entities above in 2018.

Up to 31 December 2018 and 31 December 2017, the information of unconsolidated structured entities in which the Group enjoys equity is listed below:

UNIT: RMB Million

	The Group						
	31/12/2018						
	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Hold-to-maturity investments	Investments classified as receivables	Carrying value	Max risk exposure (Note 1)	Type
Funds	271,755	142,333	-	-	414,088	414,088	Investment income
Wealth management products	1,914	2,972	-	1,088	5,974	5,974	Investment income, interest income
Trust plans	270	10,570	-	640,346	651,186	651,186	Investment income, interest income
Asset management plans	5,869	11,521	-	215,399	232,789	232,789	Investment income, interest income
Asset-backed securities	1,180	40,403	128	123,040	164,751	164,751	Investment income, interest income
Total	**280,988**	**207,799**	**128**	**979,873**	**1,468,788**	**1,468,788**	

Note 1: Max loss exposure to funds, wealth management products, trust plans, asset management plans and asset-backed securities is the amortized cost or fair value at the reporting date as recognized in the balance sheet.

UNIT: RMB Million

	The Group							
	31/12/2017							
	Financial assets held under resale agreement	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Hold-to-maturity investments	Investments classified as receivables	Carrying value	Max risk exposure (Note 1)	Type
Funds	-	216,511	81,489	-	-	298,000	298,000	Investment income
Wealth management products	-	3	2,848	-	84,614	87,465	87,465	Investment income, interest income
Trust plans	800	162	9,832	-	805,441	816,235	816,235	Investment income, interest income
Asset management plans	3,302	3,784	14,541	-	315,458	337,085	337,085	Investment income, interest income
Asset-backed securities	-	2,635	29,335	4	242,125	274,099	274,099	Investment income, interest income
Total	**4,102**	**223,095**	**138,045**	**4**	**1,447,638**	**1,812,884**	**1,812,884**	

Note 1: Max loss exposure to funds, wealth management products, trust plans, asset management plans and asset-backed securities is the amortized cost or fair value at the reporting date as recognized in the balance sheet.

IX. SEGMENT REPORTING

Senior management of the Group evaluates the operations of the Group in accordance with their economic areas of the respective branches and subsidiaries. Each branch serves its local customers and few customers in other regions. The Group does not deeply depend on one single external customer. Through the review of internal reports, the management of the Group conducts performance evaluation and determines the allocation of resources. Segment reporting is presented in a manner consistent with the Group's internal management and reports.

Segment accounting policies are consistent with the accounting policies of the consolidated financial statements. Inter-segment transfer transactions are measured at the actual transaction prices.

The Group includes the head office (including the head office and the operating institutions of the head office), Fujian, Beijing, Shanghai, Guangdong, Zhejiang, Jiangsu, northeast and other region, western region, central region, a total of ten segments, of which branches within the northeast and other region, western region, central region are presented in a consolidated manner.

Among them, the northeast and other region includes: Harbin branch, Changchun branch, Shenyang branch, Dalian branch, Tianjin branch, Jinan branch, Qingdao branch, Haikou branch, Hong Kong branch and Industrial Bank Financial Leasing Co., Ltd.;

Western region includes: Chengdu branch, Chongqing branch, Guiyang branch, Xi'an branch, Kunming branch, Nanning branch, Urumqi branch, Lanzhou branch, Yinchuan branch, Xining branch and Lhasa branch.

Central region includes: Hohhot branch, Shijiazhuang branch, Zhengzhou branch, Taiyuan branch, Hefei branch, Changsha branch, Wuhan branch and Nanchang branch.

UNIT: RMB Million

	The Group											
	2018											
	Head office	Fujian	Beijing	Shanghai	Guangdong	Zhejiang	Jiangsu	Northeast and other region	Western region	Central region	Eliminations	Total
Operating income	62,453	19,892	7,089	6,340	9,943	3,825	5,988	14,243	14,486	14,028	-	**158,287**
Net interest income	18,638	13,982	6,422	5,508	8,716	3,171	5,274	9,200	13,016	11,730	-	**95,657**
Including: Net inter-segment interest income	(67,656)	6,579	11,729	9,726	11,878	1,596	1,148	5,874	10,546	8,580	-	**-**
Net fee and commission income	28,412	4,422	627	763	1,035	608	650	2,992	1,313	2,156	-	**42,978**
Other income	15,403	1,488	40	69	192	46	64	2,051	157	142	-	**19,652**
Operating expenses	(26,538)	(11,691)	(2,846)	(2,626)	(5,874)	(3,166)	(3,220)	(16,099)	(9,657)	(8,656)	-	**(90,373)**
Operating profit	35,915	8,201	4,243	3,714	4,069	659	2,768	(1,856)	4,829	5,372	-	**67,914**
Add: Non-operating income	64	68	7	27	62	10	13	48	13	23	-	**335**
Less: Non-operating expenses	(69)	(29)	(2)	(3)	(15)	(7)	(3)	(14)	(8)	(22)	-	**(172)**
Total profit	35,910	8,240	4,248	3,738	4,116	662	2,778	(1,822)	4,834	5,373	-	**68,077**
Less: Income tax expenses												**(6,832)**
Net profit												**61,245**
Segment assets	3,757,977	537,225	554,175	383,868	691,669	254,736	360,377	838,758	535,369	698,541	(1,933,355)	**6,679,340**
Including: Investment in an associate												**3,224**
Undistributed assets												**32,317**
Total assets												**6,711,657**
Segment liabilities	3,392,737	506,851	550,324	378,715	687,505	253,454	357,598	821,548	530,714	692,982	(1,933,355)	**6,239,073**
Undistributed liabilities												**-**
Total liabilities												**6,239,073**
Supplemental information												
Credit commitments	284,435	59,244	24,837	32,968	95,976	43,599	72,897	167,251	117,484	192,873	-	**1,091,564**
Depreciation and amortization	406	366	118	69	155	97	167	351	291	403	-	**2,423**
Capital expenditures	1,709	652	134	603	143	110	120	1,762	353	566	-	**6,152**

Unit: RMB Million

The Group - continued												
2017												
	Head office	Fujian	Beijing	Shanghai	Guangdong	Zhejiang	Jiangsu	Northeast and other region	Western region	Central region	Eliminations	Total
Operating income	50,903	17,563	7,359	7,767	9,959	2,153	3,438	14,263	11,406	15,164	-	**139,975**
Net interest income	19,741	12,557	6,234	6,208	8,198	1,397	2,286	8,771	9,737	13,322	-	**88,451**
Including: Net inter-segment interest income	(67,542)	7,681	10,112	9,333	11,666	976	402	6,639	9,903	10,830	-	**-**
Net fee and commission income	21,997	4,025	1,073	1,514	1,675	736	1,119	3,215	1,603	1,782	-	**38,739**
Other income	9,165	981	52	45	86	20	33	2,277	66	60	-	**12,785**
Operating expenses	(17,683)	(10,899)	(1,475)	(1,908)	(4,492)	(3,481)	(3,310)	(10,775)	(11,528)	(9,611)	-	**(75,162)**
Operating profit	33,220	6,664	5,884	5,859	5,467	(1,328)	128	3,488	(122)	5,553	-	**64,813**
Add: Non-operating income	44	106	5	20	19	18	15	20	92	34	-	**373**
Less: Non-operating expenses	(4)	(12)	(12)	(7)	(5)	(4)	(1)	(239)	(10)	(139)	-	**(433)**
Total profit	33,260	6,758	5,877	5,872	5,481	(1,314)	142	3,269	(40)	5,448	-	**64,753**
Less: Income tax expenses												**(7,018)**
Net profit												**57,735**
Segment assets	3,727,907	506,940	487,656	386,217	686,749	221,858	328,015	805,371	555,336	691,504	(2,008,008)	**6,389,545**
Including: Investment in an associate												**3,008**
Undistributed assets												**27,297**
Total assets												**6,416,842**
Segment liabilities	3,391,827	485,306	481,603	379,602	681,332	223,153	327,873	790,017	555,497	685,888	(2,008,008)	**5,994,090**
Undistributed liabilities												**-**
Total liabilities												**5,994,090**
Supplemental information												
Credit commitments	208,127	59,613	20,943	11,970	57,504	31,820	46,409	148,086	96,080	158,725	-	**839,277**
Depreciation and amortization	357	281	102	62	154	78	151	279	240	348	-	**2,052**
Capital expenditures	511	546	21	36	481	71	117	4,021	535	369	-	**6,708**

X. RELATED PARTY RELATIONSHIP AND TRANSACTIONS

1. Related Party Relationship

The Group

Related parties with no controlling interest

(1) Shareholders holding more than 5% (inclusive) of the Bank's shares

Name	Economic nature	Place of registration	Registered capital (RMB 100 Million)	Principal activities	Legal representative
The Finance Bureau of Fujian Province	Legal entity of government agencies	Fuzhou	-	Administration of Fujian provincial fiscal and tax policy	Yu Jun
PICC Property and Casualty Company Limited [(1)]	Incorporated Company	Beijing	222.43	Insurance services	Miao Jianmin
PICC Life Insurance Company Limited [(1)]	Incorporated Company	Beijing	257.61	Insurance services	Miao Jianmin
China National Tobacco Corporation [(1)]	Owned by the whole people	Beijing	570	Production, and sales of tobacco products	Zhang Jianmin
Fujian Tobacco Haisheng Investment Management Co., Ltd. [(1)]	Limited Company	Xiamen	26.47	Investment management	Lu Xiaodong
China Tobacco Hunan Investment Management Co., Ltd. [(1)]	Limited Company	Changsha	2	Investment management	Deng Yongzhi
The People's Insurance Company (Group) of China Limited [(1)]	Incorporated Company	Beijing	424.24	Investment management and insurance services	Miao Jianmin
Fujian Company of China National Tobacco Corporation [(1)]	Owned by the whole people	Fuzhou	1.37	Sales of tobacco products	Zhang Yongjun
Guangdong Company of China national Tobacco Corporation [(1)]	Owned by the whole people	Guangzhou	1.40	Production and sales of tobacco products	Liu Yiping

Details of shareholders holding more than 5% (inclusive) of the Bank's shares:

	31/12/2018		31/12/2017	
Name of shareholders	Shares (Million shares)	Proportion (%)	Shares (Million shares)	Proportion (%)
The Finance Bureau of Fujian Province	3,902	18.78	3,902	18.78
PICC Life Insurance Company Limited (1)	1,276	6.14	1,276	6.14
PICC Property and Casualty Company Limited (1)	1,229	5.91	1,229	5.91
China National Tobacco Corporation (1)	1,110	5.34	1,110	5.34
Fujian Tobacco Haisheng Investment Management Co., Ltd. (1)	441	2.13	441	2.13
China Tobacco Hunan Investment Management Co., Ltd. (1)	226	1.09	226	1.09
The People's Insurance Company (Group) of China Limited (1)	174	0.84	174	0.84
Fujian Company of China National Tobacco Corporation (1)	132	0.64	132	0.64
Guangdong Company of China National Tobacco Corporation (1)	99	0.48	99	0.48
Total	**8,589**	**41.35**	**8,589**	**41.35**

Note: (1) Relationship between related parties: PICC Property and Casualty Company Limited and PICC Life Insurance Company Limited are both subsidiaries of The People's Insurance Company (Group) of China Limited through shareholding. The aggregate proportion of shareholding is 12.89%. Fujian Tobacco Haisheng Investment Management Co., Ltd., China Tobacco Hunan Investment Management Co., Ltd., Fujian Company of China National Tobacco Corporation and Guangdong Company of China National Tobacco Corporation are subsidiaries of China National Tobacco Corporation. The aggregate proportion of shareholding is 9.68%.

(2) Associates

For basic information and related information of associates refer to Note VIII, 12.

(3) Other related parties

Other related parties include key management personnel (director, supervisor, senior management of head office) and their close families, as well as other enterprises over which the key management personnel or their close families have control, common control or significant influence.

2. Related party transactions

The conditions and prices of related party transactions between the Group and the Bank are determined according to the Group's contract, and are examined and approved in accordance with the transaction type and content of transaction by corresponding decision-making authority.

2.1 Interest income

UNIT: RMB Million

Related party	2018	2017
The People's Insurance Company (Group) of China Limited and its related parties	**84**	128
China Tobacco and its related parties	**-**	25
Associates	**137**	87
Fujian Yango Holdings Group and its related parties	**474**	152
Fujian I&D Group Co., Ltd. and its related parties	**30**	29
Zhejiang Energy Group Co., Ltd. and its related parties	**1**	-
Xiamen International Bank Co., Ltd.	**1**	3
Xiamen Air	**-**	12
Others	**55**	1
Total	**782**	**437**

2.2 Interest expense

UNIT: RMB Million

Related party	2018	2017
The Finance Bureau of Fujian Province and its subsidiaries	**325**	296
The People's Insurance Company (Group) of China Limited and its related parties	**369**	463
China Tobacco and its related parties	**1,619**	947
Associates	**12**	4
Fujian Yango Holdings Group and its related parties	**50**	59
Fujian I&D Group Co., Ltd. and its related parties	**44**	8
Zhejiang Energy Group Co., Ltd. and its related parties	**26**	-
Longyan Huijin Development Group Co., Ltd. and its related parties	**11**	-
Xiamen International Bank Co., Ltd.	**1**	10
Others	**40**	16
Total	**2,497**	**1,803**

2.3 Fee and commission income

UNIT: RMB Million

Related party	2018	2017
The Finance Bureau of Fujian Province and its subsidiaries	1	13
The People's Insurance Company (Group) of China Limited and its related parties	10	14
Associates	1	-
Fujian Yango Holdings Group and its related parties	71	37
Fujian I&D Group Co., Ltd. and its related parties	4	3
Others	20	-
Total	107	**67**

2.4 Fees and commission expense

UNIT: RMB Million

Related party	2018	2017
The People's Insurance Company (Group) of China Limited and its related parties	**11**	40
Others	**4**	-
Total	**15**	**40**

2.5 General and administrative expenses-insurance

UNIT: RMB Million

Related party	2018	2017
The People's Insurance Company (Group) of China Limited and its related parties	**458**	**423**

In 2018, the Bank was received compensation of RMB8 million from The People's Insurance Company (Group) of China Limited and its subsidiaries (2017: RMB11 million).

2.6 General and administrative expenses- rental expense

UNIT: RMB Million

Related party	2018	2017
China Tobacco and its related parties	**26**	**24**

3. Unsettled amount of related party transactions

3.1 Deposits with banks

UNIT: RMB Million

Related party	31/12/2018	31/12/2017
Associates	**6**	-
Fujian Yango Holdings Group and its related parties	**400**	307
Total	**406**	**307**

3.2 Funds lent out

UNIT: RMB Million

Related party	31/12/2018	31/12/2017
Associates	**734**	**-**

3.3 Derivative financial instruments

UNIT: RMB Million

Related party	Transaction Type	31/12/2018		31/12/2017	
		Nominal amount	Assets/ Liabilities	Nominal amount	Assets/ Liabilities
The People's Insurance Company (Group) of China Limited and its related parties	Interest Rate Derivative	**-**	**-**	730	-
Xiamen International Bank Co., Ltd.	Interest Rate Derivative	**50**	**-**	-	-
Xiamen International Bank Co., Ltd.	Exchange Rate Derivative	**94**	**(2)**	4,988	41
Total		**144**	**(2)**	**5,718**	**41**

3.4 Interest receivable

UNIT: RMB Million

Related party	31/12/2018	31/12/2017
The People's Insurance Company (Group) of China Limited and its related parties	**7**	52
Associates	**63**	26
Fujian Yango Holdings Group and its related parties	**63**	62
Fujian I&D Group Co., Ltd. and its related parties	**2**	7
Xiamen International Bank Co., Ltd.	**1**	-
Others	**2**	-
Total	**138**	**147**

3.5 Available-for-sale financial assets

UNIT: RMB Million

Related party	31/12/2018	31/12/2017
Fujian Yango Holdings Group and its related parties	**-**	112
Fujian I&D Group Co., Ltd. and its related parties	**-**	120
Xiamen International Bank Co., Ltd.	**400**	147
Others	**30**	-
Total	**430**	**379**

3.6 Investments classified as receivables

UNIT: RMB Million

Related party	31/12/2018	31/12/2017
The People's Insurance Company (Group) of China Limited and its related parties	**600**	2,400
Associates	**4,949**	5,330
Fujian Yango Holdings Group and its related parties	**5,781**	4,488
Others	**1,552**	-
Total	**12,882**	**12,218**

3.7 Held-for-trading financial assets

UNIT: RMB Million

Related party	31/12/2018	31/12/2017
Fujian Yango Holdings Group and its related parties	**441**	513
Fujian I&D Group Co., Ltd. and its related parties	**-**	460
Xiamen International Bank Co., Ltd.	**2,840**	393
Total	**3,281**	**1,366**

3.8 Loans and advances to customers

UNIT: RMB Million

Related party	31/12/2018	31/12/2017
The People's Insurance Company (Group) of China Limited and its related parties	**50**	-
Fujian Yango Holdings Group and its related parties	**4,187**	3,068
Fujian I&D Group Co., Ltd. and its related parties	**3,151**	-
Zhejiang Energy Group Co., Ltd. and its related parties	**250**	-
Others	**45**	16
Total	**7,683**	**3,084**

3.9 Deposits from banks and other financial institution

UNIT: RMB Million

Related party	31/12/2018	31/12/2017
Associates	**31**	213
Fujian Yango Holdings Group and its related parties	**15**	83
Xiamen International Bank Co., Ltd.	**2**	82
Others	**100**	369
Total	**148**	**747**

3.10 Due to customers

UNIT: RMB Million

Related party	31/12/2018	31/12/2017
The Finance Bureau of Fujian Province and its subsidiaries	**15,196**	13,409
The People's Insurance Company (Group) of China Limited and its related parties	**23,405**	11,286
China Tobacco and its related parties	**55,132**	35,512
Associates	**1**	246
Fujian Yango Holdings Group and its related parties	**4,566**	4,991
Fujian I&D Group Co., Ltd. and its related parties	**3,582**	687
Zhejiang Energy Group Co., Ltd. and its related parties	**1,024**	-
Longyan Huijin Development Group Co., Ltd. and its related parties	**541**	29
Xiamen Air	**21**	1
Others	**1,051**	355
Total	**104,519**	**66,516**

3.11 Interest payable

UNIT: RMB Million

Related party	31/12/2018	31/12/2017
The Finance Bureau of Fujian Province and its subsidiaries	**465**	201
The People's Insurance Company (Group) of China Limited and its related parties	**311**	470
China Tobacco and its related parties	**1,830**	589
Fujian Yango Holdings Group and its related parties	**7**	18
Fujian I&D Group Co., Ltd. and its related parties	**1**	-
Zhejiang Energy Group Co., Ltd. and its related parties	**1**	-
Longyan Huijin Development Group Co., Ltd.and its related parties	**8**	-
Others	**1**	3
Total	**2,624**	**1,281**

3.12 Credit line

UNIT: RMB Million

Related party	31/12/2018	31/12/2017
The People's Insurance Company (Group) of China Limited and its related parties	**54,000**	54,000
China Tobacco and its related parties	**15,000**	15,000
Fujian Yango Holdings Group and its related parties	**18,000**	12,500
Fujian I&D Group Co., Ltd. and its related parties	**10,000**	5,000
Zhejiang Energy Group Co., Ltd. and its related parties	**8,000**	-
Longyan Huijin Development Group Co., Ltd. and its related parties	**1,000**	-
Xiamen International Bank Co., Ltd.	**12,300**	12,000
Xiamen Air	**4,000**	-
Total	**122,300**	**98,500**

3.13 Off-balance sheet items

At the end of the year, the amount of letter of credit and Bank acceptance held by the subsidiaries of China National Tobacco Corporation is nil and RMB101 million (2017: RMB2,501 million and RMB500 million) respectively; the balance of bank acceptances and letters of guarantee held by Fujian Yango Holdings Group and its related parties is RMB441 million and RMB197 million respectively (2017: RMB270 million and RMB725 million); the balance of bank acceptances and letters of guarantee held by Fujian I&D Group Co., Ltd. and its related parties is RMB10 million and RMB35 million respectively (2017: Nil for both).

4. Key management personnel remuneration

UNIT: RMB Million

	2018	2017
Salary and welfare	**18**	**17**

XI. CONTINGENCIES AND COMMITMENTS

1. Pending Litigations

As of the balance sheet date, the Group's management considers that there is no pending litigation which has a significant impact on the financial statements that needs to be disclosed.

2. Off-balance sheet items

UNIT: RMB Million

	The Group and the Bank	
	Contractual amount	
	31/12/2018	31/12/2017
Credit card commitments	**284,430**	208,127
Letter of credit	**112,002**	85,144
Letters of guarantee	**123,668**	120,259
Bank acceptances	**532,919**	384,247
Loan commitments non-cancellable	**38,545**	41,500
Total	**1,091,564**	**839,277**

In addition, the Group also provides credit facilities to specific customers. According to the management's opinion, since such credit facilities are conditional and can be canceled, the Group is not committed to these customers for the credit risk of the unused facilities.

3. Capital commitments

UNIT: RMB Million

	Contractual amount of the Group		Contractual amount of the Bank	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Authorized but not contracted for	**187**	1	**187**	1
Contracted but not paid for	**353**	258	**349**	243
Total	**540**	**259**	**536**	**244**

4. Operating lease commitments

As a tenant, according to the non-cancellable lease contracts, the required minimum lease payments by the Group and the Bank are as follows:

UNIT: RMB Million

	The Group		The Bank	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Within one year	**2,023**	1,945	**1,939**	1,826
One to five years	**4,759**	4,727	**4,595**	4,591
Over five years	**1,602**	1,076	**1,601**	1,066
Total	**8,384**	**7,748**	**8,135**	**7,483**

5. Collateral

5.1 Assets pledged

(i) The carrying amount of assets pledged as collateral under repurchase agreements is as follows:

UNIT: RMB Million

	The Group		The Bank	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Bonds	**191,189**	214,353	**179,894**	208,444
Bills	**48,600**	20,136	**48,600**	20,136
Total	**239,789**	**234,489**	**228,494**	**228,580**

As at 31 December 2018 and 31 December 2017, included in Group's and the Bank's notes purchased under resale agreement, there was no note used for carrying out business of sale under repurchase agreement.

(ii) At 31 December 2018, the Group and the Bank pledged RMB1,390 million bonds to credit derivative transaction (31 December 2017: RMB2,031 million).

5.2 Collateral accepted

In the resale agreement, the Group can sell pledged assets or transfer them in other transactions when the counterparty is not in breach of the contract. At 31 December 2018, the fair value of pledged assets available for sale or convertible is RMB998 million (31 December 2017: nil).

6. Redemption commitment of certificate treasury bonds and saving treasury bonds

(1) The Group entrusted by the MOF as its agent issues certificate treasury bonds and saving treasury bonds. Holders of certificate treasury bonds and saving treasury bonds can require advance redemption, and the Group has the obligation to execute the redemption responsibility. Redemption amount for the certificate treasury bonds and saving treasury bonds includes principal and interest payable till redemption date.

As of 31 December 2018 and 31 December 2017, the cumulative principal balances of the certificate treasury bonds and saving treasury bonds which are issued by the Group under trust prior to maturity and not been paid are as follows:

UNIT: RMB Million

	The Group and the Bank	
	Contractual amount	
	31/12/2018	31/12/2017
Certificate treasury bonds and saving treasury bonds	**2,884**	**3,180**

The Group believes the Group's redemption amount of these certificate treasury bonds and saving treasury bonds is not significant before their maturity.

(2) At 31 December 2018, The Group has announced but unissued bonds underwriting amount of RMB2,658 million (31 December 2017: RMB500 million).

7. Fiduciary Business

UNIT: RMB Million

	The Group and the Bank	
	12/31/2018	12/31/2017
Fiduciary deposits and loans	**420,046**	564,990
Fiduciary wealth management products	**1,215,684**	1,152,282
Fiduciary investments	**10,131**	**4,123**

Fiduciary deposits and loans are deposits and loans that depositor designated specific third party as the loan party, and related credit risk of the loan is borne by depositors who designated borrowers.

Fiduciary wealth management products refer to a kind of service that the entrusted Group is responsible for the operation and management of customer assets. The investment risk of fiduciary wealth management products is borne by the trustee.

Fiduciary investments refers to a kind of service that the entrusted Group engaged in capital operation, investment management, investment advisory and other investment services based on the principal-agent relationship. The investment risk of fiduciary investment is borne by the trustee.

XII. OTHER SIGNIFICANT EVENTS

1. Assets and liabilities measured at fair value

UNIT: RMB Million

	The Group				
	2018				
	Opening Balance	Profit or loss arising from changes in fair value for the period	Changes in fair value recognised in equity	Impairment losses charged in the current period	Closing Balance
Financial assets at fair value through profit or loss	362,072	(320)	-	-	**459,598**
Derivative financial assets	28,396	13,696	-	-	**42,092**
Available-for-sale financial assets	502,381	-	2,157	(648)	**644,886**
Total financial assets	**892,849**	**13,376**	**2,157**	**(648)**	**1,146,576**
Financial liabilities (1)	**(36,077)**	**(10,097)**	**-**	**-**	**(41,417)**

UNIT: RMB Million

	The Bank				
	2018				
	Opening Balance	Profit or loss arising from changes in fair value for the period	Changes in fair value recognised in equity	Impairment losses charged in the current period	Closing Balance
Financial assets at fair value through profit or loss	337,965	(517)	-	-	**413,015**
Derivative financial assets	28,396	13,696	-	-	**42,092**
Available-for-sale financial assets	515,712	-	2,897	(401)	**664,881**
Total financial assets	**882,073**	**13,179**	**2,897**	**(401)**	**1,119,988**
Financial liabilities (1)	**(35,239)**	**(10,108)**	**-**	**-**	**(41,210)**

(1) Financial liabilities include financial liabilities at fair value through profit or loss and derivative financial liabilities.

(2) The movement of assets and liabilities listed above has no inevitable relationship.

2. Financial assets and financial liabilities denominated in foreign currencies

UNIT: RMB Million

	The Group				
	2018				
	Opening balance	Profit or loss arising from changes in fair value for the period	Changes in fair value recognised in equity	Impairment losses charged in the current period	Closing balance
Cash and balances with Central Bank	17,104	-	-	-	**12,608**
Deposits with banks and other financial institutions	15,632	-	-	-	**24,217**
Placements with banks and other financial institutions	13,789	-	-	-	**36,549**
Financial assets at fair value through profit or loss	41,418	(2,027)	-	-	**24,582**
Derivative financial assets	1,502	2,468	-	-	**3,970**
Financial assets purchased under resale agreement	-	-	-	-	**13**
Loans and advances to customers	145,478	-	-	(308)	**161,836**
Available-for-sale financial assets	105,884	-	(1,782)	(62)	**111,726**
Investments classified as receivables	23,708	-	-	2	**23,807**
Held-to-maturity investments	12,047	-	-	-	**14,041**
Finance lease receivable	1,227	-	-	-	**1,109**
Other financial assets	2,295	-	-	-	**4,688**
Total of financial assets	**380,084**	**441**	**(1,782)**	**(368)**	**419,146**
Financial liabilities (1)	**463,562**	**3,405**	**-**	**-**	**523,566**

UNIT: RMB Million

	The Bank				
	2018				
	Opening balance	Profit or loss arising from changes in fair value for the period	Changes in fair value recognised in equity	Impairment losses charged in the current period	Closing balance
Cash and balances with Central Bank	17,104	-	-	-	**12,608**
Deposits with banks and other financial institutions	15,632	-	-	-	**24,217**
Placements with banks and other financial institutions	14,351	-	-	-	**37,235**
Financial assets at fair value through profit or loss	41,418	(2,027)	-	-	**24,582**
Derivative financial assets	1,502	2,468	-	-	**3,970**
Financial assets purchased under resale agreement	-	-	-	-	**13**
Loans and advances to customers	145,478	-	-	(308)	**161,836**
Available-for-sale financial assets	105,884	-	(1,782)	(62)	**111,726**
Investments classified as receivables	23,708	-	-	2	**23,807**
Held-to-maturity investments	12,047	-	-	-	**14,041**
Other financial assets	2,295	-	-	-	**4,688**
Total of financial assets	**379,419**	**441**	**(1,782)**	**(368)**	**418,723**
Financial liabilities (1)	**463,562**	**3,405**	**-**	**-**	**523,566**

(1) Financial liabilities include borrowing from Central Bank, deposits from banks and other financial institutions, placement from banks and other financial institutions, financial liabilities at fair value through profit or loss, financial assets sold under repurchase agreements, derivative financial liabilities, due to customers and debt securities issued, etc.

(2) The movement of assets and liabilities listed above has no inevitable relationship.

3. Transfer of Financial Assets

3.1 Assets securitization

The Group conducts asset-backed securities transactions during normal operations. The Group sells part of its financial assets to the special purpose trusts established by the Group as an originating institution and then the special purpose trusts issues asset-backed securities to investors. The Group determines whether it combines the special purpose trusts based on whether it has power over such special purpose trusts and whether it is involved in related activities of the special purpose trusts to enjoy variable returns, and whether the Group has the ability to use its power over the special purpose trust to affect its returns.

Once a special purpose trust is established, it shall be distinguished from other property for which the Group has not set up a trust. According to the relevant transaction documents, the trust property is not a liquidation property when the Group dissolves or is liquidated according to law, or is declared bankrupt.

In the course of the transfer of the aforesaid financial assets, the Group has not recognized the gains or losses since the consideration of transfer is same as the carrying value of the transferred financial assets. Subsequently, the Group as a financial asset service institution will charge a certain service fee.

The Group analyzes and judges whether to derecognize the financial assets that have been transferred based on the extent of transferring risk and rewards:

In the process of transferring relevant financial assets, the Group transfers substantially all the risks (mainly include the credit risk, early repayment risk and interest rate risk of the transferred assets) and rewards of the ownership of financial assets to other investors, and derecognizes such transferred financial assets. In 2018, the book value of the Group's financial assets that have been securitized is RMB15,179 million (2017: RMB32,903 million). Meanwhile, the Group subscribes certain proportion of asset-backed securities. At 31 December 2018, the Group holds the aforesaid asset-backed securities of RMB7,817 million (31 December 2017: RMB17,565 million).

In the process of transferring relevant financial assets, the Group does not transfer substantially all the risks (mainly include the credit risk, early repayment risk and interest rate risk of the transferred assets) and rewards of the ownership of financial assets to other investors, and does not derecognize such transferred financial assets. In 2018, the Group has no the aforesaid financial assets that have not been derecognized (2017: RMB4,721 million). At 31 December 2018, the Group holds the aforesaid finance lease receivable and investment in receivables that are not derecognized of RMB1,420 million (31 December 2017: RMB2,939 million) and RMB400 million (31 December 2017: RMB924 million) respectively. The consideration received by transferring financial assets of RMB598 million (31 December 2017: RMB1,867 million) is presented as "bonds payable".

In 2018, the Group's transferred assets include financial assets with carrying amount of RMB46,320 million (31 December 2017: RMB14,600 million), where the Group neither transferred nor retained substantially all the risks (mainly include the credit risk, early repayment risk and interest rate risk of the transferred assets) and rewards of the ownership, and retained the control and has continuing involvement in these financial assets. At 31 December 2018, the Group continued to recognize the financial assets with carrying amount of RMB7,641 million (31 December 2017: RMB2,101 million) based on its extent of continuing involvement in the assets, and recognized assets and liabilities with continuing involvement as other assets and other liabilities.

3.2 Repurchase agreements

Repurchase agreements refer to agreements made by the Group with the counter-parities that financial assets (or financial assets that share the same substance) are settled a fixed price of repurchasing when they are sold at a fixed date. Due to the fixed repurchasing price, the Group takes almost all the credit and market risks and benefit of the assets. The sold financial assets (cannot be used within the period) should not be derecognized in the financial statements of the Group, but should be regarded as guarantees because the Group retains all the risks and benefits. Besides, the Group recognizes the financial liabilities by the price received. In these trading, the counter-parties' right to the Group is not limited within the transferred financial assets.

At 31 December 2018 and 2017, the Group conducted trading of the bonds and bills under repurchase agreements. The price of selling these financial assets is called financial assets sold under repurchase agreements price (Note VIII, 22).

Included in the repurchase agreement, the carrying value of the financial assets which had been transferred but continued to be recognized by the Group and relevant liabilities are as follows:

UNIT: RMB Million

	The Group			
	31/12/2018		31/12/2017	
	Bond	Bill	Bond	Bill
Assets carrying value	**191,189**	**48,600**	214,353	20,136
Liabilities carrying value	**181,969**	**48,600**	209,658	20,136

3.3 Transfer of Non-performing Loans

In 2018, the Group disposed non-performing loans of the carrying amount amounting to RMB10,941 million (2017: RMB5,851 million) by way of transfer to third parties. The Group has transferred substantially all the risks and rewards of ownership of the above non-performing loans, and the loans are therefore derecognized.

XIII. FINANCIAL RISK MANAGEMENT

1. Overview

The Group is exposed to various types of risks due to its financing businesses including banking business. The Group identifies, assesses and monitors various risks on an on-going basis. The most significant types of risk to which the Group is exposed are credit risk, market risk, liquidity risk and operation risk. Market risk includes interest rate risk, foreign currency risk and other price risk.

The Group's risk management objectives are to achieve a proper balance between risks and benefits and run business safely and prudently under reasonable level of risk.

2. Risk management framework

Risk management is the basic safeguard of survival and development of commercial banks. The Group has taken risk management as one of its core competitiveness, formulated development strategy focusing on business operation as well as risk management, established pre-during-post events risk control system with a core of risk asset management, and improved the risk management and operation instructions for various businesses; completed the mechanism of risk responsibilities and punishment, implemented credit business operation responsibilities, established risk fund for credit post personnel, enhanced risk constraints; taking credit risk, market risk, liquidity risk, operational risk and other risks undertaken in or by various business and customers into the scope of risk management and continuously improve the risk management mechanism to wholly-owned and holding subsidiaries; further defined the specific responsibilities of board of directors, board of supervisors, senior management and operation executives in respect of risk management, formed a defined, clear and effective overall risk management system. In daily risk management work, the Group’s business sector, risk management department and internal audit department build up the “three defences”; they perform their respective functions and work together to achieve the objective of risk management. Among them, operation institutions and business line management sector form the first line of defences to conduct risk management. Operation institutions take precautions against all the business and operating risk, while business line management sector is in charge of making its risk management policy, evaluating the effectiveness of risk management regularly and taking corrective actions if necessary. The risk management department is the second line of defences, which is responsible for constituting the Group’s risk management regulation and policy, analysing overall risk management situation, inspecting, evaluating and supervising the compliance and effectiveness of risk management conducted by all the sectors and departments, conducting overall risk reporting, continuously improving risk management modules and instruments and strengthening independency. The internal audit department is the third line of defences. It is responsible for all process audits, continuously providing independent and prospective audit and supervision with emphasis.

3. Credit risk

Credit risk represents the potential loss that may arise from a customer or counterparty’s failure to meet its obligation. Credit risk can also arise from operational failures that result in an unauthorised or inappropriate advance, commitment or investment of funds. The Group’s major credit risks come from loans and receivables (enterprises and personal credit loans), treasury operations (including creditors’ investment) and off-balance sheet related credit risk exposures. The Group manages and controls credit risk according to the following processes: customer investigation before granting of credit limits, credit review and approval and post- lending loan monitoring and collection.

The Group establish the risk management department, which is responsible for organizing, implementing the credit risk management strategies and policies of the Group, it is also responsible for making basic rules for the Group risk management affairs, in addition, it is also professionally managing, evaluating, guiding the general operation of the Group risk management together with inspecting and supervising the activities mentioned above. As the leading party, the risk management department formulates unified standards, responsible for the credit management on the whole. All the actions taken are to ensure the overall credit risk under control. The Group set up risk management departments for finance, retail, and investment bank and financial markets. Each of the risk departments is responsible for the credit management in its own line, and it is also responsible for making detailed regulation and operating rules and approving projects within the approving authority. The Group also sets up several specialized committees such as Credit Approval Committee and Credit Accountability Committee. The first one is responsible for the examination and approval of the loans within the authority. The other one is responsible for determining the responsibility of related loans.

The Group has formulated a whole set of credit policies on approval process and management procedure, and implemented throughout the Group. The credit management procedure for corporate and personal loans can be classified as credit investigation, credit examination, credit approval, credit disbursement, and post lending monitoring and recovery process. In addition, the Group issued Due Diligence of Credit approval to clarify the duties of different positions, to effectively control the credit risk, and to strengthen compliance of credit business.

The Group set up credit granting policy under the principle of “controllable risks, aggregated resources and sustainable development” to promote reasonable layout and balanced development in respect of credit resources in industries, regions, clients and products etc. In line with the access conditions and effective control of risks, the Group has intensified its support to green financial business and accelerate the pace of development of small and medium-sized enterprises and small and medium-sized industries; and to support credit financing demands from entities within advanced manufacturing, domestic consumption and livelihood sectors and national strategic emerging industries of the state. Meanwhile, the Group cut down and exit projects with outdated production capacity so as to further promote structure optimization and adjustment of credit asset.

The Group has established a customer credit rating system which comprehensively and systematically investigated various factors and variation trends that influence customer solvency in future; disclosed and evaluated customers’ credit risks and capabilities based on qualitative and quantitative analysis. Credit rating results become an important foundation to draw up credit service polices, adjust and optimize client structure, as well as identify credit service of individual customer. According to new Basel Capital Accord and relevant guides of the CBIRC, the Group developed and established customer internal rating system, and continued to implement the comprehensive verification of internal rating. In 2018, in connection with the economic environment and the Company's actual demand of application etc., the Group optimized comprehensively the non-retail rating model, established a stereoscopic rating structure for different clients and multi-dimension indexes, and promoted the ability to identify risks comprehensively. Since January 2014 when the credit risk weighted assets ("CRWA") measurement system was completed and launched, the Group had the capacity to measure CRWA using internal rating junior method. The related results of internal rating continuously entered into various risk management areas including clients entrance, authority management, limit management, credit approval, economic capital measurement, provision for impairment on assets and performance assessment, etc. As the new capital accords related projects were completed successively, the Group got promotion in capacity of identification, measurement and control of credit risk.

The Group developed risk warning system, applying big data technology to fully integrate both internal and external risk information and analysing as per certain rules so as to form a warning indicator. With customers' potential risks disclosed in time by monitoring the indicator, the active push, tracking, feedback and report generating by level of warning indicator can be achieved and the timeliness and accuracy of risk warning can be improved effectively. The risk warning system realized the online posting of warning information and carried out system hard control over processes including warning adjustment, cancellation etc. and provided basic guarantee for credit management.

The Group accurately identified risks conditions of credit asset, reasonably reflected the income after risk adjustment to guide capital allocation optimization in operation institutions and allocation of credit resources to strengthen risk awareness in operation institutions. Therefore, Credit Asset Risks Classification Implementation Method and Credit Asset Risks Classification Implementation Standards and others have been established to make sure branches adjust credit asset risks classification according to real conditions of projects. Based on 5 levels classified by the CBIRC, the

Group has classified its credit asset risks into nine levels as level one (normal), level 2 (normal), level 3 (normal), level 4 (attention), level 5 (attention), level 6 (attention), sublevel, doubtful and loss. The Group has various management policies to each level.

Risks arising from credit commitments are similar to risks of loans and advances to customers in substance. Therefore, requirements for application, post-lending management and pledge and guarantees are the same with those in loans and advances to customers. According to substance-over-form principle, the Group includes the non-standard credit loans in the comprehensive risk management system and manages them by comparing to traditional loans. The Group provides uniform credit, carries out general control on risks, executes uniform credit policy in nationwide, carries out whole-process responsibilities management by comparing to traditional loans, implements risk classification and provides risk reserves.

3.1 Concentration of credit risk

Concentration of credit risk exists when changes in geographic, economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is material in relation to the Group's total exposures. The Group's portfolio of financial instrument is diversified along geographic, industry and product sectors.

The Group mainly operates the lending and guarantee business in the PRC mainland. Since there are different economic development characteristics in the different regions in China, the characteristics of credit risks are also different.

For the geographical and industrial concentration of the loans and advances to customers please refer to Note VIII, 7.

3.2 Maximum exposure to credit risk

Without considering any usable collaterals, and other credit enhancement measures, the max credit risk exposure of the Group and the Bank at balance sheet date is the sum of the carrying amounts of related financial assets (including derivative instrument and deducted equity instrument) in the balance sheet and the off-balance sheet items in Note XI, 2. As at 31 December 2018, the max credit risk exposures of the Group and the Bank are RMB7,265,112 million (31 December 2017: RMB6,815,370 million) and RMB7,066,978 million (31 December 2017: RMB6,609,727 million) respectively.

3.3 Analysis of exposure to credit risk of the Group and the Bank about loans and advances to customers, inter-bank placements, investments and finance lease receivables

UNIT: RMB Million

	The Group				
	31/12/2018				
	Loans and advances to customers	Inter-bank placements[1]	Investments[2]	Finance lease receivables	Total
Impaired:					
Individual assessment					
Total assets	38,648	409	16,085	2,300	**57,442**
Allowance for impairment losses	(20,798)	(409)	(8,248)	(1,476)	**(30,931)**
Net value of assets	17,850	-	7,837	824	**26,511**
Collective assessment					
Total assets	7,492	-	-	-	**7,492**
Allowance for impairment losses	(5,310)	-	-	-	**(5,310)**
Net value of assets	2,182	-	-	-	**2,182**
Past due but not impaired:					
Total assets	20,022	-	4,838	2,104	**26,964**
Including:					
Within 90 days	20,022	-	4,768	829	**25,619**
90 to 360 days	-	-	70	-	**70**
360 days to 3 years	-	-	-	1,275	**1,275**
Collectively assessed allowance for impairment losses	(4,533)	-	(196)	(764)	**(5,493)**
Net value of assets	15,489	-	4,642	1,340	**21,471**
Neither past due nor impaired:					
Total assets	2,867,920	228,735	2,462,224	104,399	**5,663,278**
Collectively assessed allowance for impairment losses	(64,996)	-	(11,288)	(2,310)	**(78,594)**
Net value of assets	2,802,924	228,735	2,450,936	102,089	**5,584,684**
Total of net value of assets	**2,838,445**	**228,735**	**2,463,415**	**104,253**	**5,634,848**

UNIT: RMB Million

	The Group				
	31/12/2017				
	Loans and advances to customers	Inter-bank placements[1]	Investments[2]	Finance lease receivables	Total
Impaired:					
Individual assessment					
Total assets	31,346	76	15,268	1,573	**48,263**
Allowance for impairment losses	(16,378)	(76)	(8,083)	(355)	**(24,892)**
Net value of assets	14,968	-	7,185	1,218	**23,371**
Collective assessment					
Total assets	7,308	-	-	-	**7,308**
Allowance for impairment losses	(5,154)	-	-	-	**(5,154)**
Net value of assets	2,154	-	-	-	**2,154**
Past due but not impaired:					
Total assets	9,031	1,133	1,913	3,303	**15,380**
Including:					
Within 90 days	8,951	-	1,328	789	**11,068**
90 to 360 days	80	-	480	1,239	**1,799**
360 days to 3 years	-	1,133	105	1,275	**2,513**
Collectively assessed allowance for impairment losses	(1,805)	-	(126)	(365)	**(2,296)**
Net value of assets	7,226	1,133	1,787	2,938	**13,084**
Neither past due nor impaired:					
Total assets	2,383,010	200,723	2,810,890	102,041	**5,496,664**
Collectively assessed allowance for impairment losses	(58,527)	-	(11,054)	(2,702)	**(72,283)**
Net value of assets	2,324,483	200,723	2,799,836	99,339	**5,424,381**
Total of net value of assets	**2,348,831**	**201,856**	**2,808,808**	**103,495**	**5,462,990**

UNIT: RMB Million

	The Bank			
	31/12/2018			
	Loans and advances to customers	Inter-bank placement[(1)]	Investment[(2)]	Total
Impaired:				
Individual assessment				
Total assets	38,648	409	15,901	**54,958**
Allowance for impairment losses	(20,798)	(409)	(8,138)	**(29,345)**
Net value of assets	17,850	-	7,763	**25,613**
Collective assessment				
Total assets	7,020	-	-	**7,020**
Allowance for impairment losses	(5,036)	-	-	**(5,036)**
Net value of assets	1,984	-	-	**1,984**
Past due but not impaired:				
Total assets	19,732	-	4,838	**24,570**
including:				
Within 90 days	19,732	-	4,768	**24,500**
90 to 360 days	-	-	70	**70**
360 days to 3 years	-	-	-	**-**
Collectively assessed allowance for impairment losses	(4,504)	-	(196)	**(4,700)**
Net value of assets	15,228	-	4,642	**19,870**
Neither past due nor impaired:				
Total assets	2,851,492	232,902	2,391,095	**5,475,489**
Collectively assessed allowance for impairment losses	(64,479)	-	(10,859)	**(75,338)**
Net value of assets	2,787,013	232,902	2,380,236	**5,400,151**
Total of net value of assets	**2,822,075**	**232,902**	**2,392,641**	**5,447,618**

UNIT: RMB Million

	The Bank			
	31/12/2017			
	Loans and advances to customers	Inter-bank placement[1]	Investment[2]	Total
Impaired:				
Individual assessment				
Total assets	31,346	76	15,238	**46,660**
Allowance for impairment losses	(16,378)	(76)	(8,065)	**(24,519)**
Net value of assets	14,968	-	7,173	**22,141**
Collective assessment				
Total assets	7,084	-	-	**7,084**
Allowance for impairment losses	(4,996)	-	-	**(4,996)**
Net value of assets	2,088	-	-	**2,088**
Past due but not impaired:				
Total assets	8,836	1,133	1,913	**11,882**
Including:				
Within 90 days	8,756	-	1,328	**10,084**
90 to 360 days	80	-	480	**560**
360 days to 3 years	-	1,133	105	**1,238**
Collectively assessed allowance for impairment losses	(1,786)	-	(126)	**(1,912)**
Net value of assets	7,050	1,133	1,787	**9,970**
Neither past due nor impaired:				
Total assets	2,375,629	192,221	2,749,819	**5,317,669**
Collectively assessed allowance for impairment losses	(58,338)	-	(11,000)	**(69,338)**
Net value of assets	2,317,291	192,221	2,738,819	**5,248,331**
Total of net value of assets	**2,341,397**	**193,354**	**2,747,779**	**5,282,530**

(1) Inter-bank placements include deposits with banks and other financial institutions, placements with banks and other financial institutions and financial assets purchased under resale agreements.

(2) Investments include financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and debt investments of investments classified as receivables.

3.4 Collateral and other credit enhancements

The amount and type of collateral required depend on the assessment of the credit risk of the counterparty. The pledge rate depends on the credit information, operation and management, and financial position of pledgers, the condition of collateral, the market price, the pledged periods, and the convertibility of collateral. In addition, the Collateral Guideline of the Group set an upper limit of the pledged rate. Furthermore, the Group classifies and manages collateral by the difficulty of appraisal and management, the stability of market price and the convertibility of collateral. Following are the main types of collateral:

• For reverse repurchase agreements, collateral mainly includes bills or securities

• For commercial loans, collateral mainly includes land, properties, equipment and shares, etc.

• For retail loans, collateral mainly includes properties

The management will monitor the market value of the collateral, ask the borrowers to increase collateral if necessary according to the agreements and monitor the change in the market value of the collateral when reviewing the adequacy of impairment.

3.5 Analysis of collateral value

3.5.1 The Group evaluates the fair value of collateral periodically

As at 31 December 2018, the fair value of collateral that related to loans past due but not impaired amounted to RMB27,026 million (31 December 2017: RMB12,139 million). The collateral includes land, properties, equipment and shares assets etc.

As at 31 December 2018, the fair value of collateral that related to loans individually assessed to be impaired amounted to RMB31,440 million (31 December 2017: RMB26,517 million). The collateral includes land, properties, equipment and shares assets.

3.5.2 The carrying value of foreclosed assets the Group obtained during 2018 amounted to RMB656 million (2017: RMB115 million).

3.6 Rescheduled loans

Rescheduled loans refer to the loans rescheduled by the Group for the borrower who fails to repay the loans on schedule due to the terrible situation in finance. If it is possible, the Group will seek to reschedule the loans rather than to acquire the ownership of the collateral. Upon the time of being rescheduled, the loans are assessed as the loans that have been impaired on an individual basis by the Group. On 31 December 2018, the book value of the Group's rescheduled loans is RMB5,851 million.

4. Market risk

Market risk is the risk of loss, in respect of the Group's on and off-balance sheet activities, arising from movements in market rates including interest rates, foreign exchange rates, commodity prices and stock prices. Market risk arises from both the Group's proprietary and customer driven business. The Group's market risk management objective is to control the market risk within a reasonable scope in order to achieve the optimal risk adjusted benefit.

According to the Group's market risk management structure, market risk management is critical for the risk management of the Group. Any major events should be reported to the Asset and Liability Management Committee for review and then authorized by President of the Bank. The planning and financial department is responsible for implementing the Group's asset and liability and interest rate management policy, analyzing and monitoring the implementation status of each type of indicators.

For daily control and management of treasury business, the risk management department of the treasure center built up mid-stage risk control system to carry out an implanting risk management and report to the risk management department of the Group.

4.1 Interest rate risk

The interest rate risk of the Group includes gap risk, benchmark risk and optional risk, among which gap risk is the main risk, i.e., the risk due to different repricing periods for different financial instruments. Currently, the Group has fully carried out the internal capital transfer pricing. The Group determined the transfer pricing by different products and terms, and gradually centralized the interest rate risk to the Head Office, so as to improve the efficiency of management and control the interest rate risk.

For the interest risk management of bank accounts, the Group mainly evaluates the interest rate risk of the statement of financial position through repricing gap structure for assets and liabilities and duration structure. The Group dynamically monitors and controls the interest rate sensitive gap of the statement of financial position through information systems like assets-liabilities management system together with client models, and calculates the interest rate sensitivity affected by revenue and economic value on the basis of gap analysis. The revenue analysis emphasizes on the effect of the interest rate fluctuation on short-term income, while the economic value analysis emphasizes on the effect of the interest rate fluctuation on present value of net cash flow.

For the interest risk management of transaction accounts, the Group mainly achieves the real-time monitoring of the interest rate risk of the trading accounts through the quota system, the use of financial transactions and analysis system and the scientific exposure measurement models. According to regulatory requirement, the Group has strengthened the management of market risk measurement models, standardized the developing, testing and commissioning process, and built on regular evaluation mechanisms to ensure the accuracy of measurement models. The Group applies the on-line trading and analysis system to timely measure and control the interest rate risk exposure of transaction accounts, which provides effective technical support to control the interest rate risk of transaction accounts.

At the balance sheet date, an analysis of contractual reprising date or maturity date, whichever is earlier, of the financial assets and liabilities are as follows:

UNIT: RMB Million

	The Group					
	31/12/2018					
	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
Financial assets:						
Cash and balances with Central Bank	459,676	-	-	-	16,105	**475,781**
Deposits with banks and other financial institutions	44,140	9,163	-	-	-	**53,303**
Placements with banks and other financial institutions	62,753	35,596	-	-	-	**98,349**
Financial assets at fair value through profit or loss	13,662	92,920	67,873	11,215	273,928	**459,598**
Derivative financial assets	-	-	-	-	42,092	**42,092**
Financial assets purchased under resale agreements	76,503	-	580	-	-	**77,083**
Loans and advances to customers	2,283,450	522,598	27,244	5,153	-	**2,838,445**
Available-for-sale financial assets	60,488	111,814	266,812	56,339	151,649	**647,102**
Investments classified as receivables	458,751	196,285	504,249	227,865	-	**1,387,150**
Finance lease receivables	101,639	2,024	590	-	-	**104,253**
Held-to-maturity investments	15,694	42,773	141,257	195,418	-	**395,142**
Other assets	5,286	1,653	-	-	49,924	**56,863**
Total financial assets	**3,582,042**	**1,014,826**	**1,008,605**	**495,990**	**533,698**	**6,635,161**
Financial liabilities:						
Borrowing from Central Bank	56,500	212,000	-	-	-	**268,500**
Deposits from banks and other financial institutions	1,145,772	199,111	-	-	-	**1,344,883**
Placements from banks and other financial institutions	134,333	76,074	10,424	-	-	**220,831**
Financial liabilities at fair value through profit or loss	1,004	1,251	132	-	207	**2,594**
Derivative financial liabilities	-	-	-	-	38,823	**38,823**
Financial assets sold under repurchase agreements	215,203	15,366	-	-	-	**230,569**
Due to customers	2,071,938	689,821	505,589	33,708	2,456	**3,303,512**
Debt securities issued	215,333	325,047	105,263	72,211	-	**717,854**
Other liabilities	590	1,758	400	-	71,591	**74,339**
Total financial liabilities	**3,840,673**	**1,520,428**	**621,808**	**105,919**	**113,077**	**6,201,905**
Net position	(258,631)	(505,602)	386,797	390,071	420,621	**433,256**

UNIT: RMB Million

	The Group					
	31/12/2017					
	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
Financial assets:						
Cash and balances with Central Bank	444,872	-	-	-	21,531	**466,403**
Deposits with banks and other financial institutions	71,995	5,564	-	-	-	**77,559**
Placements with banks and other financial institutions	24,238	6,940	-	-	-	**31,178**
Financial assets at fair value through profit or loss	34,292	36,186	64,385	10,170	217,039	**362,072**
Derivative financial assets	-	-	-	-	28,396	**28,396**
Financial assets purchased under resale agreements	89,817	3,302	-	-	-	**93,119**
Loans and advances to customers	1,809,718	488,679	43,072	7,362	-	**2,348,831**
Available-for-sale financial assets	56,731	120,365	190,414	45,400	91,311	**504,221**
Investments classifiedas receivables	459,926	581,934	602,819	268,703	-	**1,913,382**
Finance lease receivables	100,370	2,395	593	137	-	**103,495**
Held-to-maturity investments	10,681	27,181	161,432	138,189	-	**337,483**
Other assets	17,540	1,890	166	321	43,320	**63,237**
Total financial assets	**3,120,180**	**1,274,436**	**1,062,881**	**470,282**	**401,597**	**6,329,376**
Financial liabilities:						
Borrowing from Central Bank	35,500	209,500	-	-	-	**245,000**
Deposits from banks and other financial institutions	1,140,642	305,417	-	-	-	**1,446,059**
Placements from banks and other financial institutions	171,287	16,642	-	-	-	**187,929**
Financial liabilities at fair value through profit or loss	3,685	2,040	-	-	838	**6,563**
Derivative financial liabilities	-	-	-	-	29,514	**29,514**
Financial assets sold under repurchase agreements	220,845	8,949	-	-	-	**229,794**
Due to customers	2,168,179	560,115	356,148	6	2,445	**3,086,893**
Debt securities issued	316,718	209,369	63,988	72,883	-	**662,958**
Other liabilities	-	-	-	-	71,626	**71,626**
Total financial liabilities	**4,056,856**	**1,312,032**	**420,136**	**72,889**	**104,423**	**5,966,336**
Net position	(936,676)	(37,596)	642,745	397,393	297,174	**363,040**

UNIT: RMB Million

	The Bank					
	31/12/2018					
	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
Financial assets:						
Cash and balances with Central Bank	459,670	-	-	-	16,105	**475,775**
Deposits with banks and other financial institutions	39,519	8,350	-	-	-	**47,869**
Placements with banks and other financial institutions	67,939	43,196	103	-	-	**111,238**
Financial assets at fair value through profit or loss	7,819	75,838	39,548	6,007	283,803	**413,015**
Derivative financial assets	-	-	-	-	42,092	**42,092**
Financial assets purchased under resale agreements	73,795	-	-	-	-	**73,795**
Loans and advances to customers	2,283,026	513,953	19,943	5,153	-	**2,822,075**
Available-for-sale financial assets	59,064	111,271	267,359	56,338	171,653	**665,685**
Investments classified as receivables	452,899	192,692	502,413	227,836	-	**1,375,840**
Held-to-maturity investments	15,694	42,694	141,251	193,918	-	**393,557**
Other assets	-	-	-	-	45,145	**45,145**
Total financial assets	**3,459,425**	**987,994**	**970,617**	**489,252**	**558,798**	**6,466,086**
Financial liabilities:						
Borrowing from Central Bank	56,500	212,000	-	-	-	**268,500**
Deposits from banks and other financial institutions	1,152,046	199,361	-	-	-	**1,351,407**
Placements from banks other financial institutions	110,726	16,215	-	-	-	**126,941**
Financial liabilities at fair value through profit or loss	1,004	1,251	132	-	-	**2,387**
Derivative financial liabilities	-	-	-	-	38,823	**38,823**
Financial assets sold under repurchase agreements	203,908	15,366	-	-	-	**219,274**
Due to customers	2,072,489	689,821	505,589	33,708	2,456	**3,304,063**
Debt securities issued	215,333	324,449	87,763	70,891	-	**698,436**
Other liabilities	-	-	-	-	57,789	**57,789**
Total financial liabilities	**3,812,006**	**1,458,463**	**593,484**	**104,599**	**99,068**	**6,067,620**
Net position	(352,581)	(470,469)	377,133	384,653	459,730	**398,466**

UNIT: RMB Million

	The Bank					
	31/12/2017					
	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
Financial assets:						
Cash and balances with Central Bank	444,861	-	-	-	21,531	**466,392**
Deposits with banks and other financial institutions	62,080	5,398	-	-	-	**67,478**
Placements with banks and other financial institutions	24,382	12,030	-	-	-	**36,412**
Financial assets at fair value through profit or loss	25,316	29,988	37,943	7,462	237,256	**337,965**
Derivative financial assets	-	-	-	-	28,396	**28,396**
Financial assets purchased under resale agreements	86,162	3,302	-	-	-	**89,464**
Loans and advances to customers	1,812,517	485,679	35,839	7,362	-	**2,341,397**
Available-for-sale financial assets	54,033	120,120	190,066	45,399	106,398	**516,016**
Investments classified as receivables	449,532	581,270	600,514	268,653	-	**1,899,969**
Held-to-maturity investments	10,681	27,181	161,432	138,189	-	**337,483**
Other assets	-	-	-	-	38,129	**38,129**
Total financial assets	**2,969,564**	**1,264,968**	**1,025,794**	**467,065**	**431,710**	**6,159,101**
Financial liabilities:						
Borrowing from Central Bank	35,500	209,500	-	-	-	**245,000**
Deposits from banks and other financial institutions	1,143,516	305,537	-	-	-	**1,449,053**
Placements from banks other financial institutions	68,507	16,642	-	-	-	**85,149**
Financial liabilities at fair value through profit or loss	3,685	2,040	-	-	-	**5,725**
Derivative financial liabilities	-	-	-	-	29,514	**29,514**
Financial assets sold under repurchase agreements	217,269	6,616	-	-	-	**223,885**
Due to customers	2,168,964	560,356	356,148	6	2,445	**3,087,919**
Debt securities issued	316,701	203,974	56,474	70,883	-	**648,032**
Other liabilities	-	-	-	-	53,231	**53,231**
Total financial liabilities	**3,954,142**	**1,304,665**	**412,622**	**70,889**	**85,190**	**5,827,508**
Net position	(984,578)	(39,697)	613,172	396,176	346,520	**331,593**

The following tables illustrate the potential impact of a parallel upward or downward shift of 100 basis points in all currencies' yield curves on the net interest income and other comprehensive income, based on the positions of financial assets and liabilities at the balance sheet date.

UNIT: RMB Million

	The Group			
	31/12/2018		31/12/2017	
	Net interest income increase (decrease)	Other comprehensive income increase (decrease)	Net interest income increase (decrease)	Other comprehensive income increase (decrease)
+100 basis points	**6,821**	**(18,228)**	2,446	(5,244)
- 100 basis points	**(6,821)**	**19,281**	(2,446)	5,522

UNIT: RMB Million

	The Bank			
	31/12/2018		31/12/2017	
	Net interest income increase (decrease)	Other comprehensive income increase (decrease)	Net interest income increase (decrease)	Other comprehensive income increase (decrease)
+100 basis points	**6,136**	**(18,227)**	2,711	(5,239)
- 100 basis points	**(6,136)**	**19,280**	(2,711)	5,517

The sensitivity analysis on net interest income is based on reasonably possible changes in interest rates with the assumption that the structure of financial assets and financial liabilities held at the period end remains unchanged.

The sensitivity analysis on other comprehensive income is the effect on changes of fixed rate available-for-sale financial assets at the period end after adjusting in accordance with the reasonably possible changes in interest rates.

The above prediction assumes that all yield curves of assets and liabilities, except demand deposit, shift upward or downward parallel. Therefore it does not reflect the potential impact of non-parallel shift in yield curves. The prediction also assumes that all positions are held to maturity. The Group anticipates that the amount of sensitivity analysis is insignificant if a position is not held to maturity.

The assumption does not represent the group's capital and interest rate risk management policy. Therefore the above analysis may differ from the actual situation.

In addition, the impact of interest rate fluctuation is only for illustrating purpose, showing the anticipated net interest income and other comprehensive income of the Group under the current interest rate risk situation. And such impact has not taken into account the potential interest rate risk control activities carried out by the management.

4.2 Foreign currency risk

The Group conducts its businesses mainly in RMB, with certain businesses denominated in USD and other currencies. RMB is the functional currency. The foreign exchange rate is regulated by the PBOC.

The Group is mainly exposed to currency risk resulting from currency mismatches of assets and liabilities, foreign currency transactions and foreign currency capital, etc.

The capital operation department of the Bank centrally manages the currency risk. The currency risk that arises from all types of foreign exchange transactions at the branch level should be centralized to head office to manage the risk exposure and squares positions through the core business system.

The currency risk exposure between foreign currencies is managed on the basis of “overnight position limit” and “day time self-trading positions”. The positions are centralized to the capital operation department in a timely way and managed centrally. This kind of position is relatively small compared to the Group’s asset scale and is controllable.

Regarding the currency risk exposure between RMB and foreign currencies, the Group is mainly exposed to currency risk resulting from the comprehensive positions of the RMB market maker and the position of the foreign currency capital. As an active RMB market maker, the Group controls the position limit properly. The comprehensive positions of the market maker are managed close to zero and the overnight positions are kept at low level.

The following tables are the structure analysis of the relevant financial assets and liabilities by currency.

UNIT: RMB Million

	The Group			
	31/12/2018			
	RMB	USD RMB equivalent	Other currencies RMB equivalent	Total
Financial assets:				
Cash and balances with Central Bank	463,173	12,113	495	**475,781**
Deposits with banks and other financial institutions	29,086	18,427	5,790	**53,303**
Placements with banks and other financial institutions	61,800	22,294	14,255	**98,349**
Financial assets at fair value through profit or loss	435,016	23,272	1,310	**459,598**
Derivative financial assets	38,122	3,910	60	**42,092**
Financial assets purchased under resale agreements	77,070	13	-	**77,083**
Loans and advances to customers	2,676,609	91,019	70,817	**2,838,445**
Available-for-sale financial assets	535,376	109,339	2,387	**647,102**
Investments classified as receivables	1,363,343	22,901	906	**1,387,150**
Finance lease receivables	103,144	1,109	-	**104,253**
Held-to-maturity investments	381,101	9,888	4,153	**395,142**
Other assets	52,175	4,430	258	**56,863**
Total financial assets	**6,216,015**	**318,715**	**100,431**	**6,635,161**
Financial liabilities:				
Borrowing from Central Bank	268,500	-	-	**268,500**
Deposits from banks and other financial institutions	1,230,612	95,251	19,020	**1,344,883**
Placements from banks and other financial institutions	129,738	78,250	12,843	**220,831**
Financial liabilities at fair value through profit or loss	304	2,290	-	**2,594**
Derivative financial liabilities	35,045	3,751	27	**38,823**
Financial assets sold under repurchase agreements	199,094	31,014	461	**230,569**
Due to customers	3,067,627	171,422	64,463	**3,303,512**
Debt securities issued	677,698	30,278	9,878	**717,854**
Other liabilities	69,721	4,066	552	**74,339**
Total financial liabilities	**5,678,339**	**416,322**	**107,244**	**6,201,905**
Net position	537,676	(97,607)	(6,813)	**433,256**

UNIT: RMB Million

	The Group			
	31/12/2017			
	RMB	USD RMB equivalent	Other currencies RMB equivalent	Total
Financial assets:				
Cash and balances with Central Bank	449,299	16,716	388	**466,403**
Deposits with banks and other financial institutions	61,927	11,686	3,946	**77,559**
Placements with banks and other financial institutions	17,389	10,551	3,238	**31,178**
Financial assets at fair value through profit or lo ss	320,654	40,282	1,136	**362,072**
Derivative financial assets	26,894	980	522	**28,396**
Financial assets purchased under resale agreements	93,119	-	-	**93,119**
Loans and advances to customers	2,203,353	145,224	254	**2,348,831**
Available-for-sale financial assets	398,337	99,562	6,322	**504,221**
Investments classified as receivables	1,889,674	19,354	4,354	**1,913,382**
Finance lease receivables	102,268	1,227	-	**103,495**
Held-to-maturity investments	325,436	7,679	4,368	**337,483**
Other assets	60,942	2,049	246	**63,237**
Total financial assets	**5,949,292**	**355,310**	**24,774**	**6,329,376**
Financial liabilities:				
Borrowing from Central Bank	245,000	-	-	**245,000**
Deposits from banks and other financial institutions	1,360,795	74,865	10,399	**1,446,059**
Placements from banks and other financial institutions	117,683	59,913	10,333	**187,929**
Financial liabilities at fair value through profit or loss	1,834	4,729	-	**6,563**
Derivative financial liabilities	5,938	23,224	352	**29,514**
Financial assets sold under repurchase agreements	210,219	18,743	832	**229,794**
Due to customers	2,853,772	183,614	49,507	**3,086,893**
Debt securities issued	638,985	16,759	7,214	**662,958**
Other liabilities	68,548	2,757	321	**71,626**
Total financial liabilities	**5,502,774**	**384,604**	**78,958**	**5,966,336**
Net position	446,518	(29,294)	(54,184)	**363,040**

UNIT: RMB Million

	The Bank			
	31/12/2018			
	RMB	USD RMB equivalent	Other currencies RMB equivalent	Total
Financial assets:				
Cash and balances with Central Bank	463,167	12,113	495	475,775
Deposits with banks and other financial institutions	23,652	18,427	5,790	47,869
Placements with banks and other financial institutions	74,003	22,980	14,255	111,238
Financial assets at fair value through profit or loss	388,433	23,272	1,310	413,015
Derivative financial assets	38,122	3,910	60	42,092
Financial assets purchased under resale agreements	73,782	13	-	73,795
Loans and advances to customers	2,660,239	91,019	70,817	2,822,075
Available-for-sale financial assets	553,959	109,339	2,387	665,685
Investments classified as receivables	1,352,033	22,901	906	1,375,840
Held-to-maturity investments	379,516	9,888	4,153	393,557
Other assets	40,457	4,430	258	45,145
Total financial assets	**6,047,363**	**318,292**	**100,431**	6,466,086
Financial liabilities:				
Borrowing from Central Bank	268,500	-	-	268,500
Deposits from banks and other financial institutions	1,237,136	95,251	19,020	1,351,407
Placements from banks and other financial institutions	35,848	78,250	12,843	126,941
Financial liabilities at fair value through profit or loss	97	2,290	-	2,387
Derivative financial liabilities	35,045	3,751	27	38,823
Financial assets sold under repurchase agreements	187,799	31,014	461	219,274
Due to customers	3,068,178	171,422	64,463	3,304,063
Debt securities issued	658,280	30,278	9,878	698,436
Other liabilities	53,171	4,066	552	57,789
Total financial liabilities	**5,544,054**	**416,322**	**107,244**	**6,067,620**
Net position	503,309	(98,030)	(6,813)	398,466

UNIT: RMB Million

	The Bank			
	31/12/2017			
	RMB	USD RMB equivalent	Other currencies RMB equivalent	Total
Financial assets:				
Cash and balances with Central Bank	449,288	16,716	388	**466,392**
Deposits with banks and other financial institutions	51,846	11,686	3,946	**67,478**
Placements with banks and other financial institutions	22,061	11,113	3,238	**36,412**
Financial assets at fair value through profit or loss	296,547	40,282	1,136	**337,965**
Derivative financial assets	26,894	980	522	**28,396**
Financial assets purchased under resale agreements	89,464	-	-	**89,464**
Loans and advances to customers	2,195,919	145,224	254	**2,341,397**
Available-for-sale financial assets	410,132	99,562	6,322	**516,016**
Investments classified as receivables	1,876,261	19,354	4,354	**1,899,969**
Held-to-maturity investments	325,436	7,679	4,368	**337,483**
Other assets	35,834	2,049	246	**38,129**
Total financial assets	**5,779,682**	**354,645**	**24,774**	**6,159,101**
Financial liabilities:				
Borrowing from Central Bank	245,000	-	-	**245,000**
Deposits from banks and other financial institutions	1,363,789	74,865	10,399	**1,449,053**
Placements from banks and other financial institutions	14,903	59,913	10,333	**85,149**
Financial liabilities at fair value through profit or loss	996	4,729	-	**5,725**
Derivative financial liabilities	5,938	23,224	352	**29,514**
Financial assets sold under repurchase agreements	204,310	18,743	832	**223,885**
Due to customers	2,854,798	183,614	49,507	**3,087,919**
Debt securities issued	624,059	16,759	7,214	**648,032**
Other liabilities	50,153	2,757	321	**53,231**
Total financial liabilities	**5,363,946**	**384,604**	**78,958**	**5,827,508**
Net position	415,736	(29,959)	(54,184)	**331,593**

The table below indicates the potential effect of an appreciation or depreciation of RMB spot and forward exchange rate against all other currencies by 5% on the foreign exchange gains or losses.

UNIT: RMB Million

	The Group	
	2018	2017
	Foreign exchange increase/ (decrease)	Foreign exchange increase/ (decrease)
5% appreciation	**(1,685)**	(235)
5% depreciation	**1,685**	235

UNIT: RMB Million

	The Bank	
	2018	2017
	Foreign exchange increase/ (decrease)	Foreign exchange increase/ (decrease)
5% appreciation	**(1,664)**	(201)
5% depreciation	**1,664**	201

The above sensitivity analysis is measured on the basis that all assets and liabilities have a static currency risk structure. The relevant assumptions are:

The exchange rate sensitivity represents the exchange gains or losses arisen from a 5% change of the closing exchange rates (middle price) of the different foreign currencies against RMB at the balance sheet date;

The exchange rate changes of different foreign currencies against RMB move in the same direction simultaneously.

The effect on foreign exchange gains or loss is based on the assumption that the Group's net positions of foreign exchange sensitivity and foreign exchange derivative instruments at the end of the reporting period remain unchanged. The Group mitigates its foreign currency risk through active management of its foreign currency exposures and appropriate use of derivative instruments, based on the management expectation of future foreign currency movements, and therefore the above sensitivity analysis may differ from the actual situation.

4.3 Other price risk

Other price risk mainly derives from equity investments, held-for-trading precious metals investments and other bonds and derivatives linked to commodity price.

The Group believes that the market risk of commodity price or stock price from portfolio is insignificant.

5. Liquidity risk

Liquidity risk refers to the risk of being unable to acquire sufficient funds in time or failing to acquire sufficient funds at a reasonable cost to meet repayment obligations for asset growth or other business. The Group's liquidity risk mainly derives from advanced or concentrated withdrawal, principal-guaranteed wealth management products redemption, deferred loan repayment and mismatches of assets and liabilities.

The assets and liabilities management committee of the Group monitors and manages the liquidity risk of the Group. The committee will determine the liquidity risk regularity and management strategy, the monitoring indicators and the alarming index, regularly analyse and discuss the liquidity risk assessment report submitted, and determine the liquidity risk management measures.

The planning and financial department is responsible for: (1) drafting liquidity risk management policies and measures; (2) monitoring different types of liquidity ratios and exposure indicators. The planning and financial department monitors the liquidity risk ratios monthly by reviewing the assets' and liabilities' structure. If there are any ratios close to or over the alarming limits, the department has to investigate the reasons and make recommendations to adjust the assets' and liabilities' structure accordingly; (3) analysing the liquidity risk and reporting to the assets and liability management committee regularly; and (4) daily operation of liquidity management, establishment of a cash position forecast system at the Group level in order to meet the cash payment needs and assure the liquidity for the business development requirements.

The Group regularly monitors the surplus reserve ratio, liquidity ratio, liquidity coverage ratio and net stable funding ratio, and sets alarming and security limits for each ratio. The Group also prepares general and comprehensive liquidity analysis report based on liquidity indicators recorded and net cash flow position of assets and liabilities, incorporating the consideration of macro economy and interbank liquidity status. The report is submitted to the assets and liabilities management committee for assessment. The assessment report will be submitted together with credit risk, interest rate risk and operation risk to the risk management committee of the Board of Directors for the analysis of the Group's overall risk assessment to determine the management strategy accordingly.

5.1 A maturity analysis of financial assets and liabilities of the Group as follows

The following tables are the structure analysis of non-derivative financial assets and liabilities by contractual maturities at the balance sheet date. The amounts disclosed in each term are the undiscounted contractual cash flows.

UNIT: RMB Million

	The Group							
	31/12/2018							
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Past due/ undated	Total
Non-derivative financial assets:								
Cash and balances with Central Bank	84,644	-	-	-	-	-	391,341	**475,985**
Deposits with banks and other financial institutions	35,119	6,366	2,853	9,452	-	-	16	**53,806**
Placements with banks and other financial institutions	-	50,367	13,034	36,296	-	-	60	**99,757**
Financial assets at fair value through profit or loss	211,114	66,959	8,821	101,584	77,468	18,751	865	**485,562**
Financial assets purchased under resale agreements	-	76,517	-	-	660	-	333	**77,510**
Loans and advances to customers	-	390,197	199,339	901,223	787,204	1,394,579	59,779	**3,732,321**
Available-for-sale financial assets	45,118	8,936	39,910	217,684	313,201	87,927	7,420	**720,196**
Investments classified as receivables	-	52,473	112,331	275,828	816,809	503,973	17,968	**1,779,382**
Financial lease receivables	-	2,712	6,506	26,875	70,947	11,742	3,373	**122,155**
Held-to-maturity investments	-	3,303	14,177	54,645	186,241	236,972	137	**495,475**
Other non-derivative financial assets	7,431	4,506	3,735	2,515	3,547	175	491	**22,400**
Total non-derivative financial assets	**383,426**	**662,336**	**400,706**	**1,626,102**	**2,256,077**	**2,254,119**	**481,783**	**8,064,549**
Non-derivative financial liabilities:								
Borrowing from Central Bank	-	12,395	45,969	219,103	-	-	-	**277,467**
Deposits from banks and other financial institutions	541,782	352,397	258,691	205,016	-	-	-	**1,357,886**
Placements from banks and other financial institutions	-	91,367	46,835	77,090	10,954	-	-	**226,246**
Financial liabilities at fair value through profit or loss	171	527	501	1,289	173	-	-	**2,661**
Financial assets sold under repurchase agreements	-	196,640	19,162	15,535	-	-	-	**231,337**
Due to customers	1,366,645	359,331	293,036	768,361	592,053	33,846	-	**3,413,272**
Debt securities issued	-	62,845	119,967	360,875	143,339	80,458	-	**767,484**
Other non-derivative financial liabilities	16,124	1,775	779	2,886	4,886	507	611	**27,568**
Total non-derivative financial liabilities	**1,924,722**	**1,077,277**	**784,940**	**1,650,155**	**751,405**	**114,811**	**611**	**6,303,921**
Net position	(1,541,296)	(414,941)	(384,234)	(24,053)	1,504,672	2,139,308	481,172	**1,760,628**

UNIT: RMB Million

	The Group							
	31/12/2017							
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Past due/ undated	Total
Non-derivative financial assets:								
Cash and balances with Central Bank	22,311	-	-	-	-	-	444,313	**466,624**
Deposits with banks and other financial institutions	53,703	17,504	907	6,708	-	-	16	**78,838**
Placements with banks and other financial institutions	-	18,207	6,202	7,113	-	-	60	**31,582**
Financial assets at fair value through profit or loss	216,630	13,293	16,055	38,291	80,958	25,664	986	**391,877**
Financial assets purchased under resale agreements	-	88,494	315	3,430	-	-	1,133	**93,372**
Loans and advances to customers	-	246,365	168,339	789,211	668,488	1,088,414	38,930	**2,999,747**
Available-for-sale financial assets	82,210	14,135	19,701	134,007	240,051	76,121	4,689	**570,914**
Investments classified as receivables	-	59,411	141,161	540,040	1,040,426	434,119	13,891	**2,229,048**
Financial lease receivables	-	2,290	6,409	26,036	71,470	10,419	3,446	**120,070**
Held-to-maturity investments	-	243	12,477	37,529	199,430	178,594	131	**428,404**
Other non-derivative financial assets	8,654	2,430	1,890	2,406	15,015	2,112	324	**32,831**
Total non-derivative financial assets	**383,508**	**462,372**	**373,456**	**1,584,771**	**2,315,838**	**1,815,443**	**507,919**	**7,443,307**
Non-derivative financial liabilities:								
Borrowing from Central Bank	-	5,154	31,476	216,322	-	-	-	**252,952**
Deposits from banks and other financial institutions	464,357	431,095	253,602	314,982	-	-	-	**1,464,036**
Placements from banks and other financial institutions	-	139,203	32,445	16,992	-	-	-	**188,640**
Financial liabilities at fair value through profit or loss	756	1,673	2,066	2,082	81	-	-	**6,658**
Financial assets sold under repurchase agreements	-	208,957	12,841	9,026	-	-	-	**230,824**
Due to customers	1,436,517	453,409	295,874	576,424	406,982	7	-	**3,169,213**
Debt securities issued	-	112,841	186,118	224,346	101,603	84,060	-	**708,968**
Other non-derivative financial liabilities	19,981	563	749	2,379	4,332	1,890	439	**30,333**
Total non-derivative financial liabilities	**1,921,611**	**1,352,895**	**815,171**	**1,362,553**	**512,998**	**85,957**	**439**	**6,051,624**
Net position	(1,538,103)	(890,523)	(441,715)	222,218	1,802,840	1,729,486	507,480	**1,391,683**

Assets available to meet all of the liabilities and outstanding loan commitments include cash and balances with Central Bank, deposits with banks and other financial institutions, placements with banks and other financial institutions, financial assets purchased under resale agreements and financial assets at fair value through profit or loss, etc.. In the normal course of business, the majority of customer deposits repayable on demand are expected to be revolved. In addition, the Group is able to sell the available-for-sale financial assets to repay the matured liabilities if necessary.

UNIT: RMB Million

	The Bank							
	31/12/2018							
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Past due/ undated	Total
Non-derivative financial assets:								
Cash and balances with Central Bank	84,644	-	-	-	-	-	391,335	**475,979**
Deposits with banks and other financial institutions	32,012	4,911	2,787	8,628	-	-	16	**48,354**
Placements with banks and other financial institutions	-	53,374	15,364	43,982	108	-	60	**112,888**
Financial assets at fair value through profit or loss	217,156	65,280	5,115	83,966	49,837	13,284	600	**435,238**
Financial assets purchased under resale agreements	-	73,804	-	-	-	-	333	**74,137**
Loans and advances to customers	-	388,647	196,903	891,578	774,416	1,394,579	59,022	**3,705,145**
Available-for-sale financial assets	50,613	6,174	39,158	235,401	314,868	87,926	4,844	**738,984**
Investments classified as receivables	-	48,050	110,689	272,535	815,310	503,933	17,894	**1,768,411**
Held-to-maturity investments	-	3,298	14,166	54,528	186,035	235,387	137	**493,551**
Other non-derivative financial assets	4,301	3,506	395	803	2,670	142	-	**11,817**
Total non-derivative financial assets	**388,726**	**647,044**	**384,577**	**1,591,421**	**2,143,244**	**2,235,251**	**474,241**	**7,864,504**
Non-derivative financial liabilities:								
Borrowing from Central Bank	-	12,395	45,969	219,103	-	-	-	**277,467**
Deposits from banks and other financial institutions	548,057	352,397	258,691	205,273	-	-	-	**1,364,418**
Placements from banks and other financial institutions	-	80,507	31,008	16,680	-	-	-	**128,195**
Financial liabilities at fair value through profit or loss	-	527	501	1,289	136	-	-	**2,453**
Financial assets sold under repurchase agreements	-	185,324	19,162	15,535	-	-	-	**220,021**
Due to customers	1,367,197	359,331	293,036	768,361	592,053	33,846	-	**3,413,824**
Debt securities issued	-	62,845	119,930	358,637	125,363	78,046	-	**744,821**
Other non-derivative financial liabilities	7,649	1,580	666	1,372	781	95	-	**12,143**
Total non-derivative financial liabilities	**1,922,903**	**1,054,906**	**768,963**	**1,586,250**	**718,333**	**111,987**	**-**	**6,163,342**
Net position	(1,534,177)	(407,862)	(384,386)	5,171	1,424,911	2,123,264	474,241	**1,701,162**

UNIT: RMB Million

	The Bank							
	31/12/2017							
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Past due/ undated	Total
Non-derivative financial assets:								
Cash and balances with Central Bank	22,311	-	-	-	-	-	444,302	**466,613**
Deposits with banks and other financial institutions	45,336	16,800	-	6,529	-	-	16	**68,681**
Placements with banks and other financial institutions	-	18,922	5,643	12,378	-	-	60	**37,003**
Financial assets at fair value through profit or loss	237,256	7,246	12,695	30,631	47,519	22,089	600	**358,036**
Financial assets purchased under resale agreements	-	85,104	13	3,430	-	-	1,133	**89,680**
Loans and advances to customers	-	245,587	166,947	783,227	668,380	1,088,414	38,519	**2,991,074**
Available-for-sale financial assets	106,094	8,710	18,306	130,830	233,466	76,048	3,124	**576,578**
Investments classified as receivables	-	54,953	139,896	536,113	1,036,281	434,063	13,891	**2,215,197**
Held-to-maturity investments	-	243	12,477	37,529	199,430	178,594	131	**428,404**
Other non-derivative financial assets	1,903	1,836	1,281	598	2,957	296	-	**8,871**
Total non-derivative financial assets	**412,900**	**439,401**	**357,258**	**1,541,265**	**2,188,033**	**1,799,504**	**501,776**	**7,240,137**
Non-derivative financial liabilities:								
Borrowing from Central Bank	-	5,154	31,476	216,322	-	-	-	**252,952**
Deposits from banks and other financial institutions	466,413	431,209	254,317	315,108	-	-	-	**1,467,047**
Placements from banks and other financial institutions	-	36,423	32,445	16,992	-	-	-	**85,860**
Financial liabilities at fair value through profit or loss	-	1,673	2,066	2,082	-	-	-	**5,821**
Financial assets sold under repurchase agreements	-	205,857	11,943	6,688	-	-	-	**224,488**
Due to customers	1,437,302	306,623	295,874	712,887	406,983	7	-	**3,159,676**
Debt securities issued	-	112,841	186,001	218,405	93,134	81,545	-	**691,926**
Other non-derivative financial liabilities	10,565	450	558	1,119	510	84	-	**13,286**
Total non-derivative financial liabilities	**1,914,280**	**1,100,230**	**814,680**	**1,489,603**	**500,627**	**81,636**	**-**	**5,901,056**
Net position	(1,501,380)	(660,829)	(457,422)	51,662	1,687,406	1,717,868	501,776	**1,339,081**

5.2 Liquidity risk analysis of derivative instruments

(i) Derivative settled on a net basis

Derivatives that were settled on a net basis by the Group include: interest rate derivatives, exchange rate derivatives and credit derivatives, etc. The tables below set forth the Group's net derivative financial instruments positions by remaining contractual maturities at the balance sheet date. The amounts disclosed in the tables are the undiscounted contractual cash flows.

UNIT: RMB Million

	The Group and the Bank					
	31/12/2018					
	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Interest rate derivatives	1	127	248	257	42	**675**
Exchange rate derivatives	704	539	2,004	38	-	**3,285**
Other derivatives	(64)	(27)	329	(4)	-	**234**
Total	**641**	**639**	**2,581**	**291**	**42**	**4,194**

UNIT: RMB Million

	31/12/2017					
	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Interest rate derivatives	23	30	209	591	3	**856**
Exchange rate derivatives	(661)	(1,217)	(1,744)	16	-	**(3,606)**
Other derivatives	-	223	17	31	(2)	**269**
Total	**(638)**	**(964)**	**(1,518)**	**638**	**1**	**(2,481)**

(ii) Derivatives settled on a gross basis

The Group's derivatives that will be settled on a gross basis refer to exchange rate derivatives and precious metals forward with delivery precious metals. The tables below set forth the Group's positions by remaining contractual maturities at the balance sheet date. The amounts disclosed in the tables are the undiscounted contractual cash flows.

UNIT: RMB Million

	The Group and the Bank					
	31/12/2018					
	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Exchange rate derivatives						
- Cash inflow	321,874	160,506	382,350	49,239	-	**913,969**
- Cash outflow	(322,060)	(160,123)	(382,573)	(49,411)	-	**(914,167)**
Other derivatives						
- Cash inflow	2,642	850	3,952	175	-	**7,619**
- Cash outflow	(486)	-	(4,767)	-	-	**(5,253)**
Total	**1,970**	**1,233**	**(1,038)**	**3**	**-**	**2,168**

UNIT: RMB Million

	31/12/2017					
	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Exchange rate derivatives						
- Cash inflow	327,630	226,750	378,064	19,935	-	**952,379**
- Cash outflow	(327,003)	(225,744)	(377,231)	(20,122)	-	**(950,100)**
Other derivatives						
- Cash inflow	3,659	18,053	26,794	726	-	**49,232**
- Cash outflow	(2,995)	(14,428)	(6,204)	-	-	**(23,627)**
Total	**1,291**	**4,631**	**21,423**	**539**	**-**	**27,884**

5.3 Off-balance sheet items

The Group’s off-balance sheet items mainly include credit card commitment, letters of credit, letters of guarantee and bank acceptances. The tables below set forth the amounts of the off-balance sheet items by remaining maturity.

UNIT: RMB Million

	The Group and the Bank							
	31/12/2018				31/12/2017			
	Less than 1 year	1-5 years	Over 5 years	Total	Less than 1 year	1-5 years	Over 5 years	Total
Credit card commitments	284,430	-	-	**284,430**	208,127	-	-	**208,127**
Letter of credit	111,867	135	-	**112,002**	85,048	96	-	**85,144**
Letter of guarantee	51,365	46,477	25,826	**123,668**	42,822	44,408	33,029	**120,259**
Bank acceptances	532,919	-	-	**532,919**	384,247	-	-	**384,247**
Loan commitments non-cancellable	32	4,721	33,792	**38,545**	2,193	3,941	35,366	**41,500**
Total	**980,613**	**51,333**	**59,618**	**1,091,564**	**722,437**	**48,445**	**68,395**	**839,277**

6. Capital Management

During the year, the Group had conscientiously implemented the capital management policy according to the regulations of CBIRC Administrative Measures for the Capital of Commercial Banks (for Trial Implementation). As per "2016-2020 Group Development Strategy Plan" and "2018-2020 Capital Adequacy Standards Planning of Transition Period", the Group will achieve healthy and sustainable development as well as make sure capital adequacy ratio meet requirements by well performing capital management policies.

In 2018, the Group has realized the endogenous balanced development in capital entirely without external capital support. The Group fully demonstrated the necessity and feasibility of external capital from the aspect of satisfying the Group's actual demand for future business development in accordance with the regulatory policies for external capital. Meanwhile, the annual general meeting and the board of directors approved the plan to issue the preferred shares of RMB30 billion and the secondary capital debt of RMB50 billion, and the issuance of preferred shares of RMB30 billion has been approved by supervision department. If the aforesaid plan of capital support is implemented on schedule, the Group's capital strength will be further enhanced, and its ability to resist risks and serve the real economy will be further improved.

In 2018, the Group implements capital intensive operation and management, and properly arrange and control the size of the total risk weighted assets of the whole bank, and on the basis of the annual business operation plan, capital retention capacity and assets and liabilities management strategies. Optimize risk-weighted asset amount allocation and governing system on a continuous basis, and improve the evaluation on economic capital yield of each branch and subsidiary, and reasonably adjust the asset business structure, and promote harmonious development of in and off balance sheet activities. More emphasis is placed on the effective use of capital and the value creation of unit risk-weighted asset inputs to promote a stable return on capital.

According to related guidelines of the CBIRC, "Administrative Measures for the Capital of Commercial Banks (for Trial Implementation)" and other regulations, the Group promotes the implementation of new capital agreement, establishes the nearly completed first support work system and seriously implements various works, and monitors the capital adequacy of the Group and its legal person and capital application in real time. As at 31 December 2018, the net book value of the Group's core tier one capital, tier one capital and capital are RMB440,365 million, RMB466,335 million and RMB577,582 million respectively.

7. Fair value of financial instruments

7.1 Method of fair value recognition

Part of the financial assets and financial liabilities of the Group is measured at fair value. Fair value are measured through appropriate method and parameters, and regularly reviewed by the board of directors to keep its applicability.

When recognizing the fair value of the financial instrument, to those financial instruments which can obtain unadjusted price of same assets and liabilities in the active market, the Group regards the unadjusted price in the active market as the best evidence of fair value. And then the Group recognizes the fair value and classifies it to level 1.

If the parameters of the estimation are observable and acquirable in the active market, such financial instruments (including equity instrument and derivative financial instrument) should be classified to level 2. The Group uses internal or external professionals to estimate the value with techniques including Black-Scholes option pricing model for option derivative financial instrument and discounted cash flow model for non-derivative financial instrument and part of the derivative financial instrument (including interest swaps, forward foreign exchange etc.) which cannot obtain prices in the active market. The main parameters used in the discounted cash flow model include the recent trading price, the relevant yield curve, and exchange rates, etc. The main parameters of Black-Scholes option pricing model used include relevant yield curve, exchange rates and fluctuations level, etc.

To loans and advances to customers and part of investments classified as receivables, their fair value is based on discounted cash flow model, and confirmed by unobservable discount rate which reflects credit risk. Such financial instruments are classified to level 3.

To unlisted equity (private equity) owned by the Group, the measure of fair value may adopt the unobservable input parameters which have significant influence over the estimation. Therefore, such financial instruments are classified to level 3. The management estimates the fair value of level 3 financial instruments by a series of method, including unobservable parameters such as net value of assets and discount rate which lacks market liquidity. If one or more unobservable parameters change based on reasonably possible alternative hypothesis, the fair value of such financial instruments will changed accordingly. The Group has established related internal control process in order to supervise the exposure of the financial instrument.

7.2 Financial assets and financial liabilities at fair value on recurring basis

For financial assets and financial liabilities at fair value on recurring basis, three levels of fair value measurement are analysed as follows:

UNIT: RMB Million

	The Group							
	31/12/2018				31/12/2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets:								
Financial assets at fair value through profit or loss	211,075	242,680	5,843	**459,598**	216,627	141,880	3,565	**362,072**
Derivative financial assets	-	42,092	-	**42,092**	-	28,396	-	**28,396**
Available-for-sale financial assets	44,834	575,220	24,832	**644,886**	82,287	398,742	21,352	**502,381**
Total	**255,909**	**859,992**	**30,675**	**1,146,576**	**298,914**	**569,018**	**24,917**	**892,849**
Financial liabilities:								
Financial liabilities at fair value through profit or loss	171	2,423	-	**2,594**	756	5,807	-	**6,563**
Derivative financial liabilities	-	38,823	-	**38,823**	-	29,514	-	**29,514**
Total	**171**	**41,246**	**-**	**41,417**	**756**	**35,321**	**-**	**36,077**

UNIT: RMB Million

	The Bank							
	31/12/2018				31/12/2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets:								
Financial assets at fair value through profit or loss	217,156	195,859	-	**413,015**	237,256	100,709	-	**337,965**
Derivative financial assets	-	42,092	-	**42,092**	-	28,396	-	**28,396**
Available-for-sale financial assets	50,613	592,577	21,691	**664,881**	106,094	392,490	17,128	**515,712**
Total	**267,769**	**830,528**	**21,691**	**1,119,988**	**343,350**	**521,595**	**17,128**	**882,073**
Financial liabilities:								
Financial liabilities at fair value through profit or loss	-	2,387	-	**2,387**	-	5,725	-	**5,725**
Derivative financial liabilities	-	38,823	-	**38,823**	-	29,514	-	**29,514**
Total	**-**	**41,210**	**-**	**41,210**	**-**	**35,239**	**-**	**35,239**

There is no significant transfer in levels for fair value of the Group's financial instruments in 2018 and in 2017.

Information of Level 2:

UNIT: RMB Million

	The Group			
	Fair value in 31/12/2018	Fair value in 31/12/2017	Valuation Tech	Inputs
Financial assets:				
Debt instrument investments	654,726	537,026	Discounted cash flow method	Yield rate of bonds
Equity instrument investments	163,174	3,596	Net asset value method	Net asset value
Derivative financial instruments	42,092	28,396	Discounted cash flow method Option pricing model	Credit of counter-party Credit premium, volatility
Total	**859,992**	**569,018**		
Financial liabilities:				
Debt instrument investments	2,423	5,807	Discounted cash flow method	Yield rate of bonds
Derivative financial instruments	38,823	29,514	Discounted cash flow method Option pricing model	Credit of counter-party Credit premium, volatility
Total	**41,246**	**35,321**		

UNIT: RMB Million

	The Bank			
	Fair value in 31/12/2018	Fair value in 31/12/2017	Valuation Tech	Inputs
Financial assets:				
Debt instrument investments	603,578	493,199	Discounted cash flow method	Yield rate of bonds
Equity instrument investments	184,858	-	Net asset value method	Net asset value
Derivative financial instruments	42,092	28,396	Discounted cash flow method Option pricing model	Credit of counter-party Credit premium, volatility
Total	**830,528**	**521,595**		
Financial liabilities:				
Debt instrument investments	2,387	5,725	Discounted cash flow method	Yield rate of bonds
Derivative financial instruments	38,823	29,514	Discounted cash flow method Option pricing model	Credit of counter-party Credit premium, volatility
Total	**41,210**	**35,239**		

Information of Level 3:

UNIT: RMB Million

	The Group		
	Fair value in 31/12/2018	Fair value in 31/12/2017	Value Tech
Debt instrument investment	**26,397**	20,917	Discounted cash flow method
Equity instrument investments	**4,278**	4,000	Net asset value method
Total	**30,675**	**24,917**	

UNIT: RMB Million

	The Bank		
	Fair value in	Fair value in	
	31/12/2018	31/12/2017	Value Tech
Debt instrument investment	**19,666**	17,128	Discounted cash flow method
Equity instrument investments	**2,025**	-	Net asset value method
Total	**21,691**	**17,128**	

As for these debt instruments, using the discounted cash flow model for evaluating, the main significant unobservable inputs is the discount rate, the weighted average of 4.60%, and the significant unobservable inputs are inversely proportional to the fair value.

The fair value of aforesaid equity instruments investment is recognized by net asset value method. The main significant unobservable inputs are net asset value. On 31 December 2018, the asset-weighted average unit net value is 0.96, and the significant unobservable inputs are positively related to the fair value.

Adjustment of financial assets and liabilities in level 3 at fair value:

UNIT: RMB Million

	The Group			
	Financial assets at fair value through profit or loss		Available-for-sale financial assets	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Opening	**3,565**	599	**21,352**	157,458
Profit or loss				
-Recognized in other comprehensive income	**-**	-	**1,507**	-
Bought/(Sold)	**2,278**	2,966	**5,864**	(36,802)
Settle	**-**	-	**(3,891)**	(99,304)
Closing	**5,843**	3,565	**24,832**	21,352
Unrealized gains or losses for the period included in profit or loss for assets held at the end of the reporting period	**(68)**	-	**-**	-

UNIT: RMB Million

Available-for-sale financial assets	The Bank	
	12/31/2018	12/31/2017
Opening	**17,128**	157,259
Profit or loss		
-Recognized in other comprehensive income	**1,670**	-
Bought/Sold	**6,780**	(40,829)
Settle	**(3,887)**	(99,302)
Closing	**21,691**	**17,128**
Unrealized gains or losses for the period included in profit or loss for assets held at the end of the reporting period	**-**	**-**

7.3 Financial assets and liabilities measured not by fair value

The table below shows the carrying value of financial assets and financial liabilities at non-fair value and the corresponding fair value on the balance sheet date. The carrying value approximates the fair value of financial assets and financial liabilities, such as balance with Central Bank, deposits with banks and other financial institutions, placements with banks and other financial institutions, financial assets purchased under resale agreements, borrowing from the Central Bank, placements from banks and other financial institutions, financial assets sold under repurchase agreements not included in the table below.

UNIT: RMB Million

	The Group			
	31/12/2018		31/12/2017	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets:				
Loans and advances to customers	**2,838,445**	**2,838,534**	2,348,831	2,349,228
Held-to-maturity investments	**395,142**	**406,992**	337,483	335,885
Investments classified as receivables	**1,387,150**	**1,385,763**	1,913,382	1,899,068
Total	**4,620,737**	**4,631,289**	**4,599,696**	**4,584,181**
Financial liabilities:				
Due to customers	**3,303,512**	**3,323,302**	3,086,893	3,099,828
Debt securities issued	**717,854**	**713,469**	662,958	655,928
Total	**4,021,366**	**4,036,771**	**3,749,851**	**3,755,756**

UNIT: RMB Million

	The Bank			
	31/12/2018		31/12/2017	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets:				
Loans and advances to customers	**2,822,075**	**2,822,166**	2,341,397	2,341,794
Held-to-maturity investments	**393,557**	**405,408**	337,483	335,885
Investments classified as receivables	**1,375,840**	**1,374,453**	1,899,969	1,885,655
Total	**4,591,472**	**4,602,027**	**4,578,849**	**4,563,334**
Financial liabilities:				
Due to customers	**3,304,063**	**3,323,853**	3,087,919	3,100,854
Debt securities issued	**698,436**	**694,725**	648,032	641,002
Total	**4,002,499**	**4,018,578**	**3,735,951**	**3,741,856**

Level of financial assets and liabilities measured not by fair value on balance sheet date:

UNIT: RMB Million

	The Group			
	31/12/2018			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Loans and advances to customers	-	-	2,838,534	**2,838,534**
Held-to-maturity investments	-	406,992	-	**406,992**
Investments classified as receivables	-	416,236	969,527	**1,385,763**
Total	**-**	**823,228**	**3,808,061**	**4,631,289**
Financial liabilities:				
Due to customers	-	3,323,302	-	**3,323,302**
Debt securities issued	-	713,469	-	**713,469**
Total	**-**	**4,036,771**	**-**	**4,036,771**

UNIT: RMB Million

	The Group			
	31/12/2017			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Loans and advances to customers	-	-	2,349,228	**2,349,228**
Held-to-maturity investments	-	335,885	-	**335,885**
Investments classified as receivables	-	468,806	1,430,262	**1,899,068**
Total	**-**	**804,691**	**3,779,490**	**4,584,181**
Financial liabilities:				
Due to customers	-	3,099,828	-	**3,099,828**
Debt securities issued	-	655,928	-	**655,928**
Total	**-**	**3,755,756**	**-**	**3,755,756**

UNIT: RMB Million

	The Bank			
	31/12/2018			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Loans and advances to customers	-	-	2,822,166	**2,822,166**
Held-to-maturity investments	-	405,408	-	**405,408**
Investments classified as receivables	-	416,496	957,957	**1,374,453**
Total	**-**	**821,904**	**3,780,123**	**4,602,027**
Financial liabilities:				
Due to customers	-	3,323,853	-	**3,323,853**
Debt securities issued	-	694,725	-	**694,725**
Total	**-**	**4,018,578**	**-**	**4,018,578**

UNIT: RMB Million

	The Bank			
	31/12/2017			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Loans and advances to customers	-	-	2,341,794	**2,341,794**
Held-to-maturity investments	-	335,885	-	**335,885**
Investments classified as receivables	-	469,316	1,416,339	**1,885,655**
Total	**-**	**805,201**	**3,758,133**	**4,563,334**
Financial liabilities:				
Due to customers	-	3,100,854	-	**3,100,854**
Debt securities issued	-	641,002	-	**641,002**
Total	**-**	**3,741,856**	**-**	**3,741,856**

Quantitative information of level 2, 3 at fair value:

UNIT: RMB Million

	The Group			
	Fair value at 31/12/2018	Fair value at 31/12/2017	Valuation Technique	Inputs
Loans and advances to customers	**2,838,534**	2,349,228	Discounted cash flow method	Default rate, loss given default, discount rate
Held-to-maturity investments	**406,992**	335,885	Discounted cash flow method	Yield rate of bonds
Investments classified as receivables	**1,385,763**	1,899,068	Discounted cash flow method	Default rate, loss given default, discount rate
Due to customers	**3,323,302**	3,099,828	Discounted cash flow method	Market deposit rate
Debt securities issued	**713,469**	655,928	Discounted cash flow method	Yield rate of bonds
Total	**8,668,060**	**8,339,937**		

UNIT: RMB Million

	The Bank			
	Fair value at 31/12/2018	Fair value at 31/12/2017	Valuation Technique	Inputs
Loans and advances to customers	**2,822,166**	2,341,794	Discounted cash flow method	Default rate, loss given default, discount rate
Held-to-maturity investments	**405,408**	335,885	Discounted cash flow method	Yield rate of bonds
Investments classified as receivables	**1,374,453**	1,885,655	Discounted cash flow method	Default rate, loss given default, discount rate
Due to customers	**3,323,853**	3,100,854	Discounted cash flow method	Market deposit rate
Debt securities issued	**694,725**	641,002	Discounted cash flow method	Yield rate of bonds
Total	**8,620,605**	**8,305,190**		

All of the above-mentioned assumptions and methods provide a consistent basis for the calculation of the fair values of the Group's assets and liabilities. However, other institutions may use different assumptions and methods. Therefore, the fair values disclosed by different financial institutions may not be entirely comparable.

XIV. Comparative figures

In order to comply with the presentation of the financial statements for the year, the Group re-presented certain comparative figures.

XV. NON-ADJUSTING EVENTS AFTER BALANCE SHEET DATE

As approved by the CBIRC and the China Securities Regulatory Commission, the Bank issued non-cumulative preferred stocks in a non-public manner domestically in April 2019, with a total issued amount of 300 million shares and a par value of RMB100 per share amounting to RMB30 ,000 million. The dividend rate of the first interest cycle is 4.90%.

In January 2019, the Bank increased its capital by RMB198 million to its holding subsidiary, Industrial Consumer Finance Co., Ltd., and the registered capital of Industrial Consumer Finance Co., Ltd. was RMB1,500 million after the capital increase.

XVI. FINANCIAL STATEMENTS APPROVED

The financial statements were approved by the Board of Directors of the Bank on 29 April 2019.

SUPPLEMENTARY INFORMATION

YEAR 2018

1. Breakdown of non-recurring profit or loss

The following table is in accordance with the requirement of Information Disclosure and Presentation Rules for Companies Making Public Offering of Securities No. 1 - Non-recurring Profit or Loss (2008) (ZJHGG [2008] No.43) issued by China Securities Regulatory Commission.

UNIT: RMB Million

	The Group	
	2018	2017
Gains and losses on the disposal of non-current assets	**20**	70
Government grants recognised in profit or loss	**655**	362
Recovery of assets written-off in previous years	**5,342**	3,544
Net non-operating income and expenses in addition to the above	**144**	(166)
Subtotal	**6,161**	3,810
Impact on income tax expenses	**(1,566)**	(1,053)
Total	**4,595**	**2,757**
Total non-recurring profit or loss attributable to ordinary shareholders of the Bank	**4,579**	2,736
Total non-recurring profit or loss attributable to non-controlling interests	**16**	21
Net profit attributable to ordinary shareholders of the Bank, after deduction of non-recurring profit or loss	**54,559**	52,982

Non-recurring profit or loss refers to the profit or loss not related to normal business or the profit or loss which is related to normal business but affects the user of financial statements to make correct judgement for the Bank's financial position and financial performance because of its distinctiveness and non-recurring. Considering the nature of its normal business, Industrial Bank Co., Ltd. (hereinafter referred to as "the Bank") does not include "investment income from financial assets at fair value through profit or loss, financial liabilities at fair value through profit or loss and available-for-sale financial assets" in non-recurring profit or loss.

2. Return on net assets and earnings per share ("EPS")

The related data is calculated in accordance with the provisions in the Rule No.9 for the Preparation of Information Disclosure of Companies with Public Offering – the Calculation and Disclosure of ROE and EPS (revised in 2010). In the related period, basic EPS is calculated by dividing net profit by weighted average ordinary shares issued

	The Group	
2018	Weighted average ROE (%)	Basic EPS (Yuan/share)
Net profit attributable to ordinary shareholders of the Bank	14.27	2.85
Net profit attributable to s ordinary shareholders of the Bank, after deduction of non-recurring profit or loss	13.17	2.63

2017	Weighted average ROE (%)	Basic EPS (Yuan/share)
Net profit attributable to ordinary shareholders of the Bank	15.35	2.74
Net profit attributable to s ordinary shareholders of the Bank, after deduction of non-recurring profit or loss	14.59	2.60

The RMB26,000 million domestic preference shares of the Bank as approved in November 2014 were successfully issued in June 2015. When calculating the earnings per share, the current net profit attributed to ordinary shareholders did not include preference shares dividends declared for distribution. Besides, it had no further influence on basic earnings per share and diluted earnings per share in 2018 and 2017.

THE BANK

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