交通银行
BANK OF COMMUNICATIONS

Bank of Communications Co., Ltd.

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

2019 ANNUAL REPORT

Stock Code: 03328

COMPANY PROFILE

Bank of Communications is a comprehensive financial services group taking banking as its principal business. Its business scope covers areas including commercial banking, offshore finance, fund, trust, financial leasing, insurance, overseas securities, debt-to-equity swap and asset management.

Its wholly-owned non-bank subsidiaries mainly include Bank of Communications Financial Leasing Co., Ltd., China BoCom Insurance Co., Ltd., BoCom Financial Asset Investment Co., Ltd. and BoCom Wealth Management Co., Ltd. Its controlled non-bank subsidiaries included Bank of Communications Schroder Fund Management Co., Ltd., Bank of Communications International Trust Co., Ltd., BoCommLife Insurance Company Limited and BoCom International Holdings Company Limited. In addition, BoCom is the largest shareholder of Jiangsu Changshu Rural Commercial Bank Co., Ltd. and Bank of Tibet Co., Ltd. and it has a strategic investment in Bank of Hainan Co., Ltd. with 4 holding rural banks.

- **Listed among FORTUNE 500 for 11 Consecutive Years and RANKED NO.150 in terms of Revenue, up by 18 POSITIONS over the Previous Year.**
- **Ranked NO. 11 among the Global TOP 1000 BANKS IN TERMS OF TIER-1 CAPITAL for 3 Consecutive Years Rated by *THE BANKER.***

A LEVEL and **No.1 BANK** in CONSUMER PROTECTION RATING AWARDED by PBOC and CBIRC

244 DOMESTIC BRANCHES

3,079 OUTLETS

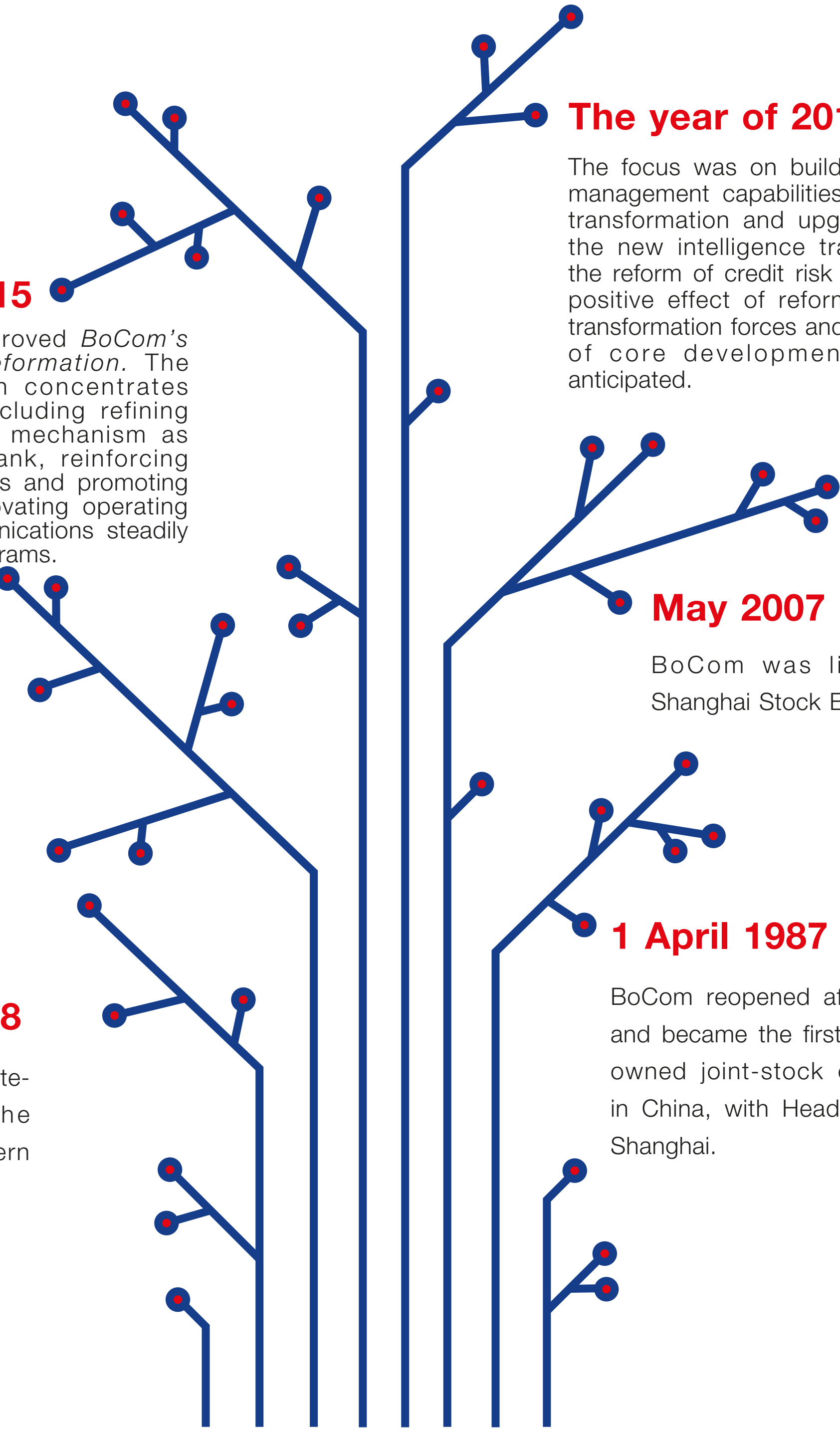
Creating Shared Value and Providing Best Services

NO.1 **IN THE INDUSTRY FOR THE SIXTH TIME** in Assessment of "TOP 1,000" and "TOP 100" OUTLETS by China Banking Association

68 OVERSEAS BANKING OUTLETS (Excluding the Representative Offices)

22 OVERSEAS BRANCHES (SUBSIDIARY BANKS) AND REPRESENTATIVE OFFICES In **17** COUNTRIES OR REGIONS

Century-Old Financial Brand



The year of 2019

The focus was on building strong wealth management capabilities, accelerating the transformation and upgrading of outlets, the new intelligence transformation and the reform of credit risk management. The positive effect of reforms, stimulation of transformation forces and the enhancement of core development indicator are anticipated.

The year of 2015

The State Council approved *BoCom's Plan to Deepened Reformation.* The deepened reformation concentrates on three key areas including refining corporate governance mechanism as a large commercial bank, reinforcing operational improvements and promoting transformation and innovating operating model. Bank of Communications steadily implemented reform programs.

May 2007

BoCom was listed on the Shanghai Stock Exchange

June 2005

BoCom was listed on the Hong Kong Stock Exchange.

1 April 1987

BoCom reopened after reorganization and became the first nationwide state-owned joint-stock commercial bank in China, with Head Office located in Shanghai.

Founded in 1908

BoCom is one of the note-issuing banks with the longest history in modern China.

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IMPORTANT REMINDERS

I. The Board of Directors, the Board of Supervisors and Directors, Supervisors, Senior Management of the Bank are responsible for the authenticity, accuracy and completeness of the Annual Report, free of false records, misleading statements or material omissions and assume individual and joint and several legal responsibilities.

II. Mr. Ren Deqi, Chairman of the Bank, Mr. Guo Mang, Principal in charge of accounting and Mr. Chen Yu, Head of Accounting Department represent that they are responsible for the authenticity, accuracy and completeness of the financial statements in Annual Report.

III. The Group's financial statements that were prepared in accordance with China Accounting Standards were audited by PricewaterhouseCoopers Zhong Tian LLP. Those prepared in accordance with International Financial Reporting Standards were audited by PricewaterhouseCoopers, both with unqualified auditor's reports issued.

IV. The proposal on profit distribution for the year of 2019 was reviewed by the Board of Directors: based on the total issued ordinary shares of 74.263 billion of the Bank as at the end of the Reporting Period, a cash dividend of RMB0.315 (including tax) per share would be distributed to registered shareholders of A share and H share, totalling RMB23.393 billion. There is no proposal on bonus share or proposal on conversion of capital reserve into share capital for the current year.

V. Prospective statements involved in the report, such as future plans, development strategies do not constitute a substantive commitment of the Group to investors. Investors and stakeholders are required to keep sufficient risk awareness and understand the differences among the plan, forecasting and commitment.

VI. The Group's operation is mainly exposed to risks including credit risk, market risk, operational risk and compliance risk. The Group took and will continue to take various steps to effectively manage risks. For more details, please refer to section of "Management Discussion and Analysis on Operations – Risk Management".

The report is prepared in Chinese and English, respectively. Should there be any inconsistency between the Chinese and English versions, the Chinese version will prevail.

DEFINITIONS

The following terms will have the following meanings in this Report unless otherwise stated:

"Articles of Associations"	The Articles of Association of Bank of Communications Co., Ltd. as approved by the CBIRC
"Bank", "BoCom"	Bank of Communications Co., Ltd.
"Basis point"	One in ten thousand
"CBIRC"	China Banking and Insurance Regulatory Commission
"Central and Southern China"	Including Henan Province, Hunan Province, Hubei Province, Guangdong Province, Hainan Province and Guangxi Zhuang Autonomous Region
"Company Law"	The Company Law of the People's Republic of China
"CSRC"	China Securities Regulatory Commission
"Eastern China"	Including Shanghai (excluding Head Office), Jiangsu Province, Zhejiang Province, Anhui Province, Fujian Province, Jiangxi Province and Shandong Province
"Group"	The Bank and its subsidiaries
"Head Office"	The Group's Head Office
"Hong Kong Listing Rules"	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"HSBC"	The Hong Kong and Shanghai Banking Corporation Limited
"HSBC Group"	The HSBC and its subsidiaries and contacts
"Ministry of Finance"	Ministry of Finance of the People's Republic of China
"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers as set out in the Appendix 10 of the Hong Kong Listing Rules
"North Eastern China"	Including Liaoning Province, Jilin Province and Heilongjiang Province
"Northern China"	Including Beijing, Tianjin, Hebei Province, Shanxi Province and Inner Mongolia Autonomous Region
"Overseas"	Including Hong Kong Branch/Bank of Communications (Hong Kong) Co., Limited, New York Branch, Tokyo Branch, Singapore Branch, Seoul Branch, Frankfurt Branch, Macao Branch, Ho Chi Minh City Branch, San Francisco Branch, Sydney Branch, Taipei Branch, London Branch, Bank of Communications (Luxembourg) S.A./Luxembourg Branch, Brisbane Branch, Bank of Communications (Luxembourg) S.A. Paris Branch, Bank of Communications (Luxembourg) S.A. Rome Branch, Bank of Communications (Brazil) Co., Ltd., Toronto representative office, Prague Branch, Melbourne Branch and other overseas subsidiaries
"PBOC"	The People's Bank of China
"Reporting Period"	The period from 1 January 2019 to 31 December 2019
"Securities Law"	Securities Law of the People's Republic of China
"SSE"	The Shanghai Stock Exchange
"SSF"	The National Council for Social Security Fund
"Western China"	Including Chongqing, Sichuan Province, Guizhou Province, Yunnan Province, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Autonomous Region, Xinjiang Uyghur Autonomous Region and Tibet Autonomous Region

CORPORATE INFORMATION

Chinese name: 交通銀行股份有限公司
Chinese abbreviation: 交通銀行
English name: Bank of Communications Co., Ltd.
Legal representative: Ren Deqi

CONTACT PERSON AND CONTACT INFOMATION

Gu Sheng (Secretary of the Board of Directors and Company Secretary)

Contact address: 188 Yin Cheng Zhong Lu, China (Shanghai) Pilot Free Trade Zone, Shanghai, P.R. China
Tel: 86-21-58766688
Fax: 86-21-58798398
E-mail: investor@bankcomm.com
Postal code: 200120

ADDRESS AND OFFICIAL WEBSITE

Registered address and Head Office address: 188 Yin Cheng Zhong Lu, China (Shanghai) Pilot Free Trade Zone, Shanghai, P.R. China
Official website: www.bankcomm.com
Principal place of business in Hong Kong: 20 Pedder Street, Central, Hong Kong

INFORMATION DISCLOSURE CHANNELS AND PLACES WHERE ANNUAL REPORT IS AVAILABLE

Newspapers for information disclosure (A share)
China Securities Journal, Shanghai Securities News, Securities Times
Designated website for information disclosure (A share)
Website of the SSE at www.sse.com.cn
Designated website for information disclosure (H share)
Website of HKEx News at www.hkexnews.hk
Places where the annual report is available
Board of Directors Office of the Bank and principal business locations

INFORMATION OF ORDINARY AND PREFERENCE SHARES

Classes	Stock exchange	Stock name	Stock code
A share	SSE	Bank of Communications	601328
H share	Hong Kong Stock Exchange	BANKCOMM	03328
Domestic Preference Share	SSE	BOCOM PREF1	360021
Overseas Preference Share	Hong Kong Stock Exchange	BOCOM 15USDPREF	4605

AUDITORS

Domestic auditor: PricewaterhouseCoopers Zhong Tian LLP
11th Floor PricewaterhouseCoopers Centre, 2 Corporate Avenue, 202 Hu Bin Road, Shanghai, PRC
Name of auditor signed: Hu Liang, Zhou Zhang
International auditor: PricewaterhouseCoopers
22/F, Prince's Building, Central, Hong Kong
Name of auditor signed: Ling Tung Man Tom

AUTHORISED REPRESENTATIVES

Hou Weidong, Gu Sheng

LEGAL ADVISORS

PRC legal advisor: Grandall Law Firm
Hong Kong legal advisor: DLA Piper Hong Kong

SHARE REGISTRAR AND TRANSFER OFFICE

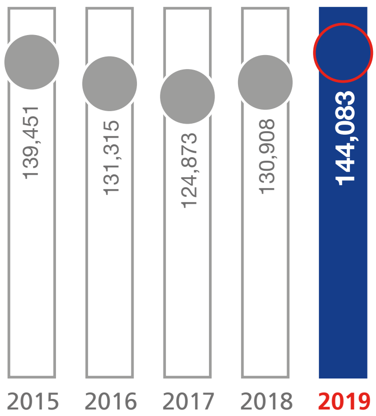
A Share: China Securities Depository and Clearing Corporation Limited, Shanghai Branch
3/F, China Insurance Building, No. 166 Lujiazui Dong Road, Pudong New District, Shanghai, P.R. China
H Share: Computershare Hong Kong Investor Services Limited
Flat 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong

OTHER INFORMATION

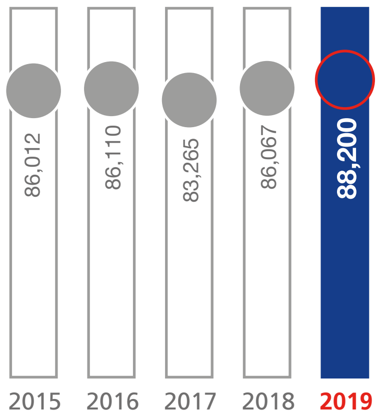
Unified social credit code: 9131000010000595XD

FINANCIAL HIGHLIGHTS

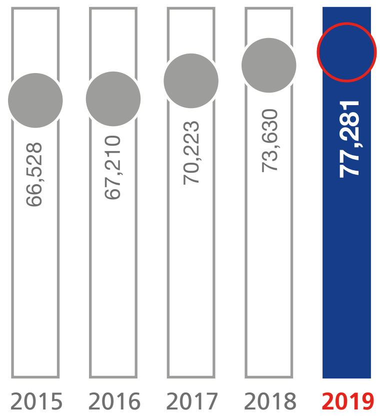
Net interest income
(in millions of RMB)



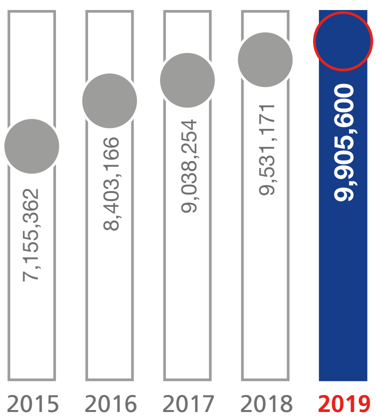
Profit before tax
(in millions of RMB)



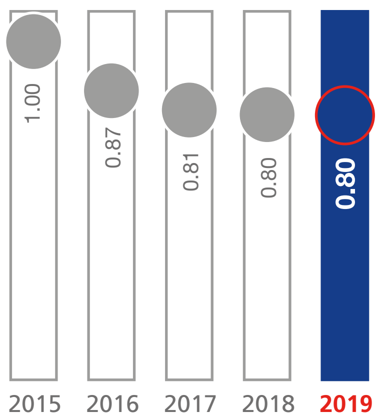
Net profit (attributable to shareholders of the Bank)
(in millions of RMB)



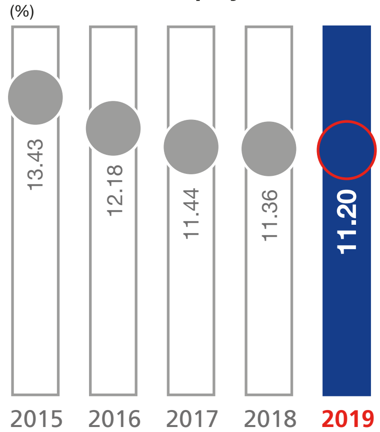
Total assets
(in millions of RMB)



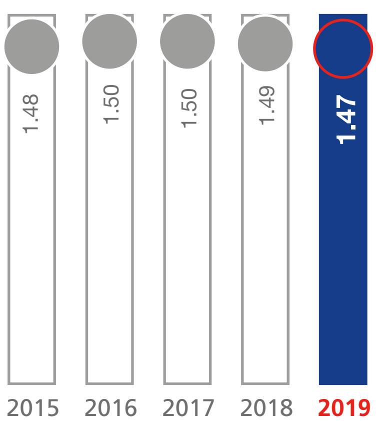
Return on average assets
(%)



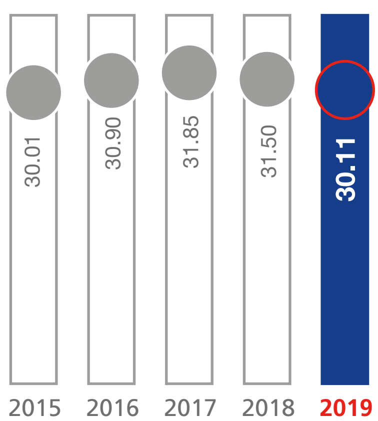
Return on average shareholders' equity
(%)



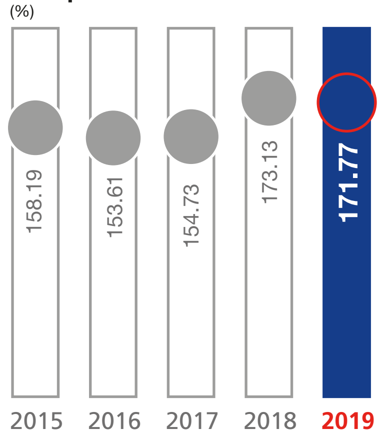
Impaired loan ratio
(%)



Cost-to-income ratio
(%)



Provision coverage of impaired loans
(%)



I. KEY FINANCIAL DATA AND FINANCIAL INDICATORS

The Group implemented the *International Financial Reporting Standard 16* (the "IFRS 16") – Leases from 1 January 2019. According to new standards of the transitional provisions, the Group elected not to restate comparative figures of prior period. Any adjustments to the carrying amounts at the date of transition were recognised in the opening retained earnings and other reserves. For the related impact, please refer to "2.1.1 Changes in Accounting Policies" of "2 Summary of Significant Accounting Policies" in "Notes to the Consolidated Financial Statements" of the annual report.

As at the end of the Reporting Period, key financial data and financial indicators prepared by the Group under International Financial Reporting Standards (the "IFRSs") are as follows:

Items	2019	2018	2017	2016	2015
Full year results					*(in millions of RMB)*
Net interest income	**144,083**	130,908	124,873	131,315	139,451
Net fee and commission income	**43,625**	41,237	40,551	36,795	35,027
Net operating income	**232,857**	213,055	196,520	194,027	194,536
Profit before tax	**88,200**	86,067	83,265	86,110	86,012
Net profit (attributable to shareholders of the Bank)	**77,281**	73,630	70,223	67,210	66,528
As at the end of the year					*(in millions of RMB)*
Total assets	**9,905,600**	9,531,171	9,038,254	8,403,166	7,155,362
Including: Loans and advances to customers[1]	**5,304,275**	4,854,228	4,579,256	4,220,635	3,835,784
Total liabilities	**9,104,688**	8,825,863	8,361,983	7,770,759	6,617,270
Including: Due to customers[1]	**6,005,070**	5,724,489	5,545,366	5,284,059	4,830,915
Shareholders' equity (attributable to shareholders of the Bank)	**793,247**	698,405	671,143	629,142	534,885
Per share					*(in RMB)*
Earnings per share(attributable to the ordinary shareholders of the Bank)[2]	**1.00**	0.96	0.91	0.89	0.90
Net assets per share (attributable to ordinary shareholders of the Bank)[3]	**9.34**	8.60	8.23	7.67	7.00
Key financial ratios					*(%)*
Return on average assets	**0.80**	0.80	0.81	0.87	1.00
Return on average shareholders' equity[2]	**11.20**	11.36	11.44	12.18	13.43
Net interest margin[4]	**1.58**	1.51	1.51	1.78	2.14
Cost-to-income ratio[5]	**30.11**	31.50	31.85	30.90	30.01
Impaired loan ratio	**1.47**	1.49	1.50	1.50	1.48
Provision coverage of impaired loans	**171.77**	173.13	154.73	153.61	158.19
Capital adequacy ratio			*(in millions of RMB unless otherwise stated)*		
Net capital[6]	**911,256**	817,549	790,381	723,961	627,862
Including: Net Core Tier 1 Capital[6]	**689,489**	634,807	609,454	568,131	518,487
Other Tier 1 Capital[6]	**100,057**	60,025	59,975	59,920	14,943
Tier 2 Capital[6]	**121,710**	122,717	120,952	95,910	94,432
Risk-weighted Assets[6]	**6,144,459**	5,690,542	5,646,313	5,163,250	4,653,723
Capital adequacy ratio (%)[6]	**14.83**	14.37	14.00	14.02	13.49
Tier-1 capital adequacy ratio (%)[6]	**12.85**	12.21	11.86	12.16	11.46
Core Tier-1 capital adequacy ratio (%)[6]	**11.22**	11.16	10.79	11.00	11.14

Note:
1. According to Notice on *Revising and Issuing the Format of Financial Statements of Financial Enterprises for 2018 (Cai Kuai [2018] No. 36)* issued by Ministry of Finance, the interest of financial instruments calculated on the basis of the effective interest rate method should be included in the carrying amounts of corresponding financial instruments and reflected in the related items in the balance sheet. The items of "interest receivables" and "interest payables" should not be presented separately. In the consideration of analysis, "loans and advances to customers" here does not include interest receivable on related loans and advances and "due to customers" does not include interest payable on related deposits.
2. Exclude the impact of other equity instruments.
3. Refers to shareholders' equity attributable to shareholders of the Bank after the deduction of other equity instruments against the total issued ordinary shares at the end of the Reporting Period.
4. Represented the net interest income to total average interest-bearing assets.
5. Calculated in accordance with China Accounting Standards for business and management fees divided by net operating income after the deduction of other operating costs, consistent with the financial report in accordance with China Accounting Standards.
6. Calculated pursuant to the *Administrative Measures for the Capital Management of Commercial Banks (Trial) Implementation* by the China Banking and Insurance Regulatory Commission ("CBIRC").

STATEMENT FROM CHAIRMAN OF THE BOARD OF DIRECTORS

Ren Deqi
Chairman

Reflection of 2019

Despite a complex global environment, the domestic economy remained stable, albeit with increasing downward pressure emerging in 2019. Throughout the year, supply-side structural reform of the financial sector was an intense focus of Chinese banks to address increasing uncertainty and instability in the broader global economy. During the year, we proactively developed and implemented the changes needed to adapt our business, developed new services to convert emerging market opportunities, and addressed myriad challenges deliberately and effectively. We accelerated BoCom's transformation and innovation to achieve our development objectives and deliver the highest quality possible to our stakeholders. This enabled us to continue to create value in a stable manner.

We continued to follow our philosophy of maintaining prudent operations, focused on our core goal of creating value. We effectively explored potential opportunities and achieved steady business performance, enhancing our ability to create value. During the Reporting Period, net profit of the Group (attributable to shareholders of the Bank) was RMB77.281 billion, representing an increase of 4.96%. At the end of the year, total assets increased by 3.93% over the end of the previous year to RMB9.91 trillion. The impaired loan ratio decreased by 0.02 percentage point to 1.47% and the provision coverage of impaired loans was 171.77%. This enabled us to address multiple challenges including the slowing down of economic growth, the implementation of interest rate marketization reform and other intervolving risks. The increase in our business and improved asset quality indicated robust and sustainable growth. Both net profit and net operating income grew at the fastest pace in recent years.

—— **Net interest margin significantly improved.** We focused on the optimization of our asset and liability mix by increasing the proportion of loans and deposits, respectively, on the asset and liability sides of the balance sheet. We actively managed the structure of liabilities and the balance of price and volume. We also adjusted the loan structure through a diversified credit policy. Net interest margin increased by 7 basis points to 1.58%, contributing to an increase of 10.06% in net interest income. The growth rate increased by 5.23 percentage points compared to 2018, which is the primary component of our increase in profit.

—— **Efficiently improved cost structure.** We expanded the infrastructure and strategic investment. During the Reporting Period, investment in information technology increased by 22.94% on a year-on-year basis, accounting for 2.57% in operating income. This level of investment will continue to increase in future. At the same time, we reinforced our commitment to veteran cost management. Accordingly, the cost-to-income ratio decreased by 1.39 percentage points on a year-on-year basis to 30.11%, which was the biggest decline in recent years.

—— **Accelerated diversification of profit drivers.** Given the positive impact of the transformation and innovation in our retail businesses, the proportion of net operating income of these businesses in the Group's net operating income was 38.09%. Net profits of overseas branches and subsidiaries increased by 15.54% and 17.20% on a year-on-year basis, whose contribution increased by 0.75 percentage point and 0.76 percentage point, respectively, resulting in key profit drivers of the Group.

We enhanced the connection between our business and the real economy, achieving increased success in serving the real economy with our core development capabilities. As the economy is the foundation of finance, we believe that the long-term sustainable growth of the banking sector is inextricably connected to the robust growth of the real economy. We calibrated our forward-looking insights to national policy objectives, the market environment and customer needs, reinforcing the need for coordinated development with economy.

—— We seized opportunities in regional development, capturing on our geographic advantage of being based in Shanghai. We leveraged the advantages of our broad range of licensed activities and international network, as well as the innovative aspects of our integrated operations. This enabled us to optimize resource allocation on a broader scale in the "Pilot Field" of the Yangtze River Delta. We developed unique service capabilities and applied these to key areas including the Guangdong-Hong Kong-Macao Greater Bay Area and Beijing-Tianjin-Hebei Region. During the Reporting Period, new loans to customers in Yangtze River Delta, Guangdong-Hong Kong-Macao Greater Bay Area and Beijing-Tianjin-Hebei Region was 2.18 times of those for 2018. The proportion of such increment in the Bank's incremental loans to customers was 52% representing a year-on-year increase of 6.8 percentage points.

—— We accelerated the delivery of services to lower tier markets. Through the "Standardized Products, Digital Risk Management and Centralized Operation" principle, together with "Technology + Operations", we enhanced our core abilities of serving customers. With stronger management of business risk during the stage of credit expansion, we strengthened the core competence of inclusive business characterized by the boldness, willingness and capabilities to extend loans by promoting business process reengineering via technology empowerment. During the Reporting Period, the inclusive loans increased by 51.62% on a year-on-year basis and the impaired loan ratio decreased by 2.15 percentage points.

—— Guided by the principle of "Wealth Management Characteristic and Global Competitiveness" we developed an international and comprehensive financial service platform with broad capabilities. We consolidated customer base and maintained our level of industry-leading service quality. With the official opening of Prague Branch, as well as the approval of branches in Dubai and Johannesburg, our international network covering major international financial centers across five continents came into shape and internationalized growth will be more focused on improving cross-border service capabilities. BoCom Wealth Management was the first batch to acquire regulatory approvals of listing, which further replenished the Group's integrated platform. The amount of personal financial assets under management (AUM) exceeded RMB3 trillion. Our wealth management businesses continued to expand in areas including pension investment, family wealth management and high net-worth wealth management of private banking. The Bank was awarded A Level Consumer Protection by PBOC, No. 1 in Consumer Protection of National Financial Institution by CBIRC and No. 1 in the industry for six times in assessment of "Top 100" outlets by China Banking Association. We maintained our leading position in industry as the benchmark of service quality.

Driven by technology, our Fintech strategy has evolved into a phase of intensive development and transformed its role from passive supporting to proactive empowerment. We were committed to the three tasks of IT framework transformation, IT management framework optimization and data management to accelerate the implementation of the strategy. We decentralised our technology framework in order to accelerate the establishment of a digital and intelligent platform system. We focused on building an IT management framework characterised by agile upgrading and rapid development in order to deeply integrate businesses with technology. We deeply explored the data management project in order to fully exercise the data value. In addition, our high-quality technology talent pool was enlarged by three programs of “10,000 Fintech Talent Plan”, “Fintech Management Trainees”, and “Empowerment and Transformation of Existing Talent”. Throughout the year, personal mobile banking APP and “Go Pay” APP were fully upgraded. There were nearly 48.00 million monthly active users (MAU) of these two apps. AUM increased by 26% due to the application of smart outbound calls and Big Data Strategies. Block chain technology was applied into businesses such as asset-backed securities, industrial chain finance, domestic letter of credit and forfaiting, which enabled traceable business processes. The accuracy rate of the intelligent model for risk alert was 85%.

We enhanced the ability of proactive operation and risk management which reinforced the foundation of effective risk management. To deepen the reform of credit risk management, we implemented accountability around risk prevention, enhanced risk monitoring capabilities and developed a comprehensive risk management system characterized by “Full coverage, Differentiation, Specialization, Intelligence and accountability”. Asset quality management is our focus. We developed forward-looking and targeted insights into risk prevention. We managed both the risk of existing outstanding loans and risk of incremental loans by highlighting risk management in key industries and improving our regional risk management framework. Asset quality demonstrated a steady momentum. At the end of the Reporting Period, we have seen a decline in key indicators including impaired loan ratio, overdue loans ratio and deviation ratio. The impaired loans ratio decreased by 0.02 percentage point over the beginning of the year. The overdue loan ratio decreased by 0.13 percentage point. The ratio of loans past due for more than 60 days and 90 days against non-performing loans decreased by 9.48 percentage points and 8.40 percentage points over the beginning of the year, respectively. These improvements provided a foundation for stable development and effective operation and provided us with more confidence to tackle new challenges.

The Board of Directors of the Bank successfully completed the re-election in the past year. It is with a strong sense of honour, the trust of the Board of Directors and support from our shareholders, that I succeeded Mr. Peng Chun as the Chairman of the Board of Directors effective from January 2020. I fully understand the level of responsibility expected of me as I lead such a bank as BoCom with both distinguished historic heritage and high reforming spirit. Mr. Peng Chun is a sophisticated banker who processes long-term strategic vision, spirit of reform and innovation and management experience. During his 23-year experience with BoCom, Mr. Peng deeply participated in and successfully played a major role in the Bank’s reform trilogy including financial restructuring, introducing strategic investors and IPO. Under his leadership, BoCom staff consistently implemented the “BoCom Strategy” and reformed key areas including human resources, Fintech, and credit risk, achieving the steady and progressive improvement of BoCom. On behalf of the whole staff of BoCom, I wish to express my sincere appreciation for Mr. Peng Chun’s extraordinary contribution to BoCom.

Mr. Peter Wong Tung Shun, Mr. Wu Wei, Ms. Helen Wong Pik Kuen, Mr. Liu Hanxing, Mr. Luo Mingde and Mr. Yu Yongshun left office from the Board of Directors, due to the expiration of their terms or new job assignments. We are sincerely grateful for their diligence and contribution during their term of office. Mr. Chan Siu Chung and Mr. Song Hongjun, Mr. Chen Junkui and Mr. Shi Lei joined the Board of Directors. I believe that they will actively exercise the duties of the Board of Directors and promote the transformation and development of BoCom.

There was a major change in Senior Management of BoCom last year. Mr. Wu Wei resigned and joined an office in provincial government. Mr. Lyu Jiajin and Mr. Yin Jiuyong joined BoCom and demonstrated outstanding expertise and leadership. Senior Management worked together and allocated responsibilities, promoting overall progress.

Outlook of 2020

The year of 2020 will be a year of significant milestones. It is the concluding year for securing a victory in building a moderately prosperous society in all respects and the 13th Five-Year Plan. Notably the sudden outbreak of coronavirus marked an unusual beginning for the year.

The lingering impact of the coronavirus pandemic has posed challenges to the economic growth of China in the short term, as well as to BoCom's development. However, even under this situation, the banking sector should stick to our mission and responsibility, and work together with our customers to surmount whatever difficulty lies ahead. To improve the customer service, we are earnest in the latest information of the coronavirus pandemic and developing quick response mechanism, gathering the collective wisdom of our people to update processes according to new policies and providing innovative services and products. We fully support the pandemic prevention and control as well as the resumption of production by businesses to continuously provide efficient and smooth economic services to customers, to maintain a firm financial underpinning during the fight against coronavirus.

We firmly believe that despite the outbreak of the coronavirus pandemic, the fundamentals of China's long-term sound economic growth remain unchanged. With the impact of the pandemic, we note that the rise of emerging industries in recent years has equipped Chinese economy with strong resilience. In addition, we may expect the acceleration of shifting from old drivers of growth to new ones and changing the way of growth after the pandemic. We will uphold strategic determination, seize opportunities arising from the evolving situation, tap into the trend of development despite uncertainty, continue the innovation of service models and new profit drivers, in order to provide sustainable growth of BoCom and minimize impact of uncertainties such as pandemic. We will:

—— Develop distinctive features. We will not only improve the decision-making and reaction capabilities of policies and markets, but will also increase the availability of financial services to satisfy future needs of the financial system and businesses. We will develop the "BoCom Brand" for regional development. As a Shanghai-based bank, we will leverage the advantage of our base in Shanghai to help us develop an edge in the development of the Yangtze River Delta. We will upgrade credit policy and accelerate activities in the areas of intelligent manufacturing, automated delivery, online purchase and medical and health given the rise of new industries and new businesses.

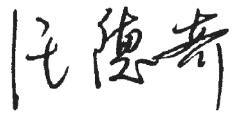
——Accelerate digital transformation. We will continuously increase input in technology, expedite the re-engineering of processes and innovation and develop an advantage in the forward-looking Fintech area. We will recalibrate our orientation to customers, products and big-data to meet the challenges in the market. At the same time, we will put greater emphasis on the three task of IT framework transformation, IT management framework optimisation and data management. We will fully apply science and technology into our operating management, strengthen the "multiplier effect" of technology innovation in business operation and uphold the role of Fintech from its foundation to the leadership in development.

—— Inspire an intense focus on financial operations and profit-generating activities. We will enhance disciplined management and supporting services within our departments through process reengineering, strengthening our operations with distinctive capabilities. We will further improve cooperation across lines of service into one that is more efficient and responsive. This will enable us to implement the philosophy of "One BoCom for One Customer" which will transform as our capabilities to create more value.

——Build a solid foundation for prudent operation. Faced with an increasingly complex operating environment, we will operate with extreme caution and focus on the expertise of creating value through risk management. We will also improve the long-term effectiveness of risk management processes and big data risk control. Effective risk mitigation will result in stable asset quality and support business development.

There is no smooth road forward. Faced with evolving challenges in the future, we will continue our stewardship of a century's tradition of excellence with a stronger sense of responsibility. We will strive to build a leading world class bank with global competitiveness and broad wealth management capabilities. Our effort will create new vigor and vitality to BoCom, a century-old enterprise. We will achieve development with higher quality, better benefit, a more optimized structure and fully leverage our advantages. These positive attributes will enable us to create greater value for our customers, shareholders, employees and corporations!

Chairman



BUSINESS PROFILE

I. DESCRIPTION OF PRIMARY BUSINESSES AND INDUSTRY

(I) Primary Businesses

The Group's primary businesses include corporate banking, personal banking and inter-bank and financial market businesses. Corporate banking businesses include providing various financial products and services to enterprises and government agencies, such as deposits and loans, supply chain finance, cash management, international settlement and trade finance, investment banking, asset custody, wealth management and all kinds of intermediary businesses. Personal banking businesses include services such as deposits and loans, wealth management, bank cards, private banking and all kinds of intermediary businesses for individual customers. Inter-bank and financial market businesses include cooperation with customers in the markets of interest rates, exchange rates, commodities, providing comprehensive services such as investment and financing, transactions, agency, settlement and liquidation. In addition, the Group involved businesses in fund, trust, financial leasing, insurance, overseas securities, debt-to-equity conversion and asset management through its subsidiaries. During the Reporting Period, the Group's operating mode, primary businesses and key performance drivers had no significant change.

(II) Industry Overview

According to data published by the CBIRC, as at the end of the Reporting Period, total domestic and overseas assets of financial institutions in China's banking sector increased by 8.14% on a year-on-year basis to RMB290.00 trillion. Total liabilities increased by 7.71% on a year-on-year basis to RMB265.54 trillion. Total assets of large-scale commercial banks increased by 8.27% on a year-on-year basis to RMB116.78 trillion, accounting for 40.27%. Total liabilities of large-scale commercial banks increased by 7.77% on a year-on-year basis to RMB264.54 trillion, accounting for 40.35%. The Group is one of the large-scale financial institutions in China's banking industry.

At present, the Bank set up 22 overseas branches (subsidiary banks) and representative offices in over 17 countries or regions. As at the end of the Reporting Period, the total assets of the Group's overseas banking institutions increased by 8.87% over the end of the previous year to RMB1,164.018 billion, whose contribution to the Group's total assets increased by 0.53 percentage point to 11.75% over the end of the previous year. During the Reporting Period, net profit of the Group's overseas banking institutions increased by 15.54% or 856 million on a year-on-year basis to RMB6.363 billion, whose contribution to the Group's total net profit increased by 0.75 percentage point to 8.23% on a year-on-year basis.

II. ANALYSIS OF CORE COMPETITIVENESS

– Organised and effective corporate governance. The Bank committed to high-level corporate governance and established the large-scale commercial bank corporate governance mechanism with Chinese characteristics. The Bank adhered to "Party Committee's Core Leadership, Strategic Decisions of the Board of Directors, Supervision of the Board of Supervisors and Full Authority of Senior Management over Business Operations". The Bank's corporate governance covered and was extended to many areas such as the development of the Party building, strategy management, authorised operation, risk and capital management, information disclosure and social responsibilities, fully safeguarding the legitimate interests and benefits of shareholders and other stakeholders. The Bank has stable ownership structure and a diversified, specialised and internationalised Board of Directors.

– Large-scale bank with strong capabilities. As an existing national brand of finance with the longest history, Bank of Communications enjoys high recognition and reputation, known as a "century-old bank". The total assets of the Group amounted to nearly RMB10 trillion. The Bank was honoured Fortune 500 for eleven consecutive years. The Group's Tier-1 capital closely followed the Top 10 banks around the world, and ranked No.11 among the global Top 1000 banks by *The Banker* in terms of comprehensive advantages.

– Reform pioneer. The Bank has always been a pioneer of reformation in banking sector since reorganisation. The Bank is the first national joint-stock commercial bank in China, the first integrated commercial bank to carry out banking, insurance and securities businesses and the first domestic large-scale commercial bank to successfully bring in foreign capital and list overseas. In 2015, the Bank took the initiatives to be responsible for the financial pilot reform in China after the *BoCom's Plan to Strengthen Reformation* approved by the State Council. The Bank emphased on the continuous strategic landscape for stronger wealth management characteristics, taken "creating shared value and providing the best service" as core, for the aim of building the first tier bank with wealth management characteristics and global competitive capabilities in the world.

– Progressive wealth management characteristics. The Bank initiated the concept of wealth management services among the banks in the industry at an earlier period of time. The brand and characteristics of wealth management became more and more prominent by continuous development of the wealth management service system. The Bank had the licenses of trust, leasing, fund, insurance, securities and financial investment. In 2019, the Bank set up and continuously expanded the asset management subsidiary and fund management subsidiary. The Bank had the service products of wealth preservation and appreciation, financial planning and risk swap and provided the on-and-off balance sheet, debt and equity investment and online and offline full product cycle services, including those retail services of wealth management, family trust, insurance broker and asset management. The scale of personal asset under management (AUM) exceeded RMB3 trillion.

– Proactive empowerment of technology and innovation. The Bank considered technology-driven as new connation of strategy. In 2018, the Bank initiated the intelligent transformation project of the Group's information system ("New 531" project), which taken digitization and intelligence as the core. In the early of 2020, the Bank set up the office for the information technology development, institute for Fintech innovation and financial technology company approved by the Board of Directors, which promoted the financial technology development and information system construction and developed the basis and advices technology and products. From the perspective of talent development, the Bank launched three major projects of "10,000 Fintech Talent Plan", "Fintech Management Trainees" and "Empowerment Transformation of Existing Talents". From the perspective of technology application, the Bank accelerated the digital transformation, combined the big data, mobile communication, artificial intelligence, intelligent customer service, and intelligent investment consultant and block chains together with banking operation, promoted the digital and intelligent services.

– Constant enhancement of global service capabilities. The Bank was committed to becoming a first-class international bank with remarkable advantages in international businesses and delivering global financial services. The Bank is one of the most internationalised domestic banks in China, and the overseas banking institution layout with "Asia-Pacific as basis and Europe and America as two wings to expand the global landscape" took shape initially. The Bank set up 22 overseas branches (subsidiary banks) and representative offices and established 68 overseas banking outlets in total (excluding the representative offices) in over 17 countries or regions. Total asset of overseas banking entities was over RMB1 trillion. The Bank and HSBC jointly launched the "1+1 Global Financial Cooperation" to assist Chinese enterprises to "go global".

– Continuous improvement of integrated financial service. The Bank was committed to becoming an integrated financial service group focusing on banking industry to serve the real economy through multiple channels and across the regions. The Bank ranked first batch in integration among all commercial banks. Besides the commercial banking businesses, the Bank extended its business to many areas including trust, financial leasing, fund management, insurance, securities and debt-to-equity swap conversion. BoCom International, among the major subsidiaries, is the first Chinese-funded securities trader listed in Hong Kong. BoCom Leasing and BoCom International Trust arrived at the top place in the industry. The equity fund of Bank of Communications Schroder Fund Management Co., Ltd. has always ranked as first 10% of the industry in terms of absolute return during the past five years.

– "Online + Offline" integrated services. The Bank proactively responded to the digital trend and exercised the integrated impact of online and offline services. With the strategy of "online-based and mobile-first", the Bank optimized mobile banking APP and Go Pay APP, total Monthly Active Users (MAU) was around 48.00 million. The outlet operations were undertaken the comprehensive, flexible and intelligent transformation via promotion online and offline integrated service, empowerment of Fintech and increase of AUM and MAU.

– Sound and effective comprehensive risk management. The Bank always adhered to the risk appetite with "stability, balance, compliance and innovation" as its core, formed a risk culture characterised by "law compliance, stable operation, innovation and aggressiveness and accountability for the violation of regulations". The Bank moved forward various reform measures by establishing the risk management system of "full coverage, differentiation, specialisation, intelligence and accountability". The Bank's major asset-quality indicators were stable and sound. As at the end of the Reporting Period, the overdue ratio and the impaired loan ratio decreased by 0.13 percentage point and 0.02 percentage point respectively over the beginning of the year.

– Fruitful strategic cooperation between BoCom and HSBC. In 2004, the Bank entered into a strategic cooperation agreement with HSBC. Over the past decade, BoCom and HSBC had stable cooperation. HSBC was the second largest shareholder (19.03% of the total shares) of the Bank, who had two seats in the Board of Directors. Senior management and working team from both parties kept close communication and stressed on exercising each's advantages, creating BoCom HSBC "1 + 1" service brand. Cooperation continued to expand in areas such as international businesses, cooperate businesses, personal businesses, custody businesses, achieving mutual benefits and win-win results.

During the Reporting Period, the Group's core competitiveness had no significant change.

RANKING AND REWARDS

Comprehensive ranking

Top 1000 World Banks 2019 (ranked 11)
The Banker (UK)

Fortune Global 500 -2019 (ranked 150)
Fortune (USA)

Brand rewards

20 Network Outlets were awarded "Top 100 Outlets with Civilised and Standardised Services in the Banking Industry", ranking first in the industry in terms of the number

Best Wealth Management Bank in China

Award for Achievement on Helping to Win the Three Critical Battles against Potential Risk, Poverty and Pollution

Award for Achievement on Implementing the Belt and Road Initiative
China Banking Association

A Level Bank of the Assessment of Evaluation of Consumer Protection awarded by PBOC
PBOC

Level A of Grade 2 Consumer Protection by CBIRC
CBIRC

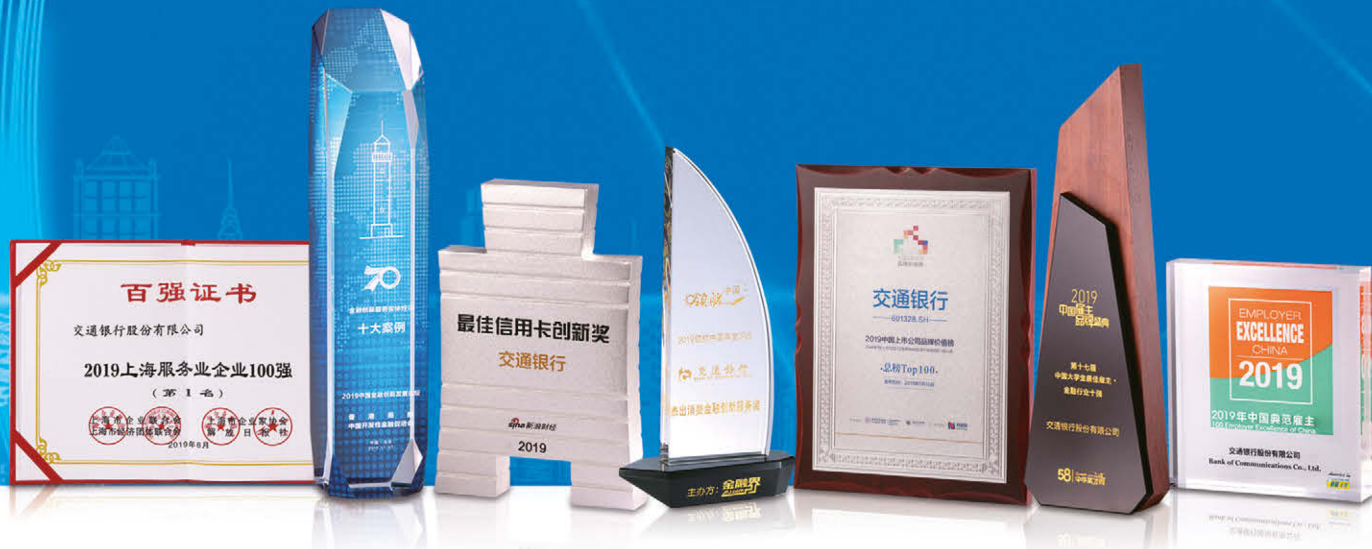
2019 Top100 Chinese Listed Companies by Brand Value
National Business Daily

Bank of the Year 2019
Chinese Business Network

2019 Best Bank in Fighting Poverty Elimination
Financial Times

Top 10 Cases of Financial Innovation Serving the Real Economy in 2019
Hong Kong Commercial Daily

"Jin Li Cai" Outstanding Award for Net-Value Wealth Management Product of the Year
Shanghai Securities News



Business rewards

2019 Jun Ding Award for Close-ended Net-value Wealth Management Products of Banks in China
Securities Times

Third Prize of Science and Technology Development Award – mobile platform of the intelligence transformation of banking mode
PBOC

Best Digital Financial Innovation Award
China Financial Certificate Authority (CFCA)

Leader of Enterprise Standards for Online Banking Services
National Internet Finance Association of China

Best Cash Management Service Bank
The Asset

Best Credit Card Innovation Award
Sina

2019 Innovative Contribution Award for BoCom Credit Cards
Chinese Business Network

2019 Innovation Award for Top 10 Investment Banks
The Banker

2019 "China Navigator" Outstanding FinTech Services Award
China Finance Online

2019 Excellence of Cases of Private and Small and Medium-sized Enterprises for Financial Services
China Banking Association

MANAGEMENT DISCUSSION AND ANALYSIS

I. MACROECONOMIC AND FINANCIAL ENVIRONMENT

In 2019, as global economic growth slowed down, trade frictions continued to develop. The Bank was faced with significantly increased internal and external risk challenges. China adhered to the overall strategy to make progress and maintained stability, focused on the supply-side structural reform and accelerated the high-quality development. The stable national economy laid the solid foundation of moderately prosperous society. In 2019, the gross domestic product ("GDP") amounted to RMB99.1 trillion, with an increase of 6.1% over the previous year; of which, the added value of the primary, secondary and tertiary industry increased by 3.1%, 5.7% and 6.9% respectively. The proportion of the tertiary industry in the economy increased to 53.9%, whose contribution to economic growth reached 59.4%. The tertiary industry was becoming the largest driver of economy for five consecutive years. The service industry developed in rapid pace. The operating income of strategic and innovative services, technology services and high-tech services increased by 12.4%, 12.0% and 12.0%, respectively. The total retails amount of consumption exceeded RMB40 trillion at first time, which contributed 57.8% of final consumption expenditure to economic growth. The scale of import and export was RMB31.5 trillion with an increase of 3.4% over the previous year. The trade surplus was RMB2.9150 trillion. Consumer prices were generally stable, with an increase of 2.9% of consumer price index ("CPI") and an decrease of 0.3% of producer price index ("PPI") on a year-on-year basis respectively. Urbanization continued to increase. The proportion of number of urban population was 60.6% compared with total number of population. The per-capita disposal income of residents arrived at an average of RMB30,733, with an nominal increase of 8.9% over the previous year. Employment situation was stable. New employment population of urban areas was 13.52 million. The employment population continued to exceed 13 million for seven consecutive years.

The monetary credit and social financing grew steadily. At the end of 2019, the balance of M2 (broad money aggregate) increased by 8.7% on a year-on-year basis. The balance of RMB loans increased by 12.3% on a year-on-year basis, representing an increase of RMB16.8 trillion over the beginning of the year. The scale of social financing accumulated during the whole year was RMB25.6 trillion. The People's Bank of China ("PBOC") implemented prudential and neutral monetary policy and strengthened counter-cyclical adjustment, building a favourable monetary and financial environment for high-quality economic development. The Group adhered to serve the real economy, exercised the monitoring functions by considering the short term and long term, internal and external factors, smoothed the transmission of monetary policies and reduced total financing cost.

II. IMPLEMENTATION OF DEVELOPMENT STRATEGY

Development of Wealth Management Characteristics

"Building a leading world class bank with global competitiveness and brand wealth management capacities" is the strategic goal of the Group. During the Reporting Period, the Wealth Management Strategy Promotion Committee was established under the Senior Management of the Bank to promote the Group's wealth management product integration, channel sharing, investment and research sharing, brand building, and risk management in order to better serve customers' wealth management needs.

Exercised comprehensive advantages and improved the capabilities of serving the real economy via cross-industry and cross-border services. New subsidiary for wealth management businesses was set up as the first batch, which provided the wealth management, trust, fund, securities, insurance and financial investments services to customers. BoCom Wealth Management Co., Ltd. exercised the advantages of asset allocation and fixed income investment products, which served the customer needs of stable value preservation. As at the end of Reporting Period, the total amount of managed products increased by RMB182.846 billion over the end of the previous year to RMB952.515 billion. Bank of Communications International Trust Co., Ltd. applied the financial instruments of equity, debt and asset-based securities, providing diversified financial products and wealth inheritance services. As at the end of the Reporting Period, the total amount of managed trust assets achieved RMB761.850 billion and asset-based securities businesses ranked Top 5 in the trust industry. BoCom Schroder Fund Management Co., Ltd. was the Group's key platform of customer services with equity-based asset allocation. As at the end of the Reporting Period, the total amount of public fund products increased by 42.22% to RMB220.080 billion on a year-to-year basis, including the active equity-based fund increased 82.48%. BoCom International Holdings Company Limited, as the Chinese-funded bank, was the first listed broker in Hong Kong, which mainly served the HK securities and related fields as an important financial service platform with professional active management ability in the field of equity investment. BoCom International Holdings Company Limited provided wealth management and asset allocation services for customers to invest in myriad markets including US stock market, H-share market, bonds, futures, options and funds. As at the end of the Reporting Period, the total amount of managed assets achieved HKD27.437 billion. The total amount of BoCommLife Insurance Company Limited exceeded RMB50.0 billion. The establishment of BoCommlife Asset Management Co., Ltd. newly set up in 2019 was an important step towards professional insurance management.

Exercised advantages of full-cycle products to meet the expectations of various customers for wealth preserving and increasing. The Group provided retail and individual customers, corporations and financial institutions with comprehensive financial services, building up a complete series of brand structure comprising "OTO Fortune", "Win to Fortune", "Institutional Financial", "Leadway Fortune" and "E-mobile Fortune".

We provided retail and individual customers with services including bank wealth management, family trust, insurance agency and fund management. As at the end of the Reporting Period, the personal financial assets under management (AUM) increased by 12.71% over the end of the previous year to RMB3,446.315 billion, representing a net increase of RMB388.720 billion. The growth rate was higher than that of 6.11% in 2018 and 6.44% in 2017. We improved the online customer service experience. The monthly active users (MAU) of mobile banking increased by 36.44% over the end of the previous year. Through online and offline integration, we worked together to provide wealth management services for mid-to-high end customers. As at the end of the Reporting Period, the number of qualified customers of OTO Fortune reached 1.5040 million, representing an increase of 19.01% over the end of the previous year. Relying on the advantages of integrated operation, the Bank provided asset management, consulting services in tax, law and cross-border businesses and other comprehensive services for high net-value clients. As at the end of the Reporting Period, the number of qualified customers of private banking reached 47.191 thousand, representing an increase of 18.49% over the end of the previous year. During the Reporting Period, the number of qualified customers of OTO Fortune and private banking and personal financial assets under management (AUM) set the highest record in the past three years.

According to the financial service needs of enterprises at different development stages, we provided financial support during the whole-cycle of equity, credit, investment bank, asset securitisation and debt-to-equity swap and comprehensive services including wealth management, cash management as well as rate and exchange rate risk management. “Win to Fortune” was the structural deposit linked to indicators including foreign exchange, commodities, and interest rates. The amount increased by RMB89.569 billion over the end of the previous year to RMB471.384 billion. Relying on corporate e-banking, mobile banking and new media channels, we provided enterprises with one-stop online wealth management services related to products denominated in RMB and foreign currencies, at home and abroad. There were more than 0.50 million subscribed customers on corporate mobile banking. We built a global cash management platform to provide global centralised fund management services for multinational companies.

The Group provided a package of diversified wealth preserving and increasing services, including capital, custody, settlement, wealth management, agency and agency trading for institutions. We gained an insight of the direction and cooperated with small and medium-sized financial institutions to provide products such as wealth management, fund and trust for their customers to extend our professional wealth management services to the vast number of counties through cooperation with rural financial institutions. Exploiting the Group’s operating advantages helped us undertake the issuance of various debt and equity financing instruments, and provided high-quality investment products for institutions and customers. During the Reporting Period, we achieved rapid progress in serving customers in cross-border financing. We acted as the principal underwriter for the Ministry of Finance for issuance of the sovereign bonds of EUR4.0 billion in Paris and treasury bonds of RMB2.0 billion in Macao, and assisted the Ministry of Finance in issuing offshore RMB bonds in Hong Kong for 10 consecutive years. The Group ranked third globally in terms of underwriting amount of offshore bonds among Chinese institutions, and ranked eighth globally in the number of underwritten IPO projects of H-share market.

Exercised innovation advantage and built up brand characterized by wealth management services. The Group actively supported the launch of the Science and Technology Innovation board and piloted in registration system, carried out equity investment businesses, laid out in emerging industries, and improved the Group’s customer structure. BoCom International Holdings Company Limited and Bank of Communications International Trust Co., Ltd. initiated BoCom Science and Technology Innovation Equity Investment Fund, and supported the national emerging industries with strategic importance such as biological medical, cloud computing, core system, chip design and high-end equipment manufacturing. The Bank followed up on the financial pilot reform of the Lingang New Area and established professional asset management institutions. Based on the construction of the Shanghai Global Asset Management Center, the Bank deepened the cooperation with excellent global asset management institutions and introduced advanced international experience and standards.

High-Quality Development Empowered by Fintech

During the Reporting Period, the Bank introduced digital and intelligent transformation with “New 531” project, which improved the customer services capabilities.

Improved customer experience. Personal mobile banking and “Go Pay” APP was officially launched. The view of new version mobile banking was designed from the perspective of customers, by connecting the mobile banking with more than 20 scenarios and 1,500 services plans of water, electricity and gas payments. The transaction processing capacity

JInzhou Tiedong Sub-branch, Liaoning Branch

reached 29,000 transactions per second, creating outstanding customer experience. The new version of "Go Pay" APP focused on the discounts and benefits that users were most concerned about, integrated and upgraded welfare centers, coupon collection centers, event centers and other preferential positions, and launched flexible repayment, ETC., mobile payment one-click card binding, account security housekeeper, calendar billing and other new products. The two major apps created one-stop "Finance + Life" service needs for users. The Group developed financial scenarios and built up digital ecosystem via the products of cloud banking, intelligent financial services and BoCom housing. The BoCom Intelligent Financial Service Platform, connecting "Finance + Scenarios", introduced more than 20 kinds of financial products such as the property management, medicine management, elderly care, religions, intelligent park and payment housekeeper, which resulted in more than 4,000 corporate customers. The Group also built up more than 120 scenarios together with verification techniques of biological recognition, such as face, fingerprint and voice. The channel diversion rate of e-banking services was 97.67% via the online and offline integrated operation. The time spent on the opening of corporate accounts decreased significantly.

Improved management and operation efficiency. The Group built up intelligent risk application system, which increased the accuracy of risk alarm to 85%. Credit approval process increased by 40% after the use of intelligent credit approval. Intelligent operating system automatically categorized and recorded the transactions, resulting in intelligent management. Big data platform improved customer services with the analysis of big data. The diagram of corporate customers was used to identify the related party relationship and apply in the risk prevention. The automatic recognition of layout and content was realised.

Optimized basic structure. The Group promoted the transformation of information technology structure to "Concentration + Distribution" and completed 181 million debit card data and high-volume transactions from main server to distribution platform. The transaction volume of debit card was around 50% in normal days and 90% on "Double 11" via distribution platform, which meant the core accounting system was capable of processing around 16,000 transaction in a second. The application systems operating on open platform accounted for more than 98%. The Group completed the private cloud construction and over 50% application environment systems connected to cloud.

Increased resource input. The Group launched three major projects of "10,000 Fintech Talent Plan", "Fintech Management Trainees" and "Empowerment Transformation of Existing Talents". As at the end of Reporting Period, there were 3,460 domestic Fintech talents, representing a year-on-year increase of 59.15%. The contribution of Fintech staff to the Bank was around 4.05% representing a year-on-year increase of 1.33 percentage points. During the Reporting Period, the investment in Fintech increased by 22.94% on a year-on-year basis to RMB5.045 billion, which was 2.57% of operating income, representing an increase of 0.38 percentage point over the previous year.

III. BUSINESS REVIEW

In 2019, the Group actively responded to changes in market and policy environment and, closely focused on the three major tasks of "serving the real economy, financial risks management and deepening financial reforms", and achieved in high-quality development. The Group increased its credit investment to serve the real economy, and RMB loan increment increased by RMB36,487 million on a year-on-year basis. As a Shanghai-based bank, we leverage the advantage of our base in Shanghai to serve the key regions by increasing loan increment by 2.18 times year-on-year in the three major regions including Yangtze River Delta, Guangdong, Hong Kong, Macao Greater Bay Area and Beijing-Tianjin-Hebei region. The interest margin improved considerably, with the net interest margin increasing by 7 basis points on a year-on-year basis. The efforts to dispose of non-performing assets continued to increase. The cash collection increased by 34.5% over the previous year, and the performance development was stable and sound. During the Reporting Period, the net profit of the Group (attributable to shareholders of the Bank) increased by 4.96% on a year-on-year basis to RMB77.281 billion. The increase was 0.11 percentage point higher than that of the previous year. As at the end of the Reporting Period, the total assets of the Group increased by 3.93% over the end of the previous year to RMB9,905.600 billion.

The Group achieved steady growth in profits and sustainable improvement in value creation.

—— Due to the effective placement of substantial loans and reasonable and abundant market liquidity, assets yield increased by 3 basis points and liabilities cost decreased by 6 basis points year-on-year during the Reporting Period. The Group's net interest margin stood at 1.58%, representing an increase of 7 basis points on a year-on-year basis.

—— During the Reporting Period, the Group's net operating income increased by 9.29% on a year-on-year basis to RMB232.857 billion. The Group's net interest income increased by 10.06% on a year-on-year basis to RMB144.083 billion.

—— Under strict regulatory requirements for charging fees, the Group explored the advantages of wealth management and accelerated the transformation of revenue growth. During the Reporting Period, the growth rate of fee income from management services and brokerage services both exceeded 10%. The net fee and commission income increased by 5.79% on a year-on-year basis.

—— During the Reporting Period, the cost-to-income ratio decreased by 1.39 percentage points on a year-on-year basis to 30.11%.

—— The efficiency of operation enhanced significantly. As at the end of the Reporting Period, the profit per person of the Group amounted to RMB879.9 thousand, representing an increase of 7.00% on a year-on-year basis. The deposit per outlet (excluding all-inclusive outlets) increased by 4.38% over the end of the previous year to RMB2.238 billion.

The Group served the real economy and deepened the supply-side structural reform of the financial sector.

—— As at the end of the Reporting Period, the balance of RMB loans reached RMB4,925.863 billion, increased by RMB389.439 billion or 8.58% over the end of previous year. The incremental amount increased by RMB36.487 billion on a year-on-year basis.

—— During the Reporting Period, the Group's investment in local government special bonds amounted to RMB178.1 billion, representing an increase of 22.1% over the previous year. The Group completed 69 debt-to-equity swap projects totalling RMB64.4 billion representing an increase of 214% and 162%, respectively. The balance of consumer lending and loans extended to public utilities sectors, such as electric power, gas and water, science, education, culture and health, increased by RMB29.43 billion or 11.9% over the end of the previous year, higher than the growth rate of all loans of domestic banking institutions.

—— The Group increased the credit support for inclusive finance, private enterprises and manufacturing sectors. As at the end of the Reporting Period, the balance of inclusive loans under CBIRC's two-increase standards increased by RMB55.819 billion or 51.62% over the end of the previous year to RMB163.952 billion. The number of customers with loan balance increased by 33.4 thousand over the end of the previous year. The impaired loan ratio was 3.22%, representing a decrease of 2.15 percentage points over the end of the previous year.

—— Balances of manufacturing sector loans maintained good momentum. During the Reporting Period, the balance of medium and long term loans extended to manufacturing sectors was RMB115.4 billion, representing an increase of RMB25.4 billion or 28% over the end of the previous year. The Group launched online bank acceptance bills services. During the Reporting Period, the Group processed 98,107 online acceptance transactions for manufacturing enterprises, amounting to RMB81.08 billion, serving 960 manufacturing customers, covering 33 provinces, municipalities and autonomous regions nationwide, and indirectly supporting 17 thousand upstream enterprises in the manufacturing industrial chain. The Group earned high market reputation.

The Group integrated into China's national strategies by leveraging its unique advantages in geographical location.

—— The Group took the integrated development of Yangtze River Delta as the "Pilot Field" and applied it to key regions such as Guangdong-Hong Kong-Macao Greater Bay Area and Beijing-Tianjin-Hebei Region. The Group established its integrated service structure and launched special financial service solutions iteratively. As at the end of the Reporting Period, loans in the Yangtze River Delta, Guangdong-Hong Kong-Macao Greater Bay Area and Beijing-Tianjin-Hebei regions increased by RMB219.6 billion over the end of the previous year, an incremental amount 2.18 times more than that of the previous year, accounting for 52% of total incremental loans, up 6.8 percentage points year on year. The credit extension resonated with the national regional economic strategic layout.

—— As a Shanghai-based bank, we leveraged the advantage of our base in Shanghai to promote the Yangtze River Delta integration as the dominant task. We strongly promoted "Mechanism Synergy and Operation Integration", setting up specialized agencies and working mechanisms at the head office level. We further expanded into the key areas of free trade zones, financial markets and technology. We were also developing unique service capabilities to support the Group's financial service, as part of our supporting Shanghai's further deepening reform and increased opening up.

The Group strictly prevented financial risks and the asset quality was stable.

—— As at the end of the Reporting Period, the impaired loan ratio was 1.47%, representing a decrease of 0.02 percentage point over the end of the previous year. Overdue loan ratio decreased by 0.13 percentage point over the end of the previous year. Provision coverage of impaired loan was 171.77%, meeting regulatory requirements.

—— The Group deepened the reform of risk credit management, implemented unified credit risk control, and strengthened risk monitoring system. The intelligent risk control early warning model has an accuracy rate of 85%.

—— The Group explored the management models of "Good Banks" and "Bad Banks", clarified the responsibilities of the legacy non-performing loan disposal and incremental non-performing loan prevention, and enhanced the cash recovery of non-performing loans.

—— The Group optimised the organisational structure of prevention of non-compliance cases and carried out the "5+N" Campaign for specialised prevention of non-compliance cases and control. The Group improved the information security technology defense system, organised anti-money laundering and anti-terrorism financing and consolidated the long-term mechanism of overseas compliance management.

The Group strengthened wealth management and further improved the synergies within the Group.

—— The Wealth Management Strategic Promotion Committee performed full responsibilities to strengthen the wealth management business. The Group provided customers with a full range of wealth management services through an array of financial licenses such as bank wealth management, trust, funds, securities, insurance and financial investment. BOCOM Wealth Management Co., Ltd. was the first batch authorised to operate, ranking second in scale of products among the established wealth management subsidiaries as at the end of the Reporting Period. The business scale of pension investment, family wealth management, and private banking net-worth wealth management continued to expand. The Group successfully won the bid for the qualification of professional annuity custodians in 29 overall planning areas. The balance of wealth management products under consignment and the scale of the fund product AUM hit a new high. As at the end of the Reporting Period, the personal financial assets under management (AUM) increased by 12.71% to RMB3,446.315 billion over the end of the previous year.

—— The Group improved the business layout, developed service contacts, and strengthened the coordinated development of all subsidiaries. BOCOM Wealth Management Co., Ltd. and Prague Branch officially opened. Dubai Branch and Johannesburg Branch successfully acquired regulatory approvals. As at the end of the Reporting Period, the total assets of overseas banking institutions and subsidiaries increased by 8.87% and 15.49% respectively over the end of the previous year, and their proportion in the total assets of the Group increased by 0.53 and 0.43 percentage point respectively. During the Reporting Period, the net profit of overseas banking institutions and subsidiaries increased by 15.54% and 17.20% on a year-on year basis respectively, and their contribution to the Group's net profit increased by 0.75 and 0.76 percentage point on a year-on-year basis respectively.

In October 2019, Mr. Hou Weidong, the Executive Vice President, attended the opening of the Joint Financial Innovation Laboratory

The Group strengthened technology-driven innovation to facilitate the intelligent transformation project.

—— The Group increased the investment in information technology. During the Reporting Period, the investment in information technology exceeded RMB5.0 billion, which increased by 22.94% on a year-on-year basis. It was 2.57% of operating income, representing an increase of 0.38 percentage point over the previous year. The Group strengthened the development of talents by further promoting the three major projects of "10,000 Fintech Talent Plan", "Fintech Management Trainees" and "Empowerment Transformation of Existing Talents". The Group was committed to the three tasks of IT framework transformation, IT management framework optimization and data management. Through the IT framework transformation, the Group decentralised the technology framework in order to accelerate the establishment of a digital and intelligent platform system. The Group focused on enhancing the IT management and development capabilities characterised by agile upgrading and rapid development in order to deeply integrate businesses with technology through the optimization of IT management framework and the establishment of a structure of one department and four centers-subsidiaries-research institute. The Group explored the data management improvement in order to fully exercise the data value.

—— The Group strengthened the utilization of Fintech. Fully exercising the advantage of big data, the Group were able to predict in advance customers' matured wealth management products and the amount of fund (approximately 10 million matured wealth management products per year, approximately RMB2.7 trillion in matured funds) which enabled the Group to formulate asset allocation recommendations based on customer financial preferences. The Group also made full use of short message service, mobile banking message reminders, intelligent voice robots, customer manager and other human-machine collaboration strategies to intelligently make product recommendations for customers. With the support of Fintech, automated, multi-wave and multi-channel marketing achieved remarkable results. As at the end of the Reporting Period, the retention rate of matured funds had increased to approximately 96%, and achieved significant labour savings. High-frequency transactions such as debit cards and online payments achieved a transformation from centralised platforms to distributed platforms. As at the end of the Reporting Period, the number of e-banking transactions in domestic branches reached 8.006 billion with the transaction amount of RMB270.12 trillion. The diversion rate of e-channels increased by 1.08 percentage points over the end of the previous year to 97.67%.

The Group enhanced the customer experience and established the brand market image.

—— The Group insisted on building "the Bank with the Best Omni-channel Service" to comprehensively improve customer experience across all channels. As at the end of the Reporting Period, the total number of corporate customers of domestic branches increased by 16.93% over the end of the previous year. The number of newly-opened accounts increased by 64.26% on a year-on-year basis. The total number of individual customers in domestic branches increased by 4.48% over the end of the previous year on the same basis. The increase of the personal financial assets under management (AUM), qualified customers of OTO FORTUNE and private banking all hit a new high in the past three years. The Group broadened the channels for cooperation with other financial institutions. The coverage ratio of bank-futures account transfer system was 97.98%. The number of customers for transactions with securities and futures trading companies increased by 973.3 thousand over the end of the previous year.

—— The brand's market influence continued to increase. The Group was listed among Fortune 500 for 11 consecutive years and ranked No. 150 in terms of operating revenue, up by 18 ranks as compared with the previous year. The Group's Tier-1 capital ranked No.11 among the global Top 1000 banks for three consecutive years rated by *The Banker*. The Group was awarded the A-level bank in Consumer Protection Rating by People's Bank of China, ranking first in Consumer Protection Rating awarded by CBIRC among 18 nationwide large-scale banks and joint-stock banks. The Group was ranked first in the industry for the sixth time in "Top 100" and "Top 1000" demonstration outlets held by the China Banking Association.

Optimized Management Models for High-quality Group Customer Services Provided in the Integrated Development of the Yangtze River Delta

In order to deepen the joint cooperation capability of serving group customers in Yangtze River Delta region, the Bank formulated special policies and streamlined its business processes. Moreover, the Bank built up a comprehensive set of integrated group customer management models based on the differentiation and high efficiency in customer services and enhanced the integrated management of group customers. During the Reporting Period, financing scale in the Yangtze River Delta region reached nearly RMB2 trillion.

—— **We delegated and authorized the management of group customers at Head Office level to the regional branches.** The Bank authorized branches to develop group customers, optimized business initiating levels and simplified businesses reporting. These efforts enabled us to delegate the group management functions to lower level, improve customer services and narrow down the management scope with the same level of risk management. At the end of the Reporting Period, the balance of corporate loans increased by 18.66% over the end of the previous year.

—— **Strengthened empowerment of branches and enhanced efficiency of credit approval.** Based on the "one meeting for loan credit approval", the Bank innovatively simplified the approval process for group customers via Head Office staff joining the credit approval meeting of local branches in Yangtze River Delta. By combining the advantages of proper interpretation of credit authorization policies by Head Office and the deep understanding of local markets and customers by local branches, the Bank streamlined the approval process and conducted well management of risks. The total amount of RMB46.0 billion credit was granted via joint meetings during the year, which continuously accelerated the response to customers' needs and market.

—— **Strengthened internal interaction to motivate branches within the same region to serve group customers co-ordinately.** Following the service guideline of "BoCom Prevails, Customer First", the Bank carried out unified marketing and management of the group customers with a package of financial products and one-stop financial services, which maximized the contribution of group businesses. During the Reporting Period, the total amount of ten joint loans was RMB20.0 billion over the branches of Yangtze River Delta region, which successfully supported the cross-regional financing for certain group customers.

—— **Explored regional characteristics and supported high-quality development of group customers in key areas.** We enhanced policy research and the application of BoCom management tools such as "One Strategy for One Bank". Regarding the industries of energy-saving, environmental friendly and strategic innovation around the development demonstration zone of Yangtze River Delta, manufacturing of artificial intelligent and robots of Shanghai branch, semi—conductor sector of Suzhou, Wuxi, Zhejiang province and Anhui province, the Bank targeted such regional industries with comparative advantages and granted special loans, resulted in successful and mutual cooperation in key areas.

—— **Extended advantages of comprehensiveness and introduced special policies to support investment banking businesses in Yangtze River Delta.** The Bank delegated the authorization of acquisition credit approval to the branch level in Yangtze River Delta expanded the scope of authority for of bond underwriting and other credit businesses. The Bank enabled the rapid development of the interaction of investment and financing activities of group customers, which built up the business characteristics and market reputation.

(I) Corporate Banking Businesses

- **During the Reporting Period, the Group's profit before tax from corporate banking businesses increased by 3.53% on a year-on-year basis to RMB38.373 billion. Net interest income was RMB74.073 billion, representing an increase of 8.05% on a year-on-year basis. Net fee and commission income was RMB15.168 billion, representing an increase of 5.39% on a year-on-year basis.**

- **As at the end of the Reporting Period, the Group's corporate deposit balance increased by 2.22% over the end of the previous year to RMB4,031.784 billion. Corporate loan balance increased by 10.28% over the end of the previous year to RMB3,549.510 billion.**

- **As at the end of the Reporting Period, the balance of non-performing loan of the Group was RMB59.469 billion, and the impaired loan ratio was 1.68%.**

The Group closely focused on serving the real economy, giving full play to the advantages of international and integrated operation and satisfying the full range of customers' financing needs by product portfolios such as credit, bonds, funds, leasing, trust, asset management, insurance, investment and loan linkage, and fully supported major national strategies, major projects, and key areas. The Group strengthened technology empowerment and established a good brand in areas including cash management, industrial chain finance, investment banking and cross-border finance.

1. *Corporate and institutional businesses*

The Group continued to strengthen customer infrastructure building, adhered to "settlement, transaction, and flow" and carried forward special marketing campaigns to attract core enterprises and subordinated enterprises in bulk and generate revenue by building platform, which enabled the Group to strengthen the construction of online service channels. The Group also focused on mobile internet, scenario application and industrial application and improved the online service channels of "Corporate online banking + Corporate mobile banking + WeChat public account" to provide more convenient and efficient financial services. The Group successfully renewed its qualification of the collection agency of the non-tax income of central government, and was rated as "Excellent" for two consecutive years in the evaluation of non-tax and authorised business by the Ministry of Finance. As at the end of the Reporting Period, the total number of corporate customers of domestic branches increased by 16.93% over the end of the previous year. The number of newly-opened accounts increased by 64.26% on a year-on-year basis.

2. *Inclusive finance businesses*

The Group strengthened the technology empowerment of the upgrade of inclusive financial products for the business development in key inclusive finance areas such as small and micro enterprises, "Agriculture, Rural areas and Farmers", poverty alleviation and "Mass Entrepreneurship and Innovation". The Group enhanced pricing management and regulated charging behaviour to effectively solve the problems of "Difficult Financing and Expensive Financing" in key areas and key customer groups. As at the end of the Reporting Period, the balance of loans of the inclusive finance under CBIRC's two-increase standard increased by RMB55.819 billion or 51.62% over the end of the previous year to RMB163.952 billion. The number of customers with loan balance increased by 33.4 thousand over the end of the previous year to 104.4 thousand. The impaired loan ratio was 3.22%, representing a decrease of 2.15 percentage points over the end of the previous year. As at the end of the Reporting Period, 95 provincial branches independently set up the Inclusive Division, and 2,272 outlets were engaged in inclusive credit business with the coverage ratio reaching 87.22%.

3. *Industrial value chain financial businesses*

The Group focused on "Settlement Services + Trade Finance" to build an "Online + Offline" integrated service for the whole industrial chain. The Group enhanced the promotion of industrial chain finance in key industries such as construction and healthcare, deepened the cooperative relationship with key enterprises and their upstream and downstream enterprises, and enhanced the capabilities of serving the real economy. As at the end of the Reporting Period, the total accumulated number of qualified industrial chain networks developed by domestic branches exceeded 4,000 and the balance of key products of industrial value chain financing increased by 21.04% to nearly RMB150.0 billion over the end of the previous year.

4. *Cash management businesses*

The Group was dedicated to build a cross-border, cross-bank, and cross-currency global cash management service solution, deeply integrated the "Internet + Finance + Scenarios", and innovatively launched the BoCom Intelligent Financial Service Platform and the "Jiao e Bao" Enterprise Online Trading Platform. BoCom Intelligent Financial Service Platform launched 21 industry financial service solutions including intelligent park, medical manager, pension manager and religion manager. The Group enriched financial services of corporate liquidity management. The Group enhanced the promotion and research on treasury management system of financial companies and inter-bank fund management platform. As at the end of the Reporting Period, the number of group customers of the online "Win to Fortune" cash management exceeded 27.5 thousand, including more than 834.7 thousand cash management accounts.

5. *Investment banking businesses*

The Bank assisted the Ministry of Finance in issuing treasury bonds of RMB2.0 billion in Macao and sovereign bonds of EUR4.0 billion in Europe for the first time, treasury bonds of RMB10.0 billion and sovereign bonds of USD6.0 billion in Hong Kong. The Group completed major projects including Central Huijin Investment Ltd.'s medium-term notes of RMB33.0 billion. The Group actively supported the corporate's demand for bond issuance across borders, ranking third in terms of the scale of underwriting overseas bonds in Chinese offshore bond market. The scale of domestic and overseas mergers and acquisitions financing increased by over 80% on a year-on-year basis. The Group comprehensively promoted asset securitisation businesses. The total underwriting amount of full-scale asset securitisation (including credit-asset-backed securities and asset-backed notes) ranked second in the banking system. The Group underwrote innovative products such as the first credit asset-backed securities based on LPR in the lead underwriting market, and the first green asset-backed bill empowered by blockchain technology. During the Reporting Period, the income of investment banking reached RMB4.337 billion, accounting for 9.10% of the Group's total fee and commission income. The domestic branches accumulatively underwrote 516 different bonds (excluding local treasury bonds). The underwriting amount (excluding local treasury bonds) was RMB314.766 billion. The Bank was awarded "2019 Tianji Award for Best Comprehensive Bank in Undertaking Investment Bank Business" by the *Securities Times* and "Top 10 Investment Bank Innovation Award in 2019" by *The Banker*.

6. *Asset custody businesses*

Seizing the opportunity of the reform and development of the national pension security system, the Group actively carried out professional annuity marketing. The Group won the bid for the qualification of professional annuity custodians in 29 overall planning areas. The Group also promoted the marketing of public fund custody businesses in multiple fields and channels, and the scale of public fund custody ranked fourth in the market. The Group was one of the first-batch commercial banks to have obtained the qualification to conduct pilot businesses of certificate deposits, and steadily promoted cross-border custody businesses such as Hong Kong Bond Connect and QDII/QFII. The enterprise annuity account management business developed steadily, and the number of personal accounts under management increased by 10.30% on a year-on-year basis. Focusing on customer needs, the Group continuously optimised the online custody service system of "Custody E-Connect". As at the end of the Reporting Period, the assets under custody of the Bank increased by 5.40% to RMB9,394.245 billion over the end of the previous year.

7. Corporate online banking businesses

The Group focused on the expansion of online channels and mobile finance for small and micro enterprise customers and the increase of their mobile banking utilisation rate. As at the end of the Reporting Period, the number of registered customers of corporate mobile banking and the volume of transactions increased by 447.2 thousand and RMB100.589 billion over the end of the previous year, respectively. The Group continued to improve the customer experience, strengthened online settlement products and services, integrated and optimised the process of online corporate account opening and registering, and strengthened scenario marketing. The Group provided wider supporting services channels for customers through WeChat intelligent customer service assistants and telephone consulting service through corporate customer service team via 95559 hotline. As at the end of the Reporting Period, the number of corporate online banking customers increased by 45.07% over the end of the previous year.

(II) Personal Banking Businesses

- **During the Reporting Period, the Group's profit before tax in terms of personal banking businesses increased by 17.48% on a year-on-year basis to RMB29.124 billion. Net interest income was RMB60.791 billion, representing an increase of 19.69% on a year-on-year basis; net fee and commission income was RMB25.585 billion, representing an increase of 6.21% on a year-on-year basis.**

- **As at the end of the Reporting Period, the balance of personal deposits of the Group increased by 10.89% over the end of the previous year to RMB1,969.922 billion; the balance of personal loans increased by 7.28% over the end of the previous year to RMB1,754.765 billion and the total number of individual customers in domestic branches increased by 4.48% over the end of the previous year.**

- **As at the end of the Reporting Period, the balance of personal non-performing loans was RMB18.574 billion, and the personal impaired loan ratio was 1.06%.**

The Group actively responded to the transformation of digital trend, strengthened the principle of customer first, highlighted synergies of two-line services, practised technology empowerment, continuously consolidated the brand feature of "Your Best Wealth Management Bank", further promoted online and offline integrated operations, and brought new digital and intelligent service experiences to customers. During the Reporting Period, the growth rates of the personal financial assets under management (AUM), qualified customers of OTO FORTUNE and private banking all hit a new high in the past three years.

1. Personal financial assets under management (AUM) and personal deposit businesses

Driven by "Financial Asset + Data Asset", the Group increased the size of customers and personal financial assets under management (AUM). As at the end of the Reporting Period, the number of qualified customers of OTO FORTUNE increased by 19.01% over the end of the previous year to 1,504.0 thousand. The growth rate of the same calibre was higher than those of 2018 (12.38%) and 2017 (12.11%); and the personal financial assets under management (AUM) reached RMB3,446.315 billion, representing an increase of 12.71% over the end of the previous year, faster than those of 2018 (6.11%) and 2017 (6.44%). The Group continued to enrich the types of local and foreign currency savings deposit products, made every effort to promote personal deposit and the steady development of personal deposit businesses.

2. Personal loan businesses

The Group strictly implemented the national macro-control policies, actively supported resident's reasonable demand of housing for personal use and implemented differentiated management of mortgage loans to optimise the housing loan process. The Group enhanced the development of consumer finance, further optimised the process of "Benefit Loan", relying on FinTech and data analysis and application to expand the customer base and enhance the intelligent risk control capability. As at the end of the Reporting Period, the Group's personal housing mortgage loan balance increased by 12.69% to RMB1,135.428 billion over the end of the previous year. The balance of "Benefit Loan" increased by RMB6.470 billion to RMB13.344 billion over the end of the previous year. In addition, the Group optimised retail credit policies, integrated internal and external data and expanded the application of big data and quantitative model. The Group also launched the risk rule engine monitoring system to improve digital risk control capability.

The sales department of Shanghai Branch

3. Wealth management businesses

The Group implemented the lifecycle management system, based on the hierarchical classification of customer base, and constantly improved professional wealth management capacity to meet the multi-level wealth management needs of customers. The Group also accelerated the online and offline integration, launched innovative online communication tools such as online live broadcast, one-to-one video, cloud banking and manager home page, and optimised the wealth management strategy consulting "OTO Financial Advisor" so as to build a new intelligent and digital service mode with human-machine cooperation. Besides, the Group, through the application of FinTech, launched an intelligent fixed investment service solution (fixed fund investment PLUS) to provide customers with intelligent services such as fixed investment amount adjustment and profit and loss reminder. As at the end of the Reporting Period, the balance of wealth management products under consignment increased by 27% over the end of the previous year, representing an increase of 23% daily growth over the previous year. The total sales of non-monetary funds increased by 70.4% over the end of the previous year, the AUM of the fund product hit a new high, and the sales of insurance products with premium payment in instalments increased by 31% on a year-on-year basis.

4. Private banking businesses

The Group strengthened internal coordination and expanded the scope of cooperation with external institutions. The scale of family wealth management, global asset allocation, exclusive net worth wealth management, private banking accounts, agency trusts, and insurance business continued to grow. The Group enhanced the professional service capabilities of private banking, providing professional support and decision-making basis for customers' asset allocation, product customisation, and plan design. As at the end of the Reporting Period, there were 47,191 private banking customers, an increase of 18.49% over the end of the previous year, which was higher than those of 2018 (11.09%) and 2017 (6.21%); the assets of private banking customers under management were RMB609.206 billion, representing an increase of 18.27% over the end of the previous year, higher than those of 2018 (9.58%) and 2017 (6.12%).

5. *Credit card businesses*

Targeting at customer bases such as vehicle owners, women, and young people, the Bank launched 14 special products, including ETC Card, "MiCard", Yongjun Card, Ruubypay Co-branded Card, Ele.me Co-branded Card, and Sony PlayStation Game Theme Card, to optimise the customer structure. The Group developed mobile payment and carried out marketing activities during peak season. The number of registered customers and the transaction volume increased significantly. The contribution of cumulative mobile payment transactions for the whole year increased by 3.44 percentage points on a year-on-year basis. "Go Pay" APP was further upgraded, with new functions such as flexible repayment and ETC service to enhance coordinated development with mobile banking. The accumulated number of registered customers exceeded 60.00 million, representing an increase of 11.42% over the end of the previous year. The number of monthly active users reached 25.68 million. During the Reporting Period, facing severe forms of risk, the Credit Card Centre actively adopted a clearance risk policy to moderately slow down the rate of customer acquisition. As at the end of the Reporting Period, the number of registered credit cards of domestic branches (including quasi-credit cards) amounted to 71.80 million, representing a net increase of 25 thousand over the end of the previous year. The number of total and newly-issued cards amounted to 0.120 billion and 6,516.8 thousand, respectively. The accumulated annual consumption amounted to RMB2,948.327 billion, representing a decrease of 3.97% on a year-on-year basis. The Group's credit card overdraft balance decreased by 7.48% over the end of the previous year to RMB467.387 billion. The credit card overdraft impaired ratio was 2.38%, representing an increase of 0.86 percentage point over the end of the previous year.

6. *Debit card businesses*

As one of the first cooperative banks that were connected to the Highway Monitoring & Response Centre, the Bank actively participated in the promotion of ETC across the country. Customers of the Bank and other banks can apply for ETC equipment in the Bank's mobile banking and "Go Pay" APP, with convenient services such as home delivery and Bluetooth activation. As at the end of the Reporting Period, the accumulated number of domestic Pacific debit cards amounted to 152.38 million, representing a net increase of 9.85 million over the end of the previous year. The accumulated annual consumption was RMB2,240.916 billion.

7. *Mobile banking construction*

The Group strived to promote the construction and operation of new-generation mobile banking platform. On 18 November 2019, a new version of mobile banking themed "Centre on Me" was officially launched. Unlike the layout of traditional financial APP which simply stacked products together as a supermarket shelf, the new version created a customised homepage focusing on "Me", with functions such as intelligent voice, ETC application, and revenue and expenditure accounting books. The Bank encouraged employees to be engaged in online services and promoted the construction of service system of all employees. As at the end of the Reporting Period, nearly 88,000 employees (including Credit Card Center) of the Bank generated personal marketing homepages and service QR codes to build a service network that was "Never Offline" for customers. The Bank promoted online cooperation and built in the mobile banking more than 20 scenarios, such as automobile service, and more than 1,500 utility payment services, such as payment for water, electricity and gas supply. As at the end of the Reporting Period, the Bank's monthly active users of mobile banking reached 22,182.4 thousand representing, a year-on-year increase of 36.44%, and was awarded the "Best Mobile Banking" and "Best Digital Financial Innovation" in the 15th Annual Gala of China Financial Certification Association (CFCA).

8. *Offline channel construction*

The Group optimised the network layout to maintain the offline layout advantages of the Bank that featured high coverage, multi-contact and excellent service. The Group also promoted the construction of intelligent outlets to realise interaction between mobile banking and intelligent machines and create a coordinated service model of online and offline platforms. The Group accelerated the reform and innovation, strengthened the construction of "One Leader Team, Two Staff Teams" and improved the comprehensive operation and mobile service capabilities of outlets. As at the end of the Reporting Period, the total number of domestic banking institutions' outlets decreased by 162 to 3,079 over the end of the previous year, of which 27 were newly opened and 189 low-yield outlets were integrated. The Group's network covered 242 cities at or above prefecture level, with the coverage ratio at prefecture and municipal-level cities at 72.46%, representing an increase of 0.90 percentage point over the end of the previous year. The coverage ratio in western China was 46.77% representing an increase of 3.26 percentage points over the end of the previous year. The Bank strictly controlled the installation of traditional self-service equipment, particularly intensified the integration of low-yield machine. As at the end of the Reporting Period, the total number of domestic self-service equipment was nearly 17.3 thousand and the total number of self-service banks reached 1,738.

9. *Service and consumer protection*

The Group insisted on building the "the Bank with the Best Omni-Channel Service", enhanced service quality and effectiveness based on online and offline integration, and holistically improved customer experience in all channels. For the year of 2018, the Group was awarded the A-level bank in the People's Bank of China Consumer Protection Rating and ranked first in the assessment of consumers' rights protection rating by the CBIRC among 18 national large banks and joint-stock banks in 2018. 20 outlets were listed in the selection of "Top 100" demonstration units initiated by China Banking Association in 2019, ranking first in the banking industry in terms of quantity of awarded outlets. The Bank maintained the leading position in the assessment of "Top 100" and "Top 1000" units for the 6th times.

The safe deposit box business of the sales department of Shanghai Branch

(III) Inter-bank and Financial Market Treasury Businesses

- **During the Reporting Period, the Group's profit before tax of financial market treasury businesses was RMB17.348 billion, including net interest income of RMB6.953 billion and net fee and commission income of RMB543 million.**

- **As at the end of the Reporting Period, the Group's financial investments amounted to RMB3,005.843 billion, representing an increase of 6.52% over the end of the previous year. During the Reporting Period, the securities investment yield was 3.55%.**

The Group strengthened the credit risk management of inter-bank customers, optimised the structure of on-and-off-balance-sheet assets and liabilities, promoted business innovation in inter-bank and financial markets, fully collaborated with the corporate and retail businesses to leverage each other's advantages and serve the real economy for high-quality development.

1. *Inter-bank businesses*

The Group deepened the business cooperation of financial factor market and served the construction of financial infrastructure. Supporting the construction of Renminbi-denominated products, such as "Shanghai Gold Futures", "Shanghai Crude Oil Futures", iron ore, and PTA, the Group was in the leading position in the Shanghai International Energy Centre's crude oil futures deposit market. Assisting Shanghai Clearing House in the expansion of market players in the financial factor market, the Group developed central counterparty clearing agency services, which ranked among the top in terms of market share in industries including foreign exchange and bonds. The Group provided foreign currency account banking services to the first three pilot foreign exchange settlement and sale brokers, to further enrich the structure of market players in the foreign exchange sector. The Group implemented credit granting and capital write-down of the central counterparty to activate trading and lower capital cost. During the Reporting Period, the average balance of financial factor market deposits increased by RMB27.411 billion to RMB199.942 billion over the previous year.

The Group strengthened the construction of inter-bank platforms. As at the end of the Reporting Period, there were 1,130 cooperative corporate customers on inter-bank platforms, representing an increase of 246 over the end of the previous year. There were 965 cooperative banking corporate customers on inter-bank asset management platforms, representing an increase of 243 over the end of the previous year. Relying on advantage of inter-bank products, the Group actively conducted the "Rural Credit Cooperatives Project" and supported financial services of "Agriculture, Rural areas and Farmers" and remote areas through inter-bank cooperation. As one of the first pilot commercial banks, the Group initiated local bond counter businesses in places such as Sichuan, Zhejiang and Beijing, providing investment products with profitability, liquidity and stability to local residents and small-and-medium institutions.

The Group supported the construction of multi-level capital markets and actively strengthened the system connection with securities companies and futures companies with relevant business qualifications. As at the end of the Reporting Period, the Bank's system connection covered 100% of the third-party depository systems and 97.98% of the bank-future account transfer systems. The Group continuously carried out the "Customer Recommendation Gift for Transactions with Securities and Future Trading Companies" campaign. The number of customers for transactions with securities and future trading companies increased by 973.3 thousand over the end of the previous year. The balance of the deposit pledged as collateral of futures trading companies reached RMB82.9 billion, maintaining a market leading position.

2. *Financial market businesses*

The Group actively performed the duties of a market maker in "Bond Connect" businesses. During the Reporting Period, 1,249 "Bond Connect" transactions were completed, amounting to RMB188.711 billion. The Group actively developed the Renminbi bond lending businesses and signed master agreements for Renminbi bond lending businesses with 125 institutions. During the Reporting Period, the trading volume of Renminbi bonds of domestic branches reached RMB5.28 trillion. The foreign exchange transaction volume in the inter-bank foreign exchange market reached USD1,839.896 billion. The accumulated amount of Renminbi currency market transactions of domestic branches reached RMB36.68 trillion, including RMB25.42 trillion lent and RMB11.26 trillion borrowed. The accumulated transaction volume of the foreign currency market reached USD647.285 billion.

The Group arranged different product positions quarterly, optimised the structure of bond and rationally optimised the duration of portfolio. As at the end of the Reporting Period, the Group's financial investment reached RMB3,005.843 billion, representing an increase of 6.52% over the end of the previous year. During the Reporting Period, the securities investment yield was 3.55%.

3. *Asset management businesses*

Under the unified arrangement of the Wealth Management Strategy Promotion Committee, the Group steadily promoted the transformation of off-balance-sheet wealth management business, boosted the competitiveness of net worth products, and provided customers with safe and stable wealth management services. During the Reporting Period, the average balance of networth asset management products increased by RMB156.959 billion over the previous year, with an average balance of RMB274.547 billion, the proportion of which to off-balance-sheet asset management products increased by 15.12 percentage points to 30.64% over the previous year and the balance of off-balance-sheet asset management products reached RMB895.920 billion, representing an increase of 18.25% or RMB138.301 billion over the end of the previous year.

4. *Precious metal businesses*

The Bank was one of the first batch of silver futures market makers on the Shanghai Futures Exchange, obtained the qualification such as the first-batch member participating in "Shanghai Silver Futures" on Shanghai Gold Exchange (SGE), and pioneered in innovative transactions such as silver inquiry options on SGE and NYAuTN. During the Reporting Period, the domestic branches achieved RMB159.294 billion in terms of volume of precious metal brokerage transactions. The sales volume of physical precious metal products amounted to RMB1.470 billion. The accumulated volume of self-operated gold trading amounted to 11.1 thousand tonnes, ranking top 3 in Shanghai Gold Exchange in terms of self-operated gold trading. The Group maintained its market position as an active trading bank. The Group won 11 prizes including the first prize of "Excellent Financial Member", "Best Market Maker in Inter-bank Inquiry Market", "Best Pricing Transaction Member", "Inquiry Market Innovation Product Contribution Award", and "Special Contribution to Delivery Market Business" for the year of 2018 by SGE, and was awarded other prizes including "Special Contribution Award to Market Making Industry" and "Award for Service in Gold Industry" for the year of 2018 by Shanghai Futures Exchange.

(IV) Internationalisation and Integrated Operation

1. Internationalisation strategy

- **During the Reporting Period, net profit of the Group's overseas banking institutions increased by 15.54% on a year-on-year basis to RMB6.363 billion, whose contribution to the Group's total net profit increased by 0.75 percentage point to 8.23% on a year-on-year basis.**

- **As at the end of the Reporting Period, the total assets of the Group's overseas banking institutions increased by 8.87% over the end of the previous year to RMB1,164.018 billion, whose contribution to the Group's total assets increased by 0.53 percentage point to 11.75% over the end of the previous year.**

- **As at the end of the Reporting Period, the non-performing loan balances of the Group's overseas banking institutions was RMB761 million, and the impaired loan ratio was 0.20%.**

Returning to serving the real economy, the Group fully implemented the requirements of state's strategy, seized the opportunities in policies and market emerged in the new round of opening-up, and made intensive efforts to engage domestic enterprise customers that were "Going Global" and overseas local customers, highlighted differentiated development across regions and businesses among overseas banks, and comprehensively improved financial service levels and value creation capabilities across borders, industries and markets.

International settlement and trade financing businesses

The Group vigorously carried out international settlement and cross-border trade financing business, implemented measures that facilitated stable growth and convenience in foreign trade, supported supply-side structural reforms, served the balanced growth of bilateral trade between China and key countries and regions, and met enterprises' financial needs for international trade. The Group accelerated the integration of Fintech and international businesses with new products such as "Te Xian Tong". During the Reporting Period, international payment reached RMB2,176.079 billion, an increase of 0.32 percentage point in market share over the end of the previous year, the volume of financing for international trade reached RMB113,879 million and the volume of external guarantee of domestic branches reached RMB36,091 million.

Overseas service network

The landscape of overseas service network made a steady progress. In 2019, the Bank's Prague Branch in the Czech Republic officially opened. The application for setting up Dubai (International Financial Centre) Branch was approved by domestic regulatory authorities and the application for setting up Johannesburg Branch was approved by domestic and overseas regulatory authorities. At present, the Group established 23 overseas branches (sub-branches) and representative offices in 17 countries and regions, with a total of 68 overseas business outlets (excluding representative offices). The Group established agency relationships with 1,058 banks in 127 countries and regions, set up 234 cross-border Renminbi inter-bank accounts for 114 overseas Renminbi participating banks in 32 countries and regions, and opened 81 foreign currency settlement accounts in 26 major currencies with 62 banks in 31 countries and regions.

Domestic and overseas synergetic businesses

Efforts will be made to leverage the advantages of the Group's domestic and overseas synergetic services. The Group's internal synergy provided customers with various financial service solutions for cross-border business, satisfying enterprises' needs for investment and financing when "going abroad". The Group also provided comprehensive financial service plans, including cross-border settlement, trade financing, project financing, international syndicates, and overseas bond financing. During the Reporting Period, the Group supported key enterprises and groups to explore overseas markets, provided efficient and convenient cross-border financial services, improved the quality and effectiveness of BoCom cross-border financial services, and promoted the transformation of the traditional single financing model to a diversified financing model in domestic and overseas synergetic business.

Cross-border Renminbi transactions

The Group actively carried out pilot projects for higher-level trade and investment facilitation, promoted cross-border RMB product innovation, and processed the nation's first cross-border RMB financing business under the real estate mortgage issued by an overseas branch of Chinese banks in the Greater Bay Area. The Group strengthened comprehensive strategic cooperation with Cross-border Inter-bank Payment System to strengthen CIPS clearing business. During the Reporting Period, the volume of cross-border RMB settlement of domestic and overseas banking institutions exceeded RMB2.4 trillion, representing an increase of 16% on a year-on-year basis.

Offshore services

The Group focused on its main responsibility and businesses, drove the in-depth integration of offshore banking business into innovative areas such as the free trade zone and the integrated Yangtze River Delta, and maintained steady development for various businesses. During the Reporting Period, the net operating income of offshore business amounted to USD221.8963 million, representing a year-on-year increase of 11.51%. The net fee and commission income was USD131 million, representing an increase of 17.11% on a year-on-year basis. The total amount of offshore assets reached USD18.229 billion, representing an increase of 5.81% over the end of the previous year. Loan balance reached USD9.943 billion, and deposit balance reached USD11.259 billion.

2. *Integrated operation*

- **During the Reporting Period, net profit attributable to shareholders of the Bank from the controlling subsidiaries (excluding Bank of Communications (Luxembourg) Co., Ltd., Bank of Communications (Brazil) Co., Ltd. and Bank of Communications (Hong Kong) Co., Ltd., same applies hereinafter) amounted to RMB5.561 billion, representing a year-on-year increase of 17.20%, the proportion of which to the Group's net profit increased by 0.76 percentage point to 7.20% on a year-on-year basis.**

- **As at the end of the Reporting Period, the total assets of the controlling subsidiaries increased by 15.49% over the end of the previous year to RMB424.738 billion, the proportion of which to the total assets of the Group increased by 0.43 percentage point to 4.29% over the end of the previous year.**

The Group established a development pattern based on commercial banking businesses with cooperation of businesses including trust, financial leasing, asset management, insurance, investment banking and debt-to-equity swap, further improving the capability of providing customers with comprehensive services.

Bank of Communications Financial Leasing Co., Ltd. adhered to the development strategy of "Professional, Internalisation, Differentiation and Characteristics". Both the total amount of leasing assets and its increment ranked first in the industry. It also promoted aviation and shipping businesses to highlight the professional advantages. As at the end of the Reporting Period, the balance of leasing assets amounted to RMB247.525 billion, including aircraft and ship assets amounting to RMB154.988 billion, with fleets of 249 planes and 428 ships.

Bank of Communications International Trust Co., Ltd., focused on the development of three key businesses namely asset management, wealth management and fiduciary services. It accelerated the pace of business transformation, and promoted the development of specialised fields such as active management, asset securitisation and family wealth management. As at the end of the Reporting Period, the assets under management (AUM) reached RMB775.149 billion.

Bank of Communications Schroder Fund Management Co., Ltd. seized the opportunities for business development, and combined investment with research. It achieved outstanding investment performance driven by high quality research. The yield of stock investment under active management of recent five years ranked 2/70 in the industry in recent five years, 8/86 in yield in recent three years, and 11/109 in yield of in most recent year. Returns of 10 fund products in recent five years doubled. The return of 20 fund products during the Reporting Period was more than 40%. As at the end of the Reporting Period, the public fund under management reached RMB220.1 billion.

With the strategic goal of "Becoming a Company with a Leading Position in Growth and Profitability of Guaranteed Insurance", BoCommLife Insurance Company Limited. stayed committed to providing insurance guarantee, and maintained a stable business performance with good momentum for growth. During the Reporting Period, the original premium income was RMB11.3 billion and the value of new business increased by 19% on a year-on-year basis.

China BoCom Insurance Co., Ltd. vigorously expanded banking-insurance business linkage in China and overseas, officially obtained the full-coverage aviation insurance license issued by the Hong Kong Insurance Authority (No. 5 Aviation Insurance License and No. 11 Aviation Liability Insurance License), and became the sixth Chinese-funded insurer in Hong Kong who obtained a full-coverage aviation insurance license and the fourth one with a full-coverage general insurance business license. During the Reporting Period, the gross premiums increased by 12.60% and the net compensation rate was 13.23%, both of which were better than the market level.

BOCOM Financial Assets Investment Co., Ltd. made great efforts to develop the main business of market oriented debt-to-equity swap, effectively reduced the corporate leverage ratio and actively served the development of the real economy. During the Reporting Period, a total of 56 debt-to-equity swap projects were put into operation (40 of which were new projects during the year), amounting to RMB31.431 billion (including RMB23.682 billion occurred during the year).

Since its opening in June 2019, BOCOM Wealth Management Co., Ltd. has successively issued public offering and private offering wealth management products for value preservation and appreciation of assets of individuals, private banks and inter-bank customers. As at the end of the Reporting Period, the balance of products was RMB110.205 billion.

IV. FINANCIAL STATEMENT ANALYSIS

(I) Analysis on Key Income Statement Items

1. Profit before tax

During the Reporting Period, the Group's profit before tax increased by RMB2.133 billion on a year-on-year basis, representing an increase of 2.48% to RMB88.2 billion. Profit before tax was mainly derived from net interest income and net fee and commission income.

The table below illustrates the selected items from the income statement of the Group during the periods indicated:

(in millions of RMB)

	2019	2018
Net interest income	144,083	130,908
Net non-interest income	88,774	82,147
Including: Net fee and commission income	43,625	41,237
Net operating income	232,857	213,055
Credit impairment losses	(51,954)	(43,454)
Impairment losses on other assets	(270)	(60)
Insurance business expense	(11,432)	(6,722)
Other operating expenses	(81,001)	(76,752)
Including: Operating costs	(66,560)	(64,040)
Profit before tax	88,200	86,067
Income tax	(10,138)	(11,902)
Net profit for the year	78,062	74,165

The table below illustrates the breakdown of the net operating income of the Group during the periods indicated:

(in millions of RMB unless otherwise stated)

Items	2019 Amount	2019 Proportion (%)	Increase on a year-on-year basis (%)
Net interest income	**144,083**	**61.88**	**10.06**
Net fee and commission income	**43,625**	**18.74**	**5.79**
Net gains from trading activities	**15,936**	**6.84**	**(6.80)**
Net gains from financial investments	**313**	**0.13**	**7.93**
Net gains from investments in associates and joint ventures	**414**	**0.18**	**82.38**
Insurance business income	**11,687**	**5.02**	**56.22**
Other operating income	**16,799**	**7.21**	**6.24**
Total	**232,857**	**100.00**	**9.29**

2. Net interest income

During the Reporting Period, the Group's net interest income increased by RMB13.175 billion on a year-on-year basis to RMB144.083 billion, accounting for 61.88% of the net operating income, which was a major component of the Group's income.

The table below shows the average daily balances, associated interest income and expenses and average rate of return or average costs ratio of the Group's interest-bearing assets and interest-bearing liabilities during the periods indicated:

(in millions of RMB unless otherwise stated)

	For the twelve months ended 31 December 2019			For the twelve months ended 31 December 2018		
	Average balance	**Interest income/ (expense)**	**Average rate of return (cost) (%)**	Average balance	Interest income/ (expense)	Average rate of return (cost) (%)
Assets						
Cash and balances with central banks	**810,744**	**11,691**	**1.44**	892,407	13,048	1.46
Due from banks and other financial institutions	**820,846**	**24,167**	**2.94**	791,264	24,945	3.15
Loans and advances to customers	**4,969,586**	**242,948**	**4.89**	4,625,409	225,422	4.87
Including: Corporate loans	**3,124,000**	**145,053**	**4.64**	2,974,243	135,890	4.57
Individual loans	**1,632,315**	**90,667**	**5.55**	1,507,695	82,821	5.49
Discounted bills	**213,271**	**7,228**	**3.39**	143,471	6,711	4.68
Investment securities	**2,498,842**	**88,647**	**3.55**	2,383,808	85,449	3.58
Interest-bearing assets	**9,100,018**	**367,453**	**4.04**	8,692,888	348,864	4.01
Non-interest-bearing assets	**812,366**			662,259		
Total assets	**9,912,384**			9,355,147		
Liabilities and Shareholders' Equity						
Due to customers	**5,919,435**	**139,153**	**2.35**	5,668,198	128,589	2.27
Including: Corporate deposits	**4,016,938**	**92,749**	**2.31**	3,905,635	86,677	2.22
Individual deposits	**1,902,497**	**46,404**	**2.44**	1,762,563	41,912	2.38
Due to banks and other financial institutions	**2,027,770**	**57,650**	**2.84**	2,066,506	66,788	3.23
Debt securities issued and others	**764,402**	**26,567**	**3.48**	575,704	22,579	3.92
Interest-bearing liabilities	**8,711,607**	**223,370**	**2.56**	8,310,408	217,956	2.62
Shareholders' equity and non interest-bearing liabilities	**1,200,777**			1,044,739		
Total Liabilities and Shareholders' Equity	**9,912,384**			9,355,147		
Net interest income		**144,083**			130,908	
Net interest spread[1]			**1.48**			1.39
Net interest margin[2]			**1.58**			1.51
Net interest spread[1, 3]			**1.67**			1.56
Net interest margin[2, 3]			**1.77**			1.68

Notes:

1. Represented the difference between the average rate of return on total average interest-bearing assets and the average cost of total average interest-bearing liabilities.
2. Represented the net interest income to total average interest-bearing assets.
3. Taken into account the tax exemption on the interest income from bonds.

During the Reporting Period, the Group's net interest income increased by 10.06% on a year-on-year basis. The net interest spread increased by 9 basis points on a year-on-year basis to 1.48%. The net interest margin increased by 7 basis points on a year-to-year basis to 1.58%. The net interest spread and net interest margin in the fourth quarter increased by 4 basis points and 6 basis points respectively as compared with those in the third quarter.

The table below shows the net interest spreads and net interest margin of the Group for each quarter of the period indicated.

	2019			
Item (%)	**January – March**	**April – June**	**July – September**	**October – December**
Net interest spreads	1.48	1.46	1.45	1.49
Net interest margin	1.59	1.56	1.56	1.62
Net interest spreads[Note]	1.67	1.65	1.64	1.69
Net interest margin[Note]	1.78	1.75	1.75	1.82

Note: Taken into account the tax exemption on interest income from bond investments.

The table below illustrates the impact of changes in scales and interest rates on the Group's interest income and interest expenses. The changes in scales and interest rates are based on the changes in average balance and the changes on interest rates of interest-bearing assets and interest-bearing liabilities during the periods indicated.

(in millions of RMB)

	Comparison between 2019 and 2018 Increase/(Decrease) due to		
	Amount	Interest rate	Net increase/ (decrease)
Interest-bearing assets			
Cash and balances with central banks	(1,192)	(165)	(1,357)
Due from banks and other financial institutions	932	(1,710)	(778)
Loans and advances to customers	16,761	765	17,526
Investment securities	4,118	(920)	3,198
Changes in interest income	20,619	(2,030)	18,589
Interest-bearing liabilities			
Due to customers	5,703	4,861	10,564
Due to banks and other financial institutions	(1,251)	(7,887)	(9,138)
Debt securities issued and others	7,397	(3,409)	3,988
Changes in interest expense	11,849	(6,435)	5,414
Changes in net interest income	8,770	4,405	13,175

During the Reporting Period, the Group's net interest income increased by RMB13.175 billion on a year-on-year basis, of which the increase of RMB8.770 billion was due to changes in the average balances of assets and liabilities and the increase of RMB4.405 billion was due to changes in the average rate of return and average cost ratio.

(1) Interest income

During the Reporting Period, the Group's interest income increased by RMB18.589 billion or 5.33% on a year-on-year basis to RMB367.453 billion. The interest income from loans and advances to customers, investment security and cash and balances with central banks accounted for 66.12%, 24.12% and 3.18% of total interest income, respectively.

A. Interest income from loans and advances to customers

Interest income from loans and advances to customers was the largest component of the Group's interest income. During the Reporting Period, interest income from loans and advances to customers increased by RMB17.526 billion or 7.77% on a year-on-year basis to RMB242.948 billion, which was largely due to the impact on the average balance of loans and advances to customers increasing by RMB344.177 billion.

B. Interest income from investment securities

During the Reporting Period, interest income from investment securities increased by RMB3.198 billion or 3.74% on a year-on-year basis to RMB88.647 billion, which was largely due to the year-on-year increase by RMB115.034 billion in the average balance of investment securities.

C. Interest income from cash and balances with central banks

The balances with central banks mainly included balances in statutory reserves and in excess reserves. During the Reporting Period, interest income from cash and balances with central banks decreased by RMB1.357 billion or 10.40% on a year-on-year basis to RMB11.691 billion, which was largely due to the year-on-year basis decrease by RMB81.653 billion in the average rate of return on of cash and balances with central banks.

D. Interest income from balances due to banks and other financial institutions

During the Reporting Period, the interest income from balances due from banks and other financial institutions decreased by RMB0.778 billion or 3.12% on a year-on-year basis to RMB24.167 billion, which was largely due to the year-on-year decrease of 21 base points in the average rate of return on due from banks and other financial institutions.

(2) Interest expenses

During the Reporting Period, the Group's interest expenses increased by RMB5.414 billion or 2.48% on a year-on-year basis to RMB223.370 billion.

A. Interest expenses on due to customers

Due to customers were the Group's main source of funding. During the Reporting Period, interest expenses on due to customers increased by RMB10.564 billion or 8.22% on a year-on-year basis to RMB139.153 billion, accounting for 62.30% of total interest expenses. The increase in interest expenses of due to customers was largely due to a year-on-year increase by RMB251.237 billion in average balances of due to customers and a year-on-year increase of 8 basis points in the average rate of cost of due to customers.

B. Interest expenses on balances due to banks and other financial institutions

During the Reporting Period, interest expenses on balances due to banks and other financial institutions decreased by RMB9.138 billion or 13.68% on a year-on-year basis to RMB57.650 billion, which was largely due to a year-on-year basis decrease of 39 basis points in the average rate of cost of balances due to banks and other financial institutions.

C. Interest expenses on debt securities issued and other interest-bearing liabilities

During the Reporting Period, interest expenses on debt securities issued and other interest-bearing liabilities increased by RMB3.988 billion or 17.66% on a year-on-year basis to RMB26.567 billion, which was largely due to a year-on-year increase of RMB188.698 billion in average balance of debt securities issued and other interest-bearing liabilities.

3. Net fee and commission income

Net fee and commission income was an important component of the Group's net operating income. During the Reporting Period, the Group continued facilitating the transformation of its profit-making mode and diversified revenue streams. During the Reporting Period, the Group's net fee and commission income increased by RMB2.388 billion or 5.79% on a year-on-year basis to RMB43.625 billion. Management services were the main drivers of the Group's net fee and commission income.

The table below illustrates the breakdown of the Group's net fee and commission income for the periods indicated:

(in millions of RMB)

	2019	2018
Bank cards	21,050	20,114
Management services	14,400	12,524
Investment banking	4,337	4,424
Agency services	3,098	2,777
Guarantee and commitment	2,520	2,461
Settlement services	2,024	2,167
Others	240	206
Total fee and commission income	47,669	44,673
Less: fee and commission expenses	(4,044)	(3,436)
Net fee and commission income	43,625	41,237

Fee income from bank card services increased by RMB0.936 billion or 4.65% on a year-on-year basis to RMB21.050 billion, mainly due to an increase of card issuance and card consumption businesses.

Fee income from management services increased by RMB1.876 billion or 14.98% on a year-on-year basis to RMB14.400 billion, mainly due to the increase in the income of personal wealth management investment products and asset securitization.

Fee income from investment banking decreased by RMB0.087 billion or 1.97% on a year-on-year basis to RMB4.337 billion.

Fee income from agency services increased by RMB0.321 billion or 11.56% on a year-on-year basis to RMB3.098 billion.

Fee income from guarantee and commitment services increased by RMB0.059 billion or 2.4% on a year-on-year basis to RMB2.520 billion.

Fee income from settlement services decreased by RMB0.143 billion or 6.60% on a year-on-year basis to RMB2.024 billion.

4. Credit impairment losses

During the Reporting Period, the Group's impairment losses on credit was RMB51.954 billion, including the credit impairment losses on loans which increased by RMB6.585 billion or 15.50% on a year-on-year basis to RMB49.081 billion.

5. Operating costs

During the Reporting Period, the Group's operating costs increased by RMB2.520 billion or 3.94% on a year-on-year basis to RMB66.560 billion. The Group's cost-to-income ratio was 30.11%, representing a year-on-year decrease of 1.39 percentage points. The cost-to-income ratio would decrease by about 2 percentage points from 30.11% if the tax exemption effect of bond interest and other income was further reduced.

The table below illustrates the breakdown of the Group's operating costs for the periods indicated:

(in millions of RMB)

	2019	2018
Staff costs and welfare[Note]	32,927	29,995
Operating expenses[Note]	25,528	28,368
Depreciation and amortization	8,105	5,677
Total operating costs	66,560	64,040

Note: Due to changes in the presentation of financial statement items, comparative data have been restated in accordance with the current presentation.

6. Income tax

During the Reporting Period, the Group's income tax expenses decreased by RMB1.764 billion or 14.82% on a year-on-year basis to RMB10.138 billion. The effective tax rate of 11.49% was lower than the statutory tax rate of 25%, which was mainly due to the tax exemption on interest income from treasury bonds and local treasury bonds held by the Group, as promulgated in relevant tax provisions.

(II) Analysis on Key Balance Sheet Items

1. Assets

As at the end of the Reporting Period, the Group's total assets increased by RMB374.429 billion or 3.93% over the end of the previous year to RMB9,905.600 billion.

The table below illustrates the balances (after impairment allowances) of the key components of the Group's total assets and their proportion to the total assets as at the dates indicated:

(in millions of RMB unless otherwise stated)

	31 December 2019		31 December 2018	
	Balance	Proportion (%)	Balance	Proportion (%)
Loans and advances to customers	5,183,653	52.34	4,742,372	49.76
Financial investments	3,005,843	30.34	2,821,909	29.61
Cash and balances with central banks	760,185	7.67	840,171	8.81
Due from banks and other financial institutions	648,488	6.55	848,067	8.90
Others	307,431	3.10	278,652	2.92
Total assets	9,905,600	100.00	9,531,171	100.00

(1) Loans and advances to customers

During the Reporting Period, the Group achieved a balanced and steady growth in loans with reasonably controlling of the amount, direction and pace of credit. As at the end of the Reporting Period, the Group's total loans and advances to customers increased by RMB450.047 billion or 9.27% over the end of the previous year to RMB5,304.275 billion, among which the Renminbi loans from domestic branches increased by RMB424.294 billion or 10.01% over the end of the previous year.

The table below illustrates the balance and breakdown of the Group's loans and advances to customers for the dates indicated:

(in millions of RMB unless otherwise stated)

	31 December 2019		31 December 2018	
	Balance	**Proportion (%)**	Balance	Proportion (%)
Coporate loans	**3,346,476**	**63.09**	3,061,915	63.08
– Short term loans	**1,189,543**	**22.43**	1,170,200	24.11
– Medium and long-term loans	**2,156,933**	**40.66**	1,891,715	38.97
Individual loans	**1,754,765**	**33.08**	1,635,627	33.69
– Mortgage	**1,135,428**	**21.41**	1,007,528	20.75
– Credit card	**467,387**	**8.81**	505,190	10.41
– Others	**151,950**	**2.86**	122,909	2.53
Discounted bills	**203,034**	**3.83**	156,686	3.23
Total loans and advances to customers	**5,304,275**	**100.00**	4,854,228	100.00

At the end of the Reporting Period, the Group's corporate loan balance was RMB3,346.476 billion, achieving an increase of RMB284.561 billion or 9.29% over the end of the previous year, whose proportion in loans and advances to customers increased by 0.01 percentage point to 63.09% over the end of the previous year. Short-term loans increased by RMB19.343 billion, and medium- and long-term loans increased by RMB265.218 billion. The balance of individual loans was RMB1,754.765 billion, representing an increase of RMB119.138 billion or 7.28% over the end of the previous year, whose proportion in loans and advances to customers decreased by 0.61 percentage point to 33.08% over the end of the previous year.

Loan concentration by geography

The Group's credit customers were mainly located in the Yangtze River Delta, Bohai Rim Economic Zone and Pearl River Delta. As at the end of the Reporting Period, the proportion of loans and advances to customers in these three regions accounted for 36.03%, 15.96% and 8.78% respectively, and the loan balances for the above three regions increased by 5.06%, 7.45% and 22.42% respectively over the end of the previous year.

The following table shows the distribution of the Group's loans and advances to customer loans analysed by security types on the dates indicated:

(in millions of RMB unless otherwise stated)

Loan classification	31 December 2019 Balance	31 December 2019 Proportion (%)	31 December 2018 Balance	31 December 2018 Proportion (%)
Unseured loans	**1,844,304**	**34.77**	1,554,652	32.03
Guaranteed loans	**943,076**	**17.78**	895,738	18.45
Collateralised and other secured loan	**2,516,895**	**47.45**	2,403,838	49.52
– Loans secured by collateral	**1,926,508**	**36.32**	1,732,818	35.70
– Pledged loans	**590,387**	**11.13**	671,020	13.82
Total	**5,304,275**	**100.00**	4,854,228	100.00

Expected credit loss allowance for loans and advances to customers:

(in millions of RMB)

	Expected credit loss allowance – loans and advances to customers
Loss allowance as of January 1, 2019	125,540
Accrual/(Reversal) in the period	49,081
Transfer in/(transfer out) in the period	(1,329)
Write-offs and disposals in the period	(41,983)
Recovered after writen-off	2,688
Exchange differences	55
Loss allowance as at December 31, 2019	134,052

(2) Financial investments

As at the end of the Reporting Period, the Group's net balance of financial investments increased by RMB183.934 billion or 6.52% over the end of the previous year to RMB3,005.843 billion.

The table below illustrates the breakdown of the Group's financial investments by nature and by the presentation basis of financial statements as of the dates indicated:

— The breakdown of investments by nature:

(in millions of RMB)

	31 December 2019	31 December 2018
Bonds	**2,585,678**	2,369,521
Equity instruments and others	**420,165**	452,388
Total	**3,005,843**	2,821,909

— The breakdown of investments by the presentation basis of financial statements:

(in millions of RMB unless otherwise stated)

	31 December 2019		31 December 2018	
	Balance	**Proportion (%)**	Balance	Proportion (%)
Financial investments at fair value through profit and loss	**406,498**	**13.52**	376,386	13.34
Financial investments at amortized cost	**1,929,689**	**64.20**	2,000,505	70.89
Financial investments at fair value through other comprehensive income	**669,656**	**22.28**	445,018	15.77
Total	**3,005,843**	**100.00**	2,821,909	100.00

As at the end of the Reporting Period, the balance of the Group's bond investments increased by RMB216.157 billion or 9.12% over the end of the previous year to RMB2,585.678 billion. In the future, based on the research and judgment of the economic and financial situation, the Bank will focus on restructuring the existing structure and optimizing reinvestment. Firstly is to increase investment in high-liquidity asset and bonds, with a focus on local and national debt. For policy-oriented financial bonds, while meeting the necessary underwriting share of the primary market, the Bank will strengthen secondary market transactions and increase transaction volume. Secondly is to increase investment in credit bonds by choosing opportunities to enhance the role of credit bonds as an investment income driver. The Bank will strengthen credit research, continue to develop an insight of interest rates and credit spreads, wait for wider spreads, and choose opportunities to invest in high-quality credit bonds. Thirdly is to optimize the structure of existing assets. The Bank will choose the opportunity to adjust the existing low-yield bonds and allocate other higher-yield assets according to market conditions.

The table below illustrates the breakdown of the Group's investment securities by issuers as of the dates indicated:

(in millions of RMB unless otherwise stated)

	31 December 2019		31 December 2018	
	Balance	Proportion (%)	Balance	Proportion (%)
Government and central banks	**1,788,034**	**69.15**	1,511,839	63.81
Public sector entities	**29,797**	**1.15**	34,651	1.46
Banks and other financial institutions	**634,303**	**24.53**	696,168	29.38
Corporate entities	**133,544**	**5.17**	126,863	5.35
Total	**2,585,678**	**100.00**	2,369,521	100.00

As at the end of the Reporting Period, financial bonds held by the Group amounted to RMB634.303 billion, including policy bank bonds of RMB278.609 billion and banks and non-bank financial institutions bonds of RMB355.694 billion, which accounted for 43.92% and 56.08% of the total bonds, respectively.

Top 10 financial bonds held by the Group

(in millions of RMB unless otherwise stated)

Bond name	Face value	Annual interest rate (%)	Maturity date	Impairment allowance
2018 policy bank bonds	**6,909**	**4.99**	24/01/2023	1.03
2017 policy bank bonds	**6,590**	**4.39**	08/09/2027	0.96
2018 policy bank bonds	**6,420**	**4.82**	24/01/2021	0.95
2017 policy bank bonds	**5,890**	**4.44**	09/11/2022	0.86
2015 policy bank bonds	**5,863**	**3.74**	10/09/2025	0.89
2018 policy bank bonds	**5,010**	**4.98**	12/01/2025	0.74
2018 policy bank bonds	**4,420**	**4.83**	22/01/2021	0.66
2018 policy bank bonds	**4,400**	**4.97**	29/01/2023	0.66
2018 policy bank bonds	**4,380**	**4.53**	07/02/2020	0.65
2017 policy bank bonds	**3,630**	**4.14**	11/09/2020	0.53

(3) Foreclosed asset

The following table illustrates selected information of the Group's foreclosed asset on the dates indicated:

(in millions of RMB)

	31 December 2019	31 December 2018
Original value of foreclosed assets	907	952
Less: impairment allowance	(148)	(128)
Net value	759	824

2. Liabilities

As at the end of the Reporting Period, the Group's total liabilities increased by RMB278.825billion or 3.16% over the end of the previous year to RMB9,104.688 billion. Among them, due to customers increased by RMB280.581 billion or 4.90% over the end of the previous year, which accounted for 65.96% of total liabilities and represented an increase of 1.10 percentage points over the end of the previous year. Balance of due to banks and other financial institutions decreased by RMB179.670 billion or 16.31% over the end of the previous year, which accounted for 10.12% of total liabilities and represented a decrease of 2.36 percentage points over the end of the previous year.

Due to customers

Due to customers were the Group's primary source of funding. As at the end of the Reporting Period, the Group's due to customer balance increased by RMB280.581 billion or 4.90% over the end of the previous year to RMB6,005.070 billion. In terms of the Group's customer structure, the proportion of corporate deposits was 67.14%, representing a decrease of 1.76 percentage points over the end of the previous year. The proportion of individual deposits was 32.80%, representing an increase of 1.77 percentage points over the end of the previous year. In terms of deposit tenure, the proportion of demand deposits increased by 0.71 percentage point over the end of the previous year to 43.27%, while the proportion of time deposits decreased by 0.70 percentage point over the end of the previous year to 56.67%.

The table below illustrates the Group's corporate and individual deposits as of the dates indicated:

(in millions of RMB)

	31 December 2019	31 December 2018	31 December 2017
Corporate deposits	4,031,784	3,944,098	3,856,119
Including: Corporate demand deposits	1,835,688	1,748,857	1,852,676
Corporate time deposits	2,196,096	2,195,241	2,003,443
Individual deposits	1,969,922	1,776,488	1,685,792
Including: Individual demand deposits	762,669	687,393	655,559
Individual time deposits	1,207,253	1,089,095	1,030,233

(III) Analysis on Key Cash Flow Items

As at the end of the Reporting Period, the Group's cash and cash equivalents decreased by RMB75.757 billion over the end of the previous year to RMB167.735 billion.

The net cash outflows from operating activities increased by RMB206.437 billion on a year-on-year basis to RMB82.545 billion, which mainly resulted from a year-on-year increase of net cash outflows from loans and advances to customers.

The net cash outflows from investing activities decreased by RMB18.332 billion on a year-on-year basis to RMB81.808 billion, which mainly due to a year-on-year decrease in net cash outflows related to financial investing activities.

The net cash inflows from financing activities increased by RMB100.204 billion on a year-on-year basis to RMB86.728 billion, which was mainly resulted from a year-on-year increase of cash inflow from issuance of bonds and perpetual bonds during the year.

(IV) Segment Analysis

1. Operating results by geographical segments

The table below illustrates the profit before tax and net operating income from each of the Group's geographical segments for the periods indicated:

(in millions of RMB)

	2019		2018	
	Profit before tax	Net operating income[1]	Profit before tax	Net operating income[1]
Northern China	13,631	23,065	12,136	21,765
North Eastern China	(1,528)	6,651	(3,909)	7,128
Eastern China	33,487	90,115	32,720	75,502
Central and Southern China	24,554	42,273	22,249	39,041
Western China	9,352	18,925	6,610	17,445
Overseas	8,932	14,558	7,899	13,285
Head Office	(228)	37,270	8,362	38,889
Total[2]	88,200	232,857	86,067	213,055

Notes:

1. Including net interest income, net fee and commission income, net gains arising from trading activities, net gains from financial investments, net gains from investments in associates and joint ventures, insurance business income and other operating income. Same applies hereinafter.
2. Including profit/(loss) attributable to non-controlling interests. Same applies hereinafter.

2. *Deposits and loans and advances by geographical segments*

The table below illustrates the Group's deposits and loans and advances balances by geographical segments as at the dates indicated:

(in millions of RMB)

	31 December 2019		31 December 2018	
	Deposit balances	Loans and advances balances	Deposit balances	Loans and advances balances
Northern China	**1,064,499**	**689,601**	994,799	619,891
North Eastern China	**306,599**	**212,871**	301,526	205,989
Eastern China	**2,126,127**	**1,830,275**	2,040,424	1,710,884
Central and Southern China	**1,363,673**	**1,106,903**	1,292,776	941,511
Western China	**661,266**	**532,796**	652,735	480,670
Overseas	**465,096**	**391,517**	424,431	355,681
Head Office	**17,810**	**540,312**	17,798	539,602
Total	**6,005,070**	**5,304,275**	5,724,489	4,854,228

3. *Operating results by business segments*

The Group's four main business segments were corporate banking, personal banking, treasury businesses and other businesses.

The table below illustrates the Group's profit before tax and net operating income from each of the Group's segments for the periods indicated:

(in millions of RMB unless otherwise stated)

	2019		2018	
	Balance	Proportion (%)	Balance	Proportion (%)
Net operating income	**232,857**	**100.00**	213,055	100.00
Corporate banking	**104,712**	**44.96**	97,090	45.57
Personal banking	**88,686**	**38.09**	77,957	36.59
Treasury businesses	**19,598**	**8.42**	23,885	11.21
Other businesses	**19,861**	**8.53**	14,123	6.63
Profit before tax	**88,200**	**100.00**	86,067	100.00
Corporate banking	**38,373**	**43.51**	37,065	43.07
Personal banking	**29,124**	**33.02**	24,790	28.80
Treasury businesses	**17,348**	**19.67**	21,230	24.67
Other businesses	**3,355**	**3.80**	2,982	3.46

(V) Capital Adequacy Ratio

The Group calculated the capital adequacy ratios pursuant to the *Administrative Measures for the Capital Management of Commercial Banks (Trial Implementation)* issued by the CBIRC and the relevant requirements. Since the adoption of the Advanced Approach of Capital Management upon the first approval from the CBIRC in 2014, the Bank implemented and applied it in accordance with the regulatory requirements. Upon the approval of the CBIRC in 2018, the Bank ended the Advanced Approach of Capital Management parallel period and expanded the application scope.As at the end of the Reporting Period, the Group's capital adequacy ratio, Tier 1 capital adequacy ratio and core Tier 1 capital adequacy ratio were 14.83%, 12.85%, and 11.22% respectively, all of which met the regulatory requirements.

Calculated pursuant to the *Administrative Measures for the Capital Management of Commercial Banks (Trial Implementation)* issued by the CBIRC

(in millions of RMB unless otherwise stated)

Item	The Group	The Bank
Net core Tier 1 Capital	689,489	606,296
Net Tier 1 capital	789,546	706,166
Net capital	911,256	822,709
Core Tier 1 capital adequacy ratio (%)	11.22	10.82
Tier 1 capital adequacy ratio (%)	12.85	12.61
Capital adequacy ratio (%)	14.83	14.69

Note:

1. Pursuant to the *Administrative Measures for the Capital Management of Commercial Banks (Trial Implementation)*, the above calculation excluded China BoCom Insurance Co., Ltd. and BoCommLife Insurance Company Limited.
2. According to the implementation scope of the Advanced Measurement Approach of Capital Management approved by the CBIRC, the credit risk met the regulatory requirements was assessed by the internal rating-based approach, the market risk by the internal model approach, the operational risk by the standardized approach. The credit risk not covered by the internal ratingbased approach was assessed by the weighted approach. The market risk not covered by the internal rating-based approach was assessed by the standardized approach. The operational risk not covered by the standardized approach was assessed by the basic-indicator approach.

For further information on the Group's capital measurement, please refer to the *2019 Disclosure on Capital Adequacy Ratio of Bank of Communications Co., Ltd.* at the website of SSE, the website of HKEx News or the official website of the Group.

(VI) Leverage Ratio

The Group calculated the leverage ratio pursuant to the *Measures for the Administration of the Leverage Ratio of Commercial Banks (Revised)* issued by the CBIRC in January 2015. As at the end of the Reporting Period, the Group's leverage ratio was 7.43%, which met the regulatory requirements.

(in millions of RMB unless otherwise stated)

Item	**31 December 2019**	30 September 2019	30 June 2019	31 March 2019
Net Tier 1 Capital	**789,546**	771,897	713,196	715,124
Balance of adjusted on-and off-balance sheet assets	**10,631,020**	10,655,770	10,594,418	10,490,765
Leverage ratio (%)	**7.43**	7.24	6.73	6.82

For more details about the Group's leverage ratio, please refer to "Supplementary Information on Leverage Ratio, Liquidity Coverage Ratio and Net Stable Funding Ratio".

(VII) Other financial information

The relevant information disclosed below is set out in accordance with the requirements of the CSRC.

1. Fair value measurement related items

The Group established a market risk management system with the ultimate responsibility and leadership of the Board of Directors. The Group established an internal controls framework based on fair value measurement to meet the requirements of relevant internal controls and information disclosure. The Group also gradually established the systematic management of market risk by connecting all relevant front, middle and back office departments and encompassing various aspects such as fair value acquisition, measurement, monitoring and verification. The Group continued leveraging the experience from its peers and international practices to further optimize its internal controls system regarding fair value measurement. The Group primarily used quoted market prices as the fair value of financial instruments of assets and liabilities actively traded in the market. For financial instruments that are not actively traded in the market, the Group determined their fair value using valuation models and observable market parameters or comparison to third party quotes which were reviewed by the relevant risk management departments.

The table below illustrates the items of fair value measurement of the Group during the Reporting Period:

(in millions of RMB)

Item	Closing balance as at 31 December 2018	Gains/ (Losses) on changes in fair value for the year	Cumulative fair value gains/ (losses) recognized in equity	Impairment losses (accrued)/ reversed for the year	Closing balance as at 31 December 2019
Financial assets					
1. Derivative financial assets	**30,730**	**1,389**	**28**	**–**	**20,937**
2. Financial assets at fair value through profit or loss	**376,386**	**5,571**	**–**	**–**	**406,498**
3. Financial investments at fair value through other comprehensive income	**445,018**	**2,250**	**2,173**	**160**	**669,656**
4. Loans and advances to customers at fair value through profit or loss	**494**	**(1)**	**–**	**–**	**–**
5. Loans and advances to customers at fair value through other comprehensive income	**184,184**	**–**	**(304)**	**346**	**235,414**
Financial assets subtotal	**1,036,812**	**9,209**	**1,897**	**506**	**1,332,505**
Investment properties	**7,899**	**31**	**–**	**–**	**7,894**
Total	**1,044,711**	**9,240**	**1,897**	**506**	**1,340,399**
Financial liabilities Note	**(67,770)**	**(7,982)**	**(30)**	**–**	**(73,841)**

Note: Including financial liabilities at fair value through profit or loss, derivative financial liabilities and bonds issued.

2. *Derivative financial instruments*

(in millions of RMB)

	31 December 2019			31 December 2018		
	Nominal amount	**Fair value Assets**	**Debts**	Nominal amount	Fair value Assets	Debts
Foreign exchange and commodity contracts	**2,173,598**	**15,784**	**(20,423)**	2,541,252	26,441	(25,640)
Interest rate contracts and others	**3,826,987**	**5,153**	**(6,001)**	831,692	4,289	(2,465)
Total	**6,000,585**	**20,937**	**(26,424)**	3,372,944	30,730	(28,105)

3. *Commitments and contingencies*

(in millions of RMB)

	31 December 2019	31 December 2018
Financial guarantees and credit commitments	**1,472,170**	1,456,218
Including: Loan commitments	**55,864**	58,440
Credit card commitments	**736,039**	759,994
Letters of credit commitments	**139,948**	141,137
Letters of guarantee	**268,812**	268,097
Acceptances bills	**271,507**	228,550
Operating leasing commitments	**Not Applicable**	12,345
Capital expenditure commitments	**60,310**	66,968

4. *Others*

(1) Overall analysis in external equity investments. As at the end of the Reporting Period, the long term external equity investments of the Group increased by RMB0.947 billion over the end of the previous year to RMB4.600 billion. Please refer to Notes 22 and 23 to the Consolidated Financial Statements for the details of the change in the equity investments of the Group.

(2) During the Reporting Period, there was no material acquisition or disposal of subsidiaries, associates and joint ventures.

(3) The Group's assets pledged were mainly collateral under repurchase agreements and loans from banks and other financial institutions. Save as disclosed above, there were no other significant assets pledged to be disclosed during the Reporting Period.

(4) Structured entities such as funds, wealth management products, trusts and asset management plans invested or initiated by the Group that were not included in the scope of consolidation are set out in Notes 42 to the financial statements. The Group's asset securitization business is set out in Note 43 to the financial statements.

(5) The Group's talent training and talent reserve are set out in the section "Directors, Supervisors, Senior Management and Human Resource Management".

V. BUSINESS INNOVATION AND NEW PRODUCTS

Established BoCom Laboratory and Set up Group's Research Platform of Innovation Incubator

The Bank established BoCom Laboratory and set up Group's research platform of innovation incubator in 2019. The laboratory was equipped with more open and flexible soft and hard ware, which provided the data, model and computing support to incubate projects of artificial intelligence, blockchain, big data and 5G. Certain research achievements demonstrated the empowerment of technology.

BoCom Laboratory

—— **Artificial intelligence improved risk prevention.** The Bank used the artificial intelligence technology such as the knowledge diagram and e-learning to analyze the related parties of corporate customers and to provide business insights and data analysis support for risk management. The Bank introduced the risk management model to identify the missing and potential risk of guarantees and forecast overdue loans, which increased the efficiency of process of loan pre-approval investigation, risk control analysis and management of loans approaching due dates. The knowledge diagram covered all corporate customers and their related private customers, which presented the diagram relationship between nearly a hundred of millions of entities regarding shareholdings, funds, trading and position, formed a relatively completed knowledge system and was applied to different businesses. "Application of Knowledge Diagram into Risk Management" was awarded as Fintech Innovation Extraordinary Contribution for the year 2019 by PBOC *Financial Computerizing*.

—— **Blockchain was applied to innovation projects.** The Bank applied blockchain into business scenarios such as asset-backed securities, industry-chain finance, domestic letter of credit and forfaiting. This achieved traceability of business process and improved data utilization efficiency. "Lian Jiao Rong" was the first platform of blockchain asset-backed securities in the industry, which connected the assets and funds, not only provided full product cycle management functions of asset-backed securities from issuance to lifetime period, but also enabled the function of credit see-through. Nearly one hundred billion yuan was issued by 8 projects of asset-backed securities via "Lian Jiao Rong". The Group issued 4 asset-backed notes with the total amount of RMB3.1 billion. "Lian Jiao Rong" was awarded Top 10 Blockchain Innovation and Application of the year 2019 by the Bankers. In addition, the Bank actively explored the solution of cross-board trade and finance scenarios with the PBOC. The Bank joined "China Trade Finance Cross-banking Transaction Blockchain Platform" of the China Banking Association and jointly finished first forfaiting asset transfer business with Industrial and Commercial Bank of China.

—— **Relying on Labs to Practice Open Innovation.** With the practice of open and innovation, the Bank cooperated with technology enterprise, universities and incubator, resulted in a research and production mechanism, which was considered as "Accelerator" for intelligent transformation of the Bank. The Bank established joint laboratory with Fudan University by connecting the advanced technology of big data and artificial intelligence into the Bank's intelligent risk management system. The Bank also explored cooperation with third party institutes in the area of risk data application. The Bank and joint laboratory developed the talents pool of Fintech specialists. The joint laboratory of Fintech and Innovation that was set up together with Iflytech Co., Ltd. with joint team for relevant research. The team would transfer the research result into the real productive driver by applying to the scenarios later on, which created the energy for business development. The joint laboratory set up with China Unicom was to focus on 5G and finance research. Based on 5G-related, the laboratory completed the research and deployment of scenarios and applications such as big data, internet of things, long distant monitoring and mobile banking.

(I) Consummated Business Innovation Mechanisms

Firstly, the Bank established the Lab of Bank of Communications carried out incubation research in selected key topics in artificial intelligence, 5G and other fields and built new technology research-experiment-application bridges, thus enabling technological innovation to empower financial services and business management. Secondly, the Bank allocated resources in the construction and promotion stages of key innovative products and guided branches to give full play to the benefits of innovative products with full support. Thirdly, the Bank set up special fund for innovation and carried out extensive cooperation with technology companies, universities, incubators and other entities to introduce intelligence and talents, and accelerate the resolution of technical problems in FinTech. Fourthly, the Bank formulated *The Innovation Index Evaluation Method of Provincial Branches in 2019* to evaluate and announce the innovation index of each branch and to encourage the branches for constant innovation.

In November 2019, Mr. Ren Deqi, attended as the President of the Bank and gave a speech on the Summit Forum of Enlarging Import and Trade Facilitation in the New Era of the second China International Import Expo

(II) Corporate Financial Business Innovation

1. *Corporate financial products*

The Bank created intelligent corporate financial products based on the financial ecological service mode covering all scenarios for "Internet + Industry + Finance". Focusing on intelligent cash management, the Bank launched some flagship products such as BoCom Intelligent Financial Service Platform, "Delivery and Guarantee" and Global Cash Management to optimize the comprehensive solutions for banking transactions. Furthermore, focusing on intelligent industry value chain finance, the Bank placed major emphasis on the launch of flagship products such as online acceptance and Intelligent Automobile Finance. The Bank innovatively promoted the following functions: Online Factoring, Online Flow Loan and Online Discount, which contributed to the Bank's online product financing system, promoted the cooperation with the supply chain platform, and realized the accounts payable splitting, transfer and financing of the core enterprises. The Bank improved intelligent service and risk identification capability relying on both big data and block chain technologies.

2. *Online financial services*

The Bank provided customers with "Three in One" online financial service channels based on "corporate e-banking + corporate mobile banking + corporate finance WeChat official accounts". Through synergetic innovation, the comprehensive channels of corporate online banking and corporate mobile banking from user systems to business functions opened up. The Bank provided 24/7 online support service for customers through corporate official accounts and telephone consulting service through corporate customer service team via 95559 hotline.

3. *Inclusive finance business*

The adopted the combination of "online evaluation credit approval + offline standardization verification investigation" to develop and launch product of "Online Mortgage Loan". As at the end of the Reporting Period, the input to online businesses totaled RMB37.865 billion. The Bank developed "Rapid Discount" function for micro bank acceptance bills to create a wholly online business processing mode, minimizing the transaction time. Also, the Bank developed tripartite cooperation model, cooperated with China National Investment & Guaranty Co., Ltd. to explore "Guaranteeing upon Loan" and cooperated with leading insurance companies to explore "Premium Loans". As at the end of the Reporting Period, the balance of businesses under cooperation with the third parties was RMB2.14 billion. Additionally, the Bank innovated the remote service model for small and micro customers, set up the outbound team based on customer's hierarchical classification and coordinated online outbound calls and offline outlets. The total number of outbound calls for the whole year reached 0.70 million credit balance exceeded RMB4.5 billion. The Bank improved the risk control mode and realised the functions of early risk identification, online digital standard approval, automatic post-loan warning and unified collection by platform relying on external big data, thus promoting the high-quality development of the Bank's inclusive finance business.

4. *International settlement and trade finance businesses*

The Bank actively promoted trade facilitation by connecting with the "single window", an "one-stop" online platform for processing international transactions by the governments of Shanghai, Shenzhen and Sichuan. The Bank innovated online services based on the "single window" and launched multiple functions such as online appointment for account opening, application for financing withdrawal, foreign exchange purchasing & paying and foreign exchange receipt & settlement. As at the end of the Reporting Period, Shenzhen branch and Shanghai branch ranked first and third respectively in the local market in terms of the number of "single window" customers, which further improved the ability of attracting new customers and retaining customers.

5. *Investment banking businesses*

The Bank distributed Credit Risk Mitigation Warrant (CRMW) to private enterprises so as to support their bond financing. The first acquisition project totaling over ten billion led by the Bank won the Best Consortium Project Award granted by the China Banking Association. The Bank actively propelled the expansion of debt-to-equity swap and improved its quality, successfully launched debt-to-equity projects for enterprises directly under the central government, local state-owned enterprises and private enterprises, and successfully implemented the innovation project of converting debts of non-listed and non-public joint stock companies to preference shares. In addition, the Bank actively implemented the reserve requirement ratio ("RRR") cut policy, and completed the target of RRR funds utilization in advance and fulfilled the corresponding requirements more than expected.

6. *Asset custody businesses*

The Bank actively studied the development trend of the industry and arranged public fund custody products in advance, such as Bond Fund Applying Amortized Cost Method, State-owned Enterprises Reform ETF Fund and MOM Fund. The Bank was one of the first-batch commercial banks to have obtained the qualification to carry out the pilot depositary business, adhering to the national strategy of capital market interconnectivity. The Bank became one of the first batch of commercial banks in China to carry out cross-border custody business for QDIE and QFLP in order to serve the strategy of Guangdong-Hong Kong-Macao Greater Bay Area.

7. *Offshore banking business*

The Bank explored the service model for emerging industries, and the WuXi Biologics Overseas Consortium Project was awarded the first prize for developing financial services in emerging industries by the Asian Financial Cooperation Association. The Bank also established cooperation platforms with operators of Chinese banks in free trade zones in terms of interbank lending, cross-border financing and trade financing. With the help of the Group's license resources and service network, the Bank supported the bond investment business of domestic enterprises by launching the offshore "Hong Kong Bond Connect" business, and providing the integrated services which coverd USD fund allocation, Chinese-funded USD Bond custody and investment consulting,.

(III) Personal Financial Business Innovation

1. *Personal deposit businesses*

The Bank launched innovative products such as structural deposits ("Wen Tian Hui" and "Wen Tian Xi") linked to gold, exchange rate, and foreign currency deposits ("Hui Tian Xi"). Moreover, the Bank introduced large pension deposit certificates by hosting square dance competitions and rolled out the transfer function of individual large deposit certificates to meet the diversified deposit needs of various customers.

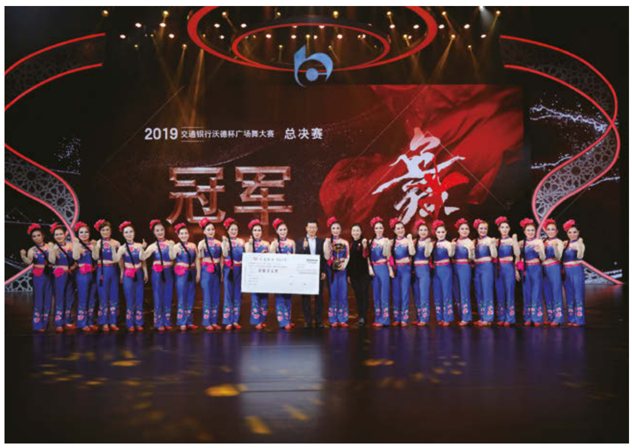
2. *Personal loan businesses*

The Bank improved consumer credit product "Benefit Loan" by providing services such as revolving credit lines, supporting ETC emergency funds, and one-click application for credit lines for white-list customers, which supported consumption and loan issuance linkage. The Bank also set up high-quality enterprise database, which allowed their employees to enjoy higher loan limit. The Bank built an intelligent risk management system to ensure the use of loan in compliance with relevant requirements, promoting the healthy development of businesses. In addition, the Bank innovatively launched the personal demand financing loan "Demand Loan for Wealth" and personal pledge loan of net-value wealth management. Customers can apply these products online without submitting paper files with "quick approval and quick loan".

3. *Wealth management businesses*

The Bank developed fund portfolio service on mobile banking, introduced excellent fund portfolio managers, and selected fund portfolio products for clients to meet their investment needs for stable return with medium and low risks. Daily profit and loss reminder service and after-sales service were also provided according to customers' expectation for investment income.

In addition, the Bank offered innovative financial services of personal pension, and launched products such as Fixed Contribution on Pension and Pension Xiaojinku by hosting square dance competitions. Relevant sales volume accumulated to RMB14.4 billion during the square dance competitions. The Bank deepened cooperation on individual pension products related to policies. At the end of the Reporting Period, the Bank sold 32 newly authorized pension-targeted funds on a commission basis. The number of cooperated tax-deferred commercial pension insurance companies increased to 3.



In November 2019, Mr. Yin Jiuyong, the Executive Vice President, presented the award to the winner of the "OTO Cup" Square Dance Coppmetition

4. *Personal payment businesses*

The Bank launched a new generation of integrated collection product "Intelligent Pay", which opened online and offline payment channels and provided customers with the frequently-used QR code access to UnionPay, Alipay and WeChat. The product allowed multiple payment method including official accounts, applets, APP payment, face scan payment, quick senseless payment, POS machine, sans contact (NFC payment) and online banking payment. Meanwhile, the Bank offered solutions by industry according to customer types and provided comprehensive financial and non-financial services for the vast number of enterprises and public institutions, individual industrial and commercial households and small and micro businesses.

The Bank also cooperated with China UnionPay and Tenpay andprovided the function of payment with mobile banking by scanning QR code of WeChat. Mobile banking enjoyed a wider range of scenarios, completing payment by scanning WeChat "face-to-face QR code". Tenants could accept more payment methods without changing their QR codes.

5. Personal foreign exchange businesses

The Bank built a cross-border financial services of "Wealth Management, Payment and Settlement with Characteristic ", which focused on the scenarios such as overseas traveling, studying abroad and foreign currency. The Bank also launched the innovative services of online travelling, overseas denomination studies consultation, visa and pre-booking fixed foreign currency exchange via online and offline coordination for "One Stop" service experience.

6. Private banking businesses

The Group had a research team for retail investments and setup the mechanism of investment reports and strategies, which provided the professional decision making support for customers' asset allocation, product development and marketing strategies.

7. Credit card businesses

The Bank upgraded the "Go Pay" APP, to the best of users' benefits, which integrated and upgraded the areas including benefit club, coupon centre and activity centre to increase customer ability and loyalty. The apps had 60.77 million accumulated registered customers, ranking No. 2 among the credit card online platforms. The Bank launched certain featured products such as "MiCard" to attract the young generation, female customers and users of key cities. As at the end of the Reporting Period, the number of "MiCards" issued exceeded 0.50 million. In addition, the Bank launched the super Platinum Credit Card "World Elite" to compensate the blank area of the super high-end credit card market.

The Bank built three artificial intelligence platforms as intelligent marketing platform, Huitong and intelligent service platform, which gradually formed the marketing mode with automation and intelligence and operation model with customer-orientation. During the Reporting Period, a total of 0.62 million potential customers of "Enjoy a Good Loan" were recommended by the e-marketing channels and the marketing success rate increased by about 3 percentage points. The intelligent robot Athena was upgraded with its capabilities evolving from simple human-computer interaction to complex business marketing, and the problem solving rate by intelligence increased by 3.9 percentage points over the beginning of the year.

The Bank set up a private cloud platform for card center to streamline the set-up of the underlying environment, configuration of system functions and release of applications. The application rate of cloud technology to credit card business systems currently reached 80%, and the rate for self-developed new systems has reached 100%.

8. Online service

The Bank facilitated the construction of the mobile Banking of the new generation. Personal mobile banking was officially launched as new generation of mobile banking in November 2019. Its new design of "my homepage" could show individual asset, liability and special offer. By connecting the mobile banking with more than 20 scenarios and 1,500 service plans of water, electricity and gas payments, it met the customer one stop needs of "Finance + Life". The number of active users continued increasing and the Bank was awarded "Best Mobile Banking" and "Best Digital and Financial Innovation" by the 15th China e-Banking anniversary. The number of daily active user (DAU) exceeded 4.00 million, which doubled that of 2018. Monthly active user (MAU) increased 36.44% over the beginning of the year. The transaction volume and amount increased 30.27% and 18.45% respectively.

The Bank initiated the model of relationship manager providing personal banking services in the homepage. As at the end of the Reporting Period, the Bank had 88 thousand employees (including credit card centre) who generated their QR codes, forming a "never off-line" service network. The cloud banking, which set up "Online Banking Outlet" via Wechat, promoted not only the customer acquisition and continuing services via online, but also the offline communications between managers and customers. Managers forwarded the service orders to customers' mobile banking after the phone communications, which was innovative manner and provided convenience for customers to check and complete transactions. Customers can use mobile banking to scan code for waiting list, utilize Zhiyitong equipment and ATM services without cards and apply for online sending, or online booking & offline printing, or online order & physical delivery to home of verification letter.

The Bank realized output of financial products and services by connecting third party scenarios together with services such as bank account open, "Convenient Loan Granting" and acceptance note. During the reporting period, over 110 API (application program interface) and H5 page outputs were completed. Cooperation intentions was agreed with top companies of over 10 industry and ISV service providers, which connected approximately 4,000 shops and the transaction amount exceeded RMB0.1 billion.

(IV) Innovation of Interbank and Financial Market businesses

1. *Inter-bank businesses*

The Bank was the agent for the foreign currency settlement for pilot sponsors and joined bilateral net foreign currency settlement. After the introduction of multi-depositary operation by Shanghai Gold Exchange, the Bank was the first depositary bank for the settlement of the closed end deposit for corporate customers. The Bank was the first batch pilot bank of online settlement of Shenzhen Stock Exchange options. The Bank innovatively introduced housekeeper platform for financial consumption by paying and receiving on behalf of customers.

2. *Financial market businesses*

To deepen the driving forcing of bond financing to the real economy, the Bank issued "Mid-term Bond – BoCom Selective Index of 0-5 years Yangtze River Delta Bond". Under the new mechanism of LPR, the Bank innovated risk management products of interest rates, undertook transactions such as first LPR-linked five years contract, first LPR-based interest rate swap in Renminbi and first one year LPR-linked foreign currency exchange. The Bank successfully conducted the bills swap with central bank and gained more funding support from the central bank. At the first date of G10 foreign currency options initiated by interbank, the Bank was the first batch bank to reach the transactions of ordinary European options and option portfolios. Under the existing guidance of Shanghai Free Trade Zone, the Bank completed the deals of online market trading of EUR/USD forward contract and options, which enhanced the foreign currency risk hedge for the customers in Free Trade Zone.

3. *Asset management businesses*

The Bank introduced the wealth management products such as "De Li Bao – OTO" Bond Stable 1901 and "De Li Bao – OTO" Bond Intensified 1902, which met the needs of net-worth type customers. "De Li Bao – OTO" Bond Stable 1901 was awarded "Excellence of Net-Worth Wealth Management Products of the Year" during the 10th "Gold Wealth Management" by Shanghai Securities News.

BOCOM Wealth Management Co., Ltd. actively implemented the national strategy of the Yangtze River Delta to serve regional development and provide investment benchmark. The Bank and China Securities Index Co., Ltd. jointly released "Yangtze River Delta Index by CSIndex – BoCom", which indicated the development trend of excellent enterprise and industries of Yangtze River Delta region and provided the benchmark for those wealth funds interested in asset investment in Yangtze River Delta region. For the purpose of promotion and application of such index, the Bank also designed and issued a series of wealth management products of Yangtze River Delta region.

The sales team of Changji Branch, Xinjiang

4. Precious metal businesses

During the Reporting Period, the Bank gained the qualification as the first batch bank being the market makers of silver futures on the Shanghai Futures Exchange (one of the two commercial banks) and joiner of "Shanghai Silver" of Shanghai Gold Exchange. The Bank introduced the new businesses such as silver option inquiry of Shanghai Gold Exchange and "NYAuTN", winning the award of "Contribution to Innovative Products of Inquiry Market" by Shanghai Gold Exchange.

VI. RISK MANAGEMENT

In 2019, the Group continued to improve the risk management system featured with "full coverage, differentiation, specialisation, intelligence and accountability", and further deepened the reform of credit risk management. The Group also strengthened the control of key areas, developed innovative risk management technologies and tools, and reinforced prevention of non-compliance cases and control, and achieved solid progress in preventing and controlling financial risks. As at the end of the Reporting Period, the Bank's major asset quality indicators continued to maintain steady. The impaired loan ratio decreased by 2 basis points over the beginning of the year, and the overdue loan structure improved.

(I) Risk Appetite

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

The Group adhered to the principal of operating in compliance with laws and regulations, and insisted on the prudent risk management. During the Reporting Period, the Group formulated the *Implementation Programme of BoCom on Striving for Forestalling and Defusing the Battle of Financial Risks*, actively served the real economy, strictly managed different risks, and constantly and comprehensively deepened the reform to ensure the bottom line of preventing the occurrence of systematic financial risks.

(II) Risk Management Framework

The Board of Directors of the Bank assumed the ultimate responsibility, served the highest function of decision-making and monitored the Group's risk management through its Risk Management and Related Party Transaction Control Committee.

The Bank's Senior Management established a "1+4+2" Risk Management Committee, where four subcommittees were established under Comprehensive Risk Management Committee, namely Credit Risk Management Committee, Market and Liquidity Risk Management Committee, Operational Risk Management Committee and Compliance (Anti-Money Laundering) Committee. Two business review committees, namely Credit and Investment Review Committee and High-risk Asset Review Committee were also established. Each provincial branch directly managed by the head office, overseas branch, subsidiary and directly operating institution correspondingly established risk management committee accordingly referring to the aforementioned framework. In addition to the plenary meeting of the Comprehensive Risk Management Committee, each provincial branch directly managed by the Head Office also set up the executive meeting of the Comprehensive Risk Management Committee, which served as the main platform for the leader and members of the team to study the prevention and control of systematic and regional risks and decision-making risks on major issues.

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

(III) Risk Management Tool

The Group laid great importance to the establishment and application of risk management tools, information systems and econometric models. Risk management was supported by FinTech. The Group actively explored the application of big data, artificial intelligence, cloud computing and graphic computing in the field of risk management, strengthened the construction of the Group's ecological system of risk data application and created a unified risk monitoring system of the Group. During the Reporting Period, through innovative data mining, the ability of information consolidation was strengthened and the controls of credit risk management were enhanced. The Group enhanced monitoring of middle office over market risk, interest rate risk of banking book and liquidity risk, improved the application of operational risk management tool in business management and strengthened real time control over operating risk, fraud risk and money laundering risk through different information systems to continuously improve the effectiveness of risk management.

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

During the Reporting Period, the Group pushed forward the construction of risk measurement system, and formulated the *BoCom's Measures for Unified Management* of Risk Measurement to further strengthen the unified management of risk measurement throughout the group. The calculation system and application mechanism of risk return index were also established to balance risk return. The Group continued to optimise the econometric models and management systems of different key risks. The

Group consistently implemented operation model in monitoring and analysing, optimised the model and extensively deepened the application of risk measurement results in strategic planning, structural adjustment, business decision, performance appraisal as well as business management.

(IV) Credit Risk Management

Credit risk is one of the major risks encountered by the Group. The Group adopted stringent management on different procedures, including investment guidance, investigation and reporting, business review and approval, distribution of fund, duration management, overdue impaired loan management, all of which eliminated credit risk to an acceptable level and reached a balance between risks and returns.

Adhering to decisions and deployments of the central government and the State Council, and responding to state policies and market fluctuations, the Group issued and upgraded the outline of credit granting and risk policy and guidelines on industrial or regional investment to implement the principle of "one policy for one bank". The Group comprehensively fulfilled the requirements of "delegation, regulation, service" to improve the management system for financing authorisation. In addition, the Group proactively served the real economy, optimised the credit asset structure and focused on industrial transformation and upgrading under the national strategies. The Group's credit investment this year was in line with the major national strategies and target of serving the real economy.

The Group optimised the credit risk management, and formulated the *Notice on Comprehensive Promotion of Further Reform of Credit Authorisation* to push forward the effective implementation of various reform projects from the three dimensions of "efficiency, quality and management", thereby optimising the credit authorisation process and significantly improving the approval efficiency. The "full coverage" management of credit risks was continuously promoted, and the capability of unified management of credit risks within the Group was enhanced.

The Group focused on key controls at the level of important areas and regions by means of total volume control, name list and quota limits. The Group adopted the risk monitoring mechanism for key customers and increased the application of monitoring results in the whole credit process. Control over key areas and sensitive industries of overcapacity, real estate, cross-border business and implicit government debts was also strengthened. Moreover, the Group intensified the regional risk control and the application of operating evaluation system in "Five Dimensions and Ten Aspects"[1] and branches.

The Group put efforts to eliminate risks, and proactively made use of different disposal and collection strategies to eliminate the current credit risks. In 2019, the total amount of disposal of non-performing loans disposed was RMB63.29 billion, including the write-off loans amounted to RMB41.98 billion. Non-performing loans were written off in a timely manner. The application of market-oriented debt-to-equity swap successfully settled projects of large exposure risk such as Tianjin Bohai Steel and Northern Heavy Industries.

According to the regulatory requirements stated in the *Guidance for the Risk-based Loan Categorisation* issued by the CBIRC, the Group classified credit assets into five categories based on their risk level, namely pass, special mention, sub-standard, doubtful and loss. The last three categories are regarded as

[1] Five dimensions and ten aspects: The "Five Dimensions" refer to regional economy, real industry, financial environment, branch operation and credit management. The "Ten Aspects" refer to economic growth, government finance, transformation of growth drivers, economic and trade opening, regulatory policies, financial operation, credit allocation, asset quality, management quality and efficiency and internal and external audit.

non-performing loans. The nature of the categories refers to the possibility of timely full repayment of the principal and interest of credit assets. In terms of corporate credit alike assets, the Bank, based on core regulatory definition, specified the risk attributes and measurements of the aforementioned five categories, with reference to internal ratings and provisions for each loan, so that the Bank could perform risk classification in a prudent manner. For retail credit alike assets (including credit cards), the Bank adopted a loan classification system, which considered both the ageing schedule of overdue loans and the guarantees.

As at the end of the Reporting Period, the balance of non-performing loans was RMB78.043 billion and the impaired loan ratio was 1.47%, representing an increase of RMB5.531 billion and a decrease of 0.02 percentage point respectively over the end of the previous year. As at the end of the Reporting Period, the breakdown of the Group's five categories of loan classification stipulated by the Chinese banking regulatory authorities were as follows:

(in millions of RMB unless otherwise stated)

	31 December 2019		31 December 2018		31 December 2017	
Categories	**Amount**	**Proportion (%)**	Amount	Proportion (%)	Amount	Proportion (%)
Pass loan	**5,111,715**	**96.37**	4,662,605	96.06	4,378,840	95.62
Special mention loan	**114,517**	**2.16**	119,111	2.45	131,910	2.88
Total performing loan balance	**5,226,232**	**98.53**	4,781,716	98.51	4,510,750	98.50
Sub-standard loan	**16,963**	**0.32**	13,711	0.28	18,723	0.41
Doubtful loan	**42,508**	**0.80**	38,456	0.79	24,865	0.54
Loss loan	**18,572**	**0.35**	20,345	0.42	24,918	0.55
Total non-performing loan balance	**78,043**	**1.47**	72,512	1.49	68,506	1.50
Total	**5,304,275**	**100.00**	4,854,228	100.00	4,579,256	100.00

– Distribution of loans and non-performing loans by business type

(in millions of RMB unless otherwise stated)

	31 December 2019				31 December 2018			
Item	**Loans**	**Proportion (%)**	**Non-performing loans**	**Impaired loan ratio (%)**	Loans	Proportion (%)	Non-performing loans	Impaired loan ratio (%)
Corporate loans	**3,346,476**	**63.09**	**59,443**	**1.78**	3,061,915	63.08	57,147	1.87
Individual loans	**1,754,765**	**33.08**	**18,574**	**1.06**	1,635,627	33.69	15,340	0.94
– Mortgage	**1,135,428**	**21.41**	**4,038**	**0.36**	1,007,528	20.75	3,863	0.38
– Credit cards	**467,387**	**8.81**	**11,135**	**2.38**	505,190	10.41	7,683	1.52
– Personal business loans	**55,560**	**1.05**	**1,647**	**2.96**	31,871	0.66	1,947	6.11
– Others	**96,390**	**1.81**	**1,754**	**1.82**	91,038	1.87	1,847	2.03
Discounted bills	**203,034**	**3.83**	**26**	**0.01**	156,686	3.23	25	0.02
Total	**5,304,275**	**100.00**	**78,043**	**1.47**	4,854,228	100.00	72,512	1.49

As at the end of the Reporting Period, the balance of corporate non-performing loan was RMB59.443 billion, and the impaired loan ratio was 1.78%, representing a decrease of 0.09 percentage point over the end of the previous year. The balance of personal non-performing loan was RMB18.574 billion, and the impaired loan ratio was 1.06%.

– Distribution of loans and non-performing loans by industry

(in millions of RMB unless otherwise stated)

	31 December 2019				31 December 2018			
Items	Loans	Proportion (%)	Non-performing loans	Impaired loan ratio (%)	Loans	Proportion (%)	Non-performing loans	Impaired loan ratio (%)
Corporate loans	3,346,476	63.09	59,443	1.78	3,061,915	63.08	57,147	1.87
Transportation, storage and postal services	637,943	12.03	8,665	1.36	573,151	11.82	5,013	0.87
Manufacturing	601,143	11.33	24,711	4.11	581,412	11.98	26,642	4.58
Leasing and commercial services	508,863	9.59	2,428	0.48	413,716	8.52	1,002	0.24
Water conservancy, environmental and other public facilities	284,797	5.37	124	0.04	263,235	5.42	111	0.04
Real estate	264,495	4.99	877	0.33	216,536	4.46	1,008	0.47
Wholesale and retail trade	221,381	4.17	11,601	5.24	246,706	5.08	13,733	5.57
Production and supply of electric power, heat, gas and water	215,642	4.07	1,210	0.56	186,117	3.83	845	0.45
Construction	135,998	2.56	2,099	1.54	114,577	2.36	1,613	1.41
Mining	117,555	2.22	2,999	2.55	119,091	2.45	2,877	2.42
Finance	107,865	2.03	11	0.01	98,342	2.03	–	–
Education, science, culture and public health	96,875	1.83	728	0.75	89,436	1.84	392	0.44
Others	93,314	1.76	2,515	2.70	96,428	1.99	2,486	2.58
Accommodation and catering	32,259	0.61	1,051	3.26	34,486	0.71	571	1.66
Information transmission, software and information technology services	28,346	0.53	424	1.50	28,682	0.59	854	2.98
Individual loans	1,754,765	33.08	18,574	1.06	1,635,627	33.69	15,340	0.94
Discounted bills	203,034	3.83	26	0.01	156,686	3.23	25	0.02
Total	5,304,275	100.00	78,043	1.47	4,854,228	100.00	72,512	1.49

– Distribution of loans and non-performing loans by region

(in millions of RMB unless otherwise stated)

	31 December 2019				31 December 2018			
	Loans	Proportion (%)	Non-performing loans	Impaired loan ratio (%)	Loans	Proportion (%)	Non-performing loans	Impaired loan ratio (%)
Head Office	**540,312**	**10.19**	**11,133**	**2.06**	539,602	11.12	7,681	1.42
Northern China	**689,601**	**13.00**	**5,506**	**0.80**	619,891	12.77	7,734	1.25
North Eastern China	**212,871**	**4.01**	**13,826**	**6.50**	205,989	4.24	8,668	4.21
Eastern China	**1,830,275**	**34.51**	**21,573**	**1.18**	1,710,884	35.24	21,895	1.28
Central and Southern China	**1,106,903**	**20.87**	**14,419**	**1.30**	941,511	19.40	14,941	1.59
Western China	**532,796**	**10.04**	**10,373**	**1.95**	480,670	9.90	10,329	2.15
Overseas	**391,517**	**7.38**	**1,213**	**0.31**	355,681	7.33	1,264	0.36
Total loans and advances	**5,304,275**	**100.00**	**78,043**	**1.47**	4,854,228	100.00	72,512	1.49

– Distribution of overdue loans and advances by aging

(in millions of RMB unless otherwise stated)

	31 December 2019		31 December 2018	
Overdue period	**Amount**	**Proportion (%)**	Amount	Proportion (%)
Within 3 months	**28,923**	**0.55**	25,843	0.54
3 months to 1 year	**28,618**	**0.53**	32,079	0.66
1 to 3 years	**23,661**	**0.45**	21,891	0.45
Over 3 years	**9,318**	**0.18**	9,351	0.19
Total	**90,520**	**1.71**	89,164	1.84

As at the end of the Reporting Period, the balance of overdue loans was RMB90.520 billion, representing an increase of RMB1.356 billion over the end of the previous year. The overdue ratio was 1.71%, representing a decrease of 0.13 percentage point over the end of the previous year. The balance of loans overdue over 3 months was RMB61.597 billion, representing a decrease of RMB1.724 billion over the end of the previous year.

– Restructured loans

(in millions of RMB unless otherwise stated)

	31 December 2019		31 December 2018	
	Amount	Proportion (%)	Amount	Proportion (%)
Restructured loans	**7,634**	**0.14**	9,415	0.19
Including: Restructured loans overdue above 3 months	**1,949**	**0.04**	3,617	0.07

As at the end of the Reporting Period, the breakdown of the Group's loan migration rate stipulated by the Chinese banking regulatory authorities was as follows:

Loan migration rates (%)	**2019**	2018	2017
Pass loan migration rate	**1.71**	1.85	2.09
Special mention loan migration rate	**29.76**	30.01	21.62
Sub-standard migration rate loan	**42.76**	88.62	53.59
Doubtful loan migration rate	**10.92**	15.36	26.86

Note: Data calculated pursuant to the Notice on the *Distribution of the Regulatory Indicator and Calculation Formula for off Field Investigation* issued by the CBIRC.

– Credit risk concentration

As at the end of the Reporting Period, the total loans of the largest single borrower of the Group accounted for4.08% of the Group's net capital, and the total loans of top 10 customers accounted for 17.02% of the Group's net capital. The following table illustrates the loans of top 10 single borrowers as at the end of the Reporting Period:

(in millions of RMB unless otherwise stated)

		31 December 2019	
	Industry	**Amount**	**Percentage of total loans (%)**
Customer A	Transportation, storage and postal services	**37,160**	**0.70**
Customer B	Production and supply of electric power, heat, gas and water	**29,300**	**0.55**
Customer C	Manufacturing – Electronics	**15,211**	**0.29**
Customer D	Transportation, storage and postal services	**14,579**	**0.27**
Customer E	Transportation, storage and postal services	**12,302**	**0.23**
Customer F	Transportation, storage and postal services	**12,000**	**0.23**
Customer G	Leasing and commercial services	**9,850**	**0.19**
Customer H	Transportation, storage and postal services	**9,788**	**0.18**
Customer I	Leasing and commercial services	**7,600**	**0.14**
Customer J	Transportation, storage and postal services	**7,290**	**0.14**
Total of Top 10 customers		**155,080**	**2.92**

(V) Market Risk Management

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

The exchange rate risk and general interest rate risk of trading book were assessed with the use of the internal model-based approach by the Group, while the market risk not covered by the internal model based approach was assessed under the standardised approach. In terms of the internal model-based approach, historical simulation method was adopted to calculate value at risk ("VaR") and stressed value at risk ("SVaR"), which had a historical observation period of 1 year, a holding period of 10 working days and a 99% confidence interval.

With the segregation of duties, improvement of policies and procedures, enhancement of measurement systems, monitoring and analysis of market risk management framework in a timely manner, the Group successfully prevented and managed market risk and improved market risk management. Based on the risk appetite of the Board of Directors, the Group proactively identified, measured, monitored, controlled and reported its market risk by different methods such as quota management, risk hedging and risk transfer. As a result, the Group was able to manage its market risk exposure to an acceptable level and maximize its risk-adjusted profits.

During the Reporting Period, the Group kept improving the market risk management by setting up the policies to deal with the market changes. The Group also optimized the market risk information system and continuously promoted the construction of the market risk middleground system. The Group established new valuation models, parameters and market data for new businesses and products. In addition, the Group closely monitored the risk management of domestic and overseas market, performed quantitative testing of market risk and analyzed the regulatory trend, feasibility and potential issues.

The Group continued to promote the application of the results derived from market risk measurement in management's practice. Daily capital transaction positions of the Group and the most updated market data were obtained to perform position valuation and sensitivity analysis in a timely manner. In addition, the Group measured VaR on a daily basis from different perspectives, including risk factors and investment portfolios and products, using the historical simulation method. The results were also applied to capital measurement using the internal model-based approach, quota monitoring and management, performance assessment and risk monitoring and analysis. Furthermore, the Group performed reverse testing on a daily basis to verify the accuracy of the VaR model. Regular stress testing and analysis of the risk of investment portfolios under stressed scenarios were conducted. The results of 2019 showed that the market risk was reflected and analysed in a timely and objective manner via market risk measurement model.

(VI) Liquidity Risk Management

The governance structure of liquidity risk management of the Group consisted of a decision-making body comprised the Board of Directors and its subordinate Risk Management and Related Transactions Control Committee, Senior Management and its subordinate Market and Liquidity Risk Management Committee, a supervisory body comprised the Board of Supervisors and Audit Supervision Bureau and an executive body comprised Asset and Liability Management Department, Global Markets Department, Risk Management Department, Asset Management Centre, Operations Management Department, branches, subsidiaries and Head Office's departments in charge of each business.

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

The Group annually determined liquidity risk preference according to business strategies, business characteristics, financial strength, financing abilities, overall risk appetite and market influence. According to the liquidity risk appetite, the Group formulated written liquidity risk management strategies, policies and procedures. The strategies and policies of liquidity risk management covered all on-and-off balance sheet businesses, as well as all business departments, branches and subsidiaries that might have a significant impact on liquidity risk at home and abroad and included liquidity risk management under normal and stressful conditions.

During the Reporting Period, the Group attached great importance to liquidity risk management. The Group continued the consolidation and improvement of liquidity risk management in order to strengthen on-and off-balance sheet liquidity risk management. Forecasting in advance and performing cash flow calculation and analysis, the Group reinforced the coordination and integration to improve financing management and high-quality liquidity asset management, continuously monitored to ensure daytime liquidity security and liquidity limit controllable and launched regular stress testing for liquidity risk, in which the stressed scenarios were established under the consideration of the correlation between different risks and liquidity risk and the impacts of market liquidity on the Group's liquidity risk. The results of stress showed that liquidity risk was in a controllable range under various pressures scenarios. The Group organised emergency exercise for liquidity risk to improve the reaction speed and liquidity risk elimination ability.

During the Reporting Period, the Group implemented the *Rules on Liquidity Risk Management of Commercial Group* issued by the CBIRC. The various business of the Group were developed in a coordinative manner under a stable liquidity risk condition, with satisfactory liquidity indicators under regulatory requirements of liquidity coverage ratio, liquidity ratio and net stable funds ratio.

As the table below shows the liquidity ratio indicator of the Group as at the end of the Reporting Period:

	Standard Value	**31 December 2019**	31 December 2018	31 December 2017
Liquidity ratio(%)	≥25	**72.92**	68.73	58.86

Note: Calculated according to the regulatory calibre of the CBIRC.

The liquidity coverage ratio is the ratio of qualified high-quality liquid assets to net cash outflows in the following 30 days. The aim is to ensure that commercial banks have sufficient qualified and high-quality liquid assets to meet the liquidity needs of at least 30 days in the future by settling these assets under the liquidity stress scenarios subject to regulatory requirements. The Group's qualified high-quality liquid assets mainly included cash, reserves that can be withdrawn from the central bank under stress scenarios and bonds that meet the definition of primary and secondary assets in the *Administrative Measures for Liquidity Risk Management of Commercial Banks*. According to the *Administrative Measures for Liquidity Risk Management of Commercial Banks*, commercial banks with an asset scale not less than RMB200.0 billion should always meet the minimum regulatory standards with a liquidity coverage ratio not less than 100%.The daily average liquidity coverage ratio of the Group during the fourth quarter of 2019 was 120.69% (the daily average within the quarter is the arithmetic average of daily data of the quarter, the number of average of daily data is 92). The ratio decreased by 4.59 percentage points over the last quarter mainly due to increase in net cash outflows.

The net stable funding ratio is the ratio of available stable funds to the required stable funds. The aim is to ensure that commercial banks have sufficient sources of stable fund to meet the demand for stable funds from all types of assets and off-balance-sheet exposures. According to the *Administrative Measures for Liquidity Risk Management of Commercial Banks,* commercial banks with an asset scale not less than RMB200.0 billion should always meet the minimum regulatory standards with a net stable funding ratio not less than 100%.The Group's net stable funding ratio for the third quarter of 2019 was 111.33%, representing a decrease of 2.07 percentage points over the previous quarter, which was mainly due to the decrease in wholesale funding. In the fourth quarter of 2019, the net stable funding ratio was 110.02%, representing a decrease of 1.31 percentage points over the previous quarter, which was mainly due to the increase of loans issued to retail and small business customers, non-financial institutions, sovereignty, central banks and public sector entities.

For more details about the liquidity coverage ratio during the fourth quarter the net stable capital ratio and detailed items in the last two quarters, please refer to "Supplementary Information on Leverage Ratio, Liquidity Coverage Ratio and Net Stable Funding Ratio".

(VII) Operational Risk Management

The Group developed comprehensive operational risk management system dealing with the nature, scale and product complexity of the Group's businesses. The Group also standardised the procedures of operational risk controls, control assessment, lost data collection, key risk indicator monitoring and operational risk management. During the Reporting Period, the Group strengthened operational risk management, improved the operational risk management and risk assessment mechanism,, carried out operational control assessment on key processes and established an integrated business continuity management at home and abroad to extend outsourcing risk management mechanism to the whole Group.

(VIII) Legal Compliance and Anti-money Laundering

The Group constantly improved legal compliance management and optimised the legal compliance management mechanism, strengthened the risk management and control of key areas, key parts and key links and provided strong legal protection for the "deepening reform, transformation and development" of the whole Group.

During the Reporting Period, the Group continuously enhanced its legal compliance management capacity, promoted the development of long-term mechanisms for overseas compliance, continuously strengthened the Group's consolidation management of legal compliance risk, actively promoted the construction of legal compliance system and continued to strengthen the law and compliance implementation. During the Reporting Period, the Group fulfilled the risk-based anti-money laundering management requirements, improved the anti-money laundering system, reinforced the foundation of anti-money laundering management, intensified anti-money laundering (sanctions compliance) risk management and control, and advocated the establishment of anti-money laundering system.

(IX) Reputation Risk Management

The Bank established and improved the reputation risk management framework. Negative comments from various stakeholders regarding the Bank's operation, management, any other behaviours or external events were well managed. Situations regarding reputation risk were appropriately handled.

The Bank continued to improve reputation risk management mechanism. The Bank intensified the identification, warning, assessment and monitoring of reputation risk, tracked and monitored the occurrence and changes of reputation risk factors in real time, promptly adjusted corresponding strategy and measures, and explored the quantification method of reputation risk. During the Reporting Period, negative public opinions were actively handled and reputational risk was under control. No event occurred regarding significant reputational risk. In 2019, the Bank continued to exercise the duties as the director of the 4th Session of Standing Committee of the Professional Committee on Reputation Risk Management of the China Banking Association to promote the development of reputation risk management in the banking industry.

(X) Cross-Industry, Cross-Border and Country Risk Management

The Group set up the risk management system across industries and boarders, characterized by "Centralised Management, Clear Task Allocation, Complete and Adequate System Tools, IT Support, Risk Quantification, and Consolidation of Substantially Controlled Entities". With such system, the Group promoted the risk management of subsidiaries and overseas institutions with consideration of the Group's requirements and the specific requirements from local authorities in order to prevent additional risk from operation across industries and boarders.

During the Reporting Period, the Group strengthened risk management across industries and borders, carried out risk assessment of overseas banking institutions, improved assessment method and working mechanism, and continuously supervised the issue solving. The Group promoted the consolidation management, formulated the *Measures on Consolidation Management of Bank of Communications (2019)*, launched and optimised consolidation management system, provided better guidance for and imposed stringent examination over subsidiaries' consolidation management. The Group implemented country risk management, optimised country risk limit management and control plans, regularly monitored country risk exposures and timely carried out country risk rating, assessment and reminding.

During the Reporting Period, the Group did not note any insider trading that would damage the sustainable operation in respect of regulatory arbitrage, risk transfer or transactions without genuine purposes or market-based approaches.

(XI) Management of Large Exposure Risk

The Group thoroughly implemented the requirements of the *Administrative Measures for the Large Exposures of Commercial Banks* issued by the CBIRC, emphasised the importance on the management of large exposure risk, actively promoted the construction of management system, and optimised management process and organisation structure. The Group differentiated the management requirements and responsibilities for large exposure of different customers. Such differentiations helped to improve the Group's ability to prevent systematic and regional risks. During the Reporting Period, the Group's large exposure risk indicators met the regulatory requirements.

VII. OVERVIEW OF MAJOR SUBSIDIARIES

Bank of Communications Schroder Fund Management Co., Ltd. It was set up in August 2005 with a registered capital of RMB0.2 billion, jointly contributed by the Bank, Schroder Investment Management Limited and China International Marine Containers (Group) Co., Ltd., accounting for 65%, 30% and 5% respectively. The primary businesses include the fund raising, fund sales, asset management and other businesses licensed by the CSRC. As at the end of the Reporting Period, the company's total assets and net assets were RMB4.605 billion and RMB3.629 billion respectively. The company's net profits during the Reporting Period were RMB0.589 billion.

As at the end of the Reporting Period, BoCom Schroder Fund (including two subsidiaries) had a total of 343 employees, including 223 with a Master's degree or higher, 111 with a Bachelor's degree and 9 with an Associate's degree or below. The BoCom Schroder Fund had 4 internal departments, including investment research, marketing, supervision and auditing and back-office support. The employees' remuneration comprised basic salary and bonus. Basic salary was determined according to employees' position as well as their knowledge and skill level, while bonus was determined based on the company's operations, remuneration system, employees' performance as well as their contributions to the company. The company formulated and organised annual training plans based on the needs of business and personnel development, which were targeted for employees at different levels and covered all employees.

Bank of Communications International Trust Co., Ltd. It was set up in October 2007 with registered capital of RMB5.765 billion, of which the Bank and Hubei Provincial Communications Investment Group Co., Ltd. contributed 85% and 15% respectively. The main business scope includes trust loans, investment fund trusts, accounts receivable financing, real estate trusts, family trusts, charitable trusts, credit asset securitisation, corporate asset securitisation, qualified domestic institutional investor (QDII), and private equity investment trusts, provision of personalised, differentiated and diversified financing services, wealth management and trust management services for customers. As at the end of the Reporting Period, the company's total assets and the assets under management (AUM) were RMB13.299 billion and RMB775.149 billion respectively. The company's net profits during the Reporting Period were RMB1.138 billion.

As at the end of the Reporting Period, BoCom International Trust had a total of 236 employees, including 140 front-office personnel (59.32%). Among them, those holding a Master's degree, Bachelor's degree, and an Associate's degree or below was 148, 85 and 3 respectively. Those with a Bachelor's degree or above accounted for 98.73%. BoCOM International Trust established a performance appraisal and remuneration system that is fair to the staff and attractive to outsiders. In order to accelerate company development and enhance the human resource quality, BoCOM International Trust drew up and implemented the annual training plan, and formed a well-established and scientific training system that is appropriate for all staff at all levels and beneficial for the company's development and employees' individual career goals.

Bank of Communications Financial Leasing Co., Ltd. As the Bank's wholly-owned subsidiary, it officially was set up in December 2007 with a registered capital of RMB14.0 billion. The main business scope includes financial leasing and operating leasing in such key sectors as aviation, shipping and energy power, transportation infrastructure, equipment manufacturing, livelihood services, and leased asset transactions, investment in fixed-income securities, interbank lending and borrowing, economic consulting as well as other financial and industrial services. As at the end of the Reporting Period, the company's total assets and net assets were RMB253.119 billion and RMB24.805 billion respectively. The company's net profits during the Reporting Period were RMB3.021 billion.

As at the end of the Reporting Period, BoCom Leasing had a total of 240 employees, with an average age of 36. 95% of them hold a Bachelor's degree or above, of which 102 have a Master's degree, accounting for 42.5%. The remuneration policy was implemented in accordance with related policies of the Bank. BoCom Leasing emphasised on staff training. Trainings are categorised and targeted for staff at different levels in innovative and practical forms, with all resources being carefully planned and utilised.

BoCommLife Insurance Company Limited. It was set up in January 2010 with a registered capital of RMB5.1 billion, of which the Bank and the Commonwealth Bank of Australia contributed 62.50% and 37.50% respectively. The business scope includes life insurance, health insurance, accident insurance and reinsurance businesses of the aforementioned insurances (excluding statutory insurance businesses) operating in the Shanghai administrative region, as well as provinces, autonomous regions and municipalities directly under the Central Government where the branches were established. As at the end of the Reporting Period, the company's total assets and net assets were RMB55.356 billion and RMB6.710 billion respectively.

The company's net profits during the Reporting Period were RMB463 million.

As at the end of Reporting Period, BoCommLife Insurance had a total of 1,664 employees, including 627 sales personnel and 453 front-office personnel. The number of employees holding a Master's degree, Bachelor's degree and Associate's degree or below was 211, 1,140 and 313 respectively. BoCommLife Insurance adhered to value contribution orientation, and fostered a performance culture of sharing responsibilities and interests. Employees' remuneration was determined based on the company's operations, related policies, employees' value contributions and performance. During the Reporting Period, BoCommLife Insurance had more than 1,300 participants in more than 30 various types of training.

BoCom International Holdings Company Limited. It was set up on 3 June 1998 (formerly known as Communications Securities Co., Ltd.). It changed its name to BoCom International Holdings Company Limited on 2 May 2007. It was listed on the main board of Hong Kong Stock Exchange on 19 May 2017. As at the end of the Reporting Period, the Bank's shareholding in BoCom International Holdings Company Limited was 73.14%. The main business of BoCom International is divided into four major sections, namely, securities brokerage and margin financing, corporate finance and underwriting, asset management and consulting, and investment and loan.

For the operation result and related information of the company, please refer to the result announcement published on the Hong Kong Stock Exchange on 25 March 2020.

China BoCom Insurance Co., Ltd. As a wholly-owned subsidiary of the Bank, it was set up in November 2000 with a registered capital of HKD0.4 billion. The business scope includes all kinds of general insurance businesses. As at the end of the Reporting Period, the company's total assets and net assets were HKD0.780 billion and HKD0.565 billion respectively. The company's net profits during the Reporting Period were HKD10.68 million.

As at the end of the Reporting Period, there was a total of 39 employees (including 2 accredited staff from BoCom), of which about 87% were front-office employees, and 54% held a Bachelor's degree or above. The salary was paid once a month and the amount of bonus was determined based on performance.

BOCOM Financial Asset Investment Co., Ltd. As a wholly-owned subsidiary of the Bank, it was set up in December 2017 with a registered capital of RMB10.0 billion. As one of the first pilot banks to implement debt-to-equity conversion as determined by the State Council, it is mainly engaged in debt-to-equity conversion and supporting services. As at the end of the Reporting Period, the company's total assets and net assets were RMB37.850 billion and RMB10.154 billion respectively. The company's net profits during the Reporting Period were RMB0.174 billion.

As at the end of the Reporting Period, there was a total of 44 employees, of which 56.8% were front-office employees, and 97.7% held a Bachelor's degree or above. BoCom Investment had 3 internal departments, including front-office marketing, middle-office risk management and back-office support. The employees' remuneration was guided by the Bank's remuneration policies and comprised basic salary and bonus. Basic salary was determined according to employees' position, while bonus was determined based on the company's operations, as well as employees' performance and contribution to BoCom Investment. Meanwhile, BoCom Investment provided targeted staff trainings based on development strategy, business direction and talent team construction goals.

BOCOM Wealth Management Co., Ltd. As a wholly-owned subsidiary of the Bank, it was set up in June 2019 with a registered capital of RMB8.0 billion. It primarily issues wealth management products of fixed income, equity, commodities, financial derivatives and hybrid categories to personal, private banking, institutional, and interbank customers. As at the end of the Reporting Period, the company's total assets and net assets were RMB8.177 billion and RMB8.089 billion respectively. The company's net profits during the Reporting Period were RMB89.1154 million.

As at the end of the Reporting Period, the company had a total of 142 employees, of which 51.4% were front-office employees, and 99.3% held a Bachelor's degree or above. The employees' remuneration comprised basic salary and bonus. Basic salary was determined according to employees' position, while bonus was determined based on the company's operations, as well as employees' performance and contribution to the company. Meanwhile, BoCom Investment provided targeted staff trainings based on development strategy, business direction and talent team construction goals.

Dayi BoCom Xingmin Rural Bank Co., Ltd. It was officially opened in September 2008, with a registered capital of RMB60.00 million. The Bank holds 61% of its shares.

Zhejiang Anji BoCom Rural Bank Co., Ltd. It was officially opened in April 2010, with a registered capital of RMB0.18 billion. The Bank holds 51% of its shares.

Xinjiang Shihezi BoCom Rural Bank Co., Ltd. It was officially opened in May 2011, with a registered capital of RMB0.15 billion. The Bank holds 51% of its shares.

Qingdao Laoshan BoCom Rural Bank Co., Ltd. It was officially opened in September 2012, with registered capital of RMB0.15 billion. The Bank holds 51% of its shares.

The business scope of the four rural banks includes absorbing deposits from the public, granting short-term, medium-term and long-term loans, processing domestic settlement, operating bill acceptance and discounting, engaging in Inter-bank lending and borrowing and card business, carrying out agency issuance and agency settlement, underwriting treasury bonds, carrying out agency payment and agency insurance business, and other businesses approved by the CBIRC.

As at the end of the Reporting Period, the four rural banks' total assets, net assets, the balance due to customers and the balance of loans to customers were RMB8.033 billion, RMB0.677 billion, RMB6.967 billion and RMB4.615 billion respectively.

VIII. OUTLOOK

Looking forward into 2020, the international and domestic economic situation will remain complex and volatile. Despite more uncertainties ahead for global economy, the condition for high-quality economic development in China are constantly improving. With counter cyclical adjustments strengthened, China's economic growth turns to stablise amid slowdown. The impact of the coronavirus pandemic will be under control. Overall, 2020 will see both opportunities and challenges in the banking industry.

On the one hand, commercial banks face great opportunities for transformation and development. Although the economic growth is slowing down, the quality of growth has gradually improved, witnessed by backward capacity being phased out and new growth drivers being fostered. As counter cyclical adjustments has been strengthened, the fundamentals of China's long-term economic development remain positive. At the same time, with the advancing of supply-side structural reforms in the financial sector, the banking industry itself has accelerated the pace of transformation and innovation and continued to stimulate business activities. The further promotion of national strategies in areas such as the Yangtze River Delta, the Guangdong-Hong Kong-Macao Greater Bay Area and the Beijing-Tianjin-Hebei region will bring new and certain opportunities in relevant regions; under the guidance of the strategy of "reinvigorating China through science and technology development", accelerated development of high and emerging technology industries such as high-end equipment and integrated circuit has brought new growth points for commercial banks.

On the other hand, the development and operations in the banking industry are met by certain challenges. There is certain downward pressure on the asset quality of commercial banks. Risks in some areas may be aggravated, especially under the impact of the coronavirus outbreak. The risk-free interest rate tends to fall, and high-quality assets are relatively scarce. Under the pressure of refinancing difficulty, the risk of corporate default may continue to increase. At the same time, due to increasing uncertainties and instabilities around the world, the volatility of international financial markets has increased, and the pandemic situation may lead to increased local credit risk. In addition, the opening-up policy of the financial sector has gradually come into effect. Driven by policies allowing foreign-funded banks to enjoy national treatment, competitions between domestic banks and foreign financial institutions will further intensify.

The Group will adhere to the general tone of seeking progress while maintaining stability, uphold the new concept of development, focus on the State's three major tasks and consistently implement the regulatory requirements. The Group will adhere to the "customer first " principle, focus on value creation, strengthen technology empowerment and group collaboration, enhance the ability of high-quality development, and continue to create values for shareholders, customers and employees. The Group will emphasize on the following areas:

Firstly, serve the real economy and achieve value growth. The Group will integrate its financial resources into strategically important areas to increase its market and brand influence in the Yangtze River Delta, Guangdong-Hong Kong-Macao Greater Bay Area, and the Beijing-Tianjin-Hebei region, etc. The Group will promote the organic integration of its credit policies with national industrial policies, investment policies and regional development policies, open up the investment and financing channels for small and micro customers and inclusive customers, and continue to cultivate targeted financial poverty alleviation. BoCom will accelerate the cultivation of financial supply capabilities that match the new business models and new environment.

Secondly, strictly prevent and control financial risks and succeed in the battle. The Group will strengthen comprehensive risk management system and mitigate the negative impact of the pandemic on asset quality. BoCom will deepen the reform of risk credit management, optimise risk decision-making mechanisms, credit management structures and internal control systems and mechanisms, and improve the level of big data risk control. The Group will reinforce market and liquidity risk management, strictly prevent risks of external shocks, establish a matrix and grid-based non-compliance case prevention and control mechanism and succeed in the battle of forestalling and defusing the financial risks.

Thirdly, create new momentum for high-quality development through technology empowerment. The Group will comply with the requirements of the digital era, seize the opportunities of distributed technology and focus on promoting architecture transformation, strengthening organisational security and deepening data governance. By establishing user thinking, product thinking and big data thinking, the Group will integrate technology elements into the entire business chain. BoCom will focus on developing new products creating value for customers, promote business process remodelling, business model innovation and business scope expansion, and make Fintech a leading role in development rather than a supporting role.

Fourthly, work collaboratively and demonstrate the characteristics of wealth management. The Group will focus on retail business transformation and drive simultaneous growth of both AUM and MAU. BoCom will implement customer life cycle management, improve the ability to work collaboratively and create values for customers, and make the concept of “one BoCom for one customer” incorporated into business strategy, reflected customer experience and realised in the Group’s value creation. The Group will make full use of competitive advantage of international business license. Based on the “Go Global” strategy of domestic high-quality enterprises, BoCom will strengthen the whole-process support to meet customers’ requirements of investment and financing in trading across borders and markets. The Group will expand integrated business to enlarge the scale of coordinated financing, continue to promote the deep integration of subsidiaries in various business sectors of the Group and continuously promote the scale and performance of asset management, trust, funds, insurance and custody business.

BOCOM-HSBC STRATEGIC COOPERATION

BoCom and HSBC, as the most successful strategic cooperation between Chinese and foreign banks and taken "Deepen Strategic Cooperation and Create Shared Value" as new positioning, proactively seize the market opportunities, fully exploit each complementary advantages, explore mutual cooperation and potential and achieve visible, sensible and joyful results.

Maintained Close Communications with Senior Management and Promoted Cooperation via Top – Down Cooperation. Under the communication framework of strategic cooperation, senior management of both parties maintained close and smooth communications via the meetings and communications platform with high-level and Chairman of Executives and the principle of 'Priority Cooperation", proposed and reviewed 2019 cooperation plan in businesses and new areas and laid down the solid basis of project execution.

Focused Services on Chinese Market and Developed Global Cooperation. Fully exploited the effectiveness of consultant role under BoCom-HSBC strategic cooperation and framework of "1+1 Global Financial Services", both parties continued the growing business cooperation.

– Strategic service to Chinese market. Both parties continued "1+1" model to meet the foreign currency financing requirements of Chinese enterprises with the total amount of cooperation projects reaching about USD74.226 billion.

– Overseas regional cooperation. The total amount of cooperative bond issuance and syndicated loan projects between the two banks in Hong Kong was USD67.0 billion. The total amount of cooperative syndicated loan projects in Europe and Australia was USD16.017 billion. The total amount of treasury and re-financing projects in other overseas regions was USD37.896 billion.

– Trusteeship and fund consignment cooperation. Through mutual referrals of products, the two banks cooperated 19 trust products, amounting to RMB22.135 billion. As at the end of the Reporting Period, the Bank had 21 HSBC Jintrust fund products as consignment, amounting to RMB2.31 billion.

Seized the Opportunities of Renewal Agreement and Upgraded the Shared Resources and Experience. Both parties signed new agreement of Resources and Experience Sharing (RES) for three years and upgraded "Technology Cooperation and Exchange" (TCE). Both parties closely interacted and communicated the key areas regarding Fintech, macroeconomic situation, industry insights and international regulatory trend.

– Continuously promoting the two-way training for Senior Management. During the Reporting Period, the Bank sent 25 level D managers to London, HSBC Headquarter, for the training of strategic thinking and execution, leadership, operation and innovation and risk compliance. In addition, the Bank organized HSBC senior management business and experience sharing for the topic of macroeconomic and international situations.

– Continued the risk experts accreditation and exchange mechanism. HSBC accredits risk management experts to timely share HSBC's advanced experiences and practices in risk management and control to meet the requirements of business development and risk management of the Bank. The risk management teams of both parties constantly shared experiences on hot issues of common interest through regular exchanges and visits.

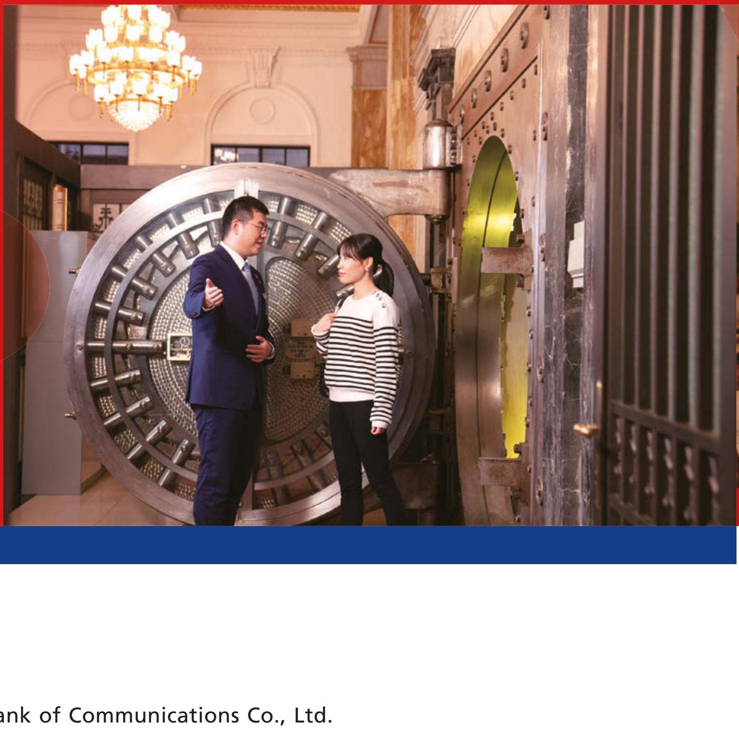
– Implementing special exchanges for business development. Topics covered key business areas. First overseas training project of working level staff was introduced by the Bank. In addition, the Bank arranged job rotation for HSBC senior management.

– Communications and visits on new areas. Both parties shared the views regarding Fintech, research, reputation management and other new areas. HSBC provided the training and experience of strategic management to the research team of the Bank.

Joined Social Responsibilities and Recognized contribution on Public Welfare. BoCom • HSBC Shanghai Yi Le Action continued. During the Reporting Period, two banks funded 7 categories of projects of business education for elderly people, health care, mental support, community affairs, social and entertainment and public facilities, arranged 810 actives and benefited 32,211 people.

Looking forward, the Bank and HSBC will continue the close cooperation, develop the opportunities of "Belt and Road", Yangtze River Delta and construction of "Guangdong-Hong Kong-Macao Greater Bay", share in a deep and firm manner and achieve more cooperation results.

CHANGES IN ORDINARY SHARES AND SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS



I. CHANGES IN SHARE CAPITAL OF ORDINARY SHARES

As at the end of the Reporting Period, the Bank issued a total of 74,262,726,645 ordinary shares including 39,250,864,015 A shares and 35,011,862,630 H shares, which accounted for 52.85% and 47.15%, respectively. All the ordinary shares issued by the Bank are not subject to sales restrictions. According to the statistics, the number of the Bank's ordinary shares owned by the State (including state-owned shares and state-owned legal person shares) was 43,438,978,252, accounting for 58.49% of total ordinary shares among which the number of state-owned shares (including the ordinary shares owned by Ministry of Finance, the SSF and local finance bureaus) was 31,186,505,823, accounting for 41.99% of total ordinary shares.

	31 December 2019		Increase or decrease during the Reporting Period Conversion					31 December 2018	
	Number of shares (share)	Percentage (%)	Newly issued	Bonus share	Conversion from reserves	Others	Sub-total	Number of shares (share)	Percentage (%)
I. Shares subject to sales restrictions	-	-	–	–	–	–	–	–	–
II. Shares not subject to sales restrictions	74,262,726,645	100.00	–	–	–	–	–	74,262,726,645	100.00
1. RMB ordinary shares	39,250,864,015	52.85	–	–	–	–	–	39,250,864,015	52.85
2. Domestically-listed foreign shares	-	-	–	–	–	–	–	–	–
3 .Overseas-listed foreign shares	35,011,862,630	47.15	–	–	–	–	–	35,011,862,630	47.15
III. Total	74,262,726,645	100.00	–	–	–	–	–	74,262,726,645	100.00

II. ISSUANCE AND LISTING OF ORDINARY SHARES

During the Reporting Period, the Bank did not issue ordinary shares.

The Bank has no employee share.

III. SHAREHOLDERS OF ORDINARY SHARES

As at the end of the Reporting Period, the total number of shareholders of ordinary shares of the Bank was 359,287, of which 325,110 were shareholders of A shares and 34,177 were shareholders of H shares. On 29 February 2020, the total number of shareholders of ordinary shares of the Bank was 362,659, of which 328,573 were shareholders of A shares and 34,086 were shareholders of H shares.

(I) Shareholdings of Top 10 Ordinary Shareholders as at the end of the Reporting Period[1]

Name of shareholders(Full name)	Increase or decrease during the Reporting Period (share)	Number of shares held as at the Reporting Period (share)	Percentage (%)	Class of shares	Shares pledged or frozen	Nature of shareholders
The Ministry of Finance of the People's Republic of China[2]	(1,970,269,383)	13,178,424,446	17.75	A Share	Nil	The State
	–	4,553,999,999	6.13	H Share	Nil	
HKSCC Nominees Limited[3]	7,899,812	14,968,188,344	20.16	H Share	Unknown	Foreign legal person
The Hong Kong and Shanghai Banking Corporation Limited[4]	–	13,886,417,698	18.70	H Share	Nil	Foreign legal person
The National Council for Social Security Fund[2, 5, 6]	(742,627,266)	1,134,886,185	1.53	A Share	Nil	The State
	–	1,405,555,555	1.89	H Share	Nil	
China Securities Finance Corporation Limited	–	2,222,588,791	2.99	A Share	Nil	State-owned legal person
The Sixth Transfer Account for State-owned Capital of the National Council for Social Security Fund[6]	1,970,269,383	1,970,269,383	2.65	A Share	Nil	The State
Capital Airport Holding Company	–	1,246,591,087	1.68	A Share	Nil	State- owned legal person
Shanghai Haiyan Investment Management Co., Ltd.[6]	–	808,145,417	1.09	A Share	Nil	State-owned legal person
Wutongshu Investment Platform Co., Ltd.	–	794,557,920	1.07	A Share	Nil	State-owned legal person
Yunnan Hehe (Group) Co., Ltd.[6]	–	745,305,404	1.00	A Share	Nil	State-owned legal person

Notes:

1. The relevant data and information is extracted from the Bank's register of members at the Registrar and Transfer Office.
2. According to the *Notice of the Ministry of Finance and Ministry of Human Resources and Social Security on Transferring Part of State-Owned Capital of Eight Financial Institutions Directly under Central Government Including Industrial and Commercial Bank of China Co., Ltd.*, in December 2019, the Ministry of Finance transferred 10% of its shares held in the Bank of Communications (totalling 1,970,269,383 shares) to SSF (registered under the Sixth Transfer Account for State-owned Capital of SSF) in December 2019. Pursuant to the *Notice of the State Council on Issuing the Implementation Plan for Transferring Part of State-Owned Capital to Replenish Social Security Funds*, SSF shall fulfil its lock-up period obligations of over 3 years from the date of the transfer (24 December 2019).
3. The aggregate number of shares held by the nominee, HKSCC Nominees Limited, represents the total number of H shares of the Bank held by all institutional and individual investors who maintained an account with it as at the end of the Reporting Period.
4. According to the Bank's register of members, HSBC held 13,886,417,698 H shares of the Bank as at the end of the Reporting Period. According to the disclosure forms of interests filed with the Hong Kong Stock Exchange by HSBC Holdings plc, **HSBC beneficially held 14,135,636,613 H shares of the Bank as at the end of the Reporting Period, representing 19.03% of the Bank's total ordinary shares issued**. HSBC beneficially held 249,218,915 more H shares than shown on the Bank's register of members. The discrepancy is due to a purchase of H shares by HSBC from the secondary market in 2007 and a bonus share issued by the Bank. Those extra shares have been registered under HKSCC Nominees Limited. Please refer to "Substantial shareholders and holders of interests or short positions required to be disclosed under Divisions 2 and 3 of Part XV of the SFO" for details of the H shares that deemed to be beneficially owned by HSBC.
5. According to the Bank's register of members, the SSF held 1,134,886,185 A shares and 1,405,555,555 H shares of the Bank as at the end of the Reporting Period. In May 2019, the SSF transferred 742,627,266 A shares, representing 1% of total share capital, to the designated account of reduction of shares, "CITIC Securities Co., Ltd. — Social Security Fund Share Flexible Portfolio". In December 2019, the Ministry of Finance transferred 1,970,269,383 A shares to the Sixth Transfer Account for State-owned Capital of SSF. According to the information provided by the SSF to the Bank, as at the end of the Reporting Period, other than the shareholdings recorded in the register of members of the Bank, SSF held additional 7,655,672,777 H shares of the Bank, of which 7,027,777,777 H shares were registered under HKSCC Nominees Limited and 627,895,000 H shares were indirectly held by certain asset managers (including Hong Kong Stock Connect). **As at the end of the Reporting Period, the SSF held a total of 12,909,011,166 A shares and H shares of the Bank, representing 17.38% of the Bank's total ordinary shares issued.**

6. Shanghai Haiyan Investment Management Co., Ltd. and Yunan Hehe (Group) Co., Ltd. are parties acting in concert as defined under *Provisional Measures on Shareholdings Administration of Commercial Banks*. SSF and the Sixth Transfer Account for State-owned Capital of SSF are in the relationship of acting in concert. The Bank is not aware of the existence of any related relationship among the above shareholders, or whether they are parties acting in concert as defined in *Provisional Measures on Shareholdings Administration of Commercial Banks*.

(II) Controlling Shareholders/Actual Shareholders

There is no controlling shareholder or actual controller of the Bank.

(III) Institutional Shareholders Holding 10% or more of the Issued Share Capital of the Bank[1]

Name of institutional shareholders	Person in charge or Legal representative	Date of incorporation	Organization Code/ Business Registration/ Unified Social Credit Code	Registered Capital	Main responsibilities or management activities
The Ministry of Finance of the People's Republic of China	Liu Kun	October 1949	00001318-6	N/A	Division of the State Council, in charge of national financial revenue and expenditure as well as fiscal and taxation policies.
The Hong Kong and Shanghai Banking Corporation Limited	Peter Wong Tung Shun	1865	00173611-000	N/A[2]	Primarily provide local and international banking services and related financial services in Asia-Pacific region.
The National Council for Social Security Fund	Liu Wei	August 2000	12100000717800822N	RMB8.00 million	Under the management of Ministry of Finance and an independent legal entity responsible for managing and operating national social security fund.

Notes:

1. Excluding HKSCC Nominees Limited.
2. As at the end of the Reporting Period, HSBC issued ordinary share capital of HKD116.1025 billion and USD7.198 billion, divided into 46.4410 billion ordinary shares.

According to the regulation of *Provisional Measures on the Shareholdings Administration of Commercial Bank*, the overview of the controlling shareholders, actual controllers, parties acting in concert and ultimate beneficiary of the major shareholders as stated above as at the Reporting Period are as follows:

Name of Shareholder	Controlling Shareholder	Actual Controller	Parties acting in concert	Ultimate Beneficiary
The Ministry of Finance of the People's Republic of China	N/A	N/A	Nil	N/A
The Hong Kong and Shanghai Banking Corporation Limited	HSBC Asia Holdings Limited	HSBC Holdings plc	Nil	HSBC Holdings plc
The National Council for Social Security Fund	N/A	N/A	Nil	N/A

CHANGES IN ORDINARY SHARES AND SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS (CONTINUED)

Details of related party transactions among the Bank and Ministry of Finance, HSBC and the SSF are disclosed in Note 44 to the Consolidated Financial Statements.

(IV) Other Substantial Shareholders

In accordance with *Provisional Measures on the Shareholdings Administration of Commercial Banks*, substantial shareholders of the Bank other than the Ministry of Finance, HSBC and SSF are as follow:

1. China National Tobacco Corporation. According to the information provided by China National Tobacco Corporation, 7 shareholders of the Bank (affiliated enterprises of China National Tobacco Corporation) entrusted China National Tobacco Corporation to exercise their voting rights on behalf of them. As at the end of the Reporting Period, the above 7 shareholders together held 3.00% of shares of the Bank. China National Tobacco Corporation was established on 15 December 1983 with the registered capital of RMB57.0 billion and its legal representative was Zhang Jianmin. The State Council was the department in charge of China National Tobacco Corporation. China Tobacco Corporation did not pledge the shares of the Bank.

2. Capital Airport Holding Company. As at the end of the Reporting Period, Capital Airport Holding Company held 1.68% of the shares of the Bank. Capital Airport Holding Company was established on 13 June 1988 with the registered capital of RMB12.0 billion and its legal representative was Liu Xuesong. The substantial shareholder's wholly-owned controlling shareholder was Civil Aviation Administration of China. The substantial shareholder did not pledge the shares of the Bank. As at the end of the Reporting Period, the balance of loans of Capital Airport Holding Company in the Bank was RMB0.582 billion.

3. Aviation Industry Corporation of China, Ltd. As at the end of the Reporting Period, Aviation Industry Corporation of China, Ltd. held 0.4% of the Bank's shares. Aviation Industry Corporation of China, Ltd. was established on 6 November 2008 with registered capital of RMB64.0 billion and its legal representative was Tan Ruishong. The substantial shareholder's wholly-owned controlling shareholder was State-owned Assets Supervision and Administration Commission of the State Council. The substantial shareholder did not pledge the shares of the Bank.

4. Daqing Petroleum Administration Bureau. As at the end of the Reporting Period, Daqing Petroleum Administration Bureau held 0.4% of the Bank's shares. Daqing Petroleum Administration Bureau was established on 14 September 1991 with registered capital of RMB46.5 billion and its legal representative was Sun Longde. The substantial shareholder's wholly-owned controlling shareholder was China's National Energy Corporation. The substantial shareholder did not pledge the shares of the Bank.

The transactions between the Bank and the above shareholders were conducted in accordance with general commercial terms and conditions and the terms were fair and reasonable.

(V) Substantial Shareholders and Holders of Interest or Short Positions Required to be Disclosed under Division 2 and 3 of Part XV of the *Securities and Futures Ordinance* (“SFO”)

As at the end of the Reporting Period, to the knowledge of the Directors, Supervisors and Chief Executive of the Bank, the substantial shareholders and other persons (excluding the Directors, Supervisors and Chief Executive of the Bank) who had interests or short positions in the shares or underlying shares of the Bank as recorded in the register required to be kept pursuant to Section 336 of the *SFO* are as follows:

Name of substantial shareholders	Capacity	Number of A shares	Nature of interest[1]	Approximate percentage of total issued A shares (%)	Approximate percentage of total issued shares (%)
Ministry of Finance	Beneficial owner	13,178,424,446[2]	Long position	33.57	17.75
SSF	Beneficial owner	3,847,782,834[3]	Long position	9.80	5.18

Name of substantial shareholders	Capacity	Number of H shares	Nature of interest[1]	Approximate percentage of total issued H shares (%)	Approximate percentage of total issued shares (%)
SSF	Beneficial owner	9,061,228,332[3]	Long position	25.88	12.20
Ministry of Finance	Beneficial owner	4,553,999,999[2]	Long position	13.01	6.13
HSBC Holdings Plc	Interests of controlled corporations	14,135,636,613[4]	Long position	40.37	19.03

Notes:

1. Long positions held other than through equity derivatives.
2. To the knowledge of the Bank, as at the end of the Reporting Period, the Ministry of Finance held 4,553,999,999 H shares and 13,178,424,446 A shares of the Bank, representing 6.13% and 17.75% of the total ordinary shares issued by the Bank, respectively.
3. According to the Bank’s register of members, as at the end of the Reporting Period, SSF held 1,134,886,185 A shares and 1,405,555,555 H shares of the Bank. In May 2019, SSF transferred 742,627,266 A shares, representing 1% of total share capital, to the designated account of decrease of shares, “CITIC Securities Co., Ltd. — Social Security Fund Share Flexible Portfolio”. In December 2019, the Ministry of Finance transferred 1,970,269,383 A shares to The Sixth Transfer Account for State-owned Capital of SSF. According to the information provided by SSF, as at the end of the Reporting Period, other than the shareholdings recorded above, SSF held additional 7,655,672,777 H shares of the Bank, of which 7,027,777,777 H shares were registered under HKSCC Nominees Limited and 627,895,000 H shares were indirectly held by certain asset managers (including Hong Kong Stock Connect). As at the end of the Reporting Period, SSF held a total of 12,909,011,166 A shares and H shares of the Bank, representing 17.38% of the Bank’s total ordinary shares issued.
4. HSBC Holding plc wholly owns HSBC Asia Holdings Limited, which wholly owns HSBC. HSBC beneficially held 14,135,636,613 H shares of the Bank. Pursuant to the *SFO*, HSBC Holding plc was deemed to own the interests associated with the 14,135,636,613 H shares held by HSBC.

Save as disclosed above, as at the end of Reporting Period, no person (excluding the Directors, Supervisors and Chief Executive of the Bank) or corporation was recorded in the register required to be kept under Section 336 of the *SFO* as holding any interests or short positions in the shares or underlying shares of the Bank that would fall to be disclosed to the Bank and the Hong Kong Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the *SFO*.

INFORMATION OF PREFERENCE SHARES

I. ISSUANCE AND LISTING OF PREFERENCE SHARES IN THE LAST THREE YEARS

The Bank did not issue preferred shares during the last three years.

II. INFORMATION OF PREFERENCE SHAREHOLDERS

As at the end of the Reporting Period, the total number of domestic preference shareholders was 41 and that of overseas preference shareholders was 1. As at 29 February 2020, the total number of shareholders of domestic and overseas preference shares remained unchanged.

(I) Top 10 Domestic Preference Shareholders and their Shareholdings as at the end of the Reporting Period

Name of shareholders	Increase or decrease during the Reporting Period (share)	Number of shares held as at the end of the Reporting Period (share)	Percentage (%)	Class of shares held	Shares pledged or frozen: Status of shares	Shares pledged or frozen: Number of shares	Nature of shareholders
China Mobile Communications Corporation	–	100,000,000	22.22	Domestic preference share	Nil	–	State-owned legal person
AXA SPDB Investment Managers – SPDB – Shanghai Pudong Development Bank Shanghai B	–	20,000,000	4.44	Domestic preference share	Nil	–	Others
CCB Trust Co., Ltd. – "Qian Yuan – Ri Xin Yue Yi" open-ended wealth management single fund trust	–	20,000,000	4.44	Domestic preference share	Nil	–	Others
Truvalue Asset Management – CMBC – China Merchants Bank Co., Ltd	–	20,000,000	4.44	Domestic preference share	Nil	–	Others
Bosera Funds – ICBC – Bosera – ICBC – Flexible Allocation No. 5 Specific Multi-customer Asset Management Plan	–	20,000,000	4.44	Domestic preference share	Nil	–	Others
Wisdom Asset Management – Ping An Bank – Ping An Bank Co., Ltd.	–	20,000,000	4.44	Domestic preference share	Nil	–	Others
China Ping An Life Insurance Co., Ltd. – Self-owned capital	–	18,000,000	4	Domestic preference share	Nil	–	Others
China Citic Bank Corporation Limited – HuiYing Series of CITIC Banking Service	7,000,000	18,000,000	4	Domestic preference share	Nil	–	Others
China National Tobacco Corporation – Henan Branch	–	15,000,000	3.33	Domestic preference share	Nil	–	State-owned legal person
China Life Property & Casualty Insurance Company Limited – Traditional – Common insurance product	–	15,000,000	3.33	Domestic preference share	Nil	–	Others

Notes:

1. Shareholdings of domestic preference shareholders are summarized according to the Bank's register of members of domestic preference shareholders.
2. "Percentage" refers to the percentage of number of domestic preference shares held by domestic preference shareholders in the total number of domestic preference shares.
3. The Bank is not aware of the existence of any related relationship among the top 10 domestic preference shareholders, the above shareholders and top 10 ordinary shareholders, or whether they are parties acting in concert.

(II) Overseas Preference Shareholders and their Shareholdings as at the end of the Reporting Period

Name of shareholders	Increase or decrease during the Reporting Period (share)	Number of shares held as at the end of the Reporting Period (share)	Percentage (%)	Class of shares held	Shares pledged or frozen Status of shares	Number of shares	Nature of shareholder
DB Nominees (Hong Kong) Limited	–	122,500,000	100.00	Overseas preference share	Unknown	–	Foreign legal person

Notes:

1. Shareholdings of overseas preference shareholders are summarized according to the Bank's register of members of overseas preference shareholders.
2. DB Nominees (Hong Kong) Limited, as a trustee, held 122,500,000 overseas preference shares, accounting for 100% of the Bank's total overseas preference shares, on behalf of all assignees in clearing systems Euroclear and Clearstream as at the end of the Reporting Period.
3. "Percentage" refers to the percentage of number of overseas preference shares held by overseas preference shareholders in the total number of overseas preference shares.
4. The Bank is not aware of the existence of any related relationship among the overseas preference shareholders and top 10 ordinary shareholders, or whether they are parties acting in concert.

III. DIVIDENDS DISTRIBUTION OF PREFERENCE SHARES

The Bank will distribute dividends annually for the preference shares in cash. In the event that the Bank resolved to cancel part or all of the dividends of the preference shares, the difference in the amount of dividends not fully paid to the shareholders of preference shares in the current period will not accrue to the subsequent interest period. Preference shareholders will not participate in the distribution of the residual earnings with ordinary shareholders after receiving dividends as agreed.

In accordance with the resolution and authorization of the Shareholders' General Meeting, the 26th meeting of the 8th Session of Board of Directors of the Bank was held on 29 April 2019, during which the proposal for the dividend distribution of the overseas preference shares and the dividend distribution of the domestic preference shares were approved. The total amount of overseas preference shares' dividend distributed by the Bank amounted to USD136,111,111, including USD122,500,000 paid to preference shareholders at the after-tax dividend rate of 5% under the terms of issuance of the overseas preference shares. In addition, in accordance with relevant laws and regulations, 10% withholding tax of USD13,611,111 was withheld by the Bank on behalf of overseas preference shareholders. The above dividends were fully paid in cash on 29 July 2019. The dividend on domestic preference shares were calculated at the nominal dividend yield of 3.90% and amounted to RMB1,755,000,000, which were fully distributed on 9 September 2019.

Please refer to the announcement published on the SSE website, the HKEX News website of the Hong Kong Stock Exchange and the Bank's official website for the details of the dividend distribution of preference shares.

The dividend distributions of preference shares of the Bank's for the last three years are as follows:

Preference share type	Date of dividend distribution	Total amount of dividend distributed (including tax)	Dividend rate
Domestic Preference Share	9 September 2019	RMB1,755,000,000	3.9%
Overseas Preference Share	29 July 2019	USD136,111,111	5.0%
Domestic Preference Share	7 September 2018	RMB1,755,000,000	3.9%
Overseas Preference Share	30 July 2018	USD136,111,111	5.0%
Domestic Preference Share	7 September 2017	RMB1,755,000,000	3.9%
Overseas Preference Share	31 July 2017	USD136,111,111	5.0%

IV. REDEMPTION AND CONVERSION OF PERENCE SHARES

During the Reporting Period, there is no redemption or conversion of preference shares.

V. RESTORATION OF VOTING RIGHTS

During the Reporting Period, the Bank did not restore any voting rights of preference shares

VI. ACCOUNTING POLICY FOR PREFERENCE SHARES AND ITS RATIONALE

According to *Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments, Accounting Standards for Business Enterprises No. 37 – Presentation of Financial Instruments* issued by Ministry of Finance, *International Financial Report Standards 9 – Financial Instruments* and *International Accounting Standards 32 – Financial Instruments: Presentation* issued by International Accounting Standards Board as well as terms and conditions of the preference shares, the issued preference shares met the requirements to be recognized as equity instruments and the issuance of preference shares was therefore classified as equity instruments.

I. MEMBERS OF BOARD OF DIRECTORS

The Bank currently has 15 Directors as below:

Name	Position	Gender	Age	Beginning and ending dates of term
Ren Deqi	Chairman of the Board of Directors and Executive Director	Male	56	August 2018 – date of 2021 Annual General Meeting
Hou Weidong	Executive Director and Executive Vice President	Male	60	October 2015 – the same as above
Wang Taiyin	Non-executive Director	Male	55	August 2013 – the same as above
Song Guobin	Non-executive Director	Male	54	August 2017 – the same as above
He Zhaobin	Non-executive Director	Male	51	August 2017 – the same as above
Chan Siu Chung	Non-executive Director	Male	57	October 2019 – the same as above
Song Hongjun	Non-executive Director	Male	54	August 2019 – the same as above
Chen Junkui	Non-executive Director	Male	45	August 2019 – the same as above
Liu Haoyang	Non-executive Director	Male	47	August 2016 – the same as above
Li Jian	Independent Non-executive Director	Female	66	October 2014 – the same as above
Liu Li	Independent Non-executive Director	Male	64	September 2014 – the same as above
Jason Yeung Chi Wai	Independent Non-executive Director	Male	65	October 2016 – the same as above
Raymond Woo Chin Wan	Independent Non-executive Director	Male	65	November 2017 – the same as above
Cai Haoyi	Independent Non-executive Director	Male	65	August 2018 – the same as above
Shi Lei	Independent Non-executive Director	Male	62	December 2019 – the same as above

Notes:

1. Term of office of Directors begins from the date of appointment qualification approved by the CBIRC.
2. Term of office of Mr. Ren Deqi and Mr. Hou Weidong refers to their term of office as Executive Directors of the Bank.

Ren Deqi **Hou Weidong** **Wang Taiyin** **Song Guobin**

- **Mr. Ren Deqi**, Chairman of the Board of Directors, Executive Director and Senior Economist. Mr. Ren has been Chairman of the Board of Directors, Executive Director and Acting President of the Bank since January 2020. From August 2018 to January 2020, Mr. Ren was Vice Chairman of the Board of Directors (acting as the Chairman of the Board of Directors from April 2019 to January 2020) and Executive Director. From August 2018 to December 2019, Mr. Ren was President of the Bank. Mr. Ren was Executive Director and Executive Vice President of Bank of China from December 2016 to June 2018, Executive Vice President of Bank of China from July 2014 to November 2016 and served as Non-executive Director of Bank of China Hong Kong (Holdings) Limited from October 2015 to June 2018 and the Chief Executive Officer of Bank of China Shanghai RMB Trading Business Headquarters from September 2016 to June 2018. From August 2003 to May 2014, Mr. Ren served as several positions in China Construction Bank, including Deputy General Manager of Credit Approval Department, General Manager of Risk Monitoring Department, General Manager of Credit Management Department, President of Hubei Branch and General Manager of Risk Management Department. From July 1988 to August 2003, Mr. Ren worked in Yueyang Changling Sub-branch, Yueyang Central Sub-branch, Yueyang Branch, Credit Management Committee Office and Credit Risk Management Department of China Construction Bank successively. Mr. Ren obtained his Master's degree in Engineering in Tsinghua University in 1988.

- **Mr. Hou Weidong**, Executive Director, Executive Vice President and Senior Engineer. Mr. Hou has been Executive Director of the Bank since October 2015. Mr. Hou has been Executive Vice President and Chief Information Officer of the Bank since December 2010 (no longer served as Chief Information Officer concurrently since January 2017). He held the position of Chief Information Officer from August 2004 to December 2010, General Manager of the Information Technology Department of the Bank from November 2002 to August 2004 and Deputy General Manager of Computer Department of the Bank from April 2002 to November 2002. He served as Deputy General Manager of Technology Security Department and General Manager of Data Centre in Industrial and Commercial Bank of China from November 1998 to April 2002. Mr. Hou obtained his Doctoral degree in Economics from Peking University in 2003.

- **Mr. Wang Taiyin**, Non-executive Director. Mr. Wang has been Non-executive Director of the Bank since August 2013. Mr. Wang previously held various positions from August 1986 to May 2013, including Staff Member and Senior Staff of the Technical Expert Division of Human Resource Department and Grass-root Level Service Department of the Ministry of Finance, Principal Staff of the Grass-root Level Service Division of Personnel and Education Department, Principal Staff, Deputy Division Chief, Researcher of the Representative Agency of the Personnel and Education Department (during which he served as Assistant to Head of Chaoyang County, Liaoning Province from October 1995 to October 1996), Secretary of the Personnel and Education Department (enjoyed benefit package as Division Chief), Division Chief of the Representative Agency of the Personnel and Education Department and Deputy Inspector-General of the Personnel and Education Department. Mr. Wang graduated from Zhongnan University of Economics and Law with major in Political Science in 1986 and obtained his Master of Business Administration degree from Arizona State University in the United States in 2015.

- **Mr. Song Guobin**, Non-executive Director. Mr. Song has been Non-executive Director of the Bank since August 2017. Mr. Song previously held various positions from August 1988 to June 2017 including Staff Member, Senior Staff and Principal Staff of the Propaganda Department of the Party Committee of the Ministry of Finance, Principal Staff of the Senior Care and the Unemployment of the Department of Social Security of the Ministry of Finance and the Senior Security Department, Deputy Division Chief of the Senior Security Department and the Special Care and Relief Department, Researcher of the Special Care and Relief Department, Division Chief of the System Actuarial Division and Employment Security Division, Deputy Supervisor and Deputy Supervisor and Head of the Discipline Inspection Team of the office of commissioner of the Ministry of Finance in Jilin Province, Deputy Director General of Department of Assets Management of the Ministry of Finance. Mr. Song graduated from Zhongnan University of Economics and Law with major in Philosophy in 1988 and obtained his Master's degree in World Economics from the Party School of the CPC Central Committee in 2008.

He Zhaobin **Chan Siu Chung** **Song Hongjun** **Chen Junkui**

- **Mr. He Zhaobin**, Non-executive Director, China Certified Public Accountant, Senior Economist. Mr. He has been Non-executive Director of the Bank since August 2017. Mr. He served as Deputy Director of National Agricultural Comprehensive Development Office of the Ministry of Finance from August 2014 to June 2017. He served as Deputy Director of Reform Group of Agriculture Comprehensive Development Office of the State Council from December 2013 to August 2014. He served as Deputy Division Chief, Division Chief and Deputy Director-General of Supervision and Inspection Committee of the Ministry of Finance from June 2000 to December 2013. During the period from November 2011 to November 2013, Mr. He took a temporary post as Vice Mayor in Huangshi municipal people's government in Hubei province. He worked in Supervision Division of Treasury Department of the Ministry of Finance and Tax and Financial Price Inspection Office in the State Council from August 1990 to June 2000. Mr. He graduated from Shanghai University of Finance and Economics in 1990 with a Bachelor's Degree in Economics. In 2007, he obtained his Master's Degree in Public Administration in China National School of Administration and Peking University.

- **Mr. Chan Siu Chung**, Non-executive Director. Mr. Chan has been Non-executive Director of the Bank since October 2019. Mr. Chan has been serving as the Head of Capital Market for Greater China Region at HSBC since November 2019 and was Co-head of Capital Market for Asia-Pacific at HSBC from August 2013 to October 2019. Mr. Chan joined HSBC in 1986 and held various positions from July 1986 to July 2013 including Senior Trader, Senior Interest Rate Trader, Head of Interest Rate Derivatives Trading in Hong Kong, Head of Trading in Hong Kong, and Deputy Head of Global Capital Market for Asia-Pacific and Head of Trading in Hong Kong. Mr Chan graduated from the University of Hong Kong with a Bachelor of Science in Electrical Engineering in 1986. He also obtained a Master's degree in Applied Finance from Macquarie University, Australia in 1994.

- **Mr. Song Hongjun**, Non-executive Director. Mr. Song has been Non-executive Director of the Bank since August 2019. Mr. Song has been serving as Director of Pension Accounting Department of National Council for Social Security Fund since September 2018. From August 2001 to September 2018, Mr. Song held various positions in National Council for Social Security, including Deputy Chief of Financial Division of Finance and Accounting Department, Chief of Financial Division of Fund Finance Department and Deputy Director of Fund Finance Department, Deputy Director of Pension Accounting Department. From August 1989 to August 2001, Mr. Song held various positions in the Ministry of Finance, including Officer, Staff Member, and Senior Staff of Financial Division of Commercial, Trading, Finance and Accounting Department, Principal Staff of the Second Financial Division of Commercial, Trading and Financial Department and the First Financial Division of Treasury Bonds and Financial Department, and Deputy Chief of the First Financial Division of Finance Department. Mr. Song graduated from School of Finance of Dongbei University of Finance and Economics in 1989. In 2008, he obtained his Joint Master's Degree in Public Administration in National Academy of Governance and Peking University.

- **Mr. Chen Junkui**, Non-executive Director and Senior Accountant. Mr. Chen has been Non-executive Director of the Bank since August 2019. Mr. Chen has been serving as the Deputy Director-general of Finance Management and Supervision Department (Internal Audit) of State Tobacco Monopoly Administration since February 2019. From December 2005 to February 2019, Mr. Chen served as Deputy Director and Director of Financial Asset Department of China Tobacco Machinery Group LLC. From September 2005 to December 2005, Mr. Chen served as Principal Staff of Financial Management Department of China Tobacco Investment Management Co., Ltd. From September 2000 to September 2005, Mr. Chen held various positions in Financial Department of China Tobacco Materials Co., Ltd. (Cigarette Filter Material Company), including Officer, Senior Staff, and Principal Staff. From July 1997 to September 2000, Mr. Chen worked in Beijing Bureau of Geology and Mineral Resources. Mr. Chen currently also serves as Supervisor of China Tobacco Machinery Group LLC, China Tobacco International Co., Ltd. and China Tobacco Magazine House Co., Ltd. and Director of Nantong Cellulose Fibres Co., Ltd, Zhuhai Cellulose Fibres Co., Ltd. and Kunming Cellulose Fibres Co., Ltd. Mr. Chen obtained his Master's Degree in Management from Capital University of Economics and Business in 2002.

Liu Haoyang **Li Jian** **Liu Li** **Jason Yeung Chi Wai**

- **Mr. Liu Haoyang**, Non-executive Director and Accountant. Mr. Liu has been Non-executive Director since August 2016. Mr. Liu has been Deputy General Manager of the Capital Operation Department of Beijing Capital Airport Holding Company since November 2015. He served as Deputy General Manager of Capital Airport Group Finance Co., Ltd. from October 2012 to November 2015, Chief Financial Officer of Inner Mongolia Airport Group from June 2009 to October 2012, Assistant to General Manager and Deputy General Manager of Finance Department of Beijing Capital Airport Holding Company from March 2005 to June 2009, Assistant to Manager of Finance Department of Jinfei Civil Aviation Economic Development Centre from July 2001 to March 2005 and Assistant to Manager of Finance Department of Beijing Huadu Breeding Company from July 1994 to September 1998. Mr. Liu obtained his Master's degree in Management from School of Economics and Management of China Agricultural University in 2001.

- **Ms. Li Jian**, Independent Non-executive Director. Ms. Li has been Independent Non-executive Director since October 2014, currently serving as Professor (Level 2), Doctoral Supervisor of School of Finance and Supervisor of Post-doctoral Research Station in Central University of Finance and Economics. Ms. Li has been teaching in Central University of Finance and Economics since 1983. At present, Ms. Li also holds positions, including Council Member of China Society for Finance and Banking, Standing Council Member of China Market Economy Society and Independent Non-executive Director of China Life Asset Management Company Limited and China Life Insurance Company Ltd., External Supervisor of Bank of Beijing Co., Ltd. Ms. Li obtained her Doctoral degree in Economics from Xi'an Jiaotong University in 1997 and has been enjoying special government allowances of the State Council since 2004.

- **Mr. Liu Li**, Independent Non-executive Director, China Certified Public Accountant. Mr. Liu has been Independent Non-executive Director since September 2014, currently serving as Professor in Guanghua School of Management of Peking University, Deputy Head and Doctoral Supervisor in Finance and Securities Research Centre of Peking University. Mr. Liu has been teaching in Guanghua School of Management (formerly known as Business Management Department of Economic School) of Peking University since January 1986. He taught in Beijing University of Iron and Steel Technology from September 1984 to December 1985. At present, Mr. Liu also holds positions, including Independent Director of China Machinery Engineering Corporation, China International Capital Corporation Limited, CNPC Capital Co., Ltd. and Shenzhen Success Electronics Ltd. Mr. Liu obtained his Master's degree in Physics from Peking University in 1984 and MBA from Catholic University of Louvain in Belgium in 1989.

- **Mr. Jason Yeung Chi Wai**, Independent Non-executive Director and Lawyer. Mr. Yeung has been Independent Non-executive Director since October 2016. Mr. Yeung has been serving as Director of Supervision and Risk Management of Fung Group (1937) and its Hong Kong listed company since July 2015. At present, Mr. Yeung also holds positions such as Independent Director of China Telecom Corporation and Member of Convention of Hospital Authority in Hong Kong. Mr. Yeung served as Executive Vice President of Bank of China (Hong Kong) Limited (in charge of Personal Banking Business) from April 2011 to February 2015, before which he also served as Secretary of the Board of Directors of Bank of China (Hong Kong) Limited and of Bank of China Limited and took positions in charge of supervision of market and compliance of laws and regulations in Hong Kong government, the Securities and Futures Commission, law firms and various enterprises. Mr. Yeung graduated from the University of Hong Kong in 1978, the College of Law of England and Wales in 1985 and the Faculty of Law of University of Western Ontario in 1991 and obtained his MBA degree from University of Western Ontario in 2001.

Raymond Woo Chin Wan **Cai Haoyi** **Shi Lei**

- **Mr. Raymond Woo Chin Wan**, Independent Non-executive Director, Hong Kong and Canadian Certified Public Accountant. Mr. Woo has been serving as Independent Non-executive Director of the Bank since November 2017. Mr. Woo joined Ernst & Young in June 1985 and retired in June 2015. Within this period, he served as Senior Accountant, Manager, Senior Manager, Partner and Managing Partner. To be specific, he served as Managing Partner of Ernst & Young's China business from 2011 to June 2015 and served as Director and General Manager in Ernst & Young from 2007 to 2012. Mr. Woo was also member of Ernst & Young's China Management Committee from 1998 to 2015. From December 1984 to June 1985, Mr. Woo served in Rongxing Securities Co., Ltd. Mr. Woo also served as Lecturer in Department of Business Administration in University of Hong Kong from December 1984 to June 1986. From September 1982 to October 1984, Mr. Woo worked in PwC Canada. He also worked in PwC Hong Kong from September 1979 to August 1980. Mr. Woo is currently Independent Non-executive Director of both Dah Chong Hong Holdings Limited and Lenovo Group Limited. Mr. Woo obtained his MBA degree from York University in Canada in 1982.

- **Mr. Cai Haoyi**, Independent Non-executive Director and Researcher. Mr. Cai has been Independent Non-executive Director of the Bank since August 2018. Mr. Cai served as Chairman of the Board of Supervisors in Everbright Bank of China from November 2012 to June 2015 and Non-executive Director in Bank of China from August 2007 to November 2012. Mr. Cai held various positions in Bank of China from July 1986 to March 2007, including Principal Staff, Deputy Division Chief, Division Chief and Deputy Director of Graduate Department of Financial Research Institute, Deputy Head of Financial Research Institute, Deputy Head of Research Bureau and Secretary General of Monetary Policy Committee. Mr. Cai obtained his Doctoral Degree from Financial Research Institute of People's Bank of China in 2001 and he obtained special government allowances from the State Council in 2003.

- **Mr. Shi Lei**, Independent Non-executive Director. Mr. Shi has been Independent Non-executive Director of the Bank since December 2019, currently serving as Professor and Doctoral Supervisor of School of Economics of Fudan University and Director of Public Economic Research Center of Fudan University. Joining Fudan University since 1993, Mr. Shi held various postions including: Director of China Centre for Economic Studies, Head of Propaganda Department of Party Committee of Fudan University, and Secretary of Party Committee of School of Economics of Fudan University. Mr. Shi is currently Independent Non-executive Director of Ko Yo Chemical (Group) Limited and Sanxiang Impression Co., Ltd. Mr. Shi obtained his Doctoral degree in Economics from Shanghai Academy of Social Sciences in 1993. Mr. Shi is entitled to special government allowances from the State Council.

II. MEMBERS OF THE BOARD OF SUPERVISORS

The Bank currently has 10 Supervisors as below:

Name	Position	Gender	Age	Beginning and ending dates of term
Zhang Minsheng	Shareholder Supervisor	Male	51	March 2020 – date of 2021 Annual General Meeting
Wang Xueqing	Shareholder Supervisor	Male	52	June 2017 – the same as above
Tang Xinyu	External Supervisor	Female	66	June 2014 – date of 2019 Annual General Meering
Xia Zhihua	External Supervisor	Female	65	June 2016 – date of 2021 Annual General Meering
Li Yao	External Supervisor	Male	49	October 2017 – the same as above
Chen Hanwen	External Supervisor	Male	52	June 2019 – the same as above
Chen Qing	Employee Supervisor	Female	59	November 2004 – the same as above
Du Yarong	Employee Supervisor	Male	56	August 2010 – the same as above
Guan Xingshe	Employee Supervisor	Male	55	October 2018 – the same as above
Wang Xuewu	Employee Supervisor	Male	56	June 2019 – the same as above

Note: Term of office of Supervisors begins from the date of election at General Meetings and the Employee Representative Meeting. Term of office of re-elected Supervisors begins from the date of first election at General Meetings.

Zhang Minsheng Wang Xueqing Tang Xinyu

- **Mr. Zhang Minsheng**, Shareholder Supervisor and Senior Accountant. Mr. Zhang has been Supervisor of the Bank since March 2020. Mr. Zhang has been Chief Accountant of Aviation Industry Corporation of China, Ltd. since April 2019. Mr. Zhang served as Director and General Manager of AVIC Capital Co., Ltd. from October 2015 to April 2019. Mr. Zhang was Chief Accountant of Aero Engine Corporation of China. During the period, he also took the position of Executive Director (Legal Representative) of AECC Asset Management Co., Ltd., Chairman of the Board of Directors of AECC Aviation Power Co., Ltd. He was General Manager, Vice Chairman of the Board of Directors and Chairman of the Board of Directors of AECC Xi'an Aero-Engine (Group) Ltd. from October 2011 to October 2015. During the period, he also took the position of Chairman of the Board of Supervisors, General Manager, Director, Vice Chairman of the Board of Directors of Xi'an Aviation Power Co., Ltd., General Manager of AECC Aviation Power Co., Ltd. Xi'an Branch, Deputy General Manager of AECC Aviation Power Co., Ltd. Mr. Zhang previously held various positions from August 1990 to October 2011 including Staff Member and Senior Staff of Financial Department of Ministry of Aerospace Industry, Senior Staff and Principal Staff of Finance Bureau of Head office of Aviation Industry Corporation of China ("AVIC"), Deputy Division Chief, Division Chief, Deputy Minister and Minister of Financial Audit Department of AVIC II, Head of Audit Department of AVIC. Mr. Zhang graduated from Dongbei University of Finance & Economics in 1990 with Bachelor's Degree in Economics. In 2009, he obtained his EMBA Degree from HEC Paris.

- **Mr. Wang Xueqing**, Shareholder Supervisor and Professoriate Senior Accountant.. Mr. Wang has been Supervisor of the Bank since June 2017. Mr. Wang has been Chief Accountant of Daqing Oilfield Co., Ltd. (Daqing Petroleum Administration Bureau) since October 2016. Mr. Wang served as Director of Finance Department of Daqing Oilfield Company from October 2009 to February 2018. From July 2008 to October 2009, Mr. Wang was appointed as Director of Financial Assets of the First Department in Daqing Oilfield Company. He was Head of the Accounting Department (Centre) of the Financial Assets Department in Daqing Oilfield Company and became Section Chief, First Deputy Director and Director from November 1999 to July 2008. At present, Mr. Wang holds different positions, including Chairman of the Board of Directors of Daqing Petroleum (Hong Kong) Co. Ltd. and Daqing Energy (Hong Kong) Co. Ltd., Director of Qingdao Qingxin Plastic Co. Ltd. and DPS Indonesia Co. Ltd., Chairman of the Board of Supervisors of Daqing Oilfield Lishen Pump Co. Ltd. and PTINDOSPECENERGY and Vice President of the Sixth Council of China Association of Plant Engineering. Mr. Wang graduated from Tianjin University of Finance and Economics with Master's degree in 2002, majoring in Accounting.

- **Ms. Tang Xinyu**, External Supervisor. Ms. Tang has been External Supervisor of the Bank since June 2014. Ms. Tang served as President of Enterprise Annuity Council of Bank of China from January 2011 to July 2013, as Chairman of Bank of China International Securities Limited from February 2007 to January 2011, as General Manager of Head office Human Resource Department of Bank of China from October 2004 to September 2006, as Deputy Party Secretary, the Commissioner of Discipline Inspection and Executive Vice President of Bank of China Beijing Branch from February 2003 to October 2004, as Deputy General Manager of General Internal Audit Office and General Manager of Internal Audit Department of Bank of China from January 1998 to February 2003, as Senior Manager and Associate General Manager successively of Economic Research Department of Hong Kong and Macao Management Office of Bank of China, National Commercial Bank, Hong Kong Branch and Bank of China, Hong Kong Branch from May 1988 to January 1998 as Vice Researcher and Deputy Division Chief (1986) of Information Division Head of International Financial Research Institute of Bank of China from 1981 to May 1988 and as Teaching Assistant in the Western Languages Department of Peking University from 1977 to 1981. Ms. Tang graduated from Peking University, majoring in English in 1977 and obtained her MBA degree from the Chinese University of Hong Kong in 1996.

Xia Zhihua **Li Yao** **Chen Hanwen** **Chen Qing**

- **Ms. Xia Zhihua**, External Supervisor, International Internal Auditor and Senior Economist. Ms. Xia has been External Supervisor of the Bank since June 2016. Ms. Xia served as Chairman of the Board of Supervisors of China Life Insurance Co. Ltd. from March 2006 to July 2015. She was accredited by the State Council to serve as Deputy Head of the General Office of the Board of Supervisors, Supervisor (Deputy Director General Level), Head of the General Office of the Board of Supervisors and Supervisor (Bureau Level) of China Great Wall Asset Management Corporation, China Economic Development Trust and Investment Company, China Life Insurance (Group) Company and China Export & Credit Insurance Corporation successively from July 2000 to December 2005. Moreover, Ms. Xia served as Associate Inspector of National Treasury Bureau of the Ministry of Finance in June 2000. She also served as Deputy Director-General of National Debt Financial Department and Department of National Debt of the Ministry of Finance from July 1997 to June 2000. She successively served as Principal Staff, Deputy Division Chief and Division Chief of State Debt Management Department of the Ministry of Finance from December 1988 to June 1997 and Principal Staff of Financial Department of Cultural and Educational Administrative Affairs from December 1984 to November 1988. Ms. Xia obtained Master's degree in Economics from Xiamen University in 1984 and enjoyed the special government allowances awarded by the State Council.

- **Mr. Li Yao**, External Supervisor. Mr. Li has been External Supervisor of the Bank since October 2017. Mr. Li has been teaching at the School of Finance, Shanghai University of Finance and Economics since April 2000 and has been Vice Professor and Professor successively. He served as Vice President of School of Finance from December 2014 to January 2018. During the period from September 2002 to September 2003, Mr. Li served as Vice Professor in visiting scholar (CCSEP) program for the purpose of governmental exchange between Chinese and Canadian exchange at the University of Toronto Rotman. Mr. Li was appointed as Professor in the management buyout and private equity research centre of Nottingham University Business School from August 2009 to January 2010. Mr. Li served as Professor in visiting Sino-US Fulbright Scholar Program at Boston College from August 2018 to July 2019. Mr. Li also served as Independent Director of Chongqing Rural Commercial Bank Co. Ltd. from October 2014 to December 2015. Mr. Li majored in International Finance and graduated from East China Normal University with the title of Ph.D. in Economics in 1998.

- **Mr. Chen Hanwen**, External Supervisor. Mr. Chen has been External Supervisor of the Bank since June 2019. Mr. Chen is Level-2 Professor, Huiyuan Distinguished Professor, Doctoral Supervisor and contact of the Post-doctoral Research Station of University of International Business and Economics. He is Chair Professor of China Business Executives Academy, Dalian, Co-editor in Chief of *China Journal of Accounting Studies* (publication of Accounting Society of China), Member of Editorial Board of *Auditing Research* (publication of China Audit Society), Member of the Senior Professional Rank Evaluation Committee of National Audit Office, Member of Specialised Guidance Committee of the Chinese Institute of Certified Public Accountant, Executive Council Member of China Audit Society, and was elected to participate in "Funding Program of Accounting Masters" of the Ministry of Finance. From May 2004 to June 2015, Mr. Chen held various positions in Xiamen University, including Director of Accounting Department, Vice President of Management School, Vice President of Graduate School, and Secretary-General of Academic Committee. He won the "Nanqiang" Award, the highest honour for teachers in Xiamen University. Mr. Chen currently also serves as Independent Director at Yango Group, Wanda Commercial Properties, TriPrime Gene and Xiamen Bank and was Independent Director at Industrial Securities, Minsheng Holdings, and Xiamen International Bank in the last three years. He obtained his Doctoral degree in Economics from Xiamen University in 1997.

- **Ms. Chen Qing**, Employee Supervisor, and Senior Auditor. Ms. Chen has been Employee Supervisor of the Bank since November 2004. Ms. Chen has been Head of Audit Supervision Bureau of the Bank since July 2016, Head of the Women Commission of the Labour Union of the Bank since June 2015. Ms. Chen served as Head of the General Office for the Board of Supervisors from March 2005 to July 2016. From November 2004, Ms. Chen served as Supervisor at Deputy Director General-Level of the Bank. Ms. Chen was Supervisor at Division Chief Level for the key state-owned financial institution – Agricultural Bank of China from August 2003 to October 2004. Ms. Chen served as Deputy Division Chief, Division Chief and Supervisor at Division Chief Level of Bank of China from July 2000 to August 2003. Ms. Chen served as Deputy Division Chief of Finance Department of National Audit Office of the People's Republic of China from February 1997 to July 2000. Ms. Chen is Senior Auditor and obtained her Bachelor's degree in Economics from Renmin University of China in 1984 and a MBA degree from Shanghai University of Finance and Economics in 2009. She has been enjoying the special government allowances of the State Council since 2018.

Du Yarong **Guan Xingshe** **Wang Xuewu**

- **Mr. Du Yarong**, Employee Supervisor. Mr. Du has been Employee Supervisor of the Bank since August 2010 and has been serving as Deputy Secretary of Discipline Inspection and Supervision Group of the Central Commission for Discipline Inspection and the State Supervision Commission in the Bank of Communications since April 2019. From January 2015 to April 2019, Mr. Du was Deputy Secretary of Discipline Inspection Committee, Head (General Manager) of Bureau of Supervision (Anti-fraud Department) (Principal level in provincial branches), and Head of Office of Inspection Leadership Team of the Bank (July 2018 to February 2019). He served as Head of the Office of Discipline Investigation and Supervision and General Manager of Security Department (April 2010 to September 2014) of the Bank from November 2009 to January 2015. He was Executive Vice President in the Bank's Zhejiang (Hanghzou) Branch from October 2004 to November 2009. Mr. Du was Head of the General Office in the Bank's Hangzhou Branch from April 2004 to October 2004 and was President in the Xiaoshan Sub-branch of the Hangzhou Branch from May 2001 to April 2004 (among which he took a temporary post in the Internal Audit Control Division at the Bank's Head Office from April 2003 to March 2004). Mr. Du also served as Officer (Division Chief Level), Deputy Head and Head of the Party Committee Office in the Bank's Hangzhou Branch from October 1997 to May 2001. Mr. Du graduated from Hangzhou Normal University in 1986 with a degree of Bachelor of Science.

- **Mr. Guan Xingshe**, Employee Supervisor, and Senior Auditor. Mr. Guan has been Employee Supervisor of the Bank since October 2018 and Director of the Office of the Board of Supervisors since August 2018. From September 2011 to August 2018, Mr. Guan served as General Manager of Department of General Affairs of the Bank. Mr. Guan held various positions from May 2003 to September 2011, including Executive Vice President of Henan Branch (Zhengzhou) and Senior Credit Executive (from May 2006 to June 2008). He also held several positions from December 1994 to May 2003, including Deputy Division Chief of Finance and Accounting Department of Zhengzhou Branch, Deputy Division Chief of Internal Audit Division (in charge of overall work), Deputy Director of Finance and Accounting Department (in charge of overall work), Division Chief of Finance and Accounting Department (during which he took a temporary post in Internal Audit Division of the Head Office from April 2002 to March 2003). From April 1993 to December 1994, Mr. Guan served as Deputy Division Chief of Financial Audit Department of Zhengzhou Audit Bureau. Mr. Guan obtained his Bachelor's Degree in Economics from Zhongnan University of Economics and Law in 1988 and his Master's Degree in Economics from Xiamen University in 1999.

- **Mr. Wang Xuewu**, Employee Supervisor and Senior Economist. Mr. Wang has been Employee Supervisor of the Bank since June 2019. Since February 2020, Mr. Wang has been serving as the Executive Vice Chairman of the Labour Union of the Bank's Head Office, Director of Labour Union Office (CCYL Committee) (Principal level in provincial branches). From July 2006 to February 2020, Mr. Wang served in the Bank as Deputy General Manager of Asset Preservation Department, Deputy General Manager and General Manager of Small Enterprise Credit Department (Retail Credit Management Department) (in charge of overall work), President of Guangxi Zhuang Autonomous Region Branch, President of Suzhou Branch (Principal level in provincial branches), Deputy General Manager and General Manager of Employee Work Department of the Head Office (Principal level in provincial branches). Among this period, from April to October 2007, Mr. Wang took a temporary position as Deputy Director of the Second Supervision Department of CBRC. From May 1997 to July 2006, Mr. Wang served as Director of Internal Audit Office, Chief of Credit Management Division, Chief of Credit Authorisation Division, Senior Credit Officer and Executive Vice President successively at BoCom Hefei Branch. Among this period, from April 2001 to March 2002, he took a temporary position as Deputy Chief of Comprehensive Credit Authorisation Divison in Credit Authorisation Department at the Head Office. From July 1985 to May 1997, Mr. Wang held various positions in Guichi Sub-branch of Industrial and Commerical Bank of China Anhui Province, including clerk and Deputy Subsection Chief of Credit Department, Subsection Chief of Technology Transformation Trust Department, Executive Vice President and President. Mr. Wang obtained his Master's degree in EMBA in 2009 from Shanghai University of Finance and Economics.

III. PROFILE OF SENIOR MANAGEMENT

The Bank currently has 8 Senior Managers as below:

Name	Position	Gender	Age	Beginning and ending dates of term
Hou Weidong	Executive Vice President	Male	60	December 2010 – October 2022
Yin Jiuyong	Executive Vice President	Male	52	September 2019 – September 2022
Lyu Jiajin	Executive Vice President	Male	51	January 2019 – January 2022
Guo Mang	Executive Vice President	Male	57	July 2018 – July 2021
Gu Sheng	Secretary of the Board of Directors	Male	57	April 2018 – April 2021
Xu Han	Chief Business Officer (Retail and Private Business Sector)	Male	54	September 2018 – September 2021
Tu Hong	Chief Business Officer (Interbank and Market Business Sector)	Male	54	September 2018 – September 2021
Ng Siu On	HSBC-BoCom Strategic Cooperation Consultant	Male	66	March 2013 – March 2022

Notes:

1. Term of office of Senior Management is effective from the approval appointment date by the CBIRC.
2. Mr. Ren Deqi no longer served as President of the Bank since 13 December 2019 due to job adjustment. Mr. Ren Deqi will continue to act as President until the qualification of President newly appointed by the Board of Directors is approved by the CBIRC.
3. Term of office of Mr. Hou Weidong refers to his term of office as Executive Vice President of the Bank.

Hou Weidong **Yin Jiuyong** **Lyu Jiajin** **Guo Mang**

- **Mr. Hou Weidong** (Please refer to details in "MEMBERS OF BOARD OF DIRECTORS")

- **Mr. Yin Jiuyong**, Executive Vice President and Senior Economist. Mr. Yin has been Executive Vice President of the Bank since September 2019. Mr. Yin served as the Executive Vice President of the Agricultural Development Bank of China from May 2014 to July 2019. From December 2013 to May 2014, Mr. Yin was Director of General Office of the Agricultural Development Bank of China. From January 2011 to December 2013, Mr. Yin served as President of the Henan Branch of Agricultural Development Bank of China. From January 2005 to January 2011, Mr. Yin held various positions, including Deputy General Manager (During the period, Mr. Yin took a temporary position as the Deputy Manager of Business Department of Baoding Branch and Executive Vice President of Baoding Branch of Agricultural Development Bank of China from February 2007 to January 2008) and General Manager of the First Customer Department of Agricultural Development Bank of China. Mr. Yin served as the Chief of Comprehensive Division and Deputy Director of the First Credit Department of Agricultural Bank of China from April 1999 and January 2005. From April 1998 to April 1999, Mr. Yin was Deputy Chief of Comprehensive Division of the First Industrial and Commercial Credit Department of Agricultural Development Bank of China. From July 1994 to April 1998, Mr. Yin served as Principal Staff and Deputy Division Chief of Purchase and Sale Division of Industrial and Commercial Credit Department of Agricultural Development Bank of China. From July 1993 to July 1994, Mr. Yin served as the Principal Staff of Trust and Investment Corporation of Agricultural Bank of China. Mr. Yin obtained his Doctoral degree in Agriculture from China Agricultural University in 1993.

- **Mr. Lyu Jiajin**, Executive Vice President and Senior Economist. Mr. Lyu has been Executive Vice President of the Bank since January 2019. From May 2016 to January 2019, Mr. Lyu served as Deputy General Manager of China Post Group Corporation and President of Postal Savings Bank of China LLC. From March 2007 to May 2016, Mr. Lyu successively served as Executive Vice President and President of Postal Savings Bank of China. From July 2005 to March 2007, Mr. Lyu served as Deputy Head of China Postal Savings and Remittance Bureau. Mr. Lyu served as Deputy Head of Post Bureau of Liaoning Province from February 2004 to July 2005, as Deputy Head of Post Bureau of Henan Province from March 2001 to February 2004, as Head of Post Bureau of Xinxiang City in Henan Province from October 1999 to March 2001 and successively served as Deputy Head and Head of Postal Savings and Remittance Bureau of Henan Province from May 1998 to October 1999. Mr. Lyu worked in the Board of Currency of Postal Savings and Remittance Bureau of Henan Province and Administrative Bureau of Post and Telecommunications of Henan Province from July 1988 to May 1998. Mr. Lyu obtained his Doctoral degree in Economics in Southwestern University of Finance and Economics in 2014.

- **Mr. Guo Mang**, Executive Vice President and Senior Economist. Mr. Guo has been Executive Vice President of the Bank since July 2018. Mr. Guo served as Chief Business Officer of the Bank from February 2017 to July 2018 and served as President of the Bank's Beijing Branch and Chief Executive Officer of Beijing Administrative Department (Group Customer Department) from December 2016 to June 2018. He was President of the Bank's Shenzhen Branch from January 2010 to December 2016, Executive Vice President (in charge of overall work) and President of the Bank's Chongqing Branch from September 2004 to January 2010. Moreover, he served as a credit clerk in the Credit and Investment Department and Deputy Section Chief of Shenzhen Branch, Head of Shatoujiao Office, Executive Vice President (in charge of overall work) of Shatoujiao Subbranch, Executive Vice President (in charge of overall work) and President of Hongli Sub-branch, General Manager of the Marketing Department and Executive Vice President of Shenzhen Branch from May 1991 to September 2004. Mr. Guo worked as Staff Member of PBOC Savings Interest Rate Department from June 1989 to May 1991. Mr. Guo also held various positions from April 1988 to June 1989, including PBOC Baoan Branch, Shenzhen Branch and State Administration of Foreign Exchange Shenzhen Branch. From July 1987 to April 1988, Mr. Guo worked as Staff Member in Reform Office of Comprehensive Planning Department in PBOC. Mr. Guo obtained his Bachelor's degree in Economics from Fudan University in 1987.

Gu Sheng

Xu Han

Tu Hong

Ng Siu On

- **Mr. Gu Sheng**, Secretary of the Board of Directors and Senior Economist. Mr. Gu has been Secretary of the Board of Directors and General Manager of Human Resources Department since April 2018. Mr. Gu successively served as General Manager of Human Resources Department from October 2015 to April 2018. Mr. Gu successively served as Executive Vice President of Hainan Branch (in charge of overall work), Executive Vice President of Nanjing Branch, President of Suzhou Branch and President of Jiangsu Branch from December 1999 to October 2015. Mr. Gu served as Division Chief of Personnel Department of the Personnel and Education Department of the Bank from March 1999 to December 1999. Mr. Gu held various positions in the Bank, including Staff Member of Personnel and Education Department of Nanjing Branch, Deputy Section Chief of General Affairs Department, Assistant to the Division Chief of Personnel and Education Department and Section Chief of General Affairs Department, Deputy Division Chief of Personnel and Education Department, Executive Vice President of Xiaguan Branch, President of Xiaguan Branch from August 1987 to March 1999. Mr. Gu served as clerk of Credit Department of Jiangsu Xinghua County Sub-branch of Agricultural Bank of China from July 1984 to August 1987. Mr. Gu obtained his EMBA's degree from Nanjing University in 2006.

- **Mr. Xu Han**, Chief Business Officer (Retail and Private Business Sector) and Senior Engineer. Mr. Xu has been Chief Business Officer (Retail and Private Business Sector) and General Manager of Personal Finance Department (Consumer Rights Protection Department) of the Bank since September 2018. From February 2018 to September 2018, Mr. Xu served as General Manager of Personal Finance Department (Consumer Rights Protection Department) and Chief Executive Officer of Internet Centre (Online Centre). From November 2016 to February 2018, Mr. Xu served as General Manager of Personal Finance Business Department (Consumer Rights Protection Department) and General Manager of Network Channel Department. From March 2016 to November 2016, Mr. Xu served as General Manager of Personal Finance Department (Consumer Rights Protection Department). From September 2015 to March 2016, Mr. Xu served as Secretary of Party Committee and the CEO of Pacific Credit Card Centre. From October 2004 to September 2015, Mr. Xu served as Secretary of Party Committee and CEO for Domestic Business of Pacific Credit Card Centre. From July 2002 to October 2004, Mr. Xu served as Deputy General Manager of Computer Department of the Bank. From September 1995 to July 2002. Mr. Xu served as Deputy General Manager of IT Department of Hong Kong Branch of the Bank. From April 1991 to September 1995, Mr. Xu also served as Principal Staff of the Computer Department of the Bank. Mr. Xu obtained his Master's Degree in Engineering in Shanghai University of Technology in 1991.

- **Mr. Tu Hong**, Chief Business Officer (Inter-bank and Market Business Sector). Mr. Tu has been Chief Business Officer (Interbank and Market Business Sector) since September 2018 and General Manager of Financial Institution Department of the Bank since August 2018, and the Chairman of BoCom Asset Management Limited Liability Company since June 2019. Mr. Tu served as Chief Executive Officer of Global Markets Department of the Bank from July 2014 to November 2018 (during which he concurrently served as Chief Executive Officer of Asset Management Business Centre from February 2016 to September 2016). Mr. Tu held various positions in the Bank from November 2000 to July 2014, including Deputy General Manager of Guangzhou Branch, Deputy General Manager of International Business Department, General Manager of New York Branch, General Manager of Financial Market Department, Chief Executive Officer of Financial Market Business Centre/Precious Metals Business Centre. Mr. Tu also held various positions in the Bank from August 1989 to November 2000, including credit clerk of Overseas Business Department of Beijing Branch, Deputy Section Chief and Deputy Manager of Foreign Exchange and Deposit Department, Vice Chairman and Deputy General Manager of the Preparatory Committee of Sanyuan Sub-branch, Deputy Manager of the Foreign Exchange Credit Department and Division Chief of the General Administration of Foreign Exchange Business. Mr. Tu obtained his Bachelor's Degree in Economics from Renmin University of China in 1989 and Master's Degree in Economics from Fudan University in 1998.

- **Mr. Ng Siu On**, BoCom-HSBC Strategic Cooperation Consultant. Mr. Ng has been BoCom-HSBC Strategic Cooperation Consultant since March 2013. Mr. Ng held various positions in HSBC including Regional Director of the New Territories of HSBC Hong Kong, Associate Vice President and General Manager of the Canadian Toronto Branch Network of HSBC Bank, Deputy General Manager and Director of Branches of HSBC's Area Office China, Senior Manager of Commercial Banking, Director of Medium-sized Enterprises Business, Head of Corporates of HSBC's Commercial Banking in Hong Kong and Special Consultant for HSBC's Asia-Pacific CEO on Greater China business from June 1989 to March 2013. Mr. Ng currently also serves as Honorary Advisor of the Hong Kong Institute of Bankers. Mr. Ng obtained his MBA's degree from the Chinese University of Hong Kong in 1984.

IV. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(I) Changes in Directors and Senior Management

On 13 December 2019, the Board of Directors of the Bank elected Mr. Ren Deqi as Chairman of the Board of Directors of the Bank. On the same day, Mr. Ren Deqi resigned as President of the Bank. Before the appointment of the new president by the Board of Directors who should be approved by the CBIRC, Mr. Ren Deqi, on behalf, performed the duties of the President. On 16 January 2020, the CBIRC approved Mr. Ren Deqi's appointment as Chairman of the Board of Directors of the Bank. On the same day, Mr. Ren Deqi would no longer serve as Vice Chairman of the Board of Directors of the Bank.

(II) Newly Elected/Appointed Directors, Supervisors and Senior Management

Name	Position	Change	Beginning and ending dates of term
Chan Siu Chung	Non-executive Director	Elected	October 2019 – date of 2021 Annual General Meeting
Song Hongjun	Non-executive Director	Elected	August 2019 – the same as above
Chen Junkui	Non-executive Director	Elected	August 2019 – the same as above
Shi Lei	Independent Non-executive Director	Elected	December 2019 – the same as above
Zhang Minsheng	Shareholder Supervisor	Elected	March 2020 – the same as above
Feng Xiaodong	Shareholder Supervisor	Elected	June 2019 – September 2019
Chen Hanwen	External Supervisor	Elected	June 2019 – date of 2021 Annual General Meeting
Wang Xuewu	Employee Supervisor	Elected	June 2019 – the same as above
Yin Jiuyong	Executive Vice President	Appointed	September 2019 – September 2022
Lyu Jiajin	Executive Vice President	Appointed	January 2019 – January 2022

(III) Resigned/Retired Directors, Supervisors and Senior Management

Name	Ex-position	Change	Beginning and ending dates of term
Peng Chun	Ex-Chairman of the Board of Directors and Ex-Executive Director	Resigned (due to job assignment)	November 2013 – April 2019
Peter Wong Tung Shun	Ex-Vice Chairman of the Board of Directors and Ex-Non-executive Director	Retired (due to election of new session of the Board of Directors)	August 2005 – June 2019
Wu Wei	Ex-Executive Director, Ex-Executive Vice President and Ex-Chief Financial Officer	Resigned (due to job assignment)	Term of Office as Director: January 2019 – August 2019 Term of Office as Senior Management: September 2017 – August 2019
Helen Wong Pik Kuen	Ex-Non-executive Director	Resigned (due to personal reasons)	August 2016 – August 2019
Liu Hanxing	Ex-Non-executive Director	Retired (due to election of new session of the Board of Directors)	August 2016 – June 2019
Luo Mingde	Ex-Non-executive Director	Retired (due to election of new session of the Board of Directors)	October 2016 – June 2019
Yu Yongshun	Ex-Independent Non-executive Director	Retired (due to election of new session of the Board of Directors)	August 2013 – June 2019
Song Shuguang	Ex-Chairman of the Board of Supervisors	Resigned (due to job assignment)	June 2014 – January 2019
Gu Huizhong	Ex-Shareholder Supervisor	Retired (due to election of new session of the Board of Directors)	August 2010 – June 2019
Zhao Yuguo	Ex-Shareholder Supervisor	Retired (due to election of new session of the Board of Directors)	June 2016 – June 2019
Liu Mingxing	Ex-Shareholder Supervisor	Retired (due to election of new session of the Board of Directors)	June 2016 – June 2019
Zhang Lili	Ex-Shareholder Supervisor	Retired (due to election of new session of the Board of Directors)	June 2016 – June 2019
Feng Xiaodong	Ex-Shareholder Supervisor	Resigned (due to personal reasons)	June 2019 – September 2019
Xu Ming	Ex-Employee Supervisor	Retired (due to election of new session of the Board of Directors)	June 2016 – June 2019
Fu Wanjun	Ex-Chief Business Officer (Corporate and Institutional Business Sector)	Resigned (due to job assignment)	September 2018 – March 2019

V. CHANGES IN INFORMATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(I) Directors

Mr. Chen Junkui serves as Supervisor of China Tobacco Machinery Group LLC, China Tobacco International Co., Ltd. and China Tobacco Magazine House Co., Ltd.; Director of Nantong Cellulose Fibres Co., Ltd., Zhuhai Cellulose Fibres Co., Ltd. and Kunming Cellulose Fibres Co., Ltd.

Ms. Li Jian no longer served as Independent Non-executive Director of Bank of Beijing Co., Ltd. Ms. Li Jian serves as External Supervisor.

(II) Supervisor

Mr. Chen Hanwen no longer served as Independent Director of Xiamen International Bank Co., Ltd.

VI. EMOLUMENTS AND SHAREHOLDINGS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(I) Details of Emoluments and Shareholdings

Name	Position	Total taxable emoluments received during the Reporting Period (in RMB0'000)			Emoluments received from related parties or not	Class of shares	Number of shares held at the beginning of the Reporting Period (share)	Increase (or decrease) in shareholdings during the Reporting Period (share)	Number of shares held at the end of the Reporting Period (share)
		Emoluments	Other benefits	Total					
Ren Deqi	Chairman of the Board of Directors and Executive Director	57.90	20.02	77.93	–	A share	0	0	0
						H share	100,000	0	100,000
Hou Weidong	Executive Director and Executive Vice President	52.11	18.28	70.40	–	A share	80,000	0	80,000
						H share	20,000	0	20,000
Wang Taiyin	Non-executive Director	67.20	17.83	85.03	–	A share	80,000	0	80,000
						H share	50,000	0	50,000
Song Guobin	Non-executive Director	67.20	19.11	86.31	–	A share	20,000	0	20,000
						H share	0	0	0
He Zhaobin	Non-executive Director	67.20	19.11	86.31	–	A share	20,000	0	20,000
						H share	0	0	0
Chan Siu Chung	Non-executive Director	–	–	–	Yes	A share	0	0	0
						H share	49,357	0	49,357
Song Hongjun	Non-executive Director	–	–	–	Yes	A share	0	0	0
						H share	0	0	0
Chen Junkui	Non-executive Director	–	–	–	No	A share	0	0	0
						H share	0	0	0
Liu Haoyang	Non-executive Director	–	–	–	Yes	A share	0	0	0
						H share	0	0	0

Name	Position	Total taxable emoluments received during the Reporting Period (in RMB0'000)			Emoluments received from related parties or not	Class of shares	Number of shares held at the beginning of the Reporting Period (share)	Increase (or decrease) in shareholdings during the Reporting Period (share)	Number of shares held at the end of the Reporting Period (share)
		Emoluments	Other benefits	Total					
Li Jian	Independent Non-executive Director	29.22	–	29.22	–	A share	0	0	0
						H share	0	0	0
Liu Li	Independent Non-executive Director	29.22	–	29.22	–	A share	0	0	0
						H share	0	0	0
Jason Yeung Chi Wai	Independent Non-executive Director	28.17	–	28.17	–	A share	0	0	0
						H share	0	0	0
Raymond Woo Chin Wan	Independent Non-executive Director	28.17	–	28.17	–	A share	0	0	0
						H share	0	0	0
Cai Haoyi	Independent Non-executive Director	–	–	–	–	A share	0	0	0
						H share	0	0	0
Shi Lei	Independent Non-executive Director	0.58	–	0.58	–	A share	0	0	0
						H share	0	0	0
Zhang Minsheng	Shareholder Supervisor	–	–	–	Yes	A share	0	0	0
						H share	0	0	0
Wang Xueqing	Shareholder Supervisor	–	–	–	Yes	A share	0	0	0
						H share	0	0	0
Tang Xinyu	External Supervisor	–	–	–	–	A share	0	0	0
						H share	0	0	0
Xia Zhihua	External Supervisor	–	–	–	–	A share	0	0	0
						H share	0	0	0
Li Yao	External Supervisor	23.17	–	23.17	–	A share	0	0	0
						H share	0	0	0
Chen Hanwen	External Supervisor	13.72	–	13.72	–	A share	0	0	0
						H share	0	0	0
Chen Qing	Employee Supervisor	85.34	16.91	102.26	–	A share	40,000	0	40,000
						H share	20,000	0	20,000
Du Yarong	Employee Supervisor	84.05	16.91	100.96	–	A share	60,000	0	60,000
						H share	20,000	0	20,000
Guan Xingshe	Employee Supervisor	79.99	16.91	96.90	–	A share	0	0	0
						H share	0	0	0
Wang Xuewu	Employee Supervisor	40.80	8.62	49.42	–	A share	25,000	0	25,000
						H share	0	0	0
Yin Jiuyong	Executive Vice President	21.71	8.15	29.86	–	A share	0	0	0
						H share	0	0	0

Name	Position	Total taxable emoluments received during the Reporting Period (in RMB0'000)			Emoluments received from related parties or not	Class of shares	Number of shares held at the beginning of the Reporting Period (share)	Increase (or decrease) in shareholdings during the Reporting Period (share)	Number of shares held at the end of the Reporting Period (share)
		Emoluments	Other benefits	Total					
Lyu Jiajin	Executive Vice President	52.11	19.57	71.68	–	A share	0	0	0
						H share	0	0	0
Guo Mang	Executive Vice President	52.11	19.58	71.69	–	A share	50,000	0	50,000
						H share	0	0	0
Gu Sheng	Secretary of the Board of Directors	100.00	16.01	116.01	–	A share	66,100	0	66,100
						H share	21,000	0	21,000
Xu Han	Chief Business Officer (Retail and Private Business Sector)	100.00	17.83	117.83	–	A share	50,000	0	50,000
						H share	30,000	0	30,000
Tu Hong	Chief Business Officer (Interbank and Market Business Sector)	100.00	17.83	117.83	–	A share	0	0	0
						H share	50,000	0	50,000
Ng Siu On	BoCom-HSBC Strategic Cooperation Consultant	–	–	–	Yes	A share	0	0	0
						H share	30,000	0	30,000
Directors, Supervisors, Senior Management resigned/retired									
Peng Chun	Ex-Chairman of the Board of Directors and Ex-Executive Director	14.48	4.49	18.96	–	A share	250,000	0	250,000
						H share	50,000	0	50,000
Peter Wong Tung Shun	Ex-Vice Chairman of the Board of Directors and Ex-Non-executive Director	–	–	–	Yes	A share	0	0	0
						H share	0	0	0
Wu Wei	Ex-Executive Director, Ex-Executive Vice President and Ex-Chief Financial Officer	30.40	10.49	40.89	–	A share	96,000	0	96,000
						H share	20,000	0	20,000
Helen Wong Pik Kuen	Ex-Non-executive Director	–	–	–	Yes	A share	0	0	0
						H share	0	0	0
Liu Hanxing	Ex-Non-executive Director	–	–	–	Yes	A share	0	0	0
						H share	0	0	0
Luo Mingde	Ex-Non-executive Director	–	–	–	–	A share	0	0	0
						H share	0	0	0
Yu Yongshun	Ex-Independent Non-executive Director	–	–	–	–	A share	0	0	0
						H share	0	0	0
Song Shuguang	Ex-Chairman of the Board of Supervisors	4.83	1.66	6.49	–	A share	130,000	0	130,000
						H share	50,000	0	50,000
Gu Huizhong	Ex-Shareholder Supervisor	–	–	–	–	A share	0	0	0
						H share	0	0	0

Name	Position	Total taxable emoluments received during the Reporting Period (in RMB0'000)			Emoluments received from related parties or not	Class of shares	Number of shares held at the beginning of the Reporting Period (share)	Increase (or decrease) in shareholdings during the Reporting Period (share)	Number of shares held at the end of the Reporting Period (share)
		Emoluments	Other benefits	Total					
Zhao Yuguo	Ex-Shareholder Supervisor	-	-	-	Yes	A share	0	0	0
						H share	0	0	0
Liu Mingxing	Ex-Shareholder Supervisor	-	-	-	Yes	A share	0	0	0
						H share	0	0	0
Zhang Lili	Ex-Shareholder Supervisor	-	-	-	Yes	A share	0	0	0
						H share	0	0	0
Feng Xiaodong	Ex-Shareholder Supervisor	-	-	-	Yes	A share	0	0	0
						H share	0	0	0
Xu Ming	Ex-Employee Supervisor	41.66	8.29	49.96	-	A share	70,000	0	70,000
						H share	0	0	0
Fu Wanjun	Ex-Chief Business Officer (Corporate and Institutional Business Sector)	24.99	4.27	29.26	-	A share	71,300	(10,000)	61,300
						H share	0	0	0

Note:

1. In 2019, for the Bank's Directors, Supervisors and Senior Management personnel managed by the Central Government, the remuneration was strictly determined in accordance with central financial enterprise remuneration measurement specifications for person in charge. The final remuneration of them in 2019 are now subject to confirmation and the rest of which will be disclosed when confirmed.
2. Employee Supervisors of the Bank receive remunerations as employees of the Bank, while receiving no remuneration from the Bank as Employee Supervisors.
3. In this table, the total pre-tax remuneration received by all directors, supervisors and senior management personnel (excluding resigned/retired Directors, Supervisors and Senior Management) during the Reporting Period was RMB14.3267 million.

Additionally, Mr. Chan Siu Chung, Director of the Bank, held 98 shares of H shares of BoCom International Holdings Company Limited. Saved as disclosed above, as at the end of Reporting Period, none of the Bank's Directors, Supervisors or Chief Executives had or was deemed to have any interests or short positions in the shares, underlying shares and debentures of the Bank or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be filed to the Bank and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were required to be recorded in the register as kept pursuant to section 352 of the SFO, or which were required, pursuant to the *Model Code* to be filed to the Bank and the Hong Kong Stock Exchange.

(II) Remuneration Decision-making Process and the Deciding Factors

The remuneration decision-making process for Directors, Supervisors and Senior Management: According to the corporate governance procedure, the remuneration plan for Directors and Senior Management is drafted by Personnel & Remuneration Committee and is submitted to the Board of Directors for review. Furthermore, the Directors' remuneration is required to be submitted to the Shareholders' General Meeting for review and approval. Supervisors' remuneration plan is submitted to the Board of Supervisors for review by Nomination and Remuneration Committee of the Board of Supervisors. After the review by the Board of Supervisors, such plan is submitted to the Shareholders' General Meeting for final review and approval.

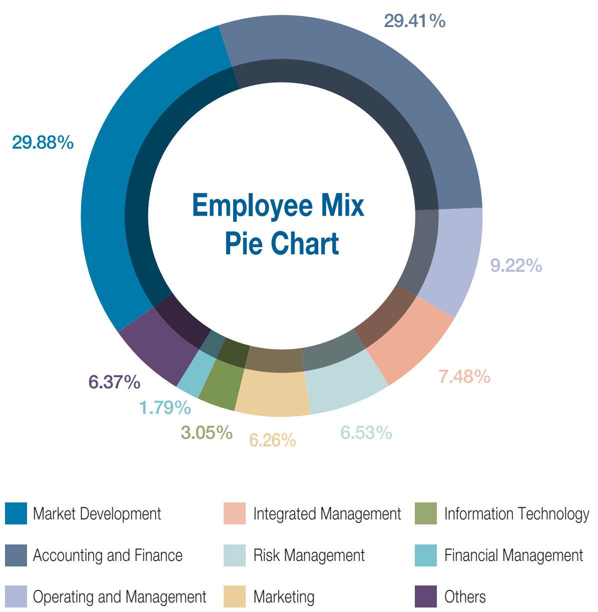
The annual performance-based remuneration for Directors, Supervisors and Senior Management is determined in accordance with relevant requirements of the government and the Bank's performance measurement. For the Bank's Directors, Supervisors and Senior Management personnel managed by the central government, the remuneration is strictly determined in accordance with National financial enterprise remuneration measurement specifications for persons in charge. For the Bank's Directors, Supervisors and Senior Management who are not managed by the central government but receiving remuneration from the Bank, the remuneration consists of the basic annual salary, annual performance bonus and other benefits. In order to balance the incentives and risk constraints, certain portion of the annual performance bonus will be subject to deferred payment in the next three years, which is supposed to be paid by 1/3 each year.

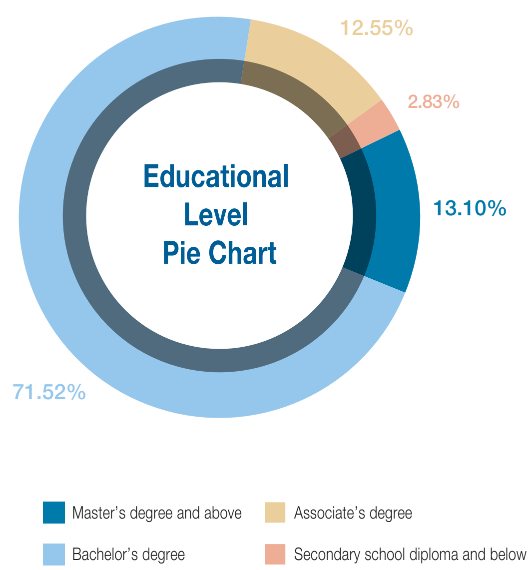
VII. HUMAN RESOURCE MANAGEMENT

(I) Information of Employees

As at the end of the Reporting Period, the Bank had a total of 87,828 domestic and overseas employees, of whom 85,324 employees were based in domestic branches and 2,504 were local employees in overseas branches. There were 3,284 employees in the Bank's major subsidiaries. For employees in domestic institutions, 30,008 employees held professional and technical qualifications, of which 543 employees held senior professional and technical qualifications, accounting for approximately 0.64%. 15,790 employees held intermediate professional and technical qualifications, accounting for approximately 18.51%. 13,675 employees held junior professional and technical qualifications, accounting for approximately 16.03%.

As at the end of the Reporting Period, the number of retired employees that the Bank had obligation to bear the cost to was 2,537.





	31 December 2019					
	Assets (in millions of RMB)	**Proportion (%)**	**Number of Entities**	**Proportion (%)**	**Number of employees**	**Proportion (%)**
Northern China	1,219,762	12.31	458	14.55	11,344	12.92
North Eastern China	344,260	3.48	377	11.98	8,898	10.13
Eastern China	2,814,349	28.41	1,103	35.05	33,902	38.60
Central and Southern China	1,519,238	15.34	662	21.04	18,276	20.81
Western China	708,382	7.15	478	15.19	10,018	11.41
Overseas	1,100,223	11.11	68	2.16	2,504	2.85
Head Office	4,029,099	40.67	1	0.03	2,886	3.28
Eliminated and unallocated assets	(1,829,713)	(18.47)	–	–	–	–
Total	(9,905,600)	(100.00)	3,147	100.00	87,828	100.00

Note: The number of employees in the Head Office excluded the employees in Pacific Credit Card Centre.

(II) Remuneration Policy

Under the requirement of deepening reform by the State, the Bank actively promoted the mechanism innovation of employment, remuneration and assessment. The Group continued to optimise the remuneration management system which was based on "position and the integration of position value and performance value". The Bank adhered to consistency of efficiency with fairness, optimised the allocation model of remuneration resources, guided and maximised value creation, and improved capabilities. Besides, the Bank insisted on the guidance of responsibility, grass-root and performance, focused on the precise motivation of key groups and stimulated innovation and vitality of grass-roots units. Based on the risk accountability system, the Bank continued to improve the deferred payment system for the performance based incentives of the employees in key positions on corporate governance and risk management for the purpose of stable operation and sustainable development. In addition to basic social pension and insurance, the Bank cared the staff and implemented the supplementary benefits such as annuity.

(III) Performance Management

In response to the deepening reform in employment, remuneration and performance measurement and for the objectives of strategic development, the Bank further optimised the performance evaluation system and assessment procedures. The Bank focused on profit oriented performance measurement principle, enhanced synergy of performance measurement among business units, guided management departments to strengthen service support and facilitate collaboration between the Head Office and branches of the Bank. The Group continuously promoted professional manager system, improved assessment of professional managers and emphasised more restricted incentives for the key position staff. Based on product profitability and electronic performance measurement platform and strategy, the Group clearly recorded and demonstrated the employees' performance, which fully motivated the employees.

(IV) Training Management

To implement the guiding principles of the *Rules on Cadre Education and Training Work* and *the National Cadre Education and Training Plan 2018-2022* of the Central Government, the Group deepened efforts to upgrade procedures and build systems, optimise institutional mechanism and strengthen reform and innovation by focusing on the "186" strategic landscape and combining the implementation and rectification of theme education that lays emphasis on ideals, Party spirit education and capability development, and targets at the cultivation of a high-quality professional cadre team. The Group also insisted on running classes in an open-door way, consolidated infrastructure construction, and comprehensively improved the quality of education and training, which provided strong guarantees on ideology and politics, talents and intelligence for deeper reform, transformation and development of the Bank.

The Group continued to deepen study and education of Xi Jinping Thought on Socialism with Chinese Characteristics for a new era, and vigorously improve education and training on political theory, Party spirit and expertise of cadre staff. Efforts were made to hold training sessions themed "Keeping in Mind the Party's Founding Mission" to help the participants remain true to the original aspiration and keep the mission firmly in mind and improve the ability to serve the real economy and manage risks. Various training sessions were conducted to strengthen the development of cadres' political abilities, including seminars for principals in charge of Bank's institutions, Party building training for newly appointed Secretary of Party Committee in Bank's institutions, and key task trainings for Party building work. Training classes were offered to Grade D cadres and above levels to strengthen the education on ideals, beliefs, purposes of young cadres. Sticking closely to the "186" strategic landscape, the Group conducted various professional trainings, including "Elite Plan" for outstanding integrated network leaders and pilot classes for network leaders.

The Group strengthened the overall management of education and training, and further optimised the education and training system and mechanism. The Group formulated the *Cadre Education and Training Plan of BoCom 2018-2022, Opinions on Education and Training Cadres and Staff of BoCom in 2019*, and *Online Education Highlights of BoCom in 2019*, and revised the *Management Measures on Education and Training of BoCom* to further step up the standardisation, institutionalisation and scientific level of education and training across the Bank.

The Group promoted the reform and innovation of education and training to achieve sustainable improvement in the scientific level of education and training. The Group facilitated the establishment of four specialised branches of Finance College of Bank of Communications, i.e., corporate, retail, interbank, and risk, in an effort to integrate training into businesses. The Group vigorously promoted education in an open-door and open-up way, and signed strategic cooperation agreements with well-known colleges and universities to complement each other's advantages and accelerate value creation. The Group also innovated training approaches by bringing case-based, seminar-based and field-based teaching into key training programmes, and utilising technologies to advance online and offline integrated training, and to promote training quality and efficiency.

During the Reporting Period, the Bank organised cadre training for nearly 1.05 million staffs, including off-job training for over 0.34 million staffs and online training for over 0.71 million staffs. The Group had 2,335 certified part-time trainers, over 300 core courses and over 7,800 online courses. Staff satisfaction rate of major project courses was 97.6%. The development of training system was further deepened and the capacity of teachers, courses and bases were further enhanced. The work of education and training achieved high-quality development.

(V) Talent Training and Reserve

The Group took concrete steps to step up the construction of various talent teams. The Group issued the *Opinions on Further Strengthening the Cultivation of Fintech Talents,* and launched three major projects, of "Fintech Management Trainees", "10,000 Fintech Talent Plan" and "Empowerment Transformation of Existing Talents" to strengthen the supply-side reform of the Fintech talent team, driving the transformation and development across the Bank through technology empowerment and the integration of businesses and technologies. The Group also revised the *Administrative Measures for Grading of Experts in Bank of Communications*, which insisted on the orientation of responsibility, grass-root level and performance, and enabled a dual-way occupational development channel of expert grading and management grading, to help young talents to stand out and maintain vitality among cadre talents. Efforts were made to meet non-financing special authorisation requirements, and fulfil the requirements of "Delegation, Regulation, Service", based on which, the Group granted provincial branches, overseas branches (subsidiary banks), subsidiaries, financial service centres, credit card centres, technical management departments, and other units to independently carry out expert evaluation and employment. Forty-nine operating institutions have formulated detailed rules for expert evaluation and employment, and employed over 200 experts. Nine talents were listed as leading financial talents and young financial talents of Shanghai Financial System, and one was listed as Shanghai Leading Talents.

The Group continuously pushed forward the building of international talent teams. Under the strategy of internationalisation and the requirements for overseas talent team building, the Group continued to enhance the team building of Grade C/B international talents and reserves by consolidating talent reserve base, optimising talent team structure. The Group continued to develop talents in areas including risk compliance, credit review, information technology and minority language which enabled us to satisfy the needs of overseas institutions for international talents of various levels and types. The Group completed the selection and training for more than 190 international talents and delivered about 90 professionals and talents with minority languages to overseas institutions from 2016 to 2019.

(VI) Employee Pension Scheme

Details of the Group's employee pension scheme are set out in Note 12 to the Consolidated Financial Statements.

REPORT OF THE BOARD OF DIRECTORS

The Board of Directors hereby presents its report and the audited Consolidated Financial Statements of the Group for the fiscal year 2019.

I. PRINCIPLE ACTIVITIES

The Group was principally engaged in the banking and related financial services. Please refer to Note 45 to the Financial Statements for the Group's operating results by business segments for the year.

Please refer to the section of "Management Discussion and Analysis on Operations" for a true and fair review of the Group's business and analysis using financial key performance indicators, a description of the key risks and uncertainties faced by the Group and discussion of potential future development in the Group's business. Please refer to the section of "Significant Events" for the important events of the Group that occurred since the end of the Reporting Period.

II. SUMMARY OF FINANCIAL INFORMATION

Please refer to the section of "Financial Highlights" for the summary of the operating performance, assets and liabilities for the past three years.

III. RESULTS AND PROFIT DISTRIBUTION

1. Please refer to the Consolidated Statement of Profit or Loss and Other Comprehensive Income on page 176 for the operating performance of the Group during the Reporting Period.
2. Please refer to Note 35 of the Consolidated Financial Statements for the details of the Group's undistributed profits as at the end of the Reporting Period.
3. There was no plan of the Bank regarding bonus shares and conversion of capital reserve to share capital for the past three years. Details of ordinary share cash dividend distributions are as follows:

(in millions of RMB unless otherwise stated)

Year of dividend distribution	Cash dividends per 10 shares (before tax, RMB)	Amount of cash dividends (before tax)	Net profit distributable to shareholders of the Bank	Proportion of total amount of cash dividends in net profit distributable to shareholders of the Bank (%)
2019	3.15	23,393	74,610	31.35
2018	3.00	22,279	71,012	31.37
2017	2.856	21,209	67,530	31.41

Note: The dividend distribution plan of ordinary shares for the year of 2019 shall be subject to the consideration and approval at the Shareholders' General Meeting of the Bank.

4. Please refer to the section of "Information of Preference Shares" for the result of preference share dividend distributions.

5. The formulation, implementation or adjustment of the cash dividend policy.

The *Articles of Association* clearly stated that the Bank may distribute dividends in cash or shares. The profit distribution of the Bank should focus on the reasonable return for investors. The profit distribution policy should maintain its continuity and stability. Unless under special circumstances, the Bank should distribute dividends mainly in cash if it records profit in the year and the accumulated undistributed profits are positive. The total profit distributed in cash for each year should not be less than 10% of the Group's net profit that are available to distribute to shareholders of the Bank.

The profit distribution policy of the Bank is in compliance with the *Articles of Association* as well as the approval procedures. The policy, which was commented by Independent Directors, fully protects the legitimate rights and interests of medium and small investors and has clear standards on dividend distributions and dividend distribution ratio. The conditions and procedures of the adjustments and modification on the profit distribution policy are in compliance with relevant requirements and transparent.

IV. CAPITAL RESERVE

Please refer to Page 179 in the Consolidated Statement of Changes in Equity for the details on the movements of capital reserve of the Group during the Reporting Period.

V. CHARITABLE DONATIONS

Charitable donations made by the Group during the Reporting Period amounted to RMB43.3471 million[1].

VI. FIXED ASSETS

Please refer to Note 24 to the Consolidated Financial Statements for the details of changes in the Group's fixed assets during the Reporting Period.

VII. PUBLIC FLOAT

During the Reporting Period and for the period up to the latest practicable date prior to the publication of this Annual Report, the Bank kept on fulfilling the public float requirements in compliance with the Hong Kong Listing Rules, based on the information that was publicly available to and within the knowledge of the Directors.

VIII. DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

None of the Directors or Supervisors of the Bank entered into any service contracts with the Bank, which would entail compensation if terminated within one year (other than statutory compensation).

1 Including personal donations of employees.

IX. INTERESTS OF DIRECTORS AND SUPERVISORS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

Other than the results disclosed in the section of "Continuing Connected Transactions" in the report of the Board of Directors, during the Reporting Period or as at the end of the Reporting Period, neither the Bank's Directors or Supervisors, nor their connected entities had any direct or indirect material interests in any transactions, arrangements or contracts of significance set up by the Bank or any of its subsidiaries.

X. MANAGEMENT CONTRACT

During the Reporting Period, the Bank neither entered into nor held any contracts concerning the management and administration of the whole or any substantial part of the Bank's businesses.

XI. INTERESTS OF DIRECTORS IN COMPETING BUSINESS OF THE BANK

Except as disclosed in the section of "Directors, Supervisors, Senior Management and Human Resource Management", none of the Directors of the Bank held any interests among the businesses that directly or indirectly competed or were likely to compete with the Bank.

XII. REMUNERATION POLICY OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Please refer to the section of "Remuneration Decision-making Process and the Deciding Factors" on page 112.

XIII. RELATIONSHIP AMONG DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

There was no financial relationship, business relationship, family relationship or any other significant relationship subject to disclosure among Directors, Supervisors and Senior Management of the Bank.

XIV. PURCHASE, SALE OR REPURCHASE OF THE BANK'S LISTED SECURITIES

For details of the purchase, sale or repurchase of the Bank's listed securities by the Bank and its subsidiaries during the Reporting Period, please refer to the notes to the financial statements.

XV. PRE-EMPTIVE RIGHTS AND SHARE OPTION ARRANGEMENTS

There were no provisions regarding pre-emptive rights of the shareholders under the *Articles of Association* or relevant laws and regulations of the People's Republic of China and the Bank did not have any arrangements with respect to the share options.

XVI. RIGHTS OF DIRECTORS AND SUPERVISORS TO SUBSCRIBE FOR SHARES OR DEBENTURES

During the Reporting Period or as at the end of the Reporting Period, the Bank or its subsidiaries did not enter into any agreements or arrangements which enabled the Directors or Supervisors to acquire benefits by means of the acquisition of shares or debentures of the Bank or any other legal entities.

XVII. MAJOR CUSTOMERS

During the Reporting Period, the total interest income and other operating income from the 5 largest customers of the Group accounted for less than 30% of the Group's total interest income and other operating income.

XVIII. CONTINUING CONNECTED TRANSACTIONS

(I) The Interbank Transactions Master Agreement (hereinafter referred to as "the Agreement")

HSBC is a substantial shareholder of the Bank. Therefore, HSBC together with its subsidiaries are all connected persons of the Bank. The Group regularly engaged in various transactions in the normal course of banking businesses with HSBC Group, including but not limited to the interbank loan and borrowing transactions, the transactions of bonds, money market, foreign currency and swaps and options. To regulate the continuing transactions mentioned above, the Bank entered into the Agreement with HSBC in 2005, which was subsequently renewed in 2008, 2011, 2014 and 2017 respectively.

The Bank and HSBC renewed the Agreement on 28 April 2017 for the period of three years from 1 June 2017 to 31 May 2020. There was no fixed price or rate for the transactions under the Agreement. However, the parties agreed that when conducting transactions in accordance with the Agreement, if there were applicable laws and regulations, or provisions and notices issued by regulatory authorities fixing the prices or rates, such fixed price or rate shall be adopted. If there was no fixed price or rate, reference will be made to the prevailing market prices and it shall be determined on an arm's length basis and on normal commercial terms for open market transactions. For other types of transactions, it shall be determined, on an arm's length basis and on normal commercial terms, with reference to the prices or rates (if applicable) the parties would quote to each other or to independent counterparties with equivalent credit worthiness with respect to the particular type of transaction concerned and the risk management policies of both parties with respect to the transactions concerned.

In 2019, the annual caps of the continuing connected transactions under the Agreement: 1. The annual caps of the realised gains and losses and the unrealised gains and losses were all RMB9.703 billion. 2. The annual caps of fair value of the foreign currency transactions, swap and option transactions with the HSBC Group (regardless whether recorded as assets or liabilities) were RMB19.700 billion. During the Reporting Period, the continuing connected transactions under the Agreement were as follows: 1. The realised gains and losses and the unrealised gains and losses (depending on the situation) were RMB4.391 billion, RMB3.590 billion, RMB0.075 billion and RMB0.889 billion respectively. 2. The fair value of the foreign currency transactions, swap and option transactions with the HSBC Group (regardless whether recorded as assets or liabilities) were RMB-0.262 billion.

(II) During the Reporting Period, the Balance of Transactions between the Group and HSBC Group are as follows:

1. As at the end of the Reporting Period, the aggregated balance of deposits placed with loans made to the HSBC Group by the Group were RMB1.302 billion. The aggregated balance of bond investments were RMB6.187 billion. The interest income arising from these deposits, loans and bond investments were RMB0.231 billion in 2019. Net gains arising from bonds trading activities in 2019 were RMB0.030 billion. The aggregated balance of certificates of deposit issued, deposits placed with, loans and precious metal made to the Group by the HSBC Group were RMB35.784 billion. The interest expenses arising from deposits, loans, certificates of deposit issued and precious metal were RMB1.535 billion.

2. As at the end of the Reporting Period, the Group recorded the derivative transactions in nominal principle with HSBC Group off-balance sheet amounted to RMB161.086 billion. The balances of the derivative assets and derivative liabilities were RMB0.798 billion and RMB0.979 billion respectively. The net loss arising from the derivative transactions were RMB0.335 billion in 2019.

Pursuant to Rule 14A.87(1) and Rule 14A.90 of the Hong Kong Listing Rules, the interbank loan and borrowing transactions contemplated under the Agreement are exempted from the requirements of declaration, annual review, announcement and independent shareholders' approval.

(III) Independent Non-Executive Directors' Annual Review of the Non-Exempt Continuing Connected Transactions

Upon detailed review of the continuing connected transactions in 2019, all of the Independent Non-executive Directors of the Bank considered that the continuing connected transactions are as follows: 1. In the ordinary course of businesses of the Group. 2. Under normal or more favourable commercial terms. 3. In accordance with the Agreement and on terms that are fair and reasonable and in the interests of the shareholders of the Bank as a whole.

(IV) The Auditors' Annual Review of the Non-Exempt Continuing Connected Transactions

The auditors issued a letter to the Board of Directors in respect of the continuing connected transactions in 2019 confirming the follows: 1. The non-exempt continuing connected transactions were approved by the Board of Directors. 2. The non-exempt continuing connected transactions were in accordance with the pricing policies of the Bank. 3. The non-exempt continuing connected transactions were conducted in accordance with the terms of the Agreement. 4. The actual transaction amount of the non-exempt continuing connected transactions in 2019 did not exceed their respective caps.

(V) The Bank confirmed that the specific agreements under the continuing connected transactions during the Reporting Period were entered into and executed in accordance with the pricing principles of such continuing connected transactions.

(VI) Save as disclosed above, no related party transaction or continuing related party transaction set out in Note 44 to the Consolidated Financial Statements that constitutes the connected transaction or continuing connected transaction requirements to be disclosed under the Hong Kong Listing Rules. Regarding the non-exempt connected transaction and continuing connected transactions, the Bank complied with the disclosure requirements as specified in Chapter 14A of the Hong Kong Listing Rules.

XIX. ISSUANCE OF SHARES AND DEBT SECURITIES

For the issuance of debt securities by the Bank, please refer to the Note 31 to the Consolidated Financial Statements. Except for those disclosed above and in this Annual Report, during the Reporting Period, neither the Bank nor any of its subsidiaries issued, redeemed or granted convertible debt securities, options, warrants or other similar rights.

XX. PERMITTED INDEMNITY PROVISION

Subject to the applicable laws and the coverage of insurance of Directors' liabilities of the Bank placed for the Directors, each Director of the Bank will be entitled to be indemnified against all costs, charges, losses, expenses and liabilities incurred by him or her in the execution and discharge of his or her duties or in relation thereto. Such provisions were in force during the Reporting Period and remained in force as of the date of this Annual Report.

XXI. ENVIRONMENT POLICIES AND PERFORMANCE

Please refer to the section "Corporate Social Responsibilities" in this report for the details.

XXII. COMPLIANCE WITH LAWS AND REGULATIONS

The Group needs to comply with the laws and regulation, mainly including *Company Law of the People's Republic of China, Commercial Bank Law of the People's Republic of China, Contract Law of the People's Republic of China, Property Law of the People's Republic of China, Labour Law of the People's Republic of China, Banking Supervision Law of the People's Republic of China, Implementation Measures of the China Banking Regulatory Commission for the Administrative Licensing Items Concerning Chinese-Funded Commercial Banks,* domestic and overseas laws and exchange regulations (i.e. *Securities Law of the People's Republic of China, Stock Listing Rules of the Shanghai Stock Exchange, Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, Securities and Futures Ordinance* (CAP.571)) and aforementioned laws, regulations and rules.

The Group ensures adhering to the laws, regulations and legal documents (especially those having significant impacts on the business) through internal controls, compliance management, business inspection and employee training. The Group will notify related employees and operating teams if there are significant changes in business-related laws, regulations and legal documents.

During the Reporting Period, to the knowledge of the Bank's Directors, the Group had no violation of related laws and regulations which would have significant effects on the Group.

XXIII. RELATIONSHIP WITH EMPLOYEES, SUPPLIERS AND CUSTOMERS

The Group devotes to maintaining the long-term sustainable development, continuously creating value for employees and customers and maintaining good relationship with suppliers. The Group clearly understands that employees are valuable assets. For details regarding the training management of Group's employees, talent training and reserve and remuneration, etc., please refer to "Directors, Supervisors, Senior Management and Human Resource Management" in this report.

Emphasising on supplier selection, the Group encourages fair and public competition and intends to establish the long-term cooperation relationship with high-quality suppliers based on mutual trust. Based on the core value of integrity, the Group devotes to providing better financial services and creating a reliable service environment for customers. During the Reporting Period, the Group had no important and material dispute with its suppliers and/or customers.

XXIV. LIST OF DIRECTORS

Please refer to "Members of the Board of Directors" in the section of "Directors, Supervisors, Senior Management and Human Resource Management" for the list of Directors during the Reporting Period and as at the date of this Annual Report (unless otherwise stated).

The aforementioned sections, reports and notes form an integrated part of the Report of Board of Directors.

By order of the Board of Directors
Chairman
Ren Deqi

27 March 2020

REPORT OF THE BOARD OF SUPERVISORS

During the Reporting Period, the Board of Supervisors of the Bank aimed at protecting the legitimate rights of the commercial bank, shareholders, employees, creditors and other stakeholders, based on the regulations of the *Guidelines on the Corporate Governance of Commercial Banks, the Guidelines on the Duties of the Board of Supervisors of Commercial Banks* and the Articles of Association. The Board of Supervisors serves its supervision functions in accordance with the laws and regulations, objectively, fairly, scientifically and efficiently. The report of our work is as follows:

I. MAIN RESPONSIBILITIES OF THE BOARD OF SUPERVISORS

(I) Performed supervision responsibilities according to laws and regulations with orderly operation of the Board of Supervisors

1. Held and attended according to the laws and regulations. The Board of Supervisors held 7 meetings throughout the year. The attendance rate of Supervisors was 94.81%, which met the regulatory requirements and the provisions of the *Articles of Association*. The Board of Supervisors discussed 21 resolutions and 8 reports with specific topics, covering significant matters defined by laws. Three Special Committees under the Board of Supervisors held 8 meetings to provide good support for the discussion of the Board of Supervisors meetings and specific research on key matters. The Board of Supervisors attended 5 shareholder meetings, attended the meetings of the Board of Directors, meetings of special committees, as well as important meetings of the whole Bank, followed up on major decision-making and deployments in time and thoroughly understood the work progress in key areas.

2. Smoothly completed the re-election of the Board of Supervisors. In accordance with legal and regulatory requirements, the Board of Supervisors launched the re-election of the 9th Session of the Board of Supervisor at the date of 2018 Annual General Meeting, and elected special committees at the 1st meeting of the new session to ensure smooth transition and orderly operation of the Board of Supervisors. The composition of supervisors continued to be optimised. The proportion of external supervisors and employee supervisors is in compliance with the regulatory requirements.The professional and diversified background supervisors were promoted.

3. Continuously deepened the work of "four in one" supervision work. Firstly, the Board of Supervisors conducted interviews for supervision in an orderly mannerand deeply analysed major problems and underlying causes of key business organisations and key management. Secondly, the Board of Supervision constantly improved dynamic supervision by continuously following up, evaluating and monitoring important, systematic and emerging issues. Thirdly, the Board of Supervisors carried out multi-dimensional supervision, deeply analysed new operating situations and problems, and continued to focus on crucial matters such as the Bank's strategy, system and mechanism. Fourthly, the Supervisory and Coordinating Committee played active role in the coordination of supervision. The Committee held 2 meetings for the yearby discussing supervision plans for each division, analysing key issues noted in the process of supervision and promoting the solution of issues.

4. Enhanced the communication with and reporting to the supervision and inspection departments. The Board of Supervisors actively cooperated with the supervision and inspection departments, took action and reported the specific supervision topics according to the regulatory requirements.

(II) Strengthened supervision in key areas with focus on the supervision responsibility.

1. Deeply executed strategic and operation supervision. Firstly, in response to the Central Committee of Communist Party of China and the State Council's requirements with respect to financial sector's support for the real economy, the Board of Supervisors focused on the Bank's support for key areas, such as the Yangtze River Delta and the Guangdong-Hong Kong-Macao Greater Bay Area, key industries, such as manufacturing, and key clients, such as private as well as small and micro enterprises. Secondly, the Board of Supervisors conducted in-depth study on the regulatory policies and their impact on the Bank's operation and management, paid attention to the completion of MPA assessment, analysed the impact of LPR policies, and followed up the latest requirements of customers' complaints management. Thirdly, the Board of Supervisors kept track of key areas of strategic transformation, while focusing on overseas institutional transformation and the supporting effect of international business development, management of bank and financial institution customers and fund business to wealth management bank strategy. Fourthly, the Board of Supervisors attached great importance to the key stage of implementation of strategy and focused on management of asset and liability allocation, promotion of data governance, results of performance assessment reform, the effect of managerial accounting, technology empowerment, etc.

2. Carried out capital and financial supervision. Firstly, the Board of Supervisors continued to focus on the Bank's capital adequacy and capital return. Secondly, the Board of Supervisors followed up the Bank's major decision-making and implementation, deeply analysed performance of operation and management reflected by regular reports, and continuously enhances trend, inter-bank and structural analysis of financial data. Thirdly, the Board of Supervisors looked at expense management, analysing the Group's expense management plan and its implementation. Fourthly, the Board of Supervisors oversaw the fulfilment of duty with respect to external auditor.

3. Strengthened internal control and compliance supervision Firstly, the Board of Supervisors deeply analysed vulnerable links of internal controls based on issues found by regulatory authorities through the supervision and inspection of internal audit. Secondly, the Board of Supervisors constantly focused on quality and effectiveness of internal control management, supervised the evaluation of internal control, paid attention to the internal control management of operating institutions at substratum level, explored the characteristics of employees' violation against regulations, and promoted the rectification of issues. Thirdly, the Board of Supervisors focused on compliance and anti-money laundering management, evaluated key stages of the Bank's anti-money laundering management, and analysed the compliance risk trend of overseas institutions. Fourthly, the Board of Supervisors centred on information disclosure and management of related party transactions.

4. Intensified supervision over systematic and regional risks Firstly, the Board of Supervisors paid attention to the risk management system and structure, followed up and understood the reform of the risk credit management system, and paid attention to the system and structure of systemic risk and large-risk hidden danger management. Secondly, the Board of Supervisors strengthened risk supervision in key areas and focused on regional risks, interbank risks, credit card risks, risks in certain industries, and market and liquidity risks. Thirdly, the Board of Supervisors strengthened the supervision over key risk management links, paid attention to the role of risk measurement, and evaluated the main tasks and effect of consolidated management.

5. Effectively supervised and assessed duty performance. The Board of Supervisors attached importance to the process supervision, timely and thoroughly learnt about the performance of Directors and Senior Management, and formed performance evaluation comments for 17 Directors and Senior Management. According to three levels of "competent", "basically competent" and "incompetent", all were evaluated as "competent". The Board of Supervisors carefully carried out the self-evaluation of itself and its members for their duty performance, completed the evaluation report and submitted it to the regulatory authorities.

(III) Continuously improved basic construction and enhanced supervision quality and effectiveness.

1. Continued to regulate the operation of the Board of Supervisors and amplified the effectiveness of supervision. Firstly, the Board of Supervisors further clarified key matters to be supervised and reviewed. Secondly, the Board of Supervisors made scientific supervision plan and steadily promoted the supervision work, made full use of various approaches such as conference, on-site and off-site inspection to ensure comprehensive coverage and potent supervision over the Bank's key sectors and businesses. Thirdly, the Board of Supervisors took advantage of supervisors' professional abilities and specialities to improve the effectiveness of supervision.

2. Improved the construction of feedback and tracking system to form a complete cycle of supervision Firstly, the Board of Supervisors regularly allocated comments and advices of Supervisors to responsible departments to promote the implementation of supervision results and timely gave feedback of progress. Secondly, the Board of Supervisors stepped up the information feedback to the Board of Directors and Senior Management. The Board of Supervisors summed up daily supervision results in the *Report of Duties and Suggestions of the Board of Supervisors* to report to the Chairman of the Board of Directors and the President, summarised key supervisory matters for the entire year, and gave feedback in annual performance evaluation for Directors and Senior Management to implement supervisory results.

3. Improved the collection and use of supervisory information, and raised the level of supervision standardisation. Firstly, the Board of Supervisors discreetly outlined the rules of key supervision matters and made in-depth analysis, further brought supervision matters and details in order, gradually realised mathematical analysis, and improved the level of supervisory standardisation. Secondly, the Board of Supervisors opened up a channel to obtain both internal and external information, ensuring timely access of the important information of the Bank's operation and management and a good foundation for supervision.

4. Continuously strengthened self-construction and enhanced Supervisors' capability in performance Firstly, the Board of Supervisors submitted work plans, conference plans, and major reports to the Party Committee for review in accordance with requirements and effectively gave play to the role of the Party Committee in orientation, overall management, and implementation guarantee. Secondly, the Board of Supervisors organised the investigation over substratum institutions, promoted special training programmes for supervisors, increased communication with fellow institutions, and effectively enhanced supervisory professionalism of the Board of Supervisors.

II. INDEPENDENT OPINION OF THE BOARD OF SUPERVISORS ON RELEVANT MATTERS

(I) Compliance with Applicable Laws

During the Reporting Period, the Bank undertook its businesses pursuant to laws and its decision-making process was in compliance with laws, regulations and Articles of Association.

(II) Truthfulness of the Financial Statements.

The financial statements truly and fairly presented the financial position and financial performance of the Group. PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers respectively issued unqualified auditor's report on the Group's financial statements for the year of 2019 and the Board of Supervisors has no objection to the report.

(III) Use of Proceeds Raised.

During the Reporting Period, the Bank used the proceeds raised according to the purposes as disclosed in the Prospectus.

(IV) Acquisition and Disposal of Assets by the Bank.

During the Reporting Period, the Board of Supervisors was not aware of any acquisition or disposal of assets by the Bank which may harm the interests of the shareholders or which may cause impairment to the Bank's assets.

(V) Related Party Transactions.

During the Reporting Period, the Board of Supervisors was not aware of any related party transactions that would damage the interests of the Bank.

(VI) Implementation of Information Disclosure.

During the Reporting Period, the Board of Supervisors did not identify false records, misleading statements or material omissions.

(VII) Related Proposals.

The Board of Supervisors considered that the Board of Directors was well performed the resolutions of the Shareholders' General Meeting and had no objection to the proposals submitted to the Shareholders' General Meetings.

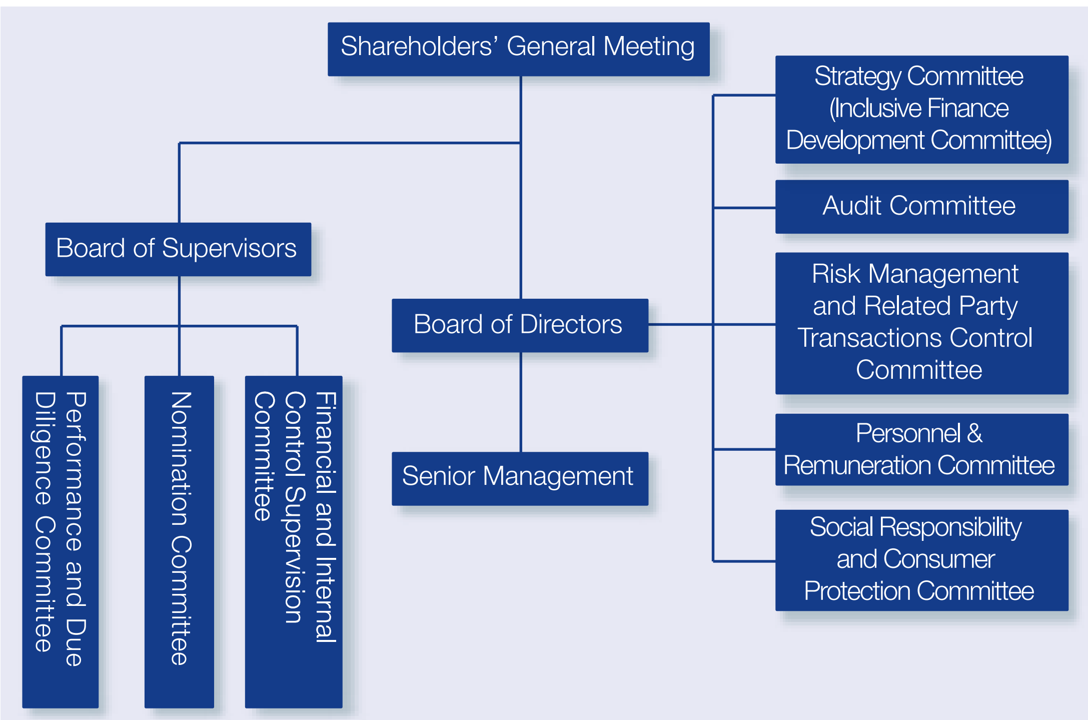
The Bank was committed to the development and improvement of its internal control system. The Board of Supervisors had no objection to the *Internal Controls Self-Appraisal Report for 2019* of the Bank.

The Bank vigorously performed its corporate social responsibility. The Board of Supervisors had no objection to the *Corporate Social Responsibility Report for 2019* of the Bank.

Standardised and effective corporate governance is the key cornerstone for the long term stable development of commercial banks, which also plays important role of preventing and mitigating financial risks, better protecting financial consumers' legitimate rights, improving financial system, promoting the governance system and capabilities. During the Reporting Period, the Bank continued to improve the supervision over the execution of corporate governance decisions and explored governance mechanism for large-scale commercial banks with Chinese characteristics based on the "core leadership by the Party Committees, strategic decision-making by the Board of Directors, the legal supervision by the Board of Supervisors and the authorised operation by Senior Management", focusing on areas including Party leadership, governance of stakeholders, Board of Directors, Board of Supervisors and Senior Management, management of risk and internal controls, related party transactions, market restriction and other beneficiaries. The Bank focused on the three major tasks of serving the real economy, preventing financial risks and deepening financial reforms to achieve the Bank's development of high-quality and protect the legitimate rights and interests of shareholders and other stakeholders. The corporate governance of the Bank strictly abided by the *Company Law*, the *Securities Law* and the requirements stipulated by the CSRC.

I. CORPORATE GOVERNANCE STRUCTURE

The Bank established a corporate governance structure comprising the Shareholders' General Meeting, the Board of Directors, the Board of Supervisors and Senior Management, with clearly defined authorities and responsibilities, balanced equilibrium and coordinated and independent operation. The corporate governance structure is as follow:



Note: Above chart shows the corporate governance structure of the Bank as at the end of the Reporting Period

II. POLICY AND MECHANISM OF CORPORATE GOVERNANCE

The Board of Directors and the Strategy Committee (Inclusive Finance Development Committee) of the Board of Directors actively fulfilled the responsibilities of corporate governance, inspected and evaluated the execution of corporate governance in due course and improved the effectiveness and completeness of corporate governance policies and mechanisms. During the Reporting Period, the Board of Directors of the Bank submitted the amendments to the *Authorisation to Board of Directors by the General Meeting of Bank of Communication Co., Ltd.* to the Shareholders' General Meeting for approval, which extended the Board of Directors' authority including bond issuance, debt investment, credit asset written-off, and external grants to better play the role of the authorised operating system in serving the real economy to improve the modern financial system. The Board of Directors approved the amendments to the *Working Code of President of Bank of Communications* and *Anti Money Laundering Management Measures of Bank of Communications*. The Board of Directors approved the *Implementation Opinions of Anti Money Laundering Management Measures of Bank of Communications and Policies of Risk Data Aggregation and Risk Management Report of Bank of Communications*, which strengthened the ultimate responsibilities of the Board of Directors in the areas of operation authorization, employee behaviour management, anti-money laundering and anti-terrorism financing and comprehensiveness risk management system.

III. SHAREHOLDERS AND SHAREHOLDERS' GENERAL MEETINGS

As at the end of the Reporting Period, the total number of issued ordinary shares of the Bank was 74,262,726,645 shares, consisting of 52.85% A shares and 47.15% H shares. There was no controlling shareholder of the Bank. The largest three shareholders, the Ministry of Finance of the People's Republic of China, HSBC, and the SSF held 17.732 billion, 14.136 billion and 12.909 billion of shares in the Bank, accounting for 23.88%, 19.03% and 17.38% respectively. The Bank was independent from all shareholders in terms of its business, employees, assets, institutions and finance and possessed the capacity of independent and complete autonomy over its business and operations. The entire businesses of the Bank listed as a whole and there was no horizontal competition or related transactions arising from certain restructuring.

Pursuant to the *Articles of Association* of the Bank, the shareholders have the right to obtain relevant information, including the *Articles of Association*, status of the share capital, minutes of the Shareholders' General Meeting, resolutions of meetings of the Board of Directors and resolutions of meetings of the Board of Supervisors. Shareholders can also make enquires to the Board of Directors through the contact information set out in the "Corporate Information" section in this Annual Report.

The Shareholders' General Meeting is the highest authority of the Bank, and exercises relevant functions in accordance with laws. Shareholders individually or jointly holding more than ten percent of the voting shares of the Bank have the right to request in written form to convene an Extraordinary General Meeting. Shareholders individually or jointly holding more than three percent of the voting shares of the Bank have the right to put forward written form proposals to the Shareholders' General Meeting. The Bank adopts multiple ways of voting, including onsite voting and online voting in order to facilitate shareholders' participation and ensure the exercise of shareholders' rights. Each substantially separated matter of the Bank is put forward as a separate resolution at the Shareholders' General Meeting and resolved by voting.

The Bank held 5 Shareholders' General Meetings in 2019, including:

– On 4 January 2019, the Bank held the 2019 First Extraordinary General Meeting in Shanghai, which reviewed and approved the proposals including the *Election of Mr. Wu Wei as an Executive Director, the Issuance of Tier 2 Capital Bonds, the 2017 Remuneration Plan of the Directors of the Bank of Communication Co, Ltd., the 2017 Remuneration Plan of the Supervisors of the Bank of Communication Co, Ltd. and the Discussion to the Authorisation to the Board of Directors by the General Meeting of Bank of Communication Co., Ltd.*

– On 20 May 2019, the Bank held the 2019 Second Extraordinary General Meeting in Shanghai, which reviewed and approved the *Proposal of the Issuance of Write-down Undated Capital Bonds*.

– On 21 June 2019, the Bank held the 2018 Annual General Meeting, the 2019 First Class A Shareholders' Meeting and 2019 First Class H Shareholders' Meeting in Shanghai. The *2018 Annual General Meeting reviewed and approved the 2018 Work Report of the Board of Directors of the Bank of Communication Co., Ltd.*, the 2018 *Report of the Board of Supervisors of the Bank of Communication Co., Ltd.*, the *2018 Financial Budget Report of the Bank of Communication Co., Ltd.*, the *2018 Profit Distribution Plan of the Bank of Communication Co., Ltd.*, the *2019 Fixed Assets Investment Plan of the Bank of Communication Co., Ltd.*, the *Resolution of the Appointment of Auditors for the Year of 2019,* the *Report on the Use of funds Previously Raised of the Bank of Communications Co., Ltd., the Proposal of Requesting the Shareholders' General Meeting to Approve the Extension of Effective Period and Authorised Period of the Public Issuance of A-Share Convertible Corporate Bonds, the Proposal of adjustment of the Annual Remuneration of Independent Non-executive Directors of the Bank of Communications Co., Ltd.*, the *Proposal on Adjusting the Annual Remuneration of External Supervisors of the Bank of Communications Co., Ltd.*, the *Proposal on the Election Plan of the New Session of the Board of Directors of the Bank of Communications Co., Ltd.*, and the Proposal on the Re-election of the Board of Supervisors of the Bank of Communications Co., Ltd. The 2019 First Class A Shareholders' Meeting and the 2019 First Class H Shareholders' Meeting both reviewed and approved the *Proposal of Requesting the Shareholders' General Meeting to Approve the Extension of the Validity Period of the Resolutions on the Proposal on the Public Issuance of A Share Convertible Corporate Bonds and the Authorization Period.* The Bank reported the 2018 Management Results of *Related Transactions and the 2018 Performance Results of Independent Non-executive Directors to the whole of shareholders.*

The resolutions passed at General Meetings were fully executed. The resolution announcements for all Shareholders' General Meetings were disclosed on the websites of SSE, HKEx News and the Bank, and were published in *China Securities Journal, Shanghai Securities News* and *Securities Times*.

Summary of Shareholders' General Meetings

Session	Date	Proposal	Resolution	Website Designated for Publishing Resolution
2019 First Extraordinary General Meeting	4 January 2019	5 proposals including the *Proposal on Election of Mr. Wu Wei as an Executive Director of the Bank of Communication Co., Ltd.*	Passed	Disclosed on the official website of the Bank at www.bankcomm.com, the SSE website at www.sse.com.cn and the website of the Hong Kong Stock Exchange at www.hkexnews.hk.
2019 Second Extraordinary General Meeting	20 May 2019	*Proposal in Respect of the Issuance of Write-Down Undated Capital Bonds*	Passed	Disclosed on the official website of the Bank at www.bankcomm.com, the SSE website at www.sse.com.cn and the website of the Hong Kong Stock Exchange at www.hkexnews.hk.
2018 Annual General Meeting	21 June 2019	12 proposals including the *2018 Work Report of Board of Directors of the Bank of Communication Co., Ltd.*	Passed	Disclosed on the official website of the Bank at www.bankcomm.com, the SSE website at www.sse.com.cn and the website of the Hong Kong Stock Exchange at www.hkexnews.hk.
2019 First Class A Shareholders' Meeting	21 June 2019	*Proposal of Requesting the Shareholders' General Meeting to Approve the Extension of the Validity Period of the Resolutions on the Proposal on the Public Issuance of A Share Convertible Corporate Bonds and the Authorization Period*	Passed	Disclosed on the official website of the Bank at www.bankcomm.com, the SSE website at www.sse.com.cn and the website of the Hong Kong Stock Exchange at www.hkexnews.hk.
2019 First Class H Shareholders' Meeting	21 June 2019	*Proposal of Requesting the Shareholders' General Meeting to Approve the Extension of the Validity Period of the Resolutions on the Proposal on the Public Issuance of A Share Convertible Corporate Bonds and the Authorization Period*	Passed	Disclosed on the official website of the Bank at www.bankcomm.com, the SSE website at www.sse.com.cn and the website of the Hong Kong Stock Exchange at www.hkexnews.hk.

IV. BOARD OF DIRECTORS AND SPECIAL COMMITTEES UNDER THE BOARD OF DIRECTORS

1. Composition of the Board of Directors

The Bank understands and recognises the importance of diversification of members of the Board of Directors, which the Bank regards as a key supporting factor for improving the strategic decision and corporate governance of the Bank. During the process of selecting and appointing members of the Board of Directors, adequate consideration should be given to diversity from the perspective of strengthening the capacity building of the Board of Directors, and a comprehensive assessment of the expertise, experience and background of the candidates is required to make an objective evaluation of their contributions to the Bank, to ensure diversified points of views in strategic decision-making of the Board of Directors, resulting in the best matching between the members of the Board of Directors and the strategic development of the Bank. The term of office of the Directors of the Bank is 3 years. Directors can be re-elected upon expiry of the term of office and Independent Non-executive Directors' accumulated tenure in the Bank cannot exceed 6 years.

As at the end of the Reporting Period, the Board of Directors comprised 15 members, including 2 Executive Directors, namely Mr. Ren Deqi and Mr. Hou Weidong; 7 Non-executive Directors, namely Mr. Wang Taiyin, Mr. Song Guobin, Mr. He Zhaobin, Mr. Chan Siu Chung, Mr. Song Hongjun, Mr. Chen Junkui and Mr. Liu Haoyang; 6 Independent Non-executive Directors, namely Ms. Li Jian, Mr. Liu Li, Mr. Jason Yeung Chi Wai, Mr. Raymond Woo Chin Wan, Mr. Cai Haoyi and Mr. Shi Lei. The number of Independent Non-executive Directors of the Bank accounted for one-third of the total number of Directors, which met the regulations.

On 9 April 2019, the Bank announced that Mr. Peng Chun submitted a written report to the Board of Directors and resigned as the Chairman, Executive Director and Chairman of the Strategy Committee (Inclusive Finance Development Committee) due to national financial work arrangements, which was effective from 9 April 2019. On 13 December 2019, the 6th meeting of the 9th Board of Directors reviewed and approved the *Proposal on Election of Mr. Ren Deqi as the Chairman of Bank of Communications Co., Ltd. and the Proposal on Election of Mr. Ren Deqi as the Chairman of the Strategy Committee (Inclusive Finance Development Committee) of the Board of Directors*, which agreed to elect Mr. Ren Deqi as the Chairman of the Board of Directors and the Chairman of the Strategy Committee (Inclusive Finance Development Committee). Appointment of Mr. Ren Deqi as Chairman of the Bank was approved by the CBIRC on 16 January 2020.

On 21 June 2019, the term of the 8th session of the Board of Directors of the Bank expired Non-executive Directors Mr. Peter Wong Tung Shun, Mr. Liu Hanxing and Mr. Luo Mingde, and Independent Non-executive Director Mr. Yu Yongshun no longer served as directors. On the same day, the 2018 Annual General Meeting approved to organise the 9th session of Board of Directors. Mr. Ren Deqi, Mr. Hou Weidong, and Mr. Wu Wei were re-elected as Executive Director; Ms. Helen Wong Pik Kuen and Mr. Liu Haoyang were re-elected as Non-executive Director; Ms. Li Jian, Mr. Liu Li, Mr. Jason Yeung Chi Wai, Mr. Raymond Woo Chin Wan and Mr. Cai Haoyi were re-elected as Independent Non-executive Director; Mr. Chan Siu Chung, Mr. Song Hongjun, Mr. Chen Junkui were newly elected as Non-executive Director; Mr. Shi Lei was newly elected as Independent Non-executive Director. Mr. Song Hongjun's qualifications were approved by the regulatory authority on 5 August 2019, Mr. Chen Junkui's qualifications were approved by the regulatory authority on 9

August 2019; Mr. Chan Siu Chung's qualifications were approved by the regulatory authority on 17 October 2019; Mr. Shi Lei's qualifications were approved by the regulatory authority on 25 December 2019.

On 15 August 2019, the Bank announced that Ms. Helen Wong Pik Kuen submitted a written report to the Board of Directors and resigned as Non-executive Director and member of the Personnel & Remuneration Committee due to personal work arrangement, which was effective from 15 August 2019.

On 22 August 2019, the Bank announced that Mr. Wu Wei submitted a written report to the Board of Directors and resigned as Executive Director, member of the Strategy Committee (Inclusive Finance Development Committee), member of the Social Responsibility and Consumer Protection Committee, Executive Vice President and Chief Financial Officer due to work arrangement, which was effective from 22 August 2019.

Please refer to the "Directors, Supervisors, Senior Management and Human Resource Management" chapter for the changes of the members of the Board of Directors and their biographical details.

(II) Responsibilities of the Board of Directors

The Board of Directors is responsible for the Shareholders' General Meeting and takes ultimate responsibilities for business management. The Board of Directors exercises powers and performs duties within the terms of reference as stipulated under the laws, regulations and the *Articles of Association* of the Bank and as authorised by the Shareholders' General Meetings to protect the legitimate interests of the Bank and its shareholders. The main responsibilities include convening and reporting to Shareholders' General Meetings, executing resolutions of Shareholders' General Meetings, determining the Bank's business plans and investment proposals, developing the Bank's annual financial budget plan and final accounting plan, listening to work reports from the President and monitoring the performance of the President. During the Reporting Period, the Board of Directors of the Bank conscientiously implemented the decisions and arrangements of the Party Central Committee and the State Council. With the support and supervision of the shareholders, regulatory authorities and the Board of Supervisors at home and abroad, and based on the requirements of promoting a highly adaptable, competitive and inclusive modern financial system, the Bank deepened the implementation of new vision for development that actively serve the real economy and highlight value creation and capacity enhancement, pushing the Bank to a new level of high-quality development.

In 2019, the Board of Directors of the Bank primarily focused on five areas.Firstly, insisted on the new vision for development, and spared no effort to complete the "three tasks" of finance in order to promote the high-quality development of the BoCom. Secondly, deepened the implementation of new connotation of strategy by "Creating Shared Value and Providing the Best Service". Thirdly, continuously improved the corporate governance for large-scale commercial banks with Chinese characteristics and promoted the modernisation of the governance system and governance capabilities. Fourthly, highly valued market communication, enforced strict equity management and information disclosure, and deepened strategic cooperation with HSBC. Fifthly, fully involved in targeted poverty alleviation, and devoted to social welfare and staff care and actively fulfilled the Bank's corporate social responsibilities.

(III) Meetings of the Board of Directors

The Bank formulated *Rules of Procedures for the Board of Directors Meetings*, which specified stringent requirements regarding the convening manner, notice, procedures, agendas and minutes of Board's meetings. During the Reporting Period, 10 Board's meetings were held that discussed and approved 56 resolutions and reports, such as the Board of Directors' work report, President's work report, financial reports and profit distribution plan. In addition, 19 meetings were held by the five special committees under the Board of Directors and 85 resolutions and reports were discussed. All of the above meetings were held in accordance with the requirements of the *Articles of Association, Rules of Procedures for Board of Directors Meetings* and the *Code of Corporate Governance*. Attendance of Directors of the Bank at the Shareholders' General Meeting, meetings of the Board of Directors and Special Committees under the Board of Directors during the Reporting Period is set out as follows:

	Number of attendance/Number of meetings should be attended						
			Special Committees under the Board of Directors				
	Shareholders' General Meeting	Board of Directors	Strategy Committee (Inclusive Finance Development Committee)	Audit Committee	Risk Management and Related Party Transaction Control Committee	Personnel & Remuneration Committee	Social Responsibility and Consumer Protection Committee
Executive Directors							
Ren Deqi	4/5	10/10	3/3	–	–	–	2/2
Hou Weidong	5/5	10/10	3/3	–	–	–	–
Non-executive Directors							
Wang Taiyin	5/5	10/10	–	4/4	–	6/6	–
Song Guobin	5/5	10/10	–	–	4/4	–	2/2
He Zhaobin	5/5	10/10	1/1	4/4	–	–	2/2
Chan Siu Chung	–	1/2	–	–	–	–	–
Song Hongjun	–	4/4	1/1	–	2/2	–	–
Chen Junkui	–	4/4	1/1	2/2	–	–	–
Liu Haoyang	3/5	9/10	2/2	–	4/4	–	–
Independent Non-executive Directors							
Li Jian	1/5	10/10	–	4/4	4/4	–	–
Liu Li	4/5	10/10	–	4/4	2/2	–	–
Jason Yeung Chi Wai	4/5	9/10	3/3	4/4	–	–	–
Raymond Woo Chin Wan	3/5	10/10	–	2/2	2/2	6/6	–
Cai Haoyi	4/5	10/10	–	–	4/4	6/6	–
Shi Lei	–	–	–	–	–	–	–
Directors resigned/retired							
Peng Chun	0/1	2/2	1/1	–	–	–	–
Peter Wong Tung Shun	0/5	3/4	–	–	–	–	2/2
Wu Wei	1/4	4/5	2/2	–	–	–	2/2
Helen Wong Pik Kuen	0/5	5/6	–	–	–	4/4	–
Liu Hanxing	1/5	4/4	2/2	–	2/2	–	–
Luo Mingde	0/5	1/4	2/2	2/2	–	–	–
Yu Yongshun	4/5	4/4	–	2/2	2/2	–	–

Note: Please refer to the chapter "Directors, Supervisors, Senior Management and Human Resources Management" (same below) for the specific changes of the Bank's Directors in this Annual Report.

(IV) Special Committees under the Board of Directors

The Board of Directors set up Strategy Committee (Inclusive Finance Development Committee), Audit Committee, Risk Management and Related Party Transaction Control Committee, Personnel & Remuneration Committee and Social Responsibility and Consumer Protection Committee. During the Reporting Period, each committee followed the guidance of Board of Directors, considered the economic and financial situation, Bank's high-quality requirement and its roles and responsibilities, duly and effectively exercised the function of decision-making and consultation.

1. Strategy Committee (Inclusive Finance Development Committee). The Strategy Committee is primarily responsible for formulating the operations and management objectives and medium and long-term development plans of the Bank, regularly analyses and evaluates the results of BoCom's capital management, conducts research and makes recommendations on the Bank's major equity investment plans. The committee supervises and inspects the implementation of the annual business plans, inspects and assesses the implementation of corporate governance system and makes recommendations for improving the corporate governance policies and system. Furthermore, it formulates and reviews the strategic plans for the development of inclusive financial business, operating plan, fundamental policies and procedures, risk strategy plans and evaluation measures, in order to evaluate the effectiveness development of inclusive finance business, etc.

As at the end of the Reporting Period, the Strategy Committee (Inclusive Finance Development Committee) under the Board of Directors comprised 6 members including Mr. Ren Deqi, Mr. Hou Weidong, Mr. He Zhaobin, Mr. Song Hongjun, Mr. Chen Junkui and Mr. Jason Yeung Chi Wai. Mr. Ren Deqi is the Chairman of the Committee. During the Reporting Period, the Strategy Committee (Inclusive Finance Development Committee) held 3 meetings, reviewed and approved 17 proposals and reports including 2018 Work Summary and 2019 Work Plan of the Committee, the Implementation of 2018 Annual Business Plan, 2018 Assessment Report on Authorised Operation at Corporate Governance Level, 2018 Assessment Report on Authorised Operation at President and Lower Levels and Progress Report on Inclusive Financial Business Development and presented the recommendations to the Board of Directors.

2. Audit Committee. The Audit Committee is mainly responsible for proposing the appointments, change or removal of the Group's auditors, monitoring the Group's internal audit system and implementation, acting as the communication channel between the Group's internal and external auditors, reviewing the Bank's financial information and disclosure, examining the Group's accounting policies, financial position and financial reporting procedures and monitoring the implementation of the Group's internal controls.

As at the end of the Reporting Period, the Audit Committee under the Board of Directors comprised 7 members, including Mr. Liu Li, Mr. Wang Taiyin, Mr. He Zhaobin, Mr. Chen Junkui, Ms. Li Jian and Mr. Jason Yeung Chi Wai and Mr. Raymond Woo Chin Wan. Mr. Liu Li, an Independent Non-executive Director, served as the Chairman. During the Reporting Period, the Audit Committee held 4 meetings, reviewed and approved 24 proposals and reports, including 2018 Work Summary and 2019 Work Plan of the Committee, 2018 Annual Result and Result Announcement, 2019 Quarterly and Interim Announcement, 2018 Financial Report, 2018 Profit Distribution Plan, and 2018 Internal Control Assessment Report. During the review process, the Committee strictly complied with the Listing Rules and Accounting Standards to express opinions on the authenticity, completeness and accuracy of the Bank's financial information and presented the recommendations to the Board of Directors.

3. Risk Management and Related Party Transaction Control Committee. The Committee plays important roles as follows: monitoring and evaluating the risk management and controls of the Bank in areas of credit, market, operations and compliance, periodically assessing the Bank's risks, management status and risk tolerance level, supervising and evaluating the risk management of America-related operations, reviewing significant related party transactions, significant fixed asset investments, asset disposals, asset pledges or external guarantees, listening to anti-money laundering reports regularly and making recommendations to the Board of Directors on improving the Bank's risk management and internal controls.

As at the end of the Reporting Period, the Risk Management and Related Party Transaction Control Committee of the Bank comprised 7 members, including Ms. Li Jian, Mr. Song Guobin, Mr. Song Hongjun, Mr. Liu Haoyang, Mr. Liu Li, Mr. Cai Haoyi and Mr. Shi Lei. Ms. Li Jian, an Independent Non-executive Director, served as the Chairman. During the Reporting Period, the Risk Management and Related Party Transaction Control Committee held 4 meetings, reviewed and approved 18 proposals and reports, including 2018 Work Summary and 2019 Work Plan of the Committee, Quarterly, Semi-annual and Annual Assessment Report of Comprehensive Risk Management, 2019 Risk Preference and Risk Policies and 2018 Management Report on Related Party Transactions and presented the recommendations to the Board of Directors.

4. Personnel & Remuneration Committee. The Personnel & Remuneration Committee is primarily responsible for making recommendations to the Board of Directors on its scale and structure according to the Bank's operation results, the scale of assets and the structure of shareholding, approving and amending the policies on diversification of members of the Board of Directors, making recommendations to the Board of Directors on developing the criteria and procedures for election and assessment of Directors and Senior Management formulating the selection procedures and assessment criteria for the Bank's Directors and Senior Management personnel and reviewing the basic systems and policies of the Bank's remuneration management. The Personnel & Remuneration Committee performed the functions both as a Nomination Committee and Remuneration Committee to optimise the Bank's corporate governance structure and improve the effectiveness of the Bank's operations.

The nomination procedures for the Directors and Senior Managers of the Bank's Personnel & Remuneration Committee are as follows: Firstly, timely understanding and having a good command of the Bank's demands for Directors and Senior Management. Secondly, extensively searching for Directors within and outside the Bank according to the results of demands. Thirdly, after determining the initial candidates, collecting and sorting out the curriculum vitae of the initial candidates then forming written documents by the Board of Directors Office. Fourthly, seeking for the agreements of the initial candidates who otherwise cannot be nominated as the candidates of the Directors and Senior Managers. Fifthly, convening the meetings for the Personnel & Remuneration Committee to conduct examinations for the qualification of the initial candidates according to the requirements of the Directors and Senior Managers of the Bank. Sixth, proposing to the Board of Directors for the election of new Directors and the appointment of new Senior Managers, also, providing related materials. Seventh, implementing follow-up work based on decisions and feedback of the Board of Directors. In addition, the Bank's *Articles of Association* stipulates the general procedures for the nomination and election of Directors.

As for Code A.5.1 under the *Corporate Governance Code* in Appendix 14 of the Hong Kong Listing Rules, prior to the approval by the CBIRC of the newly designated Mr. Shi Lei as an Independent Non-executive Director of the Bank, the number of Independent Non-executive Directors in the Board of Directors' Personnel & Remuneration Committee does not account for the majority. On 15 August 2019, after the resignation of Ms. Helen Wong Pik Kuen as a Non-executive Director of the Bank and a member of the Board of Directors' Remuneration Committee, the Board of Directors' Personnel & Remuneration Committee consisted of one Non-executive Director and two Independent Non-executive Directors, which was in accordance with Rule 3.25 of the Hong Kong Listing Rules and Code A.5.1 of the *Corporate Governance Code*. As at the end of Reporting Period, the Personnel & Remuneration Committee comprised 4 members, including Mr. Cai Haoyi, Mr. Wang Taiyin, Mr. Raymond Woo Chin Wan and Mr. Shi Lei. Mr. Cai Haoyi, an Independent Non-executive Director, served as the Chairman. During the Reporting Period, the Personnel & Remuneration Committee held 6 meetings and reviewed and approved 18 proposals including the 2018 Work Summary and 2019 Work Plan of the Committee, re-appointment of Mr. Hou Weidong as Executive Vice President, appointment of Mr. Lyn Jiajin as Executive Vice President, appointment of Mr. Yin Jiuyong as Executive Vice President, re-appointment of Mr. Ng Siu On as Senior Management member and BoCom-HSBC Strategic Cooperation Consultant 2019 Core Business Performance Appraisal Target for Business Directors and presented recommendations to the Board of Directors.

5. Social Responsibility and Consumer Protection Committee. The Committee is primarily responsible for formulating the Bank's social responsibility strategies and policies, fulfilling social responsibility plans and measures, reviewing the strategies, policies and goals on protecting the consumers' rights, submitting work reports and annual reports on consumer's rights protection to the Board of Directors, reviewing credit policies concerning environmental and sustainable development, approving external donations according to the authorisation of the Board of Directors, and monitoring, inspecting and evaluating the fulfilment of the Bank on social responsibilities as well as implementation of strategies, policies, plans, measures for consumer rights protection, etc.

As at the end of Reporting Period, the Social Responsibility and Consumer Protection Committee of the Bank comprised 4 members, including Mr. Ren Deqi, Mr. Song Guobin, Mr. Chan Siu Chung and Mr. Liu Haoyang. Mr. Ren Deqi served as the Chairman. During the Reporting Period, the Social Responsibility and Consumer Protection Committee held 2 meeting and reviewed and approved 8 proposals and reports, including 2018 Work Summary and 2019 Work Plan of the Committee, 2018 Working Report on "Green Credit Policy" and 2018 Report on Protecting the Consumers' Rights and presented recommendations to the Board of Directors.

During the Reporting Period, the meeting procedure, voting methods and proposals consideration of all the above meetings of the Special Committees under the Board of Directors were in compliance with the requirements of relevant laws, regulations, the *Articles of Association* and working guidance of the committees.

(V) Independent Non-Executive Directors

As at the end of the Reporting Period, the Bank had 6 Independent Non-executive Directors. Their qualifications were in compliance with the domestic regulatory regulations, as well as Rule 3.10 (2) of the Hong Kong Listing Rules. The independence of the Bank's Independent Non-executive Directors was effectively safeguarded as they did not have any businesses or financial interests in the Bank or its subsidiaries and they did not assume any executive positions in the Bank. In addition, the Bank received annual independence confirmation letters from all Independent Non-executive Directors and considered that each of the Independent Non-executive Directors was independent.

During the Reporting Period, the time that each Independent Non-executive Directors devoted to the work of the Bank was in compliance with the requirements of the *Working Practice of Independent Directors* of the Bank. Currently, the special committees under the Board of Directors, namely Audit Committee, Risk Management and Related Party Transactions Control Committee and Personnel & Remuneration Committee, were all chaired by Independent Non-executive Directors. These Independent Non-executive Directors actively participated in discussions during the meetings of the Board of Directors and demonstrated the objectivity in decision-making process of the Board of Directors. The Board of Directors paid great attention to comments or suggestions proposed by Independent Non-executive Directors and required Senior Management to study them. In addition to attending meetings, each Independent Non-executive Director communicated with Senior Management regularly through various channels including on-site research and discussion sessions. During the Reporting Period, the Independent Non-executive Directors gave independent opinions on profit distribution, significant matters, including connected transactions, nomination of Directors and appointment of Senior Management and presented the resolutions and reports of the Board of Directors and any other matters.

(VI) Participation in Training and Research by Directors during the Report Period

During the Reporting Period, the Bank constantly emphasised improving the capabilities of the Directors in line with the economic and financial situations and the requirements of the Bank for high-quality development. Firstly, the Bank actively organised the Directors to attend different training sessions organised by the CBIRC and Shanghai Stock Exchange, provided opportunities for the Directors to participate in continuous career development plans. Secondly, in order to strengthen their ability to perform duties, the Bank organised the Directors to conducted special researches in the Bank's domestic and overseas branches and subsidiaries to promote implementation of Directors' comments or suggestions. Thirdly, the Bank provided daily information service to the Directors. The Bank also provided timely information on commercial banks, regulations, capital market and the Bank's operation management through *Weekly Newsletter* and *Monthly Information Report*.

During the Reporting Period, main training participated by Directors included: 1. Mr. Wang Taiyin, Mr. Song Guobin and Mr. He Zhaobin, Non-executive Directors, participated in training organised by the Hong Kong Institute of Chartered Secretaries. 2. Mr. Song Guobin, Non-executive Director, Ms. Li Jian and Mr. Cai Haoyi, Independent Non-executive Directors, participated in the "Specific Topics on Corporate Governance for Bank and Insurance Directors and Senior Management (2nd Session)" organised by CBIRC. 3. Mr. He Zhaobin, Non-executive Director, participated in the "Seminar of Audit Quality Improvement of Financial Institutions to Prevent Financial Risk" organised by the Ministry of Finance. 4. Mr. Liu Li, Independent Non-executive Director, participated in "2019 Shanghai Directors and Supervisor of Listed Companies First Training Courses" held by the Shanghai Listed Companies Association. 5. Mr. Jason Yeung Chi Wai, Independent Non-executive Director, participated in the "Sixty-fifth Independent Director Qualifications Training" organised by Shanghai Stock Exchange.

During the Reporting Period, main research projects participated by Directors included: 1. Mr. Wang Taiyin, Mr. Song Guobin and Mr. He Zhaobin, Non-executive Directors, conducted research on operational management of branches, work performance of divisions of the Head Office and subsidiaries including Shandong Provincial Branch, Hubei Provincial Branch, Guangxi Region Branch, Shanghai Branch, Zhejiang Provincial Branch, Ningxia Region Branch, Xinjiang Region Branch, etc.; Financial Budget Department of the Head Office, Inclusive Finance Business Division, Financial Institution Department, etc.; Bank of Communications Financial Leasing Co., Ltd., Bank of Communications International Trust Co., Ltd., BoCommLife Insurance Company Limited, etc. 2. Ms. Li Jian, Mr. Jason Yeung Chi Wai, Mr. Raymond Woo Chin Wan, Independent Non-executive Directors, conducted research on the business development of New York Branch and compliance management of overseas institutions. 3. Ms. Li Jian and Mr. Liu Li, Independent Non-executive Directors, conducted research on the business development and risk management of Pacific Credit Card Centre and Guangxi Region Branch.

(VII) Responsibility of the Board of Directors for the Financial Statements

The Directors are responsible for monitoring the preparation of annual financial statements to give a true and fair view of the Group's financial condition, operating results and cash flows in the corresponding accounting period. In preparing for the financial statements for the year ended 31 December 2019, the Group selected and consistently applied appropriate accounting policies and made reasonable and prudent accounting judgements and estimates. The Directors acknowledged their responsibility for the preparation of financial statements and the auditor's statement of reporting responsibility for their report is set out in the Auditor's Report on page 174 of the Annual Report.

(VIII) Specific Notification and Independent Opinion of the Independent Non-Executive Directors on External Guarantees Provided by the Bank

The Independent Non-executive Directors of the Bank considered that the provision of external guarantees was in the ordinary course of the Bank's businesses as approved by the regulatory authorities. The Bank developed prudent risk management and monitoring policies, particularly on the standard of the credit assessment of guarantee, as well as operational and credit approval procedures, etc., so as to effectively manage the risks of its external guarantee business.

V. BOARD OF SUPERVISORS AND SPECIAL COMMITTEES UNDER THE BOARD OF SUPERVISORS

The Board of Supervisors is the Bank's supervisory body and is responsible for the Shareholders' meeting. In accordance with the requirements of laws and regulations, the responsibilities of the Board of Supervisors include strategic and operational supervision, capital and financial supervision, internal controls and compliance supervision, risk supervision, supervision of information disclosure and performance, of which strategic and operational supervision serve as a direction while supervisions on capital and finance, internal controls and compliance and risk serve as the foundation. The supervision of information disclosure plays an important role in corporate governance, while performance supervision comprehensively reflects the results of the above-mentioned supervisions. The above 6 aspects of supervision can be achieved by means of routine supervision, dynamic supervision, special supervision, supervision and coordination committee, etc.

During the Reporting Period, there were 9 members on the Board of Supervisors, including 1 Shareholder Supervisor, 4 External Supervisors, and 4 Employee Supervisors. 1 Shareholder Supervisor was Senior Management of large-scale state-owned enterprise. There were 4 External Supervisors, including 2 responsible personnel of relevant financial institutions before retirement and 2 professors of finance in institutions of higher education. 4 Employee Supervisors are each responsible personnel of Audit Supervision Bureau, Discipline Inspection and Supervision Group of the Central Commission for Discipline Inspection and the State Supervision Commission in the Bank of Communications, the Board of Supervisors' Office and Employee Work Department. The Board of Supervisors had three Special Committees. The Due Diligence Supervising Committee had 5 members including the Chairman, 4 External Supervisors and 1 Employee Supervisor. The Employee Supervisor was appointed as the convener. They were responsible for the supervision of the performance of the Board of Directors, the Board of Supervisors, Senior Management and its members, integrated review and reporting to the Board of Supervisors. The Nominating Committee has 5 members including the External Supervisor as the Chairman, 1 Shareholder Supervisor, 1 External Supervisor and 2 Employee Supervisors. They were responsible for drafting the procedures and standards for the selection of Supervisors, conducting preliminary examination of the qualifications of supervisor candidates and making recommendations to the Board of Supervisors. They were also responsible for supervising the selection procedures of Directors and other important personnel and supervising the scientific and rationality of the Bank's performance appraisal system, remuneration, management system and policies and remuneration of Senior Management. The Supervising Committee for Finance and Internal Controls has 6 members, including the External Supervisor as the Chairman, 3 External Supervisors and 2 Employee Supervisors. They were responsible for drawing up plans for the supervision of the Bank's financial activities and information disclosure, implementing related inspections, supervising capital and financial management, internal controls, risk management and compliance management of the Bank.

During the Reporting Period, in accordance with the requirements of relevant laws and regulations of the State, the regulatory requirements and the *Articles of Association*, the Board of Supervisors complied with regulations and performed objective and impartial, scientific and efficient supervision duties. All the Supervisors faithfully and diligently fulfilled their duties, fully exercised the independent role of the Board of Supervisors in corporate governance. During the Reporting Period, the personal attendance of supervisors of the Bank at the meetings of the Board of Supervisors is set out as follows:

Supervisors	**Position**	**Attendance at meetings in person**	**Attendance in person percentage (%)**
Wang Xueqing	Shareholder Supervisor	6/7	85.7
Tang Xinyu	External Supervisor	7/7	100
Xia Zhihua	External Supervisor	7/7	100
Li Yao	External Supervisor	6/7	85.7
Chen Hanwen	External Supervisor	3/3	100
Chen Qing	Employee Supervisor	7/7	100
Du Yarong	Employee Supervisor	7/7	100
Guan Xingshe	Employee Supervisor	7/7	100
Wang Xuewu	Employee Supervisor	3/3	100
Supervisors resigned			
Gu Huizhong	Shareholder Supervisor	4/4	100
Zhao Yuguo	Shareholder Supervisor	3/4	75
Liu Mingxing	Shareholder Supervisor	4/4	100
Zhang Lili	Shareholder Supervisor	4/4	100
Feng Xiaodong	Shareholder Supervisor	1/2	50
Xu Ming	Employee Supervisor	4/4	100
Average attendance in person percentage		73/77	94.81

Note: Please refer to the “Directors, Supervisors, Senior Management and Human Resource Management” chapter in this Annual Report for the detailed changes.

VI. SENIOR MANAGEMENT

The Bank's Senior Management comprised the President, Executive Vice President, Chief Financial Officer, Chief Business Officers, BoCom-HSBC Strategic Cooperation Consultant, and other management personnel as approved by the Board of Directors. The Bank adheres to a system under which the President, as the ultimate responsible officer, reports to the Board of Directors. All functional departments, branches, offices and other Senior Management report to President. The President has the authority to conduct the Bank's business operations in compliance with the relevant laws and regulations, the *Articles of Association* and authorisation from the Board of Directors, with primary responsibilities including but not limited to day-to-day operating business management of the Bank and report to the Board of Directors, implementation the resolutions of Shareholders' General Meetings and meetings of Board of Directors, preparation of annual financial budget plans, financial plans, profit distribution plans, basic management policies of the Bank, etc.

During the Reporting Period, Senior Management conducted business operations within the scope authorised by the Articles of Association and the Board of Directors, carefully implemented resolutions of the Shareholders' General Meeting and Board of Directors and successfully achieved the annual business targets determined by the Board of Directors as required. The Board of Directors was satisfied with the financial performance of Senior Management for the year 2019.

VII. RISK MANAGEMENT

The Bank built a risk governance framework with sound organisation structure and clear responsibility and defined roles and responsibilities among the Board of Directors, the Board of Supervisors, Senior Management, operating departments, Risk Management Department and Internal Audit Department, which made mechanism of risk governance work in a cooperative and balanced way at different levels.

The Board of Directors, the highest decision-making authority of the Bank, has the ultimate responsibility, takes the full responsibility of comprehensive risk management and monitors and evaluates the bank-wide risk management matters through Risk Management and Related Party Transactions Control Committee. The Board of Supervisors monitors the comprehensive risk management work, is mainly responsible for the inspection and monitoring of the accountability of the Board of Directors and Senior Management. Senior Management are responsible for the implementation of comprehensive risk management, setting up a core of Risk Management Committee for daily risk decision making process, mainly including the set-up of feasible risk management framework, risk appetite, risk management plan formulated by the Board of Directors, the implementation of risk management requirements in accordance with the requirements of "Full coverage, Differentiation, Specialisation, Intelligence and Accountability".

The procedures of risk identification and evaluation are as follows: Firstly, with the consideration of changes of external economic and financial situation and regulatory requirements, the Bank evaluates the risks faced in daily operations and management and determines the risks for evaluation. Secondly, considering the risk environment, the Bank evaluates the possibility and degree of risks and determines the nature of the risks. Thirdly, the Bank evaluates the risk management ability and effectiveness in aspects of management framework, process and management mechanism to ensure the risk management mechanism is able to effectively identify, monitor and manage the relevant risks. Regarding the primary risks, besides establishing the overall framework and detailed procedures of risk management, the Bank provides sufficient allowance on specific basis for the unexpected loss. Please refer to the “Risk Management” under “Management Discussion and Analysis on Operations” section for the Group’s risk management.

During the Reporting Period, facing complex economic and financial situations at home and abroad, the Group proactively dealt with the changing market, adhered to prudent risk preference, continued putting risk management at top priority to prevent and defuse financial risk. Firstly, the Bank guided the implementation of the *Execution Plan of Bank of Communications to Fight against the Prevention and Defusion of Financial Risks,* approved the implementation of the Group’s annual risk appetite and policies, continued to strengthen asset quality control, deepened efforts to address market disorder in the banking industry, and ensured high-quality development results with prudent and stable operation philosophy. Secondly, the Group vigorously promoted the reform of risk credit system and mechanism. Under the lead of the Board of Directors, the Comprehensive Risk Management Committee and executive meetings together with Senior Management functioned well. Additionally, the pre-approval credit system for group customers was officially launched, interbank customers risk control management mechanism was effectively established, risk monitoring system was enhanced, and comprehensive risk management was further refined. Thirdly, the Group strengthened risk management and controls in key areas. The Board of Directors regularly received reports from Senior Management about comprehensive risk management and performed timely assessment on the Bank’s risks, management status, risk tolerance capabilities and level. The capabilities of Group’s consolidation, risk data aggregation and risk report, anti-money laundering and anti-terrorist financing management were continuously improved. Fourthly, the anti-risk capability was further improved. As at the end of the year, the impaired loans ratio of the Bank was 1.47%, representing a decrease of 0.02 percentage point from the beginning of the year. Macro Prudential Assessment (MPA), liquidity coverage ratio (LCR) and other regulatory indexes achieved satisfactory results. The provision coverage ratio of impaired loans decreased by 1.36 percentage points from the beginning of the year to 171.77%.

The Group was able to identify, measure, evaluate, monitor, control and report risk by effective risk management system. The Group effectively managed the risk of the operation objectives to ensure efficient operations and reasonably ensured the true and reliability of financial reports and compliance of legal and regulatory requirements and the stable asset quality. The Board of Directors confirmed the risk management system of the Bank and its subsidiaries was stable and effective.

VIII. INTERNAL CONTROLS

(I) Statement of the Board of Directors on Internal Controls Responsibility

Pursuant to the provisions of the *Guidelines on Internal Controls for Commercial Banks* issued by the CBIRC, the *Basic Standard for Enterprise Internal Controls* jointly issued by the Ministry of Finance and four other ministries and commissions and relevant guidelines, as well as other regulatory requirements on internal controls, it is the Board of Directors' responsibility to establish, improve and effectively implement internal controls, assess the effectiveness of internal controls and truthfully disclose the internal controls assessment report. The Board of Supervisors supervises the establishment and implementation of internal controls by the Board of Directors. Senior Management is responsible for organizing and leading the day-to-day operation of internal controls within the enterprise. The Board of Directors set up Audit Committee and Risk Management and Related Transactions Control Committee to perform the corresponding internal controls functions. Senior Management set up Internal Controls Management Committee to take charge of work, including coordination of planning, formulation of basic polices, organization of implementation, review and assessment of the internal controls system.

The Bank's internal controls aim to ensure the compliance of the Bank's business activities with the provisions of State's laws and the Bank's internal regulations and rules, truthfulness and completeness of information in the financial report, effectiveness of risk management system and safeguard of assets, improve operation efficiency and effectiveness and ultimately facilitate the achievement of operational objectives and development strategies.

(II) Statement of Effectiveness of Internal Controls

With a focus on its internal controls objectives, the Bank established a stringent internal controls system for financial reporting pursuant to the *Guidelines on Internal Controls for Commercial Banks* issued by the CBIRC and the *Basic Standard for Enterprise Internal Controls* jointly issued by the Ministry of Finance and four other ministries and commissions and relevant guidelines, as well as other regulatory requirements on internal controls. During the Reporting Period, the Board of Directors reviewed the risk management and internal controls systems of the Bank and its subsidiaries on many important aspects including financial monitoring, operation monitoring and compliance monitoring, etc. to maintain the effectiveness. Besides, the Board of Directors ensured the adequacy of resources, staff qualifications and experiences as well as the adequacy of training courses and related budgets to achieve the Group's accounting and financial reporting function.

(III) Organization Structure and Main Duties of Audit Supervision

The Bank's audit work was led by the Board of Directors and supervised by the Chairman of the Board of Directors, ensuring the independence of audit. The Bank set up a 3-level audit supervision system of Head Office Audit Supervision Bureau, regional Sub-bureaus of Audit Supervision (Audit Departments of overseas branches and subsidiaries) and Audit Departments of provincial and directly-managed branches, carried out vertical and unified management. The internal audit work of the Bank was risk-oriented, took risk and hidden control deficiency as the focus of audit supervision and inspection, and conducted audit and assessments around internal control.

(IV) Self-Assessment Report on Internal Controls and Auditor's Report on Internal Controls

The Bank disclosed the assessment report on internal controls and auditor's report on internal controls along with the Annual Report.

The Board of Directors conducted assessment on the effectiveness of internal controls of the Bank as at 31 December 2019 (as the base date of the assessment report on internal controls) in accordance with the *Guidelines on Internal Controls for Commercial Banks, the Basic Standard for Enterprise Internal Controls* and relevant guidelines, as well as other regulatory requirements on internal controls. Based on the Bank's criteria for evaluating deficiencies of internal controls over financial reporting, there was no material weakness or significant deficiencies of internal controls over financial reporting as at the base date of the assessment report on internal controls. The Bank maintained effective internal controls over financial reporting in all material respects. In accordance with the Bank's internal controls on the identification of non-financial reporting deficiencies, no significant deficiencies were identified in the internal controls of non-financial reporting. When material weakness or significant deficiencies were identified according to the Bank's internal controls on the identification of non-financial reporting deficiencies by the Internal Controls Supervision Committee of Head Office, the committee timely held meetings to discuss solutions, monitored relevant operating and management departments to implement the rectification and reported the solutions and results of rectification to the Senior Management. The Bank proactively put efforts in improving and monitoring items with rooms for improvement, which did not pose any substantial impacts on the soundness and effectiveness of internal controls and reliability of financial reporting.

No events influencing the effectiveness of internal controls assessment were identified from the base date of reporting to the issuance date of the internal controls assessment report.

PricewaterhouseCoopers Zhong Tian LLP was engaged by the Bank to assess the effectiveness of the internal controls over financial reporting and considered that the Bank maintained effective internal controls on the key areas of financial reporting in accordance with the *Basic Internal Control Norms for Enterprise Internal Controls* and related listed requirements.

In 2019, the Bank maintained the overall stability and effectiveness of its internal controls system. In 2020, the Bank will continue to prudently operate in compliance with laws and regulations and constantly improve internal controls.

IX. ACCOUNTABILITY MECHANISM OF MATERIAL MISTAKES IN INFORMATION DISCLOSURE OF ANNUAL REPORT

The Bank was devoted to enhancing the quality of its annual report by improving its disclosure. During the Reporting Period, the Bank strictly complied with the *Administrative Measures of Information Disclosure*, the *Administrative Measures for Report with Major Information* and the *Administrative Measures for Suspension and Exemption of Information Disclosure*, clarified internal control points of information disclosure in aspects of information reporting, preparing and review, improved position responsibilities, implemented accountabilities for errors and effectively prevented the material disclosure error. During the Reporting Period, there was no material mistake in information disclosure.

X. MANAGEMENT OF INSIDE INFORMATION

The Bank put great emphasis on the management of inside information and insiders, thereby the Bank adopted various ways to prevent insider trading. The Bank strictly adhered to BoCom's policies, such as *Insider Registration Policy* and *Administrative Measures for the Confidentiality of Insider Information*, to establish a system for registration and administration of people with access to the insider information and ensure the confidentiality of the insider information. In addition, the Bank strictly controlled the range of persons with access to inside information with a timely registration system, especially in the periods of performance announcements and other significant events. During the Reporting Period, there was no leakages of inside information. For the details of the Bank's *Insider Registration Policy*, please refer to the Bank's website at www. bankcomm.com, the SSE website at www.sse.com.cn and the website of the Hong Kong Stock Exchange at www.hkexnews.hk.

XI. SECURITIES TRANSACTIONS BY DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The Bank required that the Directors, Supervisors and Senior Management of the Bank should strictly adhere to the *Rules on the Administration of Shares held by Directors, Supervisors and Senior Management Personnel of Listed Companies and the Changes of Such Shares* issued by the CSRC and the *Model Code for Directors of Listed Companies to Conduct Securities Exchanges* contained in Appendix X of the Securities Listing Rules of the Hong Kong Stock Exchange. The Bank adopted a set of standards not less strict than those mentioned above for the securities transactions of the Directors, Supervisors and Senior Management. According to the checking results, all the Directors, Supervisors and Senior Management of the Bank confirmed that the securities transactions conducted by them were in compliance with the above rules during the Reporting Period.

XII. CHAIRMAN AND PRESIDENT

According to the *Articles of Association* of the Bank, the Chairman and President shall be separated. The Chairman of the Board of Directors shall be elected by the Board of Directors with a majority of Directors. The President shall be appointed by the Board of Directors. On 9 April 2019, Mr. Peng Chun submitted a written report to the Board of Directors and resigned as the Chairman, Executive Director and Chairman of the Strategy Committee (Inclusive Finance Development Committee) due to national financial work arrangements, which was effective from9 April 2019. *According to Article* 160 of the *Articles of Association* of the Bank, as proposed by the Board of Directors, during the transitional period of Mr. Peng's resignation, Mr. Ren Deqi, Vice Chairman of the Board of Directors, took over the duties of the Chairman of the Board of Directors and Chairman of the Strategy Committee of the Board of Directors (Inclusive Financial Development Committee).

On 13 December 2019, the 6th meeting of the 9th Board of Directors of the Bank elected Mr. Ren Deqi as Chairman of the Board of Directors. On the same day, Mr. Ren Deqi submitted a written report to the Board of Directors and resigned as the President of the Bank, which was effective from 13 December 2019. Mr. Ren Deqi would, on behalf, perform the duties of the President until the appointment of the new President by the Board of Directors is approved by the CBIRC. On 16 January 2020, the CBIRC approved Mr. Ren Deqi's appointment as Chairman of the Board of Directors of the Bank. From 16 January 2020, Mr. Ren Deqi served as the Chairman of the Board of Directors of the Bank.

As above mentioned, the Board of Directors of the Bank confirmed that it complied with the principles and provisions of the *Code of Corporate Governance* contained in Appendix XIV of the Securities Listing Rules of the Hong Kong Stock Exchange at all times during the year ended 31 December 2019 and also complied with majority of the best suggested practices.

XIII. AUDITOR'S REMUNERATION

The Audit Committee of the Board of Directors of the Bank expressed its satisfaction with the work, independence and objectivity of PricewaterhouseCoopers and its network member firms. The Shareholders' General Meeting of the Bank approved resolution in relation to the appointment of auditors for the year of 2019. PricewaterhouseCoopers Zhong Tian LLP was appointed by the bank to perform the audit for financial statements under CAS, internal controls of the Bank and other related professional services. PricewaterhouseCoopers was appointed by the Bank to perform the audit for financial statements under IFRSs and other related professional services. Both PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers provided audit services for the Bank for 6 consecutive years.

In 2019, PricewaterhouseCoopers and its network member firms were engaged to provide services to the Group (including the Group's subsidiaries and overseas branches) with a total audit fee of approximately RMB64.02 million, which included financial statement audit fees of RMB61.79 million and internal controls audit fees of RMB2.23 million.

During the Reporting Period, the non-audit services provided by PricewaterhouseCoopers and its network member firms to the Group mainly included assurance services for the report on corporate social responsibilities and translation services. The Bank paid fees of approximately RMB5.07 million in total for such non-audit services. The Audit Committee was satisfied that such services did not impair the independence of PricewaterhouseCoopers and its network member firms.

XIV. ESTABLISHMENT AND IMPLEMENTATION OF ASSESSMENT MECHANISM AND INCENTIVE MECHANISM FOR SENIOR MANAGEMENT DURING THE REPORTING PERIOD

The performance assessment of the Bank's Senior Management is conducted in accordance with relevant national requirements and the Bank's assessment method for annual business performance of Senior Management.

During the Reporting Period, the Bank did not implement any share incentive scheme.

XV. INVESTOR RELATIONS

During the Reporting Period, the Bank upheld the concept of maximising the value for investors and was committed to enhancing capabilities of value creation for investors, value promotion to investors, and value recognition by investors. The Bank enriched the communication channels and ways with investors to improve effectiveness of communication. The Bank took it as its own duty to create value for investors, and strived to build and maintain healthy and harmonious relationships with investors.

(I) The Bank Kept Close Communication with Capital Market.

With Six-to-One communication channels with investors, the Bank carried out all-around and multi-dimensional communication with investors and timely followed up market concerns through periodical business announcements, international roadshows and reverse roadshows, hosting investors and analysts, and participating in domestic and overseas investors' forums and platforms including SSE E-platform, reception day for on-line investors, investor hotline and investor mailbox.

In 2019, the Bank held 4 periodical performance announcements, international roadshows in the US, Asia and Europe, participated in 3 activities on reception day events with online investors, 16 domestic and overseas investors' forums, and over 40 receptions of research visit. The Bank was awarded an IR Active Company of Shanghai region on the reception day with listed companies.

(II) The Bank Adhered to the Legal Compliance and Actively Carried out Information Disclosure.

To comply with the principle of "True, Accurate, Complete, Timely and Fair" to carry out statutory information disclosure, a total of 132 regular reports and extraordinary announcements were issued during the year. The Bank successfully completed information disclosure of significant events such as capital bonds issuance, investment and capital injection, and changes in information pertaining to equity, etc. The Bank took the best disclosure level of listed companies as its benchmark. The quality of disclosure was widely recognised by regulatory agencies and investors. It was rated as a Class A company for information disclosure by the SSE for six consecutive years.

The Bank insisted on active disclosure of information and disclosed the status of strategy implementation and top Top10 competitiveness in its regular reports. The Bank promoted wealth management features, financial technology empowerment measures, service brand and results, the Yangtze River Delta operation and development to enhance capital market's confidence in strategic advance and transformation development.

(III) The Bank Paid High Attention to Safeguard the Rights and Interests of Investors and Strived to Create Value for Investors.

The Bank maintained a stable dividend policy. Upon approval by the Shareholders' General Meeting, a cash dividend of RMB0.30 for each ordinary share for the year of 2018, totalling RMB22.279 billion, accounting for 30.26% of the Group's total net profit (attributable to the parent company) was distributed, maintaining at a leading position in the industry in terms of dividend yield. The dividends of overseas preference shares and domestic preference shares distributed by the Bank were RMB863 million and RMB1,755 million respectively.

The Bank regularly convened 5 Shareholders' General Meetings, used on-line voting, small and medium investors voting on major events with independent vote counting and other means to ensure the equality and fairness of legal rights of large and small shareholders.

(IV) The Bank Conducted Shareholding Management in Compliance with Laws and Regulations.

Under the guidance of the *Provisional Measures on the Shareholding Administration of Commercial Bank*, the Bank continued to improve and regulate shareholding management policies and procedures. The Bank fulfilled regulatory requirements, organised self-inspection and rectification for shareholdings and related party transactions management within the Group, and further regulated all tasks of the shareholding management.

CORPORATE SOCIAL RESPONSIBILITIES

Based on the strong belief in "harmony and integrity, the constant pursuit of excellence and the commitment to growing together with the society",the Bank closely focused on the three tasks of "serving the real economy, preventing and managing financial risks, and deepening financial reform", actively fulfilled its corporate social responsibilities and enhanced the ability to create comprehensive economic, social and environmental values.

I. ENHANCEMENT ON RESPONSIBILITY MANAGEMENT

The Bank was the first listed domestic company to establish the "Corporate Social Responsibility Committee" (now named as "Social Responsibility and Consumer Protection Committee") under the Board of Directors. The Bank gradually established a sound social responsibility management system, incorporated social responsibilities into the entire development strategy and operations of the Bank, proactively fulfilled its social responsibilities and contributed positively to the sustainable development of the State's economy and society. For the responsibility and work for the Social Responsibility and Consumer Protection Committee, please refer to the chapter of "Corporate Governance Report". During the Reporting Period, the Bank organised each department of head office to hold core communication meetings on social responsibility report, taking the *Environmental, Social and Governance Reporting Guidelines* and the GRI Sustainability Reporting Standards as main training contents, implanted the concept of Social Responsibility in each department and promoted to integrate social responsibilities into core businesses of the company.

The Bank placed great emphasis on the communication with stakeholders. During the Reporting Period, based on the expectations and requirements of eight identified stakeholders (customers, shareholders, government institutions, employees, environment, communities, cooperate partners and social organisations), the Bank continued to commit itself to the key issues under its corporate social responsibilities and set targets accordingly. The Bank's efforts in corporate social responsibilities were well-recognised by stakeholders, media and professional institutions.

During the Reporting Period, social contribution value per share of the Bank reached up to RMB4.87, which increased by 2.96% over the previous year.

II. EXECUTION ON TARGETED POVERTY ALLEVIATION

(I) The Five-year Plan of Targeted Poverty Alleviation

The Bank continued to implement *2016 – 2020 Poverty Alleviation Plan of BoCom* and carried out poverty alleviation in an orderly manner. The Bank issued the 2019 *Poverty Alleviation Plan of BoCom* and *Opinions on Poverty Alleviation at the Decisive Stage of Fighting Against Poverty* in early 2019, which clearly defined the poverty alleviation task and detailed measures. In 2019, the Bank held two leading-group conferences on poverty alleviation to further study the central government's spirit of poverty alleviation, to ensure to put every effort to win the battle against poverty.

(II) Overview of 2019 Targeted Poverty Alleviation

The Bank thoroughly implemented Xi Jinping's Thoughts on Socialism with Chinese Characteristics in the New Era and the important spirit of the General Secretary Xi Jinping's speeches on the series of poverty alleviation and implemented the *Decision of the State Council on Poverty Alleviation, the Poverty Alleviation Plan for the 13th Five-Year Plan* and the strategic plans of the 19th National Party Congress regarding the poverty alleviation to effectively increase political position and regard poverty alleviation as the number one project for enterprises to fulfil their political and social responsibilities.


In April 2019, President Ren Deqi inspected the construction of Tianzhu Quinoa Industrial Park

1. Developed the work of targeted poverty alleviation

During the Reporting Period, the Bank continued to firmly promote the poverty alleviation work of the State Council Leading Group Office of Poverty Alleviation and Development in the designated regions (Tianzhu County in Gansu Province, Hunyuan County in Shanxi Province and Litang County in Sichuan Province) through several measures such as strengthening organisational leadership, selecting and sending personnel and supervising and inspecting. The Bank carried out supporting work with intentions, dedication and hard work through lots of activities including thoroughly conducting research, implementing project, introducing technology, giving counsel planning and visiting condolences, which were well recognised by the local people. Based on the reality of poor counties, and focused on the "two no worries and three guarantees", the Bank aimed to improve the production and living conditions in the poor regions and increase the income of poor households, actively exercised the professional advantage of finance and continuously strengthened poverty alleviation work to ensure the recognition, leadership, guidance, policies and funds were in place, resulting in great achievement in the targeted poverty alleviation work. As at September 2019, the Bank fulfilled the six targets of the central government's designated poverty alleviation, and contributed a total of RMB24.013 million to three targeted poverty alleviation regions.

2. Innovated the model of poverty alleviation

During the Reporting Period, the Bank fully exercised the professional advantage of the financial industry, focused on e-commerce services and agricultural production, in many provinces, which made a contribution to improve the people's livelihood, serve the real economy and strive for poverty alleviation. During the Reporting Period, the Bank launched the "Hand-in-hand Action", innovated the pairing assistance model, integrated the cross-industry synergy, launched the "e-commerce growth plan", realised the income increase of the poor and created a "highland summer vegetable express" to help industries in poverty-stricken counties.

(III) Achievements of Targeted Poverty Alleviation

(in ten thousands of RMB unless otherwise stated)

I. Financial Targeted Poverty Alleviation	
Loan balance	2,928,500
Increase from the beginning of the year	296,400
Growth rate	11.26%
II. Amount of Investment in Targeted Poverty Alleviation	
1. Investment in supporting funds	2,401.3
Plan completion rate	104.4%
Growth rate	13.42%
2. Introduction of supporting funds	663.58
Plan completion rate	102.09%
Growth rate	729.47%
3. Training of grass-root cadres	1,138
Plan completion rate	103.45%
Growth rate	6.55%
4. Training of technical personnel	424
Plan completion rate	106%
Growth rate	11.57%
5. Purchase of agricultural products in poverty alleviation regions	629.43
Plan completion rate	104.91%
Growth rate	16.79%
6. Assistance in selling agricultural products of poor areas	1,691.72
Plan completion rate	105.73%
Growth rate	11.48%

Note: the "targeted poverty alleviation" in the table refers to the poverty alleviation work conducted by the Bank in areas of Tianzhu County in Gansu Province, Hunyuan County in Shanxi Province and Litang County in Sichuan Province.

The Bank exercised advantage of its financial expertise to conduct the financial poverty alleviation. At the end of the Reporting Period, the Bank's loan balances of targeted financial poverty alleviation was RMB29.285 billion.

(IV) Subsequent Plan of Targeted Poverty Alleviation

In 2020, in accordance with 2016-2020 Poverty Alleviation Plan of BoCom, the Bank will put every effort to facilitate and continuously input all targeted poverty alleviation projects, effectively promote regional economic and achieve the goal of alleviating poverty.

III. RESPONDS TO NATIONAL STRATEGIES

The Bank actively serviced for "Going Global" Chinese enterprises, met the requirements of the governments and enterprises along the "Belt and Road" for infrastructure, foreign trade and cross-border finance and continuously enhanced the capabilities of operation and services across borders, industries and markets. The Bank positively seized significant strategic opportunities in Yangtze River Delta, Guangdong-Hong Kong-Macao Greater Bay Area and Beijing-Tianjin-Hebei, etc. The Bank promoted connectively between regional coordination and group integration, improved connectivity mechanism, resource allocation and effectiveness of major projects to support regional economic development. Under the guidance of "acceleration of building manufacturing powerhouse", the Bank issued the Notice of Further Support High-Quality Manufacturing Industry by Fintech", continuously supported the advanced manufacturing and technology innovation, which contributed to building a "manufacturing powerhouse".

IV. SUPPORT TO THE REAL ECONOMY

The Bank resolutely implemented the decision-making arrangements of the Party Central Committee and the State Council, closely focused on serving for the essence of the economic entities, fully took responsibilities of state-owned bank to meet the demands for the development of the real economy and support economic structure transformation and upgrading. The Bank understood the financial needs of private enterprises and solved the difficulties of financing via re-allocation of credit resources, expansion of financing channels and reduction of finance costs. Driven by the technology, he Bank increased the technology investment, connected Fintech with product innovation, customer services and comprehensive management and developed financial innovation. The Bank actively responded to the supply-side reforms, strictly implemented the tasks of "de-capacity, de-stocking, de-leverage, cost reduction and weakness strengthening", guided by the macroeconomic and financial policies with the Bank's business practices, led the operating departments to scientifically seize the asset investment businesses.

V. ASSISTANCE IN INCLUSIVE FINANCE

The Bank focused on the activities among inclusive finance, retail businesses and corporate businesses, transferred the outlets into the comprehensive channels, promoted the support of industrial chain for small and micro enterprises, introduced the government digital platform, optimized the products of "e-Mortgage" and "Shui Rong Tong", connected the external scenarios with the targeted customers, reduced small and micro enterprises' financing costs, innovate products and service patterns. The Bank actively reduced costs and profits, simplified processes as well as opened up the "last mile" of financial resources to support small and micro enterprises. Followed by the guidance of serving for small and micro enterprises of science and technology, the Bank implemented four specialized policies – "specialized institutions, specialized cooperation, specialized products and specialized policies" to support the development of technology innovation of small and micro enterprises. The Bank considered the financial services concerning agriculture, the rural areas and farmers as the important way to narrow the gap between the rich and the poor. The Bank issued the Taken Rural Land Use Right as Secured Loan of BoCom and Notice on Transitional work of Two Rights of Secured Loans to guide the work related to agriculture, rural areas and farmers. The Bank actively supported the expansion of infrastructure, allocated financial resources with local situation and promoted the connecting development of city and rural areas. During the Reporting Period, the balance of inclusive loans increased by 51.62% over the beginning of the year. The number of loan customers increased by 33.4 thousand. The impaired inclusive loan ratio decreased by 2.15 percentage points over the beginning of the year. The average interest rate of inclusive loans of small and micro enterprise was 4.58%, representing a decrease of 0.63 percentage point over the previous year. The comprehensive financing cost of small and micro enterprise deceased by 1.11 percentage points. The Bank overall achieved the regulatory goal of "Two Increases and Two Controls" and cut the reserve ratio.

(In 100 millions of RMB)

	Year end of 2019	Year end of 2018	Year end of 2017
Loan balance of central and western China	**15,182.00**	13,279.09	12,018.36
Loan balance of medium, small and micro enterprises	**15,644.01**	14,167.74	13,389.94
Loan balance of agriculture-related enterprises	**6,077.82**	5,811.47	6,536.18

Note: Central and western China includes 17 provinces, autonomous regions and municipalities, which are Shanxi Province, Anhui Province, Jiangxi Province, Henan Province, Hunan Province, Hubei Province, Guangxi Region, Chongqing, Sichuan Province, Guizhou Province, Yunnan Province, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Region, Xinjiang Region and Inner Mongolia Region.

VI. CONTRIBUTION TO IMPROVE PEOPLE'S LIVELIHOOD

The Bank actively responded to the national policies for ensuring and enhancing the people's living standards and built an internet financial service platform for industrial applications. The Bank focused on areas generally concerned by public such as education, medical care, housing, social security through cross-industry cooperation to put "Internet + Industry +Finance" into practice and developed it, which made it more convenient to people's life. The Bank increased the investment of medical information construction, facelifted the payment functions within the industry, hospitals and online settlement. The Bank actively supported the residents' demand for ordinary self-occupied housing loans, made the suitable loan policy for the development of local subsidized housing, supported mortgage business of individually subsidized housing to ensure the living and teaching conditions for the rehousing residents and schools, improved the surroundings of the projects and promoted harmonious development for the region. Oriented by "Finance serves Education", the Bank exercised its advantages by cooperating with schools at different levels, introducing the service plans of "BoCom and Intelligent Campus" and better supported school construction and education.

(In 100 millions of RMB)

	Year end of 2019	Year end of 2018	Year end of 2017
Loans balance of security housing projects	**875.55**	737.63	499.11
Loans balance of sciences, education, culture and public health sectors	**968.75**	894.36	827.80
Loans balance of individuals	**17,547.65**	16,356.27	14,098.82

VII. IMPLEMENTATIONS OF GREEN FINANCE

The Bank continued the Implementation on Green Credit from Bank of Communications Office [2012] 177, actively implemented the green credit development strategy and innovated green financial products with focus on the low-carbon industries of clean energy, water conservancy environment, urban water and city rail transit to promote the construction of ecosystem. During the Reporting Period, the Bank invested funds of RMB12.0 billion and joined the setup of National green development fund totally RMB80.0 billion, sponsored the green financial bond of RMB20.0 billion. The Bank was awarded as Excellence of Green Bank by China Banking Association.

(in 100 millions of RMB unless otherwise stated)

	Year end of 2019	Year end of 2018	Year end of 2017
Proportion of "green" customers (%)	**99.53**	99.61	99.76
Proportion of loan balance made to "green" customers (%)	**99.76**	99.79	99.94
Loans balance of energy-saving and emission reduction sectors	**3,283.52**	2,830.54	2,771.08

Note: Loan balance of energy-saving and emission reduction sectors is the balance of the "green" customers according to the Bank's policy regarding low-carbon economy, environmental protection and comprehensive resource utilisation.

VIII. DEVELOPMENT OF GREEN SERVICES

The Bank opened up the e-banking services via online business and improved the service management of environmental impact. During the Reporting Period, the channel diversion rate of e-banking services continued to increase to 97.67%. The Bank continued to improve the performance and launch volume of intelligent machines. The replacement rate of intelligent machines for traditional counters was 67.83%, which was 12.49% higher on a year-on-year basis.

	2019	2018	2017
Channel diversion rate of e-banking services (%)	**97.67**	96.59	94.54

IX. PRACTICES GREEN OPERATIONS

During the Reporting Period, the Bank strictly followed the *Centralized Procurement Management Measures of Bank of Communications (The 2018 Edition) by BoCom Office [2018] 261* and other rules to assess supplier and strengthen the supply chain management. The Bank preferred the environment-friendly products and selected suppliers with environmental management system certification and their products with environmental labelling. The Bank introduced the paperless meeting to reduce the paper usage. Additionally, the Bank actively responded in energy-saving and garbage classification system, developed the property management information system and reduced pollution emission. The Bank entrusted professional institutions to carry out environmental examination every year to ensure the environmental indicators of the buildings (parks) of

Master Branch to be met the standard. The Bank adhered to the green office, strengthened the management and recycling of physical assets and reduced energy consumption in business to reduce cost and increase efficiency. During the Reporting Period, total annual energy consumption of buildings (parks) was equivalent to 29,897.3 tons which decreased by 1.32% on a year-on-year basis.

X. OPTIMISATION OF CUSTOMER SERVICE

The staff of Guiya Sub-branch, Guangxi Branch served the customer in the wheelchair

Taken "creating shared value and providing best services" as core, the Bank continued the services via innovation and connection customers with financial resources, which increased the availability and convenience of financial resources and dedicated to be best bank in financial services. Considered the different products and transactions of low investment threshold, stability, security, convenience, intelligence and high yield, the Bank developed different asset and wealth management products and service scenario. Based on the intelligent services, the Bank introduced the techniques of biological recognition, integrated marketing and interaction of online and offline, exercised the advantages of comprehensive services and promoted intelligent services. The Bank set up convenient service area in the outlets and provided customers with different services including braille and sign language services, disabled access, keyboard for the blind and presbyopic glasses. During the "Selection of Top 100 Demonstration Outlets with Civilised and Standardised Services in Chinese Banking Industry in 2019" held by China Banking Association, 20 outlets of the Bank were awarded, which ranked first in terms of the number awarded in the industry. The Bank's *Service Guidelines of Operating Outlets of Bank of Communications* and *Service Guidelines of Online Banking of Bank of Communications* were on the list of "Leading Runner" of the assessment of financial institutions and service standards.

XI. CARES ABOUT EMPLOYEES

The Bank made every effort to create a platform of diversity, tolerance and harmony for employees, and created mutual value together with the employees. As at the end of the Reporting Period, the Bank had 87,828 domestic and overseas employees, of which 54.49% were female, 2.85% were overseas employees, 4.55% were ethnic minority employees and 0.14% were disabled employees. The employee turnover rate was 3.67%, representing a decrease of 1% on a year-on-year basis.

	2019	2018	2017
Total number of domestic and overseas employees	**87,828**	89,452	91,240
Number of female employees served as medium-to-top management	**3,011**	2,809	2,678
Number of ethnic minority employees	**3,992**	4,042	3,976

In 2019, the Bank held the concept of "co-creation, co-prosperity, co-sharing and co-development" for staff development, continued to promote the construction of a happy BoCom home, enhanced the sense of belonging, achievement and happiness of employees. The Bank implemented administrative publicity system, and improved democratic management system at the grass-root level. The Bank launched special projects to remove burden from the local branches. 9 key projects achieved actual result in order to tackle "difficulty in coordination, difficulty in approval, excessive documents, and excessive meetings". The Bank faithfully protected employees' legitimate rights and interests and relieved employees from excessive workload. To promote staff value, the Bank introduced the plan of 10,000 Fintech Talents Plan, Fintech Management Trainees and Empowerment and Transformation of Stock Talents, which smoothed the staff development channel, setup the training system and staff promotion with full coverage from different perspective and different position. The Bank dedicated to the family culture of "Connecting People", under the guidance of *Implementation of Staff Caring of Bank of Communications,* provided timely assistance and care to staff. In 2019, with the platform of "BoCom Mutual Aid Association", the Bank provided RMB9.668 million to 2,789 staff with serious illness and poverty alleviation.

XII. DEVOTION TO PUBLIC WELFARE

Bank of Communications Blue Air Balloon Charity Activity – Sichuan Branch Entered Litang County Middle School for Financial Education

The Bank was dedicated to public charity work. In 2019, the Bank continued to promote the standardisation and management of the public charity brand named "Blue Balloon", published the public charity song Hello Blue, and called up for the whole society's joint contribution to poverty alleviation, disability assistance, special education and disaster relief to light up the "Blue" sky for future and hope. During the Reporting Period, the Bank put the "BoCom and HSBC – Shanghai Serving the Elderly " project of 2019 in the national elder care demonstration zone, "the renovation project of habitability for elderly people in Dianji neighbourhood of Jiangchuan sub-district in Minhang district, formulated an innovative overall plan of financial service for elderly care, further enhanced the sense of enjoyment for elderly people. The Bank constructed "Gateway to Tomorrow – Academic Grant for Disabled Teenagers" since 2007. In the past thirteen years, the Bank collectively allocated RMB0.106 billion in donations. Totally more than 37.3 thousand disabled students and 126 special education schools were subsidised, 1,699 excellent special education teachers and 262 outstanding disabled college students were recognised and 5,700 special education teachers benefited from the training supported by the project. The Bank encouraged employees to take advantage of their own professional skills and the Bank's resources, actively participate in public charity activities, including publicising financial knowledge, helping people in difficulties, convey cares with actions, and contribute back to the society. During the Reporting Period, the Bank's employees contributed 130,000 hours in volunteer services with 131,869 participants that provided benefit to 57,922 people.

(in 10 thousands of RMB unless otherwise stated)

Item		**Donation Amount**
The amount of Public Welfare projects in 2019		222
The amount of donations in 2019	Total	4,334.71
	Poverty Alleviation	3,298.53
	Disaster Relief	36.50
	Helping the Disabled	202.04
	Others	797.64

I. MATERIAL LITIGATION, ARBITRATION AND ISSUES GENERALLY QUESTIONED BY THE MEDIA

During the Reporting Period, the Group was not involved in any material litigation and arbitration, or issues questioned by the media generally. As at the end of the Reporting Period, the Group was involved in certain outstanding litigations/arbitrations as defendant or third party with an amount of RMB5.011 billion. The Bank reckoned that these litigations/arbitrations would not have any material effect on the financial position of the Bank.

II. COMMITMENTS

In December 2019, the Ministry of Finance transferred 1,970,269,383 A shares of the Bank, representing 10% of the Bank's shares to the SSF as a whole. Pursuant to the regulations of the *Notice of the State Council on Issuing the Implementation Plan for Transferring Part of State-Owned Capital to Replenish Social Security Funds* (Guo Fa (2017) No. 49), the SSF should fulfil its lock-up period obligations of over 3 years from the date of the transfer.

III. PUNISHMENT

During the Reporting Period, neither the Bank, nor any of its Directors, Supervisors or Senior Management was subject to any investigation by competent authorities, any enforcement measures by judiciary authorities or discipline inspection departments, any transferring to the judiciary authorities for criminal responsibilities, any investigation, administrative penalty by the CSRC, any prohibition from access to market or disqualification, any material administrative penalty by administrative departments including environmental, safety supervision and tax departments and any other administrative departments, or any situations of denouncement by the stock exchanges.

IV. INTEGRITY

During the Reporting Period, the Group did not exist the situations either of refusing the execution of court orders or unsettling significant due debts.

V. RELATED PARTY TRANSACTIONS

During the Reporting Period, all the transactions between the Group and its related parties were the monetary transactions conducted during the ordinary course of business. No significant related party transaction occurred during the Reporting Period. As at the end of the Reporting Period, details of continuing related party transactions of the Group are disclosed in Note 44 to the Consolidated Financial Statements set out in this Annual Report.

VI. MATERIAL CONTRACTS AND PERFORMANCE OF OBLIGATIONS THEREUNDER

(I) Material Trust, Sub-contract and Lease

During the Reporting Period, the Bank did not hold in trust to a material extent or entered into any material sub-contract or lease arrangement in respect of assets of other corporations, and no other corporation held in trust to a material extent or entered into any material subcontract or lease arrangement in respect of the Bank's assets.

(II) Material Guarantees

The provision of guarantees was one of the off-balance-sheet businesses carried out by the Bank in its ordinary and usual course of business. During the Reporting Period, the Bank did not provide any material guarantees that need to be disclosed except for the financial guarantee services within the business scope as approved by the regulatory authority.

(III) Other Material Contracts

During the Reporting Period, the Bank did not enter into any other material contracts.

VII. OTHER SIGNIFICANT EVENTS

(I) In January 2019, the Bank's 2019 First Extraordinary General Meeting reviewed and approved the issuance of qualified write-down Tier 2 capital bonds with an aggregate amount of no more than RMB80.0 billion. The resolution of the issuance plan was effective from the date of approval by the shareholders' meeting to 31 December 2020. Approved by the regulatory authorities, the Bank successfully issued RMB40.0 billion of Tier 2 capital bonds in the national interbank bond market. For related details, please refer to the announcements of the Bank published on the website of the SSE (www.sse.com.cn) and the website of the Hong Kong Stock Exchange (www.hkexnews.hk) on 4 January, 24 June, 4 July and 16 August 2019.

(II) In March 2019, the Board of Directors of the Bank reviewed and approved to inject capital of no more than RMB5.5 billion to Bank of Communications Financial Leasing Co., Ltd., a wholly-owned subsidiary of the Bank. Meanwhile, the Board of Directors of Bank approved Bank of Communications Financial Leasing Co., Ltd. to inject capital of no more than RMB5.5 billion to BOCOM Aviation and Shipping Financial Leasing Co., Ltd, a wholly-owned subsidiary of Bank of Communications Financial Leasing Co., Ltd.. For related details, please refer to the announcements of the Bank published on the website of the SSE (www.sse.com.cn) and the website of the Hong Kong Stock Exchange (www.hkexnews.hk) on 29 March 2019 and 3 January 2020.

(III) In April 2019, the Bank received notice from the SSF, the substantial shareholder of the Bank, which the SSF would plan to sell not exceeding 1,485,254,533 A Shares in aggregate, not exceeding 2% of the total current issued ordinary shares of the Bank, within a six-month period by way of call auction or block trade transfer. As at the reporting date, the SSF did not reduce any of its shares of the Bank. For related details, please refer to the announcements of the Bank published on the website of the SSE (www.sse.com.cn) and the website of the Hong Kong Stock Exchange (www.hkexnews.hk) on 2 April, 24 July and 24 October 2019.

(IV) In May 2019, the 2019 Second Extraordinary General Meeting of the Bank reviewed and approved the proposal in respect of the issuance of write-down undated capital bonds with a total amount of no more than RMB40.0 billion or equivalent foreign currency. For related details, please refer to the announcements of the Bank published on the website of the SSE (www.sse.com.cn) and the website of the Hong Kong Stock Exchange (www.hkexnews.hk) on 20 May, 19 July and 20 September 2019.

(V) In June 2019, as approved by CBIRC, the Bank's wholly-owned subsidiary, BOCOM Wealth Management Co., Ltd. officially commenced business operation. For related details, please refer to the announcements of the Bank published on the website of the SSE (www.sse.com.cn) and the website of the Hong Kong Stock Exchange (www.hkexnews.hk) on 31 May 2018, 7 January, 29 May and 13 June 2019.

(VI) In October 2019, the Bank fully redeemed and cancelled the U.S.$1,200,000,000 Tier 2 Capital Bonds of 4.50% per annum due 2024 which was issued on October 3 2014. For related details, please refer to the Bank's publication on the website of the Shanghai Stock Exchange (www.sse.com.cn) and the HKEx News website of Hong Kong Stock Exchange (www.hkexnews.hk) on August 30, October 3, and October 8, 2019.

(VII) In January 2020, pursuant to the *Notice of the State Council on Issuing the* Implementation *Plan for Transferring Part of State-Owned Capital to replenish Social Security Funds* (Guo Fa (2017) No. 49), the Ministry of Finance, the shareholder of the Bank, transferred 10% of the Bank's ordinary shares as a whole to the SSF. For related details, please refer to the announcements of the Bank published on the website of the SSE (www.sse.com.cn) and the website of the Hong Kong Stock Exchange (www.hkexnews.hk) on 30 September 2019 and 10 January 2020.

(VIII) In March 2020, the Board of Directors of the Bank reviewed and approved the issuance of write-down undated capital bonds with a total amount of no more than RMB90.0 billion or equivalent foreign currency. For related details, please refer to the announcements of the Bank published on the website of the SSE (www.sse.com.cn) and the website of the Hong Kong Stock Exchange (www.hkexnews.hk) on 16 January, 21 January, 10 February and 10 March 2020.

(IX) In March 2020, the Board of Directors of the Bank reviewed and approved to inject capital of no more than HKD30 billion in stages to Bank of Communications (Hong Kong) Limited ("Hong Kong Branch"), a wholly-owned subsidiary of the Bank. The matter was subject to the approval of related regulatory authorities. For related details, please refer to the announcements of the Bank published on the website of the SSE (www.sse.com.cn) and the website of the Hong Kong Stock Exchange (www.hkexnews.hk) on 16 January, 21 January, 10 February and 10 March 2020.

ORGANIZATION CHART

Shareholders' General Meeting

Board of Directors

Senior Management

Office of the Board of Directors

Audit Supervision Bureau

Sub-bureau of Audit Supervision Beijing, Shanghai, Guangzhou, Wuhan, Chengdu, Shenyang

Head Office and Domestic Subsidiaries

Corporate and Institutional Business Sector

- Corporate Business Department
  - [Investment Banking Business Center]
  - [Strategic Customers Department]
  - [Pension Business Department]
- International Banking Department
  - [Cross-border Trade and Finance Center]
- Inclusive Finance Business Division
- Beijing Administrative Department (Group Customer Department)
- Asset Custody Business Center (Asset Custody Department)
  - [Asset Custody and Operation Center]
- Offshore Finance Business Center
- Bank of Communications International Trust Co., Ltd.
- Bank of Communications Financial Leasing Co., Ltd.
- BoCom International Holdings Company Limited
- China BoCom Insurance Co., Ltd.
- BoCom Financial Asset Investment Co., Ltd.

Retail and Private Business Sector (Internet Finance Business Sector)

- Personal Finance Business Department (Consumer Rights Protection Department)
- Internet Channels Department
- Private Banking Center (Private Banking Department)
- Pacific Credit Card Center
- Online Finance Business Center
- Bank of Communications Schroder Fund Management Co., Ltd.
- BoCommLife Insurance Company Limited

Interbank and Market Business Sector

- Financial Institution Department (Asset Management Business Centre)
  - [Interbank Strategic Customers Department]
- Global Markets Department (Precious Metal Business Center, Bills Business Center)
- BoCom Wealth Management Co., Ltd.

Risk Control Sector

- Risk Management Department (Office of Case Prevention Leadership Team)
  - [Risk Monitoring Center]
  - [Asset Preservation Center]
- Credit Authorization Department
  - [Credit Authorization Approval Center]
- Legal Compliance Department

- Offices (Office of Party Committee, Corporate Culture Department)
- Human Resources Department (Organization Department of Party Committee)
  - [Education and Training Department]
- Office of the Leading Group for Deepening the Reform
- Party Construction Department (Publicity Department of the Party Committee, Party Committee, Department of Inspection Commission)
- Asset and Liability Management Department
- Financial Budget Department
- Strategic Investment Department
- Operations Management Department (Business and Data Integration Department, Security Department)
- Fintech Department
  - [Office of General Engineer (Application and System Framework Department)]
- Data Management and Application Center
- Institute for Fintech Innovation
- Office of Inspection Leadership Team
- Office of Labour Union (Youth League Committee)
- Retirement Management Department
- Department of General Affairs
- Development and Research Department (Financial Research Center)
- Finance College of Bank of Communications (Party School)
- Financial Service Center (Business Department)
  - [International Clearing Center]
  - [Yangzhou Financial Services Center]
  - [Hefei Financial Services Center]
  - [Nanning Financial Services Center]
  - [Wuhan Financial Services Center]
- Software Development Center
- Data Center (System Operation Center)
- Test Center

Board of Supervisors

- Discipline Inspection and Supervision Group in the Bank of Communications
- Office of the Board of Supervisors

Domestic Branches

- 37 Provincial and Directly-managed branches
  - 207 Branches Managed by Provincial Branches
  - 3,079 Banking outlets

Overseas Branches and Subsidiaries

- Hong Kong Branch (Bank of Communications (Hong Kong) Limited)
- New York Branch
  - San Francisco Branch
- Tokyo Branch
- Singapore Branch
- Seoul Branch
- Frankfurt Branch
- Macao Branch
- Ho Chi Minh City Branch
- Sydney Branch
  - Brisbane Branch
  - Melbourne Branch
- Taipei Branch
- London Branch
- Toronto Representative Office
- Bank of Communications (Luxembourg) Limited (Luxembourg Branch)
- Bank of Communications (Luxembourg) S.A. Paris Branch
- Bank of Communications (Luxembourg) S.A. Rome Branch
- Bank of Communications (Brazil) Co., Ltd.
- Prague Branch

Rural Banks

- Dayi BoCom Xingmin Rural Bank
- Zhejiang Anji BoCom Rural Bank
- Xinjiang Shihezi BoCom Rural Bank
- QingDao Laoshan BoCom Rural Bank

LIST OF DOMESTIC AND OVERSEAS BRANCHES AND MAJOR SUBSIDIARIES

LIST OF DOMESTIC PROVINCIAL BRANCHES AND DIRECTLY OPERATING BRANCHES OF HEAD OFFICE

No.	Name	Address
1	Beijing Branch	No. 22 Financial Street, Xicheng District, Beijing
2	Tianjin Branch	No. 7 Youyi Road, Hexi District, Tianjin City
3	Hebei Provincial Branch	No. 26 Ziqiang Road, Qiaoxi District, Shijiazhuang City, Hebei Province
4	Shanxi Provincial Branch	No. 5 Qingnian Road, Yingze District, Taiyuan City, Shanxi Province
5	Inner Mongolia Autonomous Region Branch	No. 18 Xinhua East Street, Saihan District, Hohhot, Inner Mongolia Autonomous Region
6	Liaoning Provincial Branch	No. 258-1 Shifu Road, Shenhe District, Shenyang City, Liaoning Province
7	Dalian Branch	No. 6 Zhongshan Square, Zhongshan District, Dalian City, Liaoning Province
8	Jilin Provincial Branch	No. 3515 Renmin Street, Chaoyang District, Changchun City, Jilin Province
9	Heilongjiang Provincial Branch	No. 428 Youyi Road, Daoli District, Harbin City, Heilongjiang Province
10	Shanghai Branch	No. 200 Jiangxi Middle Road, Huangpu District, Shanghai
11	Jiangsu Provincial Branch	No. 218 Lushan Road, Jianye District, Nanjing City, Jiangsu Province
12	Suzhou Branch	No. 28 Suhui Road, Suzhou Industrial Park, Suzhou City, Jiangsu Province
13	Wuxi Branch	No. 8 Second Jinrong Street, Binhu District, Wuxi City, Jiangsu Province
14	Zhejiang Provincial Branch	No. 1-39 Juyuan Road, Jianggan District, Hangzhou City, Zhejiang Province
15	Ningbo Branch	No. 455 Haiyan North Road, Yinzhou District, Ningbo City, Zhejiang Province
16	Anhui Provincial Branch	Intersection of Huizhou Avenue and Jialingjiang Road, Baohe District, Hefei City, Anhui Province
17	Fujian Provincial Branch	No. 116 Hudong Road, Gulou District, Fuzhou City, Fujian Province
18	Xiamen Branch	No. 9 Hubin Middle Road, Siming District, Xiamen City, Fujian Province
19	Jiangxi Provincial Branch	No. 199 Huizhan Road, Honggutan New District, Nanchang City, Jiangxi Province
20	Shandong Provincial Branch	No. 98 Gongqingtuan Road, Shizhong District, Jinan City, Shandong Province
21	Qingdao Branch	No. 6 Zhongshan Road, Shinan District, Qingdao City, Shandong Province

No.	Name	Address
22	Henan Provincial Branch	No. 11 Zhenghua Road, Jinshui District, Zhengzhou City, Henan Province
23	Hubei Provincial Branch	No. 847 Jianshe Avenue, Jianghan District, Wuhan City, Hubei Province
24	Hunan Provincial Branch	No. 37 Shaoshan Middle Road, Yuhua District, Changsha City, Hunan Province
25	Guangdong Provincial Branch	No. 11 Xiancun Road, Tianhe District, Guangzhou City, Guangdong Province
26	Shenzhen Branch	No. 3018 Shennan Middle Road, Futian District, Shenzhen City, Guangdong Province
27	Guangxi Zhuang Autonomous Region Branch	No. 228 Renmin East Road, Xingning District, Nanning City, Guangxi Zhuang Autonomous Region
28	Hainan Provincial Branch	No.45 Guomao Avenue, Longhua District, Haikou City, Hainan Province
29	Chongqing Branch	No. 3 Jiangbei City West Street, Jiangbei District, Chongqing City
30	Sichuan Provincial Branch	No. 211 West Yulong Street, Qingyang District, Chengdu City, Sichuan Province
31	Guizhou Provincial Branch	East Third Tower, Financial City, Guanshanhu District, Guiyang City, Guizhou Province
32	Yunnan Provincial Branch	No. 397 Baita Road, Panlong District, Kunming City, Yunnan Province
33	Shanxi Provincial Branch	No. 88 Xixin Street, Xincheng District, Xi'an City, Shanxi Province
34	Gansu Provincial Branch	No. 129 Qingyang Road, Chengguan District, Lanzhou City, Gansu Province
35	Ningxia Hui Autonomous Region Branch	No. 296 MinZu North Street, Xingqing District, YinChuan City, NingXia Hui Autonomous Region
36	Xinjiang Uygur Autonomous Region Branch	No. 16 Dongfeng Road, Tianshan District, Urumqi, Xinjiang Uygur Autonomous Region
37	Qinghai Provincial Branch	No. 29 Wusi West Road, Chengxi District, Xining City, Qinghai Province

Note: For the business outlet address and contact information of the Bank, please visit the Bank's official website (www.bankcomm.com) and click on "Branch Inquiry" for relevant information.

LIST OF DOMESTIC AND OVERSEAS BRANCHES AND MAJOR SUBSIDIARIES (CONTINUED)

LIST OF OVERSEAS BANKING INSTITUTIONS

No.	Name	Address
1	Hong Kong Branch/Bank of Communications (Hong Kong) Limited	20 Pedder Street, Central, Hong Kong
2	New York Branch	ONE EXCHANGE PLAZA 55 BROADWAY, 31ST & 32ND FLOOR, NEW YORK NY 10006-3008, U.S.A.
	San Francisco Branch	575 MARKET STREET, 38th FLOOR, SAN FRANCISCO, CA 94105, U.S.A.
3	Tokyo Branch	SANYO Group Building, 1-3-5 Nihombashi, Chuo-ku, Tokyo, Japan
4	Singapore Branch	50 Raffles Place #18-01 Singapore Land Tower
5	Seoul Branch	6th Floor Samsung Fire & Marine Bldg. #87, Euljiro 1-Ga, Jung-Gu, Seoul 100-782, Korea
6	Frankfurt Branch	Neue Mainzer Strasse 75, 60311 Frankfurt am Main, Germany
7	Macau Branch	16th Floor, AIA Tower, No. 251A-301, Avenida Commercial De Macau
8	Ho Chi Minh City Branch	17th Floor, Vincom Center, 72 Le Thanh Ton, Dist.1, HCMC, VN
9	Sydney Branch	Level 27, 363 George Street Sydney NSW 2000 Australia
	Brisbane Branch	Level 35, 71 Eagle Street, Brisbane, Australia
	Melbourne Branch	Level 34, 525 Collins Street, Melbourne, Australia
10	Taipei Branch	A Wing, 29th Floor, No. 7, Section 5, Xinyi Road, Taipei (101 Tower), Taiwan
11	London Branch	4th Floor, 1 Bartholomew Lane, London EC2N 2AX UK
12	Luxemburg Branch/Bank of Communications (Luxembourg) Co., Ltd.	7 Ruede la Chapelle, Luxembourg, L-325
13	Bank of Communications (Luxembourg) S.A. Paris Branch	90, Avenue des Champs-Elysees, 75008, Paris, France
14	Bank of Communications (Luxembourg) S.A. Rome Branch	3rd floor, Piazza Barberini 52, Rome, 00187
15	Bank of Communications (Brazil) Co., Ltd.	Praca Pio X, 98. 7 andar 20091 040 Rio de Janeiro RJ, Brazil
16	Prague Branch	7th Floor, RUSTONKA R2, Rohanske nabrezi 693/10, Prague 8, 186 00, Czech Republic
17	Toronto Representative Office	Suite 2460, 22 Adelaide Street West, Toronto, ON M5H 4E3, Canada

LIST OF MAJOR SUBSIDIARIES

No.	Name	Address
1	Bank of Communications Schroder Fund Management Co., Ltd.	No. 8 Century Avenue, Pudong New District, Shanghai
2	Bank of Communications International Trust Co., Ltd.	No.333 Lujiazui Ring Road, Pudong New District, Shanghai, No. 847 Jianshe Avenue, Wuhan
3	Bank of Communications Financial Leasing Co., Ltd.	No. 333 Lujiazui Ring Road, Pudong New District, Shanghai
4	BoCommLife Insurance Company Limited	No. 333 Lujiazui Ring Road, Pudong New District, Shanghai
5	BoCom International Holdings Company Limited	No. 68 Des Voeux Road Central, Central, Hong Kong
6	China BoCom Insurance Co., Ltd.	No. 8 Cotton Tree Drive, Central, Hong Kong
7	BoCom Financial Asset Investment Co., Ltd.	No. 333 Lujiazui Ring Road, Pudong New District, Shanghai
8	BoCom Wealth Management Co., Ltd.	No. 333 Lujiazui Ring Road, Pudong New District, Shanghai
9	Dayi BoCom Xingmin Rural Bank Co., Ltd.	No. 168-170 Central Fumin Road, Dayi County, Chengdu, Sichuan
10	Zhejiang Anji BoCom Rural Bank Co., Ltd	Tower 1, Changshuo Square, Changshuo Street, Anji County, Huzhou, Zhejiang
11	Xinjiang Shihezi BoCom Rural Bank Co., Ltd	No. 127 Dongyi Road, Shihezi, Xinjiang Uygur Autonomous Region
12	Qindao Laoshan BoCom Rural Bank Co., Ltd.	Room 101, Building 1, No. 156 Shenzhen Road, Laoshan District, Qingdao, Shandong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Contents

pwc 羅兵咸永道

To The Shareholders of Bank of Communications Co., Ltd.
(Incorporated in the People's Republic of China with limited liability)

OPINION

What we have audited

The consolidated financial statements of Bank of Communications Co., Ltd. (the "Bank") and its subsidiaries (the "Group") set out on pages 178 to 320, which comprise:

- the consolidated statement of financial position as at 31 December 2019;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTERS *(Continued)*

Key audit matters identified in our audit are summarised as follows:

1. Expected credit impairment allowance of loans and advances to customers, financial investments at amortised cost and financial guarantees and loan commitments

2. Consolidation assessment of structured entities

Key Audit Matter

Expected credit impairment allowance of loans and advances to customers, financial investments at amortised cost and financial guarantees and loan commitments

Refer to Notes 2.4, 2.30(a), 3.1.1(a), 3.1.1(b), 3.1.1(c), 3.1.2, 3.1.3.1, 20 and 21 to the Group's consolidated financial statements.

As at 31 December 2019, the Group's gross loans and advances to customers and accrued interest amounted to RMB5,318,923 million, and a loss allowance of RMB135,270 million was recognised in the Group's consolidated statement of financial position; the amount of financial investments at amortised cost and accrued interest was RMB1,932,952 million and a loss allowance of RMB3,263 million was recognised; the exposure of loan commitments and financial guarantees was RMB1,472,170 million, for which a provision of RMB6,332 million was recognised.

The balances of loss allowances for loans and advances to customers, and financial investments at amortised cost and provision for financial guarantees and loan commitments represent the management's best estimates at the balance sheet date of expected credit losses under International Financial Reporting Standard 9: Financial Instruments expected credit losses models ("ECL Models").

The Group assesses whether the credit risk of loans and advances to customers and financial investments at amortised cost and financial guarantees and loan commitments have increased significantly since their initial recognition, and apply a three-stage impairment model to calculate their ECL. For corporate loans and advances classified into stages 1 and 2, and those in stage 3 without using discounted cash flow model ("DCF") to calculate ECL, all personal loans and advances, financial investments at amortised cost and financial guarantees and loan commitments, the management assesses loss allowance using the risk parameter modelling approach that incorporates key parameters, including probability of default, loss given default, exposure at default and discount rates. For corporate loans in stage 3 using DCF, the management assesses loss allowance by estimating the cash flows from the loans.

How our audit addressed the Key Audit Matter

We evaluated and tested the design and operational effectiveness of the internal controls relating to the measurement of expected credit losses for loans and advances to customers, financial investments at amortised cost and financial guarantees and loan commitments, primarily including:

(1) Management over ECL models, including the selection, approval and application of modelling methodology; and the internal controls relating to the on going monitoring and optimization of the models;

(2) Internal controls relating to significant management judgments and assumptions, including the review and approval of portfolio segmentation, model selections, parameters estimation, significant increase in credit risk, or of defaults or credit-impaired, forward-looking and management overlay adjustments;

(3) Internal controls over the accuracy and completeness of key inputs used by the models;

(4) Internal controls relating the accuracy of allowance for impairment losses for corporate loans and advances in stage 3;

(5) Internal controls over the information systems for model-based measurement.

The substantive procedures we preformed, primarily including:

We reviewed the modelling methodologies for ECL measurement, and assessed the reasonableness of the portfolio segmentation, models selection, key parameters estimation, significant judgements and assumptions in relation to the models. We tested whether or not the measurement models reflect the modelling methodologies documented by the management on a sample basis.

KEY AUDIT MATTERS *(Continued)*

Key Audit Matter	**How our audit addressed the Key Audit Matter**

Expected credit impairment allowance of loans and advances to customers, financial investments at amortised cost and financial guarantees and loan commitments (Continued)

The measurement models of expected credit losses involves significant management judgments and assumptions, primarily including the following:

(1) Segmentation of business operations sharing similar credit risk characteristics, selection of appropriate models and determination of relevant key measurement parameters;

(2) Criteria for determining whether or not there was a significant increase in credit risk, or a default or impairment loss was incurred;

(3) Economic indicators for forward-looking measurement, and the application of economic scenarios and weightings;

(4) Management overlay adjustments due to significant uncertain factors not covered in the models;

(5) The estimated future cash flows for corporate loans and advances in stage 3.

The Group established controls for the measurement of expected credit losses.

For measuring expected credit losses, the Group adopted complex models, employed numerous parameters and data inputs, and applied significant management judgments and assumptions. In addition, the loans and advances to customers, financial guarantees and exposures of loan commitments and financial investments at amortised cost, the loss allowance and provision accrued involve significant amounts. In view of these reasons, we identified this as a key audit matter.

We selected samples, in consideration of the financial information and non-financial information of the borrowers, relevant external evidence and other factors, to assess the appropriateness of the management's identification of significant increase in credit risk, defaults and credit-impaired loans.

For forward-looking measurement, we reviewed the management's model analysis of their selection of economic indicators; economic scenarios and weightings employed, assessed the reasonableness of the prediction of economic indicators and performed sensitivity analysis of economic indicators, economic scenarios and weightings.

In addition, we assessed the reasonableness of the selection of significant uncertain factors, its application and measurement in the management overlay adjustments, and examined the accuracy of the relevant mathematical calculations.

We examined major data inputs to the ECL models on selected samples, including historical data and data at the measurement date, to assess their accuracy and completeness.

For corporate loans and advances in stage 3, we examined, on a sample basis, forecasted future cash flows prepared by the Group based on financial information of borrowers and guarantors, latest collateral valuations and other available information together with discount rates in supporting the computation of loss allowance.

Based on our procedures performed, in the context of the inherent uncertainties associated with measurement of expected credit losses for loans and financial guarantees and advances to customers, loan commitments and financial investments at amortised cost, the models, key parameters, significant judgement and assumptions adopted by management and the measurement results were considered acceptable.

KEY AUDIT MATTERS *(Continued)*

Key Audit Matter

Consolidation assessment of structured entities

Refer to Notes 2.2, 2.30(d), 41 and 42 to the Group's consolidated financial statements.

The Group has managed or invested in a number of structured entities. As at 31 December 2019, the carrying amount of unconsolidated structured entities invested by the Group amounted to RMB309,748 million. In addition, as at 31 December 2019, unconsolidated structured entities sponsored and managed by the Group amounted to RMB2,254,828 million.

Management performed assessment on each of the three elements of control (power to direct relevant activities of structured entities, exposure to variable returns and the Group's ability to use its power to affect its variable returns from the structured entities) in determining whether structured entities managed or invested in by the Group should be consolidated or not. In performing the assessment, significant judgment was involved to determine the role of the Group in the arrangement as either a principal or an agent. If the Group acts as a principal, the structured entities should be consolidated.

We focused on this area because the amount of the Group's structured entities was significant and the consolidation assessment of these structured entities involved significant judgments.

How our audit addressed the Key Audit Matter

We understood, evaluated and validated the design and operating effectiveness of relevant controls over management's assessment of consolidation of structured entities.

In addition, we selected a sample of the structured entities that the Group invested in or managed, and performed the following procedures on management's assessment of consolidation of structured entities:

(1) Analysed the transaction structures, inspected related contract terms, and evaluated whether the Group had the power to direct the relevant activities of these structured entities;

(2) Inspected contract terms related to the Group's variable returns from these selected structured entities, including management fee, expected investment returns and returns from liquidity support, and agreed this information to the corresponding inputs used in management's assessment;

(3) Recalculated the magnitude and variability of the variable returns to the Group from these structured entities based on contract terms;

(4) We assessed the Group's role in these structured entities as a principal or an agent through analysis of the scope of its decision-making authority over the structured entities, the remuneration to which the Group was entitled for its management services provided to the structured entities, its exposure to variability of returns from other interests that it holds in them, and the rights held by other parties, and compared our assessment results with management's assessment outcomes.

Based on the work undertaken above, we found the overall consolidation assessment of structured entities performed by management acceptable.

OTHER INFORMATION

The directors of the Bank are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Bank are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Ling Tung Man, Tom.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 27 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(All amounts expressed in millions of RMB unless otherwise stated)

	Notes	Year ended 31 December 2019	2018
Interest income		**367,453**	348,864
Interest expense		**(223,370)**	(217,956)
Net interest income	4	**144,083**	130,908
Fee and commission income	5	**47,669**	44,673
Fee and commission expense	6	**(4,044)**	(3,436)
Net fee and commission income		**43,625**	41,237
Net gains arising from trading activities	7	**15,936**	17,099
Net gains arising from financial investments		**313**	290
Including: Net losses on derecognition of financial assets measured at amortised cost		***(281)***	*(132)*
Share of profits of associates and joint ventures		**414**	227
Insurance business income		**11,687**	7,481
Other operating income	8	**16,799**	15,813
Credit impairment losses	9	**(51,954)**	(43,454)
Other assets impairment losses	10	**(270)**	(60)
Insurance business expense		**(11,432)**	(6,722)
Other operating expenses	11	**(81,001)**	(76,752)
Profit before tax		**88,200**	86,067
Income tax	14	**(10,138)**	(11,902)
Net profit for the year		**78,062**	74,165
Other comprehensive income, net of tax			
Items that may be reclassified subsequently to profit or loss:			
Loans and advances to customers at fair value through other comprehensive income			
Amount recognised directly in equity		***(335)***	*102*
Amount reclassified to profit or loss		***(378)***	–
Debt investments at fair value through other comprehensive income			
Amount recognised directly in equity		***3,715***	*2,086*
Amount reclassified to profit or loss		***(395)***	*(171)*
Effective portion of gains or losses on hedging instruments in cash flow hedges			
Changes in fair value recorded in equity		***(156)***	*110*
Changes in fair value reclassified from equity to profit or loss		***147***	*(93)*
Others		**18**	18
Translation difference on foreign operations		**1,141**	1,998
		3,757	4,050

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME *(Continued)*

(All amounts expressed in millions of RMB unless otherwise stated)

	Notes	Year ended 31 December 2019	2018
Items that will not be reclassified subsequently to profit or loss:			
Changes in fair value of equity investments designated at fair value through other comprehensive income		**(560)**	61
Actuarial losses on pension benefits		**(20)**	(25)
Changes in fair value attributable to changes in the credit risk of financial liability designated at fair value through profit or loss		**25**	(14)
Other comprehensive income, net of tax	39	**3,202**	4,072
Total Comprehensive income for the year		**81,264**	78,237
Net profit attributable to:			
Shareholders of the Bank		**77,281**	73,630
Non-controlling interests		**781**	535
		78,062	74,165
Total comprehensive income attributable to:			
Shareholders of the Bank		**80,414**	77,461
Non-controlling interests		**850**	776
		81,264	78,237
Basic and diluted earnings per share for profit attributable to the shareholders of the Bank (in RMB yuan)	15	**1.00**	0.96

The accompanying notes form a part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(All amounts expressed in millions of RMB unless otherwise stated)

	Notes	As at 31 December 2019	As at 31 December 2018
ASSETS			
Cash and balances with central banks	16	760,185	840,171
Due from and placements with banks and other financial institutions	17	648,488	848,067
Derivative financial assets	19	20,937	30,730
Loans and advances to customers	20	5,183,653	4,742,372
Financial investments at fair value through profit or loss	18	406,498	376,386
Financial investments at amortised cost	21	1,929,689	2,000,505
Financial investments at fair value through other comprehensive income	21	669,656	445,018
Investments in associates and joint ventures	23	4,600	3,653
Property and equipment	24	171,179	153,286
Deferred income tax assets	25	24,065	21,975
Other assets	26	86,650	69,008
Total assets		9,905,600	9,531,171
LIABILITIES			
Due to and placements from banks and other financial institutions	27	1,904,082	2,162,293
Financial liabilities at fair value through profit or loss	28	26,980	23,109
Derivative financial liabilities	19	26,424	28,105
Due to customers	29	6,072,908	5,793,324
Certificates of deposits issued	30	498,991	366,753
Current income tax liabilities		7,086	2,279
Deferred income tax liabilities	25	918	598
Debt securities issued	31	403,918	317,688
Other liabilities	32	163,381	131,714
Total liabilities		9,104,688	8,825,863
EQUITY			
Share capital	33	74,263	74,263
Other equity instruments	34	99,870	59,876
Including: Preference shares		*59,876*	*59,876*
Perpetual bonds		*39,994*	–
Capital surplus	33	113,663	113,663
Other reserves		328,310	321,442
Retained earnings		177,141	129,161
Equity attributable to shareholders of the Bank		793,247	698,405
Non-controlling interests		7,665	6,903
Total equity		800,912	705,308
Total equity and liabilities		9,905,600	9,531,171

The consolidated financial statements were approved and authorised for issuance by the Board of Directors on 27 March 2020 and signed on its behalf by:

Chairman, Executive Director and President: Ren Deqi **Executive Director and Vice President: Hou Weidong**

The accompanying notes form a part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(All amounts expressed in millions of RMB unless otherwise stated)

	Share capital Note 33	Preference shares Note 34	Perpetual bonds Note 34	Capital surplus Note 33	Other reserves: Statutory reserve Note 35	Other reserves: Discretionary reserve Note 35	Other reserves: Statutory general reserve Note 35	Other reserves: Revaluation reserve for financial assets at fair value through other comprehensive income Note 35	Other reserves: Revaluation reserve for the changes in credit risk of the financial liabilities designated at fair value through profit or loss	Other reserves: Effective portion of gains or losses on hedging instruments in cash flow hedges	Other reserves: Translation reserve on foreign operations	Other reserves: Actuarial changes reserve	Other reserves: Others	Retained earnings Note 35,36	Attributable to the shareholders of the Bank	Non-controlling interests	Total
As at 31 December 2018	74,263	59,876	-	113,663	64,516	139,796	114,281	1,397	(20)	24	93	10	1,345	129,161	698,405	6,903	705,308
Impact of adoption of IFRS 16	-	-	-	-	-	-	-	-	-	-	-	-	-	(616)	(616)	(7)	(623)
As at 1 January 2019 (restated)	74,263	59,876	-	113,663	64,516	139,796	114,281	1,397	(20)	24	93	10	1,345	128,545	697,789	6,896	704,685
Net profit for the period	-	-	-	-	-	-	-	-	-	-	-	-	-	77,281	77,281	781	78,062
Other comprehensive income	-	-	-	-	-	-	-	2,013	25	(9)	1,106	(20)	18	-	3,133	69	3,202
Total comprehensive income	-	-	-	-	-	-	-	2,013	25	(9)	1,106	(20)	18	77,281	80,414	850	81,264
Capital contribution by other equity instruments holders	-	-	39,994	-	-	-	-	-	-	-	-	-	-	-	39,994	-	39,994
Dividends paid to ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-	-	(22,279)	(22,279)	(81)	(22,360)
Dividends paid to preference shares	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,671)	(2,671)	-	(2,671)
Transfer to reserves	-	-	-	-	381	57	3,286	-	-	-	-	-	-	(3,724)	-	-	-
Transferred from other comprehensive income	-	-	-	-	-	-	-	11	-	-	-	-	-	(11)	-	-	-
As at 31 December 2019	74,263	59,876	39,994	113,663	64,897	139,853	117,567	3,421	5	15	1,199	(10)	1,363	177,141	793,247	7,665	800,912
As at 31 December 2017	74,263	59,876	-	113,663	57,461	139,767	104,470	(2,365)	Not applicable	7	(1,875)	35	1,327	124,514	671,143	5,128	676,271
Impact of adoption of IFRS 9	-	-	-	-	-	-	-	1,891	(6)	-	-	-	-	(28,257)	(26,372)	(54)	(26,426)
As at 1 January 2018 (restated)	74,263	59,876	-	113,663	57,461	139,767	104,470	(474)	(6)	7	(1,875)	35	1,327	96,257	644,771	5,074	649,845
Net profit for the year	-	-	-	-	-	-	-	-	-	-	-	-	-	73,630	73,630	535	74,165
Other comprehensive income	-	-	-	-	-	-	-	1,867	(14)	17	1,968	(25)	18	-	3,831	241	4,072
Total comprehensive income	-	-	-	-	-	-	-	1,867	(14)	17	1,968	(25)	18	73,630	77,461	776	78,237
Capital contribution by other equity instruments holders	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,125	1,125
Dividends paid to ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-	-	(21,209)	(21,209)	(72)	(21,281)
Dividends paid to preference shares	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,618)	(2,618)	-	(2,618)
Transfer to reserves	-	-	-	-	7,055	29	9,811	-	-	-	-	-	-	(16,895)	-	-	-
Transferred from other comprehensive income	-	-	-	-	-	-	-	4	-	-	-	-	-	(4)	-	-	-
As at 31 December 2018	74,263	59,876	-	113,663	64,516	139,796	114,281	1,397	(20)	24	93	10	1,345	129,161	698,405	6,903	705,308

The accompanying notes form a part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

(All amounts expressed in millions of RMB unless otherwise stated)

	Notes	Year ended 31 December 2019	2018
Cash flows from operating activities:			
Net profit before tax:		88,200	86,067
Adjustments for:			
Provision for impairment losses		51,954	43,454
Provision for other assets impairment losses		270	60
Provision for insurance contracts reserve		9,115	1,393
Depreciation and amortisation		13,982	10,250
Provision for outstanding litigation and unsettled obligation		50	549
Net gains on the disposal of property, equipment and other assets		(287)	(15)
Interest income from financial investments		(88,647)	(85,449)
Unwind of discount on allowances during the year		(1,467)	(1,618)
Fair value losses/(gains)		1,027	(6,527)
Share of profit of associates and joint venture		(414)	(227)
Net gains arising from financial investments		(313)	(290)
Interest expense on debt securities issued		11,519	11,992
Operating cash flows before movements in operating assets and liabilities		84,989	59,639
Net decrease in balances with central banks		41,487	106,039
Net decrease/(increase) in due from and placements with banks and other financial institutions		160,720	(52,257)
Net increase in financial assets at fair value through profit or loss		(24,219)	(88,330)
Net increase in loans and advances to customers		(491,230)	(326,960)
Net decrease/(increase) in other assets		(27,120)	4,266
Net increase/(decrease) in due to and placements from banks and other financial institutions		(239,042)	23,496
Net increase/(decrease) in financial liabilities at fair value through profit or loss		3,491	(5,013)
Net increase in due to customers		414,859	393,174
Net increase in other liabilities		2,220	23,415
Net increase in value-added tax and surcharge payable		21	576
Income tax paid		(8,721)	(14,153)
Net cash flows generated from/(used in) operating activities		(82,545)	123,892

CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

(All amounts expressed in millions of RMB unless otherwise stated)

	Notes	Year ended 31 December 2019	2018
Cash flows from investing activities:			
Purchase of financial investments		**(705,173)**	(694,169)
Disposal or redemption of financial investments		**565,819**	542,954
Dividends received		**537**	379
Interest received from financial investments		**86,428**	81,294
Acquisition of intangible assets and other assets		**(1,822)**	(694)
Disposal of intangible assets and other assets		**350**	124
Purchase and construction of property and equipment		**(30,554)**	(30,649)
Disposal of property and equipment		**2,607**	621
Net cash flows used in investing activities		**(81,808)**	(100,140)
Cash flows from financing activities:			
Cash received from issuing other equity instruments		**39,994**	–
Cash received on debt securities issued		**168,271**	41,846
Capital contribution by non-controlling interests		**–**	1,125
Repayment of principals and interests of lease liabilities		**(2,652)**	Not applicable
Repayment of principals of debt securities issued		**(84,176)**	(20,332)
Cash payments for interest on debt securities		**(9,688)**	(12,191)
Cash payments for distribution of dividends		**(24,940)**	(23,852)
Dividends paid to non-controlling interests		**(81)**	(72)
Net cash flows generated from/(used in) financing activities		**86,728**	(13,476)
Effect of exchange rate changes on cash and cash equivalents		**1,868**	4,297
Net increase/(decrease) in cash and cash equivalents		**(75,757)**	14,573
Cash and cash equivalents at the beginning of the year		**243,492**	228,919
Cash and cash equivalents at the end of the year	40	**167,735**	243,492
Net cash flows from operating activities include:			
Interest received		**283,899**	281,793
Interest paid		**(233,397)**	(193,279)

The accompanying notes form a part of these consolidated financial statements.

(All amounts expressed in millions of RMB unless otherwise stated)

1 GENERAL

Bank of Communications Co., Ltd. (the "Bank") is a joint-stock national commercial bank, reorganised on 1 April 1987 at the approval of notice Guo Fa (1986) No. 81 issued by the State Council of the PRC and notice Yin Fa (1987) No. 40 issued by the People's Bank of China ("PBOC"). Headquartered in Shanghai, the Bank operates 244 branches in Mainland China and 22 branches (sub-branches), subsidiary banks and representative offices overseas. The Bank's A shares are listed on Shanghai Stock Exchange and H shares on Hong Kong Stock Exchange.

The principal activities of the Bank and its subsidiaries (collectively referred to as the "Group") include corporate and personal banking services, interbank and financial market business, fund management, trustees, financial leasing, insurance, overseas securities debt-to-equity swap, asset management and other financial services.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to the periods presented unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all the applicable International Financial Reporting Standards ("IFRSs") and disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and the Hong Kong Companies Ordinance (Cap.622). The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments and investment property which are measured at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 2.30.

2.1.1 New and amended standards adopted by the Group

The Group has adopted the following new or amendments to the International Financial Reporting Standards ("IFRSs"):

IFRS 16	Leases
Amendments to IFRS 9	Prepayment Features with Negative Compensation and Modifications of Financial Liabilities
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23	Annual Improvements to IFRSs 2015 – 2017 cycle
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
IFRIC 23	Uncertainty over Income Tax

IFRS 16 Leases

IFRS 16 was officially issued in January 2016 and is effective for annual periods beginning on or after 1 January 2019. The new standard improves the identification, breakdown and mergence of leases and requires lessees to recognise leases in balance sheet. For lessees, substantially all the leases should be recognised in balance sheet as the classification of operating leases and financial leases has been removed. Under new standard, the entity is required to recognise the right-of-use assets and leasing liabilities. Exemptions exists only for to short-term and low-value leases. Meanwhile, the new standard also improves the accounting treatments of the lessee on subsequent measurement and leasing changes. The new standard causes no substantial changes to the accounting of lessors.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 New and amended standards adopted by the Group *(Continued)*

IFRS 16 Leases (Continued)

The Group adopted the standard on 1 January 2019 and did not restate the comparative information of the year before first adoption using simplified transitional approach permitted under the standard. At the date of initial application, the leasing liabilities were measured at the present value of the remaining lease payments, discounted using lessee's incremental borrowing rate, and the right-of-use assets of remaining leases were measured as if the new standard had always been applied since the beginning of the lease period. For short-term and low-value leases, the Group is subject to exemptions.

Disclosures relating to the impact of the adoption of IFRS 16 on the Group are listed in Note 2.1.2. Further details of the specific IFRS 16 accounting policies applied in the current year are listed in Note 2.16 and 2.31.

Amendments to IFRS 9

On 12 October 2017, the IASB issued amendments to IFRS 9 – Prepayment Features with Negative Compensation and Modifications of Financial Liabilities. These amendments permit more assets to be measured at amortised cost than under the previous version of IFRS 9, in particular some prepayable financial assets. These amendments also clarify the accounting for a modification or exchange of a financial liability measured at amortised cost that does not result in the de-recognition of the financial liability.

Amendments to IAS 28

The amendments clarify the accounting for long-term interests in an associate or joint venture, which in substance form part of the net investment in the associate or joint venture, but to which equity accounting is not applied. Entities must account for such interests under IFRS 9 before applying the loss allocation and impairment requirements in IAS 28.

Annual Improvements to IFRS Standards 2015 – 2017 Cycle

The Annual Improvements to IFRS Standards 2015 – 2017 Cycle include a number of amendments to various IFRSs, including the amendments to IFRS 3 – Business Combinations, the amendments to IFRS 11 – Joint Arrangements, the amendments to IAS 12 – Income Taxes, the amendments to IAS 23 – Borrowing Costs.

Amendments to IAS 19

On 7 February 2018, the IASB issued amendments to the guidance in IAS 19 – Employee Benefits, in connection with accounting for plan amendments, curtailments and settlements. The amendments to IAS 19 clarify the accounting for defined benefit plan amendments, curtailments and settlements. They confirm that entities must calculate the current service cost and net interest for the remainder of the reporting period after a plan amendment, curtailment or settlement by using the updated assumptions from the date of the change, and any reduction in a surplus should be recognised immediately in profit or loss either as part of past service cost, or as a gain or loss on settlement. In other words, a reduction in a surplus must be recognised in profit or loss even if that surplus was not previously recognised because of the impact of the asset ceiling. The entities should separately recognise any changes in the asset ceiling through other comprehensive income.

Interpretation 23 Uncertainty over Income Tax Treatments

The IASB issued IFRIC 23 – Uncertainty over Income Tax Treatments to clarify how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments.

Except the above-mentioned impacts of IFRS 16, the adoption of the new IFRSs and amendments to IFRSs above does not have a material impact on the Group's operating results, financial position or other comprehensive income.

(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.2 Changes in accounting policies

IFRS 16

The major impact of adopting IFRS 16 on the financial statements is as follows:

Consolidated balance sheet:

As at 1 January 2019	Before restatement	Restated amount	After restatement
Other assets	69,008	6,423	75,431
Other liabilities	131,714	7,046	138,760
Including: lease liabilities	*Not applicable*	*7,044*	*7,044*
Retained earnings	129,161	(616)	128,545
Non-controlling interests	6,903	(7)	6,896

As at 1 January 2019, reconciliation from operating lease commitments under the former standards to lease liabilities under IFRS 16 is as below:

	The Group
Operating lease commitments disclosed as at 31 December 2018	12,345
Discounted using the lessee's incremental borrowing rate of the date of initial application	7,674
Less: short-term and low-value leases not recognised as a liability	(630)
Lease liability recognised as at 1 January 2019	7,044

2.1.3 Standards and amendments issued but not yet effective

		Effective for annual period commencing on or after
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	The amendments were originally intended to be effective for annual periods beginning on or after 1 January 2016. The effective date has now been deferred/removed.
Amendments to IAS 1 and IAS 8	Definition of Material	1 January 2020
Amendments to IFRS 3	Definition of a Business	1 January 2020
Revised Conceptual Framework for Financial Reporting	Conceptual Framework for Financial Reporting	1 January 2020
IFRS 17	Insurance Contracts	1 January 2021 (likely to be extended to 1 January 2023)
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest rate benchmark reform	1 January 2020

Amendments to IFRS 10 and IAS 28

The amendments address an inconsistency between IFRS 10 and IAS 28 in the sale and contribution of assets between an investor and its associate or joint venture.

A full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.3 Standards and amendments issued but not yet effective *(Continued)*

Amendments to IAS 1 and IAS 8

The IASB has made amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors which use a consistent definition of materiality throughout International Financial Reporting Standards and the Conceptual Framework for Financial Reporting, clarify when information is material and incorporate some of the guidance in IAS 1 about immaterial information.

In particular, the amendments clarify:

- that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information, and that an entity assesses materiality in the context of the financial statements as a whole, and
- the meaning of 'primary users of general purpose financial statements' to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need.

Amendments to IFRS 3

The amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs. The definition of the term 'outputs' is amended to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits.

The amendments will likely result in more acquisitions being accounted for as asset acquisitions.

Revised Conceptual Framework for Financial Reporting

The IASB has issued a revised Conceptual Framework which will be used in standard-setting decisions with immediate effect. Key changes include:

- increasing the prominence of stewardship in the objective of financial reporting
- reinstating prudence as a component of neutrality
- defining a reporting entity, which may be a legal entity, or a portion of an entity
- revising the definitions of an asset and a liability
- removing the probability threshold for recognition and adding guidance on derecognition
- adding guidance on different measurement basis, and
- stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

No changes will be made to any of the current accounting standards. However, entities that rely on the Framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards will need to apply the revised Framework from 1 January 2020. These entities will need to consider whether their accounting policies are still appropriate under the revised Framework.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.3 Standards and amendments issued but not yet effective *(Continued)*

IFRS 17

IFRS 17 Insurance Contracts was issued in May 2017 as replacement for IFRS 4. It requires a current measurement model where estimates are re-measured in each reporting period. Contracts are measured using the building blocks of: discounted probability weighted cash flows, an explicit risk adjustment, and a contractual service margin ("CSM") representing the unearned profit of the contract which is recognised as revenue over the coverage period.

The standard allows a choice between recognising changes in discount rates either in the statement of profit or loss or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9.

An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.

There is a modification of the general measurement model called the "variable fee approach" for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the CSM. The results of insurers using this model are therefore likely to be less volatile than under the general model.

The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.

The standard is currently mandatorily effective for annual periods beginning on or after 1 January 2021. However, the IASB decided to defer the effective date of IFRS 17 to annual reporting periods beginning on or after 1 January 2023 on 17 March 2020, and expects to issue the amendments to IFRS 17 in the second quarter of 2020.

The Group has not completed its assessment of the impact on the Group's operating results and financial position of adopting IFRS 17.

Amendments to IFRS 9, IAS 39 and IFRS 7

The IASB has published Amendments to IFRS 9, IAS 39 and IFRS 7- Interest Rate Benchmark Reform as a first reaction to the potential effects the Interest Rate Benchmark Reform ("IBOR") could have on financial reporting. The amendments provide targeted relief for financial instruments qualifying for hedge accounting in the lead up to IBOR reform. Key changes include:

- modifying specific hedge accounting requirements so that entities would apply those hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform;
- mandatory for all hedging relationships that are directly affected by the interest rate benchmark reform;
- are not intended to provide relief from any other consequences arising from interest rate benchmark reform (if a hedging relationship no longer meets the requirements for hedge accounting for reasons other than those specified by the amendments, discontinuation of hedge accounting is required); and
- requiring specific disclosures about the extent to which the entities' hedging relationships are affected by the amendments.

Except for the above-mentioned impact of IFRS 17, the adoption of the above new standards and amendments issued but not yet effective is not expected to have a material effect on the Group's operating results, financial position or other comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation

2.2.1 Subsidiary undertakings

The consolidated financial statements incorporate the financial statements of the Bank and entities (including structured entities) controlled by the Bank and its subsidiaries. Control is achieved when the Bank:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are not consolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred in a business combinations is measured at fair value, which is calculated as the sum of the acquisition date fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition related costs are recognised in the consolidated income statement as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interests in the acquiree at the non-controlling interests' proportionate share of the acquiree's net assets.

The excess of the cost of an acquisition less the fair value of the Group's share of the net identifiable assets of acquired subsidiaries and associates at the date of acquisition is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

All intra-Group transactions, balances, income and expenses are eliminated in full on consolidation. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation *(Continued)*

2.2.2 Transactions with non-controlling interests

For acquisition of additional interests in subsidiaries from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiaries is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group loses control of a subsidiary due to the disposal of a portion of an equity investment, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive are reclassified to profit or loss and retained earning.

2.2.3 Structured entities

Structured entities are entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entities, for example when any voting rights relate to administrative tasks only, and key activities are directed by contractual agreement. Structured entities often have restricted activities and a narrow and well defined objective. Examples of structured entities include investment funds, trusts, securitisation vehicles and asset backed financings. Involvement with consolidated and unconsolidated structured entities is disclosed in Note 41 and 42.

2.2.4 Investment in an associate

An associate is an entity over which the Group has significant influence but not control and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results of an associate are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, is recognised immediately in profit or loss.

At the end of each reporting period, the Group assesses whether there is an indication of possible impairment with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested as a single asset for impairment in accordance with IAS 36 "Impairment of assets" by comparing its recoverable amount (the higher of value in use and fair value less costs of sale) with its carrying amount, any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised only to the extent of interests in the associate that are not related to the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Derivative financial instruments

Derivative financial instruments include, but not limited to, interest rate derivative and foreign exchange derivative. Derivative financial instruments are initially measured at fair value at the date a derivative contract is entered into and are subsequently measured at fair value. Changes in fair value of these derivative financial instruments are recognised in profit or loss. Fair values are obtained from quoted market prices in active market or are determined using valuation techniques, including discounted cash flow model and options pricing model as appropriate. All derivatives are recognised as assets when the fair value is positive and as liabilities when the fair value is negative.

Derivatives embedded in non-derivative host contracts are treated as a separate derivative when their characteristics and risks are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss. These embedded derivatives are separately accounted for at fair value, with changes in fair value recognised in profit or loss.

2.4 Financial instruments

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset.

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss allowance is recognised for financial assets measured at amortised cost and debt investments measured at fair value through other comprehensive income, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognises the difference as follows:

(a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.

(b) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

The method of determining fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction at the measurement date. For financial instruments with active markets, the Group uses quotations from active markets to determine their fair value, and for financial instruments where there is no active market, the Group uses valuation techniques to determine its fair value. Valuation techniques include references to prices used in recent market transactions by parties familiar with the situation and voluntary transactions, the current fair value of other financial instruments with reference to the same substantially, the discounted cash flow method and the option pricing model.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Financial instruments *(Continued)*

Measurement methods

Amortised cost and effective interest rate

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired ('POCI') financial assets – assets that are credit-impaired at initial recognition – the Group calculates the credit-adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

When the Group revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

2.4.1 Financial assets

Classification and subsequent measurement

The Group has classified its financial assets in the following measurement categories:

- Fair value through profit or loss (FVPL);
- Fair value through other comprehensive income (FVOCI); or
- Amortised cost.

The classification requirements for debt and equity instruments are described below:

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

Classification and subsequent measurement of debt instruments depend on:

(i) The Group's business model for managing the asset; and

(ii) The cash flow characteristics of the asset.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Financial instruments *(Continued)*

2.4.1 Financial assets *(Continued)*

Classification and subsequent measurement (Continued)

Debt instruments *(Continued)*

Based on these factors, the Group classifies its debt instruments into one of the following three measurement categories:

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured from these financial assets. According to the business category, these financial assets are presented as 'Cash and balances with central banks', 'Due from banks and other financial institutions', 'Loans and advances to customers' and 'Financial investments at amortised cost' respectively. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

Fair value through other comprehensive income (FVOCI): Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. According to the business category, respectively, these financial assets are presented as 'Loans to customers' and 'Debt investments at fair value through other comprehensive income'. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and recognised in 'Net gains arising from financial investments'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

Fair value through profit or loss: Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on the debt investment, which is measured at fair value through profit or loss and is not part of a hedging relationship, is recognised in profit or loss and presented as 'Net gains arising from trading activities'.

Business model: the business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPL. Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Financial instruments *(Continued)*

2.4.1 Financial assets *(Continued)*

Classification and subsequent measurement (Continued)

Debt instruments *(Continued)*

The Group reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the year.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Group subsequently measures all equity investments at fair value through profit or loss, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income, listed as 'Financial investments at FVPL'. The Group's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to sell. When this election is used, fair value gains or losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as 'Net gains arising from financial investments' when the Group's right to receive payments is established.

Gains or losses on equity investments at FVPL are recognised as 'Net gains arising from trading activities'.

Impairment

On a forward-looking basis, the Group assesses the expected credit losses ('ECL') of debt instrument assets at amortised cost and FVOCI, exposures arising from loan commitments and financial guarantee contracts. The Group recognises a loss allowance accordingly at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Regarding these judgment and estimates, please refer to note 21.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Financial instruments *(Continued)*

2.4.1 Financial assets *(Continued)*

Modification of loans

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms. The Group does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.

- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.

- Significant extension of the loan term when the borrower is not in financial difficulty.

- Significant change in the interest rate.

- Change in the currency the loan is denominated in.

- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Group derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Financial instruments *(Continued)*

2.4.1 Financial assets (Continued)

Derecognition other than on a modification

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Group transfers substantially all the risks and rewards of ownership, or (ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control.

The Group enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if the Group:

(i) Has no obligation to make payments unless it collects equivalent amounts from the assets;

(ii) Is prohibited from selling or pledging the assets; and

(iii) Has an obligation to remit any cash it collects from the assets without material delay.

Collateral (shares and bonds) furnished by the Group under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitisation transactions in which the Group retains a subordinated residual interest.

When the contractual rights to receive the cash flows from the assets have been transferred, and the Group neither transfers nor retains substantially all the risks and rewards of ownership, and the Group has retained control of the transferred assets, the Group applies continuing involvement approach. Under this approach, the Group continues to recognise the transferred asset to the extent of its continuing involvement and recognise the associated liability, to reflect the rights and obligations retained by the Group. The net carrying amount of the transferred asset and associated liability is: (a) the amortised cost of the rights and obligations retained by the Group, if the transferred asset is measured at amortised cost; or (b) equal to the fair value of the rights and obligations retained by the Group when measured on a stand-alone basis, if the transferred asset is measured at fair value.

Asset securitisation

As part of its operational activities, the Group securities financial assets, generally through the sale of these assets to structured entities which then issue securities to investors. The Group holds part or all of the subordinated tranche notes, which are not transferrable before both the principals and interests of the senior tranche notes are repaid. The Group serves as the asset management supplier, providing services including loan collection for the investment pool, keeping accounting records related to the investment pool and issuing reports as the service agency. The assets under securitisation are used to repay the principals and interests of the senior tranche notes first after deducting related taxation and expenses, and the remaining assets under securitisation are repaid to the Group and subordinated tranche notes investors. The Group derecognises the transferred assets in full or in part based on the extent of the risks and rewards retained over.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Financial instruments *(Continued)*

2.4.1 Financial assets *(Continued)*

Asset securitisation (Continued)

The Group evaluates the extent to which it transfers the risks and rewards of ownership of the financial assets to the other party and determines whether it retains control while applying the accounting policy in respect of asset securitisation.

(1) The financial asset is derecognised when the Group transfers substantially all the risks and rewards of ownership of the financial asset.

(2) The financial asset continues to be recognised when the Group retains substantially all the risks and rewards of ownership of the financial asset.

(3) When the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset and does not retain control it derecognises the financial asset and recognises separately as assets or liabilities any rights and obligations created or retained in the transfer.

(4) When the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset and retains control, it continues to recognise the financial asset to the extent of its continuing involvement in the financial asset. The Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

2.4.2 Financial liabilities

Classification and subsequent measurement

In both the current and prior period, financial liabilities are classified as liabilities measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains or losses attributable to changes in the credit risk of the liability are also presented in profit or loss;

- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition or when the continuing involvement approach applies. When the transfer of financial asset did not qualify for derecognition, a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Group recognises any expense incurred on the financial liability; when continuing involvement approach applies, see note 2.30(e); and

- Financial guarantee contracts and loan commitments (refer to Note 2.27)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Financial instruments *(Continued)*

2.4.2 *Financial liabilities* *(Continued)*

Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

The exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is more than 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

A financial instrument is an equity instrument if, and only if, both conditions (i) and (ii) below are met:

(i) The financial instrument includes no contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; and

(ii) If the financial instrument will or may be settled in the Group's own equity instruments, it is a non-derivative instrument that includes no contractual obligations for the Group to deliver a variable number of its own equity instruments; or a derivative that will be settled only by the Group exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

Equity instruments issued by the Group are recorded at the fair value of proceeds received, net of direct issuance expenses.

2.4.3 *Derivatives and hedging activities*

The Group has elected to apply the hedge accounting requirements of IFRS 9.

Derivatives are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Financial instruments *(Continued)*

2.4.3 Derivatives and hedging activities *(Continued)*

Certain derivatives are embedded in hybrid contracts, such as the conversion option in a convertible bond. If the hybrid contract contains a host that is a financial asset, then the Group assesses the entire contract as described in the financial assets section above for classification and measurement purposes. Otherwise, the embedded derivatives are treated as separate derivatives when:

(i) Their economic characteristics and risks are not closely related to those of the host contract;

(ii) A separate instrument with the same terms would meet the definition of a derivative; and

(iii) The hybrid contract is not measured at fair value through profit or loss.

These embedded derivatives are separately accounted for at fair value, with changes in fair value recognised in the statement of profit or loss unless the Group chooses to designate the hybrid contracts at fair value through profit or loss.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated and qualifies as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

(a) Hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges); or

(b) Hedges of highly probable future cash flows attributable to a recognised asset or liability (cash flow hedges).

The Group documents, at the inception of the hedge, the relationship between hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

(a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the statement of profit or loss, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss no later than when the hedged item ceases to be adjusted for hedging gains and losses over the period to maturity and recorded as net interest income.

(b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the statement of profit or loss.

Amounts accumulated in equity are recycled to the statement of profit or loss in the periods when the hedged item affects profit or loss. They are recorded in the income or expense lines in which the revenue or expense associated with the related hedged item is reported.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised in the periods when the hedged item affects profit or loss. When a forecast transaction is no longer expected to occur (for example, the recognised hedged asset is disposed of), the cumulative gain or loss previously recognised in other comprehensive income is immediately reclassified to the statement of profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Financial instruments *(Continued)*

2.4.4 Offsetting financial assets and financial liabilities

When the Group has a currently enforceable legal right to offset recognised financial assets and financial liabilities, and intends either to settle on a net basis or to realise the financial asset and settle the financial liability at the same time, the financial assets and liabilities are offset with the net amount presented in the consolidated statement of financial position. Otherwise, financial assets and financial liabilities are presented separately. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

2.5 Interest income and expense

Interest income and expense of interest-bearing financial instruments are recognised in profit or loss using the effective interest method (See Note 2.4).

2.6 Fee and commission income

For the performance obligations satisfied at a point in time, the Group recognises revenue when control is passed to the customer at a certain point in time. For the performance obligations satisfied over time, the Group recognises revenue according to the progress toward satisfaction of the obligation over the time.

2.7 Dividend income

Dividends are recognised when the right to receive the dividends is established.

2.8 Assets transferred under repurchase agreements

(a) Financial assets sold under repurchase agreements

Financial assets sold subject to agreements with a commitment to repurchase at a specific future date at a fixed or determinable price are not derecognised in the statement of financial position. The proceeds from selling such assets are presented under "due to banks and other financial institutions" in the statement of financial position. The difference between the selling price and repurchasing price is recognised as interest expense during the term of the agreement using the effective interest method.

(b) Financial assets purchased under resale agreements

Financial assets that have been purchased under agreements with a commitment to resell at a specific future date are not recognised in the statement of financial position. The cost of purchasing such assets is presented under "due from banks and other financial institutions" in the statement of financial position. The difference between the purchasing price and reselling price is recognised as interest income during the term of the agreement using the effective interest method.

2.9 Precious metals

Precious metals that are not related to the Group's trading activities are initially measured at acquisition cost and subsequently measured at the lower of cost and net realisable value. Precious metals that are related to the Group's trading activities are initially and subsequently recognised at fair value, with changes in fair value arising from re-measurement recognised directly in profit or loss in the period in which they arise.

(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.10 Property and equipment

The Group's property and equipment mainly comprise land and buildings, equipment, construction in progress, transportation equipment and property improvement.

The assets purchased or constructed are initially measured at acquisition cost.

Subsequent expenditures incurred for the property and equipment are included in the cost of the property and equipment if it is probable that economic benefits associated with the asset will flow to the Group and the subsequent expenditures can be measured reliably. Meanwhile the carrying amount of the replaced part is derecognised. Other subsequent expenditures are recognised in profit or loss in the period in which they are incurred.

Depreciation is calculated on a straight-line basis to write down the cost of such assets to their residual values over their estimated useful lives. The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each financial reporting date.

Land and buildings comprise primarily office premises. The estimated useful lives, depreciation rate and estimated residual value rate of land and buildings, equipment, transportation equipment and property improvement are as follows:

Type of assets	**Estimated useful lives**	**Estimated residual value rate**	**Depreciation rate**
Land and buildings	25 years – 50 years	3%	1.94% – 3.88%
Equipment	3 years – 11 years	3%	8.82% – 32.33%
Transportation equipment (excluding equipment under operating leases)	4 years – 8 years	3%	12.13% – 24.25%
Property improvement	Over the economic useful lives		

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Construction in progress is measured at its actual costs. The actual costs include various construction expenditures during the construction period and other relevant costs. Construction in progress is not depreciated. Construction in progress is transferred to a property and equipment when it is ready for intended use.

Equipment under operating leases where the Group is the lessor is aircraft or vessel. The estimated useful lives and depreciation rate of the aircraft or vessel are determined considering their conditions and the estimated residual values are determined by external appraiser using historical data on an item-by-item basis. The estimated useful lives range from 5 to 25 years.

2.11 Foreclosed assets

Foreclosed financial assets are initially recognised at fair value, and foreclosed non-financial assets are initially recognised at cost. At the end of each reporting period, foreclosed non-financial assets are measured at the lower of the carrying amount and the net realisable value. When the net realisable value is lower than the carrying amount, an impairment allowance is recognised.

When a foreclosed asset is disposed, the difference between the disposal proceeds and the carrying amount is recognised in profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.11 Foreclosed assets *(Continued)*

The Group disposes of foreclosed assets through various means. In principle, foreclosed assets should not be transferred for own use, but, in the event that they are needed for the Group's own business or management purposes, they are transferred at their net carrying amounts and managed as newly acquired property and equipment.

When a foreclosed asset needs to be transferred for own use, it is transferred at its carrying amount including the impairment allowance at the transition day.

Foreclosed assets of the Group mainly include buildings and land use rights.

2.12 Land use rights

Land use rights are classified as other assets and amortised using the straight-line method over the lease term.

2.13 Intangible assets

An intangible asset is measured initially at cost. When an intangible asset with a finite useful life is available for use, its original cost is amortised over its estimated useful life using the straight-line method. An intangible asset with an indefinite useful life is not amortised.

For an intangible asset with a finite useful life, the Group reviews the useful life and amortisation method at the end of each reporting period, and makes adjustments when necessary.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

2.14 Investment property

Investment property is a property held to earn rentals or for capital appreciation or both and initially measured at cost.

As there is an active property market in the location in which the Group's investment property is situated, and the Group can obtain the market price and other relevant information regarding the same or similar type of property from the property market so as to reasonably estimate the fair value of the investment property; therefore, the Group uses the fair value model for subsequent measurement of the investment property, with changes in the fair value included in profit or loss for the period in which they arise.

When an investment property is sold, transferred, retired or damaged, the Group recognises the amount of any proceeds on disposal net of the carrying amount and related taxes in profit or loss for the period.

2.15 Impairment of non-financial assets

At the end of the reporting period or whenever there is an indication that the non-financial assets are impaired, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately.

Goodwill, intangible assets with indefinite useful life and intangible assets not yet available for use are tested for impairment annually, irrespective of whether there is any indication that the assets may be impaired.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.15 Impairment of non-financial assets *(Continued)*

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

2.16 Leases

Lease refers to a contract in which the lessor transfers the right of use of the assets to the lessee for a certain period of time to obtain the consideration.

(a) The Group as Lessee

The Group recognises the right-of-use asset on the start date of the lease term and recognises the lease liability at the present value of the remaining lease payments. The lease payments include fixed payments and payments to be made when it is reasonably determined to exercise purchase option or terminate lease option. Variable rent determined based on a certain proportion of sales is not included in the lease payments and is recognised in profit or loss when incurred.

The Group's right-of-use assets include leased properties, venues, parking lots, advertising spaces, vehicles and equipment etc. The right-of-use asset is initially measured at cost, which includes the initial measurement of the lease liability, the lease payments already paid on or before the lease start date, the initial direct costs etc., and deducts any lease incentives received. The leased asset is depreciated on a straight-line basis over its remaining useful life if the Group could reasonably determine to obtain the ownership at the expiration of the lease term; if it is unsure whether the ownership of the leased asset can be obtained at the expiration of the lease term, the right-of-use asset is depreciated over the shorter of its remaining useful life and the lease term on a straight-line basis. When the recoverable value is lower than the book value of the right-of-use asset, the Group reduces the book value to the recoverable value.

For short-term leases with a lease term shorter than 12 months and leases of asset with low value when it is new, the Group recognises relevant rental expenses on a straight-line basis in profit or loss or in the related asset costs in each lease period rather than recognising the right-of-use assets or lease liabilities.

(b) The Group as Lessor

Operating Lease

When the Group leases out its own buildings and properties, equipment and transportation vehicles, the rental income arising from operating leases is recognised on a straight-line basis over the lease term. Variable rent determined based on a certain proportion of sales is recognised in rental income when incurred.

Finance Lease

As lessor of the finance lease, the Group recognises the finance lease receivables for the finance lease on the commencement date of the lease period and derecognises the related assets. Finance lease receivables are recognised at the net lease investment to "Loans and advances to customers" for the initial measurement. The net lease investment is the sum of the unsecured residual value and the present value of the lease payments unreceived at the commencement date of the lease period discounted at the interest rate implicit in lease.

Finance lease receivables are derecognised when the contractual rights of receiving cash from the finance lease receivables have expired or have been transferred and all substantial risks and rewards regarding the lease have been transferred.

During the lease period, the lessor applies the fixed periodic interest rate to calculate the interest income for each period. Contingent rentals are recognised in profit or loss when incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.17 Cash and cash equivalents

Cash and cash equivalents are short-term and highly liquid assets, which are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value. Cash and cash equivalents include cash and assets with original maturity of three months or less under balances with central banks, due from banks and other financial institutions.

2.18 Provisions

Provisions are recognised when the Group has a present obligation related to a contingency, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account factors pertaining to a contingency such as the risks, uncertainties and time value of money. Where the effect of the time value of money is material, the amount of the provision is determined by discounting the related future cash outflows.

Where all or some of the expenditure required to settle a provision is expected to be reimbursed by a third party, the reimbursement is recognised as a separate asset only when it is virtually certain that reimbursement will be received, and the amount of reimbursement recognised does not exceed the carrying amount of the provision.

2.19 Income taxes

Income tax expense represents the sum of the tax currently payable and deferred tax.

(a) Current income tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

(b) Deferred income tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.19 Income taxes *(Continued)*

(b) Deferred income tax *(Continued)*

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income, in which case the current and deferred tax are also recognised in other comprehensive income.

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

2.20 Share capital

(a) Share capital

Share capital comprises ordinary shares issued.

(b) Share issue costs

External costs directly attributable to the issuance of new shares are shown in equity as a deduction from the proceeds.

2.21 Dividend distribution

(a) Dividends on ordinary shares

Dividends on ordinary shares are recognised in the period in which they are declared and approved by the Bank's shareholders.

(b) Dividends on preference shares

Preference share dividend distribution is recognised as a liability in the Group's and the Bank's financial statements in the period in which the dividends are approved by the Board of Directors of the Bank.

(c) Distribution on perpetual bonds

Perpetual bond interest distribution is recognised as a liability in the Group's and the Bank's financial statements in the period in which the interest distribution approved by the Board of Directors of the Bank.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.22 Acceptances

Acceptances comprise the Group's commitments on payment for bills that are issued to customers. Acceptances are accounted for as financial guarantees and credit related commitments and are disclosed as contingent liabilities and commitments.

2.23 Employee benefits

(a) Staff benefit and retirement benefit obligations

In the reporting period in which an employee has rendered services, the Group recognises the employee benefits payable for those services as a liability. The Group participates in the employee social security systems, such as basic pensions, medical insurance, housing funds and other social securities established by the government in accordance with relevant requirements. The related expenditures are charged to profit or loss in the period when they are incurred.

The Group pays supplementary retirement benefits to employees in Mainland China who retired before 31 December 2008. The Group accrues a liability based on actuarial techniques and recognises all actuarial gains and losses in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income will not be reclassified to profit or loss. Past service cost is recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset.

Employees in Mainland China who retired after 1 January 2009 participate in the defined contribution plan established (the "Annuity Plan") by the Group. The Group contributes a certain portion of the employees' gross salaries to the Annuity Plan. Related expenses are recognised in profit or loss when incurred.

The Group pays the welfare benefits for employees, who have not yet reached the statutory retirement age limit and are approved by the Group to voluntarily retire from their employment, from the early retirement date to the statutory retirement age limit. These welfare benefits are recognised in profit or loss based on the discounted cash flow calculation over the implementation period. The Group reviews present value of the welfare benefits on each reporting date, with any changes recognised in profit or loss.

(b) Share-based compensation

A share-based payment is a transaction which the Group grants equity instruments, or incurs liabilities for amounts that are determined based on the price of equity instruments, in return for services rendered by employees. The Group's share-based payments are cash-settled share-based payments.

Cash-settled share-based payments are measured at the fair value of the liabilities incurred by the Group, which are determined based on the price of the share or other equity instruments. Until the liability is settled, the Group remeasures the fair value of the liability at each reporting date and at the date of settlement, with any changes in fair value recognised in profit or loss for the period.

The value of share appreciation rights ("SARs") granted by the Group is determined by applying the Binomial Option Pricing Model.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.24 Foreign currency translation

Renminbi ("RMB") is the currency of the primary economic environment in which the Bank and the Group's domestic subsidiaries operate. Therefore, the Bank and the Group's domestic subsidiaries choose RMB as their functional currency. The Bank and the Group's foreign subsidiaries choose their respective functional currencies on the basis of the primary economic environment in which they operate. The Group adopts RMB to prepare its consolidated financial statements.

In preparing the financial statements of each individual Group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions.

At the reporting date, foreign currency monetary items are translated into RMB using the spot exchange rates at the reporting date. Exchange differences arising from the differences between the spot exchange rates prevailing at the reporting date and those on initial recognition or at the previous reporting date are recognised in profit or loss for the period, except that (1) exchange differences related to hedging instruments for the purpose of hedging against foreign exchange risks are accounted for using hedge accounting; (2) exchange differences arising from non-monetary items at fair value through other comprehensive income (such as shares) denominated in foreign currencies and changes in the carrying amounts (other than the amortised cost) of monetary items at fair value through other comprehensive income are recognised as other comprehensive income; and (3) exchange differences arising on a foreign currency monetary item that forms part of the Bank's net investment in a foreign operation.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income.

On disposal of the Group's entire interest in a foreign operation, or upon a loss of control over a foreign operation due to disposal of certain interest in it or other reasons, the Group transfers the accumulated exchange differences arising on translation of financial statements of this foreign operation and foreign currency monetary items that form part of the net investment in such foreign operation attributable to the owners' equity of the Group and presented under shareholder's equity in the statement of financial position, to profit or loss in the period in which the disposal occurs.

In case of a disposal or other reason that does not result in the Group losing control over a foreign operation, the proportionate share of accumulated exchange differences arising on translation of financial statements are re-attributed to non-controlling interests and are not recognised in profit and loss. For partial disposals of equity interests in foreign operations which are associates, the proportionate share of the accumulated exchange differences arising on translation of financial statements of foreign operations is reclassified to profit or loss.

2.25 Contingent liabilities and contingencies

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable and the amount can be reliably measured, it will then be recognised as a provision.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.26 Insurance contracts

(a) Insurance contracts classification

Insurance contracts are those contracts under which the Group has accepted significant insurance risk, relative to an insured event or occurrence. The Group issues primarily life insurance contracts, which insure events associated with mortality over a long duration. The Group also issues non-life insurance contracts, which cover short-term casualty and health insurance risk. When necessary, the Group enters into reinsurance contracts to transfer insurance risks to a reinsurer. A significant insurance risk test is performed at inception of the insurance contracts.

Some insurance contracts contain both an insurance component and a deposit component. The Group unbundles those components, if the insurance component and the deposit component are separately measurable. The unbundled insurance component is accounted for according to IFRS 4 — Insurance Contracts and the unbundled deposit component is accounted for as a financial liability under investment contract liabilities.

(b) Insurance income recognition

Premiums from long-term life insurance contracts are recognised as revenue when due from policyholders. Premiums related to short-term non-life insurance contracts are recognised when received at the inception of the policy, as unearned insurance premiums in the consolidated statement of financial position, and are amortised on a straight-line basis into the consolidated income statement over the term of the policy. When the Group has transferred insurance risk through reinsurance contracts, the Group calculates the amount of premium ceded and the reinsurers' share of expenses and recognises them through the consolidated income statement in accordance with the terms of the reinsurance contracts.

(c) Insurance contract reserves

Insurance contract liabilities are measured based on a reasonable estimate of the amount of payments that the Group will be required to make to fulfil its obligations under the insurance contracts, which represents the difference between expected future cash outflows and inflows related to such contracts. A reasonable estimate of expected future net cash flows is determined based on information currently available as at the end of the reporting period. The Group has considered the impact of time value in the liability calculation for long-term life insurance.

The Group performs liability adequacy tests based on information currently available, as at the reporting date. Additional insurance contract liabilities should be recorded if any deficiency exists.

2.27 Financial guarantee contracts and credit related commitments

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and others on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- The amount of the loss allowance (calculated as described in Note 3.1.2); and

- The premium received on initial recognition less income recognised in accordance with the principles of IFRS 15.

Loan commitments provided by the Group are measured as the amount of the loss allowance (calculated as described in Note 3.1.2). The Group has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument. For loan commitments and financial guarantee contracts, the loss allowance is recognised as an provision.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.28 Fiduciary activities

In activities where the Group acts in a fiduciary capacity such as trustee, custodian or agent, the assets and income arising from the transaction together with the related undertakings to return the assets to customers are excluded from the Group's consolidated financial statements.

The Group conducts entrusted lending for the third-party lenders. The Group grants loans to borrowers, as trustee, according to the instruction of the third-party lenders who fund these loans. The Group is responsible for the arrangement and collection of the entrusted loans and receives a commission for the services rendered. As the Group does not assume the risks and rewards of the entrusted loans and does not provide funding for the corresponding entrusted funds, the entrusted loans are not recognised as assets and liabilities of the Group.

2.29 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the person or Group that allocates resources to and assesses the performance of the operating segments of an entity. The Group has determined the senior management team represented by the governor as its chief operating decision maker.

An operating segment is a component of the Group with all of the following conditions are satisfied: (1) that component can earn revenues and incur expenses from ordinary activities; (2) the component's operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and (3) discrete financial information for the component is available to the Group. If two or more operating segments have similar economic characteristics, and certain conditions are satisfied, they may be aggregated into a single operating segment. Intra-segment income and expenses are eliminated. Income and expenses directly associated with each segment are considered in determining segment performance.

The Group has the following segments: Northern China, North Eastern China, Eastern China, Central and Southern China, Western China, Head Office, and Overseas.

2.30 Critical accounting estimates and judgments in applying accounting policies

The preparation of financial statements in conformity with IFRSs and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and of the Hong Kong Companies Ordinance require the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies.

(a) Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (e.g. the likelihood of customers defaulting and the resulting losses). Note 3.1 Specifies the parameters, assumptions and estimation techniques used in the measurement of expected credit loss and also discloses the sensitivity of expected credit losses to changes in these factors.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.30 Critical accounting estimates and judgments in applying accounting policies *(Continued)*

(a) Measurement of the expected credit loss allowance *(Continued)*

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Segmentation of business operations having similar credit risk characteristics, selection of appropriate models and determination of relevant key measurement parameters;
- Criteria for determining whether or not there was a significant increase in credit risk, or a default or impairment loss was incurred;
- Economic indicators for forward-looking measurement, and the application of economic scenarios and weightings;
- Management overlay adjustments due to significant uncertain factors not covered in the models; and
- The estimated future cash flows for corporate loans and advances in stage 3.

Detailed information about the judgements and estimates made by the Group in the above areas is set out in note 3.1.

(b) Fair value of financial instruments

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques (e.g. discounted cash flow model). To the extent practical, models use observable data such as interest rate yield curves, foreign currency rates and implied option volatilities, however areas such as credit risk (both own and counterparty's), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

The Group assesses assumptions and estimates used in valuation techniques including review of valuation model assumptions and characteristics, changes to model assumptions, the quality of market data, whether markets are active or inactive, other fair value adjustments not specifically captured by models and consistency of application of techniques between reporting periods as part of its normal review and approval processes. Valuation techniques are validated and periodically reviewed and, where appropriate, have been updated to reflect market conditions at the financial reporting date.

Detailed information about the judgements and estimates made by the Group in the above areas is set out in note 3.4.

(c) Income taxes

The Group is subject to income tax in various jurisdictions; principally, in Mainland China and Hong Kong. Significant estimates are required in determining the provision for income tax. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated issues from tax audit based on estimates of whether additional taxes will be due. In particular, the deductibility of certain items in PRC is subject to tax authority's approval. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred income tax and current tax liabilities and deferred income tax assets and liabilities in the period during which such a determination is made.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.30 Critical accounting estimates and judgments in applying accounting policies *(Continued)*

(d) Consolidation of structured entities

As the Group acts as the asset manager in a structured entity, the Group will evaluate whether, in the case of the structured entity, the Group exercises decision-making power as the principal or agent. The Group exercises decision-making power primarily on behalf of other parties (other investors in the structured entity) if it is merely agent and therefore does not have control over the structured entity. However, if the Group is recognised to be primarily representing its own exercise of decision-making power, it is the primary principal and thus does have control over the structured entity. In the evaluation, the Group comprehensively takes into account a wide range of factors, such as the scope of the decision-making power of the asset manager, the rights held by other parties, the remuneration level received by the Group for management service, and the risk exposure to variable returns arising from any other arrangement (such as direct investments).

(e) Derecognition of financial assets

In judging whether the transaction in which a loan transfer through packaging and asset securitization is consistent with the termination confirmation of a financial asset, the Group needs to assess whether the Group meets the criteria for the transfer of financial assets and whether almost all risks and rewards in the ownership of the loan are transferred. If there is neither a transfer nor a retention of almost all the risks and rewards on the ownership of the transferred loan, the Group will further assess whether control over the transferred loan has been retained. In assessing and judging, the Group has taken into account a wide range of factors, such as whether trading arrangements are accompanied by repurchase clauses. The Group sets situational assumptions and uses the future cash flow discount model for risk and compensation transfer testing. The Group de-recognised the loan only if the loan has been transferred and almost all risks and benefits in ownership have been transferred to another subject. If the Group retains almost all the risks and rewards associated with the ownership of the transferred loan, it shall continue to confirm the loan and at the same time recognise the proceeds received as a financial liability. If the Group has neither transferred nor retained almost all of the risks and rewards in the ownership of the loan and has not waived its control over the loan, the financial assets concerned are recognised to the extent that the loan continues to be involved and the relevant liability is recognised accordingly.

2.31 Accounting policies during the comparative period

2.31.1 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

(a) The Group as lessor

At the commencement of the lease term, the aggregate of the minimum lease receivable at the inception of the lease and the initial direct costs is recognised as a finance lease receivable, and the unguaranteed residual value is recorded at the same time. The difference between the aggregate of the minimum lease receivable, the initial direct costs and the unguaranteed residual value, and the aggregate of their present values is recognised as unearned finance income. Unearned finance income is recognised as finance income for the period using the effective interest method over the lease term. Contingent rents are credited to profit or loss in the period in which they are actually incurred. The net amount of financial lease receivables less unearned finance income is presented as other assets in the statement of financial position.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

(b) The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis over the lease term.

3 FINANCIAL RISK MANAGEMENT

Overview

The Group's business activities expose it to a variety of financial risks regarding analysis, evaluation, acceptance and management. The Group's aim is to achieve an appropriate balance between risks and returns and minimise potential adverse effects on the Group's financial performance. The main types of financial risks are credit risk, liquidity risk, market risk, operational risk, etc.

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, monitor the risks and to control the risk limits through reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets and products and the latest best practice.

Risk management framework

The Board of Directors sets out risk management strategies, overall risk preference and risk tolerance level. The senior management establishes risk management policies and procedures according to the strategies set by the Board of Directors. The Risk Management Department (Crime Prevention Office) at Head Office leads the risk management. The risk management division in each operation department at Head Office, in each domestic and overseas branch and in each subsidiary undertakes specific risk management function. Internal Audit Department is responsible for independent review of risk management and control environment.

3.1 Credit risk

Credit risk is the risk of loss that a borrower or counterparty fails to or is unwilling to meet its obligations. Credit risk arises principally from loans and advances to customers, financial investments, derivative instruments and due from and placements with banks and other financial institutions. There is also credit risk in off-balance sheet items such as loan commitments, financial guarantees, acceptances and letters of credit. Credit risk is a major risk to which the Bank is exposed. Therefore, the Group manages and controls the overall credit risk in a prudent manner and the Risk Management Department (Crime Prevention Office) at Head Office reports regularly to the senior management and the Board of Directors of the Group.

3.1.1Credit risk management

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

(a) Loans and advances to customers and off-balance sheet commitments

As for corporate loans, the Group's relationship managers are responsible for receiving application files submitted by the applicants, conducting pre-loan investigation, assessing the credit risk, and raising the proposed rating. The Group adopts the hierarchical approval system at the branch and Head Office level based on the credit approval authority. Credit line is determined by taking into account the credit record, financial position, collaterals and guarantees of the applicant, overall credit risk of the credit portfolio, macroeconomic regulation and control policies and relevant laws and regulations. The Group keeps a close eye on the economic and financial trend and credit risk profile in the industry and provides more guidance on credit investment by formulating guidance for different industries, provides more guidance on credit investment, formulate guidance for different industries, strengthens daily risk pre-warning, monitoring and specific risk investigation, identify customers under major risks and material potential risk points, enhances the refinement of post-loan management. The independent loan granting centre shall review the compliance, completeness and effectiveness of relevant credit files before loan granting according to the applications for drawdown of credit line. The Group's relationship managers are primarily responsible for post-loan management. The Group adopts a series of tools and approaches, such as risk filtering, list management, risk warning and risk investigation, in daily risk monitoring of corporate loans. The Group manages non-performing loans mainly through (1) collection; (2) restructuring; (3) disposal of collaterals or recourse to the guarantors; (4) litigation or arbitration.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.1 Credit risk management *(Continued)*

(a) Loans and advances to customers and off-balance sheet commitments (Continued)

For retail credit assets, the Group manages the overall risk profile of retail credit business through on-site review and adoption of reporting system on material matters, strengthens daily risk monitoring and pre-warning through optimising management system, standardises operation process of retail credit business through formulating manuals for individual loans and small-enterprise loans, identifies and reveals material potential risks on a timely manner through strengthening risk monitoring and early-warning, and understands and forecasts the quality trends so as to adopt targeted risk control measures in advance by using stress testing and quality migration analysis. In addition, the Group continues to carry out fast response mechanism to address emergencies properly and maintains a list to manage those key risk projects through risk monitoring, guidance, collection and mitigation.

The Group adopts categorised management for retail credit assets on the basis of overdue ageing and guarantee type. With regard to retail credit customers with overdue loans, different approaches are adopted to collect such loans based on their overdue days.

Credit Card Centre of the Group is in charge of the operation and management of credit card business. Credit Card Centre of the Group adopts various supervisory and preventive measures. It reinforces data cross-validation to enhance risk prevention in the approval process, tightens credit line to high risk customers through subsequent credit investigation and enters into the collection process earlier than scheduled, effectively improves collection result through reasonable allocation of available resources, and optimises data analytic system to further enhance the management of credit card business.

(b) Treasury business

For treasury business (including debt investments), the Group chooses banks and other financial institutions prudently and balances the credit risk and return rate of investments. By making reference to internal and external credit rating information, the Group approves credits of different levels and uses an appropriate credit limit management system to review and adjust credit lines, aiming to manage the credit risk exposed to the treasury business.

For debt securities, internal and external ratings (such as Standard and Poor's) are used by the Group when available for managing the credit risk exposed to debt securities and bills. The investment in those debts and bills is to have better credit quality assets while maintaining readily available liquidity resource. The bond issuers involved with the Group are subject to the credit granting review and approval of the Head Office and credit limits are placed on such issuers.

Debt investments other than debt securities include investments in fund trust schemes, asset management plans and wealth management products set up by banking financial institutions. Fund trust schemes and asset management plans, the funds of which ultimately go to trust loans, are mainly managed and operated by third-party trustees and asset managers. The Group implements a rating system for accepting trust companies, securities companies and fund companies, sets credit limits for repurchase parties of trust beneficiary right, ultimate borrowers of targeted asset management plans, and issuers of inter-bank wealth management products, and carries out follow-up risk management on a regular basis.

As for derivative instruments, the Group maintains strict limits on net open derivative investment positions (i.e., the difference between long and short contracts), by both amount and maturity. At any time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e., assets where their fair value is positive), which, in relation to derivative instruments, is only a fraction of the contract's notional amount used to express the amount outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market fluctuations. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except when the Group requires margin deposits from counterparties. The management has set limits of these contracts according to counterparty, and regularly monitor and control the actual credit risk when the Group concludes foreign exchange and interest rate contracts with other financial institutions and clients.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.1 Credit risk management *(Continued)*

(b) Treasury business (Continued)

The Group manages the credit quality of due from and placements with banks and other financial institutions, and balances arising from transactions for precious metals, by considering the size, financial position, the internal and external credit rating of the banks and financial institutions. The Head Office monitors and reviews the credit risk of due from and placements with banks and other financial institutions by counterparties periodically. Limits are placed on different counterparties.

(c) Credit-related commitments

Credit risk exposures to financial guarantees are the same as that of loans. However, commercial letters of credit are usually pledged by the relevant shipped goods, and therefore are subject to lower risk compared with direct loans. Credit-related commitments are included in the management of overall credit line granted to the applicant. For customers with transactions beyond the credit limit or infrequent transactions, the applicant shall be requested to provide relevant guarantee in order to reduce credit risk exposures.

(d) Credit risk quality

In accordance with the *Guideline for Loan Credit Risk Classification* issued by the China Banking and Insurance Regulatory Commission ("CBIRC"), the Group has established a loan credit risk classification system and performs credit risk management based on loan classification in one of five categories. The Group classifies loans into the following five categories: normal, special-mention, substandard, doubtful and loss, of which substandard, doubtful and loss loans are regarded as non-performing loans.

The five categories of loan classification into which the Group classifies its loans and advances to customers are set out below:

Normal:	Borrowers can honour the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.
Special-mention:	Borrowers are able to service their loans currently, although repayment may be adversely affected by specific factors.
Substandard:	Borrowers' ability to service their loans is in question and they cannot rely entirely on normal operating revenues to repay principal and interest. Losses may ensue even when collaterals or guarantees are invoked.
Doubtful:	Borrowers cannot repay principal and interest in full and significant losses will need to be recognised even when collaterals or guarantees are invoked.
Loss:	Only a small portion or none of the principal and interest can be recovered after taking all possible measures and exhausting all legal remedies.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.2 Expected credit loss ("ECL")

The Group measures the ECL of financial instruments at amortised cost or debt investments at fair value through other comprehensive income. The Group divides them into 3 stages by assessing whether there has been a significant increase in credit risk since initial recognition.

The Group measures the ECL of a financial instrument in a way that reflects:

(1) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;

(2) the time value of money;

(3) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Stage classification

The Group divides them into 3 stages. Stage 1 is "financial assets without significant increase in credit risk since initial recognition", at which the Group only needs to measure ECL in the next 12 months. Stage 2 is "financial assets with significant increase in credit risk" and stage 3 is "credit-impaired financial assets", at both of which the Group needs to measure lifetime ECL.

Definition of credit-impaired

The Group considers a financial instrument is default, when it is credit-impaired. In general, the financial instruments that are more than 90 days past due are identified as in default.

The Group considers a financial instrument to be credit-impaired when one or more of the following criteria have been met:

(1) Principal (including advances, applies to below) or interest of the asset is more than 90 days past due;

(2) The issuer or obligor is in significant financial difficulty, or has already become insolvent

(3) It is becoming probable that the obligor will enter bankruptcy;

(4) An active market for that financial asset has disappeared because of financial difficulties of issuers;

(5) Other objective evidence indicating impairment of the financial asset.

A significant increase in credit risk

The Group assesses quarterly whether the credit risk on a financial instrument has increased significantly since initial recognition. In determining the stage classification of a financial asset, the Group considers all reasonable and supportable information which reflects whether there have been significant changes in credit risk, including that which is forward-looking. Based on an individual financial instrument or a portfolio of financial instruments with similar credit risk characteristics, the Group compares risk of default occurring at reporting date as with initial recognition, in order to determine possible changes in risk of default occurring during the expected life of the financial instrument. The Group considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following criteria have been met:

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.2 Expected credit loss ("ECL") *(Continued)*

Stage classification (Continued)

A significant increase in credit risk *(Continued)*

(1) Principal or interest of the instrument is more than 30 days past due;

(2) Credit rating of obligor changes significantly. Credit rating is based on both internal and external rating results, and the criteria are as follow: (a) a significant increase in credit risk is determined when internal and external rating during the reporting period is below the Group's credit acceptance standards; (b) When the borrower's internal rating is downgraded to a certain level, there has been a significant increase in credit risk. Criteria to determine significant increase in credit risk varies based on the original internal rating upon initial recognition;

(3) Significant adverse issues have negative impacts on obligator's repayment ability;

(4) Other circumstances of significant increase in credit risk. For example, appearance of other risk alarm indicators which imply growing potential risk, and could cause losses of financial assets to the Group.

The financial assets are moveable between stages. For instance, financial instruments originally classified at stage 1 should be downgraded to stage 2 if events occur such as a significant increase in credit risk. Financial instruments at stage 2 could be upgraded to stage 1 if credit risk decreases and the criteria for the determination of "a significant increase in credit risk" are no longer met.

Description of parameters, assumptions and estimation techniques

The Group recognises a loss allowance to different financial instruments at an amount equal to 12-month or lifetime expected credit loss based on whether there has been a significant increase in credit risk and whether the financial instrument is credit-impaired. ECL is the result of discounted product of the weighted average of "probability of default (PD)", "loss given default (LGD)", "exposure at default (EAD)" under the three scenarios, which are defined as follows:

Probability of default (PD) is the probability of default occurring of a client and its assets in a given period of time in the future.

Exposure at default (EAD) represents the total amount of on-balance sheet and off-balance sheet exposure at the time of default by debtor, reflecting the total amount of possible losses likely to be incurred. In general, this includes the utilised credit limit, interest receivable, the anticipated usage of unused credit facilities as well as the related expenses to be incurred.

Loss given default (LGD) represents the percentage of amount of loss to be incurred in the event of default to the total risk exposure. It is expressed as the loss percentage per unit of exposure which typically varies by nature of debtor, type and seniority of claim and the availability of collaterals or other credit enhancements.

Definition of default has been consistently applied to model establishment of probability of default (PD), exposure at default (EAD), loss given default (LGD) in ECL calculation throughout the Group.

Forward-looking information: scenarios and weights of economic indicators

The Group has established a macro-economic forecast model driven by Gross Domestic Product (GDP) growth rate to forecast values of macro-economic indicators in multiple categories including national accounts, price index, foreign trade, fixed asset investment, money supply, and interest under three economic scenarios (i.e., Optimistic scenario, Basic scenario, and Pessimistic scenario) annually. The forecasts, after evaluation and confirmation by economic experts of the Bank, are used in the impairment model. Basic scenario is defined as the most probable situation, which will become benchmark for other scenarios. Optimistic and pessimistic scenarios are possible scenarios which are better or worse than basic scenario respectively, and can also become a source of sensitivity analysis. These three scenarios apply to all portfolios.

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.2 Expected credit loss ("ECL") *(Continued)*

Description of parameters, assumptions and estimation techniques (Continued)

Estimation of ECL: the impairment models

The impairment models adopt a top down approach. Through grouping, the models cover the risk exposures of financial institutions, companies and retailers and reveal the regressive relationship between different macro-economic indicators (such as national accounts, price index, foreign trade, fixed asset investment, money supply, and interest) and risk parameters. The result of macro-economic indicator forecasts will form the basis for impairment calculation and represent "forward looking" elements of credit risk allowance in different scenarios.

Where impairment models cannot be established due to lack of data support, the Group endeavours to select appropriate methods in order to make prospective estimation. The Group makes prospective adjustments to impairment calculation of overseas branches and subsidiaries regularly based on macro-forecast data from authoritative institutions (such as IMF and the World Bank). For asset portfolios not covered by impairment models, expected loss rate is set by referring to that of similar asset portfolios with impairment models available.

Management also overlays adjustments to asset portfolios whose non-linear risk characteristics cannot be adequately reflected through impairment models, such as Group credit exposures with higher possibility of risk spreading among borrowers' group entities and credit exposures to borrowers which need to be actively and properly managed to achieve overcapacity reduction. These adjustments do not have a significant impact on the Group's impairment allowance.

Grouping of instruments with similar risk characteristics

To calculate the relevance between ECL allowance modelled on a collective basis and macro-economic indicators, a grouping of exposure is performed on the basis of shared risk characteristics, so that risk exposures within a group are homogenous. In performing this grouping, there must be sufficient information for the Group to be statistically credible. Where sufficient information is not available internally, the Group has considered benchmarking internal/external supplementary data for modelling purposes. Non-retail assets of the Group are mainly grouped according to industries, while retail assets are mainly grouped based on product types, repayment methods and so on.

Economic scenarios and weightings

As at 31 December 2019, the significant assumptions used to estimate expected credit losses are presented as three economic scenarios, including "Optimistic scenario", "Basic scenario", and "Pessimistic scenario", which are applicable to all groups. The weighting of "Basic scenario" adopted by the Group overweights the aggregated weightings of other scenarios.

Sensitivity analysis

At the balance sheet date, the probability-weighted impairment allowance increased by the following amounts compared with basic scenario impairment allowance:

	As at 31 December 2019	As at 31 December 2018
Corporate loans	**468**	277
Individual loans	**29**	88
Debt investments at amortise cost and fair value through other comprehensive income	**21**	1

If the Optimistic and Pessimistic scenario weightings both increase by 10%, the impairment allowance of loans and advances will increase RMB497 million (31 December 2018: RMB304 million), and the impairment allowance of debt investments at amortise cost and fair value through other comprehensive income will increase RMB21 million (31 December 2018: RMB2 million).

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.3 Maximum exposure to credit risk

3.1.3.1 Maximum exposure to credit risk – financial instruments included in impairment assessment

The Group categorises asset risk characteristics based on the quality of the assets, differentiating financial instruments included in expected credit losses calculation as “Low risk”, “Medium risk”, “High risk” and “Impaired”. “Low risk” refers to counterparty with strong repayment ability, low probability of impairment in the future, and minor effect of adverse external factors; “Medium risk” refers to counterparty with certain repayment ability, but continuously unstable and worsening business, finance, and economic conditions will potentially cause its repayment ability to descend; “High risk” refers to counterparty with existence of adverse factors having significant effect on repayment ability or high probability of impairment in the future; and “Impaired” refers to the assets met the Group’s definition of credit-impaired.

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.3 Maximum exposure to credit risk (Continued)

3.1.3.1 Maximum exposure to credit risk – financial instruments included in impairment assessment (Continued)

The table below analyses exposure to credit risk of financial instruments included in expected credit losses assessment. The balance of financial instruments below is the maximum exposure to credit risk of these instruments in the Group.

As at 31 December 2019	Low risk	Medium risk	High risk	Impaired	Domestic branches	Overseas and subsidiaries	Group total	Allowance for impairment losses	Group carrying amount	As at 31 December 2018 Group carrying amount
On-balance sheet item										
Cash and balances with central banks (Stage 1)	729,859	–	–	–	729,859	15,845	745,704	–	745,704	825,506
Loans and advances to customers (Corporate)										
– at amortised cost	1,501,665	1,103,396	106,046	56,508	2,767,615	546,481	3,314,096	(105,170)	3,208,926	2,931,520
Stage 1	1,500,753	1,074,724	2,796	–	2,578,273	536,706	3,114,979	(23,125)	3,091,854	2,825,633
Stage 2	912	28,672	103,250	–	132,834	6,867	139,701	(39,960)	99,741	85,317
Stage 3	–	–	–	56,508	56,508	2,908	59,416	(42,085)	17,331	20,570
– at FVOCI	113,994	113,800	7,567	53	235,414	–	235,414	–	235,414	184,184
Stage 1	113,994	112,323	2,640	–	228,957	–	228,957	–	228,957	177,711
Stage 2	–	1,477	4,927	–	6,404	–	6,404	–	6,404	6,448
Stage 3	–	–	–	53	53	–	53	–	53	25
Loans and advances to customers (Individuals)										
– at amortised cost	1,030,543	645,992	19,533	18,357	1,714,425	40,340	1,754,765	(27,549)	1,727,216	1,614,169
Stage 1	1,030,197	644,783	12,138	–	1,687,118	39,988	1,727,106	(8,394)	1,718,712	1,604,705
Stage 2	346	1,209	7,395	–	8,950	135	9,085	(3,193)	5,892	5,570
Stage 3	–	–	–	18,357	18,357	217	18,574	(15,962)	2,612	3,894
Due from and placements with banks and other financial institutions (Stage 1)	395,742	1,005	–	–	396,747	252,800	649,547	(1,059)	648,488	848,067
Financial investments at amortised cost	1,853,796	29,868	793	1,064	1,885,521	47,431	1,932,952	(3,263)	1,929,689	2,000,505
Stage 1	1,853,796	29,868	–	–	1,883,664	46,408	1,930,072	(2,455)	1,927,617	1,999,905
Stage 2	–	–	793	–	793	704	1,497	(178)	1,319	–
Stage 3	–	–	–	1,064	1,064	319	1,383	(630)	753	600
Debt investments at FVOCI	263,029	2,054	–	–	265,083	395,628	660,711	–	660,711	437,630
Stage 1	263,029	2,054	–	–	265,083	395,628	660,711	–	660,711	437,630
Stage 2	–	–	–	–	–	–	–	–	–	–
Stage 3	–	–	–	–	–	–	–	–	–	–
Other financial assets at amortised cost	17,360	9,415	294	1,703	28,772	15,148	43,920	(3,437)	40,483	25,838
Stage 1	17,359	9,409	–	–	26,768	15,148	41,916	(2,139)	39,777	25,251
Stage 2	1	6	294	–	301	–	301	(86)	215	131
Stage 3	–	–	–	1,703	1,703	–	1,703	(1,212)	491	456
On-balance sheet total	5,905,988	1,905,530	134,233	77,685	8,023,436	1,313,673	9,337,109	(140,478)	9,196,631	8,867,419
Financial guarantees and credit related commitments										
Stage 1	970,178	420,254	977	–	1,391,409	67,906	1,459,315	(5,358)	1,453,957	1,446,824
Stage 2	–	2,465	9,792	–	12,257	598	12,855	(974)	11,881	4,313
Off-balance sheet total	970,178	422,719	10,769	–	1,403,666	68,504	1,472,170	(6,332)	1,465,838	1,451,137
Total	6,876,166	2,328,249	145,002	77,685	9,427,102	1,382,177	10,809,279	(146,810)	10,662,469	10,318,556

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.3 Maximum exposure to credit risk *(Continued)*

3.1.3.2 Maximum exposure to credit risk – financial instruments not included in impairment assessment

The analysis of credit risk exposure of those financial assets which are not included in the impairment assessment are as follows:

	Maximum exposure to credit risk	
	31 December 2019	31 December 2018
Financial assets at fair value through profit or loss		
Loans and advances to customers	**–**	494
Derivative financial instruments	**20,937**	30,730
Debt securities	**134,950**	132,828
Fund investments and other asset management products	**170,435**	187,601
Precious metal contracts	**39,532**	37,232
Placements with banks and other financial institutions	**11,864**	8,393
Total	**377,718**	397,278

3.1.3.3 Collaterals and other credit enhancements

The Group manages, limits and controls concentrations of credit risk wherever they are identified, in particular, to individual counterparties, company and groups, industry segments and geographical regions.

The Group structures the levels of credit risk it undertakes by placing limits in relation to one borrower, or group of borrowers. Such risks are monitored on a regular basis and subject to annual or more frequent review, whenever necessary.

The exposure to any single borrower including banks and brokers is further restricted by sub-limits covering on-balance and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing their lending limits where appropriate.

Some other specific control and risk mitigation measures are outlined below.

(a) Collaterals

The Group employs a range of policies and practices to mitigate credit risk. The most useful practice is to accept collaterals or pledges. The Group implements guidelines on the acceptability of specific classes of collaterals and pledges. The principal types of collaterals and pledges for loans and advances to customers are:

- Residential properties;
- Business assets such as premises, inventory and receivables;
- Financial instruments such as debt securities and stocks.

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.3 Maximum exposure to credit risk *(Continued)*

3.1.3.3 Collaterals and other credit enhancements (Continued)

(a) Collaterals *(Continued)*

The value of collaterals at the time of loan origination is determined by the Credit Authorisation Department and the amount of the loans granted is subject to loan-to-value ratio limits based on collateral types. The principal types of collaterals for corporate loans and individual loans are as follows:

Collaterals	**Maximum loan-to-value ratio**
Cash deposits with the Group	90%
PRC treasury bonds	90%
Financial institution bonds	90%
Publicly traded stocks	60%
Rights to collect fees or right of management	65%
Properties	70%
Land use rights	70%
Vehicles	50%

Long-term loans and advances to corporate and individual customers are generally secured, while revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss the Group will seek additional collaterals and pledges from the counterparties as soon as impairment indicators are noted for the individual loans and advances.

For loans guaranteed by a third-party guarantor, the Group will assess the financial condition, credit history and ability to meet obligations of the guarantor.

Collaterals and pledges held as security for financial assets other than loans and advances to customers are determined by the nature of the instrument. Debt securities, PRC treasury bonds and PBOC bills are generally unsecured, with the exception of asset-backed securities, which are secured by portfolios of financial instruments.

The Group closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Group will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held
As at 31 December 2019				
Credit-impaired assets				
Loans and advances to customers				
Loans to corporate entities	59,469	(42,085)	17,384	18,839
Loans to individuals	18,574	(15,962)	2,612	10,559
Financial investments	3,274	(1,202)	2,072	6,079

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.3 Maximum exposure to credit risk (Continued)

3.1.3.3 Collaterals and other credit enhancements (Continued)

(a) Collaterals *(Continued)*

	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held
As at 31 December 2018				
Credit-impaired assets				
Loans and advances to customers				
Loans to corporate entities	57,172	(36,577)	20,595	17,484
Loans to individuals	15,340	(11,446)	3,894	10,865
Financial investments	1,552	(952)	600	1,041

(b) Master netting arrangements

The Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of assets and liabilities in the statement of financial position, as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Group's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as each transaction subject to the arrangement affects credit risk.

3.1.4 Derivative instruments

The Group undertakes its transactions in foreign exchange, commodity, interest rate and other derivative contracts with other financial institutions and customers. The management has established limits for these contracts based on counterparties, industry sectors and countries. Actual credit exposures and limits are regularly monitored and controlled by management.

Credit risk-weighted amounts

	As at 31 December 2019	As at 31 December 2018
Counterparty credit risk-weighted amount	**36,175**	26,895

The credit risk-weighted amounts are the amounts calculated with reference to the guidelines issued by the CBIRC and are dependent on, amongst other factors, the creditworthiness of the counterparty and the maturity characteristics of each type of contract.

The credit risk-weighted amounts stated above have not taken the effects of netting arrangements into account.

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.5 Foreclosed assets

	As at 31 December 2019	As at 31 December 2018
Buildings	873	913
Land use rights	20	20
Others	14	19
Gross	907	952
Less: Impairment allowances	(148)	(128)
Net	759	824

Foreclosed assets are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness. The Group does not generally occupy foreclosed assets for its own business use. Foreclosed assets are classified as other assets in the statement of financial position.

3.1.6 Concentration risk analysis for financial assets with credit risk exposure

The Group mainly manages concentration risk for loans and advances to customers by industry sectors and also manages concentration risk for financial assets by geographical sectors.

Geographical sectors

	Mainland China	Hong Kong	Others	Total
As at 31 December 2019				
Financial assets				
Balances with central banks	732,414	1,027	11,972	745,413
Due from and placements with banks and other financial institutions	546,171	30,082	72,235	648,488
Derivative financial assets	15,636	4,295	1,006	20,937
Financial investments at FVPL	321,366	10,064	25,351	356,781
Loans and advances to customers	4,792,758	218,575	172,320	5,183,653
Financial investments at FVOCI	347,311	112,537	200,863	660,711
Financial investments at amortised cost	1,915,749	4,181	9,759	1,929,689
Other financial assets	37,301	15,414	2,513	55,228
	8,708,706	396,175	496,019	9,600,900
Off-balance sheet exposures				
Guarantees, acceptances and letters of credit	652,860	13,761	13,646	680,267
Loan commitments and other credit related commitments	750,807	30,572	10,524	791,903
	1,403,667	44,333	24,170	1,472,170

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.6 Concentration risk analysis for financial assets with credit risk exposure *(Continued)*

Geographical sectors (Continued)

	Mainland China	Hong Kong	Others	Total
As at 31 December 2018				
Financial assets				
Balances with central banks	790,382	2,548	32,576	825,506
Due from and placements with banks and other financial institutions	689,611	69,231	89,225	848,067
Derivative financial assets	22,541	5,646	2,543	30,730
Financial investments at FVPL	333,693	7,726	24,635	366,054
Loans and advances to customers	4,385,888	190,464	166,020	4,742,372
Financial investments at FVOCI	110,740	80,452	246,438	437,630
Financial investments at amortised cost	1,962,108	4,154	34,243	2,000,505
Other financial assets	24,945	10,491	4,481	39,917
	8,319,908	370,712	600,161	9,290,781
Off-balance sheet exposures				
Guarantees, acceptances and letters of credit	605,869	11,595	20,320	637,784
Credit-related commitments and other credit-related commitments	766,769	36,213	15,452	818,434
	1,372,638	47,808	35,772	1,456,218

(a) Geographical risk concentration for loans and advances to customers

	As at 31 December 2019	%	As at 31 December 2018	%
Northern China (1)	**689,601**	**13.00**	619,891	12.77
North Eastern China (2)	**212,871**	**4.01**	205,989	4.24
Eastern China (3)	**1,830,275**	**34.51**	1,710,884	35.24
Central and Southern China (4)	**1,106,903**	**20.87**	941,511	19.40
Western China (5)	**532,796**	**10.04**	480,670	9.90
Overseas (6)	**391,517**	**7.38**	355,681	7.33
Head Office	**540,312**	**10.19**	539,602	11.12
Gross amount of loans and advances	**5,304,275**	**100.00**	4,854,228	100.00

Note:

(1) Including Beijing, Tianjin, Hebei Province, Shanxi Province and Inner Mongolia Autonomous Region.

(2) Including Liaoning Province, Jilin Province and Heilongjiang Province.

(3) Including Shanghai (excluding Head Office), Jiangsu Province, Zhejiang Province, Anhui Province, Fujian Province, Jiangxi Province and Shandong Province.

(4) Including Henan Province, Hunan Province, Hubei Province, Guangdong Province, Hainan Province and Guangxi Zhuang Autonomous Region.

(5) Including Chongqing, Sichuan Province, Guizhou Province, Yunnan Province, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Autonomous Region and Xinjiang Uyghur Autonomous Region.

(6) Including Hong Kong, New York, Tokyo, Singapore, Seoul, Frankfurt, Macau, Ho Chi Minh City, San Francisco, Sydney, Taipei, London, Luxembourg, Brisbane, Paris, Rome, Brazil, Toronto, Melbourne, Prague and other overseas affiliates.

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.6 *Concentration risk analysis for financial assets with credit risk exposure* *(Continued)*

(b) *Industry analysis for loans and advances to customers*

	As at 31 December 2019	%	As at 31 December 2018	%
Corporate loans				
Mining	117,555	2.22	119,091	2.45
Manufacturing				
– *Petroleum and chemical*	*106,108*	*2.00*	*104,806*	*2.16*
– *Electronics*	*95,736*	*1.80*	*95,858*	*1.97*
– *Steel*	*35,156*	*0.66*	*33,241*	*0.68*
– *Machinery*	*93,393*	*1.76*	*93,828*	*1.93*
– *Textile and clothing*	*27,049*	*0.51*	*29,146*	*0.60*
– *Other manufacturing*	*243,701*	*4.60*	*224,533*	*4.64*
Production and supply of power, heat, gas and water	215,642	4.07	186,117	3.83
Construction	135,998	2.56	114,577	2.36
Transportation, storage and postal service	637,943	12.03	573,151	11.82
Information transmission, software and IT services	28,346	0.53	28,682	0.59
Wholesale and retail	221,381	4.17	246,706	5.08
Accommodation and catering	32,259	0.61	34,486	0.71
Finance	107,865	2.03	98,342	2.03
Real estate	264,495	4.99	216,536	4.46
Leasing and commercial services	508,863	9.59	413,716	8.52
Water conservancy, environmental and other public services	284,797	5.37	263,235	5.42
Education, science, culture and public health	96,875	1.83	89,436	1.84
Others	93,314	1.76	96,428	1.99
Discounted bills	203,034	3.83	156,686	3.23
Total corporate loans	3,549,510	66.92	3,218,601	66.31
Individual loans				
Mortgages	1,135,428	21.41	1,007,528	20.75
Credit cards	467,387	8.81	505,190	10.41
Others	151,950	2.86	122,909	2.53
Total individual loans	1,754,765	33.08	1,635,627	33.69
Gross amount of loans and advances before impairment allowances	5,304,275	100.00	4,854,228	100.00

Note: The classification of industries is consistent with the latest national standards for industry classification (Industrial classification for national economic activities (GB/T 4754-2017) issued by SAC and AQSIQ in 2017).

The industry risk concentration analysis for loans and advances to customers is based on the type of industry of the borrowers.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk

3.2.1 Overview

Market risk is risk of loss on the Group's on balance sheet and off balance sheet businesses, which is originated from the unfavourable changes and fluctuations in interest rates, foreign exchange rates, commodity price and equity product price. Market risk consists of interest rate risk, foreign exchange rate risk, commodity price risk and equity product price risk. The market risk of the Group mainly comprises interest rate risk and foreign exchange risk.

The Group established a management model of "large and small middle offices" for its market risk management, which is a centralised control framework led by Board of Directors, Board of Supervisors and senior management. The Assets and Liabilities Management Department takes the lead in the Group's market risk management, while business units such as financial markets department, precious metals trading centre, domestic and overseas branches and subsidiaries are the execution units of the Bank's market risk management. The risk management department and the internal audit department are responsible for the independent validation and internal audit of the market risk management system of the Bank.

In accordance with the requirements of the CBIRC, the Group's financial instrument positions are divided into trading book and banking book. The trading book consists of financial instruments held either for trading intent or economic hedging for other elements of the trading book. The banking book consists of all financial instruments other than those included in trading book. The Group recognises, measures, monitors and controls the market risks in trading book and banking book according to their nature and characteristics.

With regard to the exchange rate risk and the interest rate risk of trading book, the Group established an effective limit management system by implementing Net Position, Risk Sensitivity, Value at Risk ("VaR") and other indicators. Meanwhile, with regard to the interest risk of banking book, net interest income sensitivity tests and gap analysis are the major tools used by the Group to monitor the interest risk of its overall businesses. In addition, through adequate repricing management and structure adjustment of assets and liabilities, the Group strives to maximise its rate of return while keeping its risks under control.

The Group has continuously improved the management system of market risk. The Group conducted stress tests on historical scenarios and hypothetical scenarios in the consideration of the Group's major market risk factors. The Group has realised daily automatic collection of trading data and market data in the system. The Group conducted the management of risk capital and VaR quota, and formulated the quota allocation plans.

The Group also applies sensitivity analysis to assess and measure the market risk of trading book and banking book. Sensitivity analysis indicates the impact on the relevant market risk assuming that only a single variable changes. As any risk variable rarely changes isolatedly, and the correlation between variables will have a significant effect on the final impact amount of the change of a risk variable, the results of sensitivity analysis can only provide limited market risk information.

The major measurement techniques used to measure and control market risk are outlined below:

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.2 VaR

VaR refers to the maximum loss that an investment portfolio may incur at a given confidence level and holding period caused by the changes in market price factors such as interest rates and exchange rates etc. The Group adopted the historical simulation method to calculate daily VaR (99% confidence interval, the holding period of one day).

A summary of VaR by risk type of the Group's portfolios is as follows:

Items	Year ended 31 December 2019			
	31 December 2019	**Average**	**Maximum**	**Minimum**
VaR	**464**	**586**	**788**	**462**
Including: Interest rate risk	**167**	**171**	**209**	**112**
Foreign exchange risk	**500**	**632**	**846**	**492**

Items	Year ended 31 December 2018			
	31 December 2018	Average	Maximum	Minimum
VaR	586	556	690	467
Including: Interest rate risk	176	159	218	68
Foreign exchange risk	625	538	701	442

3.2.3 Sensitivity analysis

Interest rate sensitivity analysis

The table below illustrates the impact on net profit of the Group for the following year based on the structure of financial assets and liabilities as at the date of statement of financial position, resulting from a parallel upward or downward shift of 100 basis points in related yield curves.

	Changes in net profit	
	As at 31 December 2019	As at 31 December 2018
+100 basis points parallel shift in yield curves	**15,794**	14,029
-100 basis points parallel shift in yield curves	**(15,794)**	(14,029)

The table below illustrates the impact on other comprehensive income of the Group for the following year based on the structure of financial assets and liabilities as at the date of statement of financial position, resulting from a parallel upward or downward shift of 100 basis points in related yield curves.

	Changes in other comprehensive income	
	As at 31 December 2019	As at 31 December 2018
+100 basis points parallel shift in yield curves	**(11,748)**	(5,572)
-100 basis points parallel shift in yield curves	**11,570**	5,740

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.3 Sensitivity analysis *(Continued)*

Interest rate sensitivity analysis (Continued)

The above-mentioned impact on other comprehensive income arises from the changes in the fair value of fixed-interest-rate bonds at fair value through other comprehensive income, and loans and advances to customers at fair value through other comprehensive income.

The results of the interest rate sensitivity analysis set out in the table above are illustrative only and are based on simplified scenarios. The figures represent the projected impact to the net profit and other comprehensive income caused by the projected movement of current interest risk structure yield curves. This effect, however, does not take into account actions that would be taken by the Group to mitigate the impact of interest rate changes. The projections above also assume that interest rates of all maturities excluding demand deposits move by the same amount and, therefore, do not reflect the potential impact on net profit due to changes in certain rates while others remain unchanged. The projections are based on other simplified assumptions as well, including that all positions are to be held to maturity. There will be changes to the projection if positions are not held to maturity but it is not expected that the changes would be material.

The Group believes the assumption does not represent the Group's policy on use of funds and interest rate risk management. As a result, the above impact may differ from the actual situation.

Foreign exchange sensitivity analysis

The table below illustrates the impact of a concurrent appreciation or depreciation of RMB spot and forward rates against HKD and USD by 5% on the Group's net profit:

	Changes in net profit	
	As at 31 December 2019	As at 31 December 2018
5% appreciation of RMB	**(1,758)**	(1,755)
5% depreciation of RMB	**1,758**	1,755

The table below illustrates the impact of a concurrent appreciation or depreciation of RMB spot and forward rates against HKD and USD by 5% on the Group's other comprehensive income:

	Changes in other comprehensive income	
	As at 31 December 2019	As at 31 December 2018
5% appreciation of RMB	**(954)**	(891)
5% depreciation of RMB	**954**	891

The impact on net profit arises from the influences of RMB exchange rate fluctuation on the net position of monetary assets (excluding other book value than amortised cost of monetary assets at fair value through other comprehensive income) and liabilities denominated in foreign currencies, the net position of non-monetary financial assets (excluding non-monetary items denominated in foreign currencies measured at fair value through other comprehensive income) and liabilities denominated in foreign currencies measured at fair value, and the fair value of currency derivatives denominated in RMB.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.3 *Sensitivity analysis* *(Continued)*

Foreign exchange sensitivity analysis (Continued)

The impact on other comprehensive income arises from the influences of RMB exchange rate fluctuation on the differences on translation of foreign currency financial statements of foreign operators, the overseas investment portion of monetary assets denominated in foreign currencies, other book value other than amortised cost of the non-monetary items denominated in foreign currencies measured at fair value through other comprehensive income (such as stock) and monetary items at fair value through other comprehensive income.

The above impact on net profit is based on the assumption that the sensitive position of the Group's year-end exchange rate and currency derivatives denominated in RMB remain unchanged around the year. While in practice, the Group will, based on its judgement on the trend of exchange rate, actively adjust the foreign currency position and use appropriate derivative instruments to mitigate the impact of the foreign currency risk. Therefore, the above impact might differ from the actual situation.

3.2.4 *Interest rate risk*

The Group's interest rate risk mainly arises from interest rate repricing and maturity mismatching of assets and liabilities, and the fluctuation of market interest rates, as well as from the adjustments in the interest rate policies made by the People's Bank of China ("PBOC"). On 20 July 2013, PBOC cancelled the lower limit of benchmark interest rates of loans dominated in RMB, allowing financial institutions to determine the loan interest rates independently based on commercial principles. On 24 October 2015, PBOC cancelled the upper limit of the benchmark interest rates for deposits. The Group conducts most of its domestic businesses including loans and deposits as well as the majority of its financial guarantees and credit commitments at benchmark interest rates published by PBOC. On 20 August 2019, the first quotation formed in accordance with the new Loan Prime Rate (LPR) mechanism was officially launched, and the newly issued loans are priced mainly at LPR. On 28 December 2019, PBOC announced that financial institutions should complete the conversion of the pricing benchmark of existing floating rate loans to LPR between March and August in 2020. Therefore, the Group organised a team to promote the processes, developing the implementation plan and offering guidances to the conversion, and managing the interest rate risks effectively at the same time. With the LPR mechanism, the Group's exposure to interest rate risk will reduce, consequently interest margin will be more stable under different monetary policies. The Group has initially established a relatively complete interest rate risk monitoring system. By using the gap analysis system, the Group regularly monitors the repricing maturity gap of interest rate-sensitive assets and liabilities throughout the Group, takes the initiative to adjust the proportion of interest-bearing assets at floating interest rates and fixed interest rates, and adjusts the repricing term structure of interest rate and manages interest rate risk by applying appropriate derivatives such as interest rate swaps based on allocation strategy of assets and liabilities. Consequently, the Group is less vulnerable to interest rate risk.

During the reporting period, the Group closely monitored the interest rate trend for RMB and foreign currencies, conducted specific management of risk limits, and strengthened comprehensive operations and limit monitoring. In addition, the Group, by rationally adjusting the loan repricing strategies, reinforced the specific management of price negotiation to maximise its rate of return while keeping its risks under control.

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.4 Interest rate risk *(Continued)*

At the date of statement of financial position, the Group's assets and liabilities categorised by the repricing date or maturity date (whichever is earlier) are as follows:

	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Non-interest bearing	Total
As at 31 December 2019							
Assets							
Cash and balances with central banks	729,335	–	–	–	–	30,850	760,185
Due from and placements with banks and other financial institutions	217,899	94,206	262,663	57,535	10,639	5,546	648,488
Derivative financial assets	–	–	–	–	–	20,937	20,937
Financial investments at FVPL	24,970	27,425	49,446	39,634	35,329	229,694	406,498
Loans and advances to customers	2,422,040	475,631	1,695,459	190,829	91,463	308,231	5,183,653
Financial investments at FVOCI	61,795	152,393	87,723	243,110	109,231	15,404	669,656
Financial investments at amortised cost	21,782	39,197	249,195	1,027,815	562,411	29,289	1,929,689
Other assets	493	–	–	–	–	286,001	286,494
Total assets	3,478,314	788,852	2,344,486	1,558,923	809,073	925,952	9,905,600
Liabilities							
Due to and placements from banks and other financial institutions	(720,024)	(273,836)	(837,746)	(39,236)	(19,803)	(13,437)	(1,904,082)
Financial liabilities at FVPL	(4,103)	(6,006)	(6,779)	(8,190)	–	(1,902)	(26,980)
Derivative financial liabilities	–	–	–	–	–	(26,424)	(26,424)
Due to customers	(3,188,008)	(668,974)	(998,242)	(1,102,269)	(26,026)	(89,389)	(6,072,908)
Other liabilities	(47,541)	(123,654)	(391,494)	(241,821)	(136,354)	(133,430)	(1,074,294)
Total liabilities	(3,959,676)	(1,072,470)	(2,234,261)	(1,391,516)	(182,183)	(264,582)	(9,104,688)
Total interest sensitivity gap	(481,362)	(283,618)	110,225	167,407	626,890	661,370	800,912

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.4 Interest rate risk *(Continued)*

	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Non-interest bearing	Total
As at 31 December 2018							
Assets							
Cash and balances with central banks	815,408	–	–	–	–	24,763	840,171
Due from and placements with banks and other financial institutions	421,426	65,741	203,758	143,923	5,463	7,756	848,067
Derivative financial assets	–	–	–	–	–	30,730	30,730
Financial investments at FVPL	27,857	18,051	48,317	43,896	33,166	205,099	376,386
Loans and advances to customers	2,211,528	521,424	1,544,308	101,108	64,324	299,680	4,742,372
Financial investments at FVOCI	50,183	123,857	80,836	125,220	53,657	11,265	445,018
Financial investments at amortised costs	41,240	59,505	210,740	1,165,477	494,443	29,100	2,000,505
Other assets	425	–	–	–	–	247,497	247,922
Total assets	3,568,067	788,578	2,087,959	1,579,624	651,053	855,890	9,531,171
Liabilities							
Due to and placements from banks and other financial institutions	(776,575)	(325,116)	(955,468)	(46,009)	(26,521)	(32,604)	(2,162,293)
Financial liabilities at FVPL	(2,968)	(5,760)	(5,948)	(7,401)	–	(1,032)	(23,109)
Derivative financial liabilities	–	–	–	–	–	(28,105)	(28,105)
Due to customers	(2,970,102)	(391,142)	(1,609,799)	(661,237)	(75,540)	(85,504)	(5,793,324)
Other liabilities	(44,739)	(108,504)	(233,212)	(185,771)	(141,087)	(105,719)	(819,032)
Total liabilities	(3,794,384)	(830,522)	(2,804,427)	(900,418)	(243,148)	(252,964)	(8,825,863)
Total interest sensitivity gap	(226,317)	(41,944)	(716,468)	679,206	407,905	602,926	705,308

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.5 Foreign exchange risk

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

As at 31 December 2019, the exchange rates for US dollar and HK dollar are 1 US dollar to RMB6.9762 (31 December 2018: RMB6.8632) and 1 HK dollar to RMB0.8958 (31 December 2018: RMB0.8762), respectively.

Carrying amounts of the Group's total assets and liabilities categorised by the original currency as at the date of statement of financial position are as follows:

	RMB	USD (RMB Equivalent)	HKD (RMB Equivalent)	Others (RMB Equivalent)	Total
As at 31 December 2019					
Assets					
Cash and balances with central banks	730,031	17,082	1,874	11,198	760,185
Due from and placements with banks and other financial institutions	296,047	308,665	22,958	20,818	648,488
Derivative financial assets	17,991	1,503	1,206	237	20,937
Financial investments at FVPL	336,039	43,167	2,947	24,345	406,498
Loans and advances to customers	4,664,589	282,461	162,892	73,711	5,183,653
Financial investments at FVOCI	277,710	282,552	55,646	53,748	669,656
Financial investments at amortised cost	1,910,731	16,213	–	2,745	1,929,689
Other assets	142,776	132,093	10,646	979	286,494
Total assets	8,375,914	1,083,736	258,169	187,781	9,905,600
Liabilities					
Due to and placements from banks and other financial institutions	(1,489,552)	(354,673)	(7,031)	(52,826)	(1,904,082)
Financial liabilities at FVPL	(2,273)	(1,882)	(10,963)	(11,862)	(26,980)
Derivative financial liabilities	(21,149)	(3,058)	(1,815)	(402)	(26,424)
Due to customers	(5,403,579)	(391,803)	(241,714)	(35,812)	(6,072,908)
Other liabilities	(844,270)	(187,717)	(22,048)	(20,259)	(1,074,294)
Total liabilities	(7,760,823)	(939,133)	(283,571)	(121,161)	(9,104,688)
Net position	615,091	144,603	(25,402)	66,620	800,912
Financial guarantees and credit-related commitments	1,327,987	110,286	18,482	15,415	1,472,170

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.5 *Foreign exchange risk* *(Continued)*

	RMB	USD (RMB Equivalent)	HKD (RMB Equivalent)	Others (RMB Equivalent)	Total
As at 31 December 2018					
Assets					
Cash and balances with central banks	784,959	30,993	3,390	20,829	840,171
Due from and placements with banks and other financial institutions	488,242	334,579	13,180	12,066	848,067
Derivative financial assets	25,102	1,738	3,344	546	30,730
Financial investments at FVPL	328,378	29,449	759	17,800	376,386
Loans and advances to customers	4,245,922	297,273	138,325	60,852	4,742,372
Financial investments at FVOCI	157,284	199,484	45,069	43,181	445,018
Financial investments at amortised cost	1,981,956	15,707	–	2,842	2,000,505
Other assets	121,427	117,928	7,410	1,157	247,922
Total assets	8,133,270	1,027,151	211,477	159,273	9,531,171
Liabilities					
Due to and placements from banks and other financial institutions	(1,776,123)	(332,360)	(2,364)	(51,446)	(2,162,293)
Financial liabilities at FVPL	(4,155)	(1,137)	(7,234)	(10,583)	(23,109)
Derivative financial liabilities	(24,021)	(900)	(2,809)	(375)	(28,105)
Due to customers	(5,122,012)	(437,650)	(207,753)	(25,909)	(5,793,324)
Other liabilities	(567,133)	(209,406)	(18,064)	(24,429)	(819,032)
Total liabilities	(7,493,444)	(981,453)	(238,224)	(112,742)	(8,825,863)
Net position	639,826	45,698	(26,747)	46,531	705,308
Financial guarantees and credit-related commitments	1,281,258	134,995	27,704	12,261	1,456,218

3.2.6 *Other price risk*

The Group is exposed to other price risk arising from financial assets such as equity investments and derivatives linked to commodity price. The equity investments arise from the proprietary trading of the Group's subsidiaries which hold the qualification of securities dealing and brokerage as well. As for the proprietary trading exposure, the Group enforces strict management of the risk exposure limit and the balance is insignificant to the Group's financial assets. The Group considers the exposure to the other price risk to be insignificant.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk

3.3.1 Overview

Liquidity risk is the risk that occurs when the Group cannot obtain sufficient funds in time and at a reasonable cost to repay debts when they are due, fulfill other payment obligations, or meet other funding needs in the normal course of business. The Group's liquidity risk mainly comes from depositors' early or centralised withdrawals, borrowers' deferred repayment of loans, the amount of assets and liabilities and maturity mismatches.

3.3.2 Liquidity risk management process

The Group implements centralised management of liquidity risk and, on the basis of forecasting liquidity requirements, formulates corresponding liquidity management plans and actively manages the liquidity of the Bank. The specific measures mainly include:

- Pay close attention to changes in the macroeconomic situation, central bank monetary policy, capital market dynamics, etc.

- Enhance weighting of core deposits as a percentage of liabilities, so as to improve the stability of liabilities;

- Monitor and manage liquidity position bank-wide by implementing a series of indicators and restrictions;

- Liquidity position management and cash utilisation functions are centralised by the Head offices;

- Maintain an appropriate level of central bank reserves, overnight inter-bank transactions, highly liquid debt investment, actively involve in capital management through open market, monetary market and bond market in order to ensure optimal financing capability at market places;

- Minimise liquidity risk by proper management of asset maturity structures and multi-level liquidity portfolios.

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.3 Non-derivative financial instruments cash flows

The table below presents the structural analysis by contracted maturities on non-derivative financial assets and liabilities of the Group at the balance sheet date. The amount of financial assets and liabilities for each period is the amount of undiscounted cash flows The Group's expected cash flows on these financial instruments may vary significantly from the following analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance although they have been classified as repayable on demand in the following tables.

	Overdue	Undated	On Demand	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
As at 31 December 2019									
Liabilities									
Due to and placements from banks and other financial institutions	–	–	(409,571)	(312,459)	(279,062)	(861,415)	(41,653)	(24,479)	(1,928,639)
Non-derivative financial liabilities at FVPL	–	–	(1,087)	(4,129)	(6,110)	(7,644)	(8,370)	–	(27,340)
Due to customers	–	–	(2,608,940)	(620,749)	(687,767)	(1,032,419)	(1,184,740)	(26,470)	(6,161,085)
Certificates of deposit issued	–	–	–	(47,583)	(112,660)	(326,884)	(19,723)	(104)	(506,954)
Debt securities issued	–	–	–	(356)	(11,595)	(83,202)	(246,898)	(124,044)	(466,095)
Other financial liabilities	–	–	(62,915)	(157)	(980)	(994)	(9,289)	(31,022)	(105,357)
Total liabilities (contractual maturity dates)	–	–	(3,082,513)	(985,433)	(1,098,174)	(2,312,558)	(1,510,673)	(206,119)	(9,195,470)
Assets									
Cash and balances with central banks	–	669,268	90,626	–	291	–	–	–	760,185
Due from and placements with banks and other financial institutions	–	–	68,990	150,526	96,100	271,267	60,169	13,316	660,368
Financial investments at FVPL	–	221,829	7,455	5,633	17,275	53,313	68,842	53,129	427,476
Loans and advances to customers	41,983	–	–	662,690	350,205	1,349,166	1,675,654	3,135,246	7,214,944
Financial investments at FVOCI	–	8,945	–	11,356	37,795	124,191	422,104	127,664	732,055
Financial investments at amortised cost	740	–	–	22,301	39,748	303,842	1,206,797	628,632	2,202,060
Other financial assets	4,524	–	45,990	–	–	–	–	–	50,514
Assets held for managing liquidity risk (contractual maturity dates)	47,247	900,042	213,061	852,506	541,414	2,101,779	3,433,566	3,957,987	12,047,602
Net position	47,247	900,042	(2,869,452)	(132,927)	(556,760)	(210,779)	1,922,893	3,751,868	2,852,132

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.3 Non-derivative financial instruments cash flows *(Continued)*

	Overdue	Undated	On Demand	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
As at 31 December 2018									
Liabilities									
Due to and placements from banks and other financial institutions	–	–	(438,924)	(356,970)	(333,168)	(985,845)	(50,277)	(32,319)	(2,197,503)
Non-derivative financial liabilities at FVPL	–	–	(865)	(2,980)	(5,857)	(6,265)	(7,726)	–	(23,693)
Due to customers	–	–	(2,443,124)	(555,345)	(399,059)	(1,659,473)	(704,621)	(80,025)	(5,841,647)
Certificates of deposit issued	–	–	–	(41,447)	(106,436)	(209,534)	(15,446)	–	(372,863)
Debt securities issued	–	–	–	(3,665)	(3,474)	(39,527)	(199,677)	(129,224)	(375,567)
Other financial liabilities	–	–	(52,322)	(247)	(237)	(903)	(6,096)	(26,029)	(85,834)
Total liabilities (contractual maturity dates)	–	–	(2,935,235)	(960,654)	(848,231)	(2,901,547)	(983,843)	(267,597)	(8,897,107)
Assets									
Cash and balances with central banks	–	713,376	126,424	–	371	–	–	–	840,171
Due from and placements with banks and other financial institutions	–	–	93,517	335,541	68,165	208,480	145,585	5,471	856,759
Financial investments at FVPL	458	194,838	8,232	7,416	10,235	51,034	72,536	54,336	399,085
Loans and advances to customers	36,953	–	–	680,810	287,572	1,307,557	1,520,092	2,574,873	6,407,857
Financial investments at FVOCI	–	7,388	–	12,314	28,455	114,936	252,017	63,611	478,721
Financial investments at amortised cost	600	–	–	39,005	55,896	266,384	1,375,516	557,879	2,295,280
Other financial assets	781	–	34,679	–	–	–	–	–	35,460
Assets held for managing liquidity risk (contractual maturity dates)	38,792	915,602	262,852	1,075,086	450,694	1,948,391	3,365,746	3,256,170	11,313,333
Net position	38,792	915,602	(2,672,383)	114,432	(397,537)	(953,156)	2,381,903	2,988,573	2,416,226

Assets available to repay all of the liabilities and fulfill loan commitments include cash, balances with central banks, due from and placements with banks and other financial institutions, financial investment at fair value through profit or loss, etc. In the normal course of business, a majority of matured deposits will not be withdrew immediately on the maturity date but will continue to be kept by the Group, a proportion of loans and advances to customers contractually repayable within one year will be extended, and certain debt securities have been pledged for liabilities. In addition, financial investments at fair value through other comprehensive income can also be disposed of when necessary to obtain funds for repayment of matured debts. In stressful scenario, the Group would also be able to meet unexpected cash outflows by selling financial investments, using credit commitment provided by other financial institutions, etc.

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.4 Derivative financial instruments cash flows

The Group's derivative financial instruments are either settled on a net basis or a gross basis.

(a) Derivative settled on a net basis

The Group's derivative financial instruments that will be settled on a net basis include foreign exchange contracts, commodity contracts, interest rate contracts and others.

The table below analyses the undiscounted cash flows of the Group's derivative financial instruments which will be settled on a net basis and are classified based on the remaining contractual period from the balance sheet date to maturity date.

	Up to 1 month	1-3 months	3–12 months	1–5 years	Over 5 years	Total
As at 31 December 2019						
Assets						
Derivative financial instruments						
– Foreign exchange and commodity contracts	–	–	–	–	–	–
– Interest rate contracts and others	163	315	1,148	2,547	208	4,381
Total	163	315	1,148	2,547	208	4,381
Liabilities						
Derivative financial instruments						
– Foreign exchange and commodity contracts	(203)	(728)	(1,545)	–	–	(2,476)
– Interest rate contracts and others	(178)	(396)	(1,387)	(3,720)	(526)	(6,207)
Total	(381)	(1,124)	(2,932)	(3,720)	(526)	(8,683)

	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
As at 31 December 2018						
Assets						
Derivative financial instruments						
– Foreign exchange and commodity contracts	6	–	–	–	–	6
– Interest rate contracts and others	99	257	1,016	2,316	180	3,868
Total	105	257	1,016	2,316	180	3,874
Liabilities						
Derivative financial instruments						
– Foreign exchange and commodity contracts	(145)	(220)	(389)	–	–	(754)
– Interest rate contracts and others	(64)	(200)	(760)	(1,836)	(104)	(2,964)
Total	(209)	(420)	(1,149)	(1,836)	(104)	(3,718)

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.4 Derivative financial instruments cash flows *(Continued)*

(b) Derivative settled on a gross basis

The Group's derivative financial instruments that will be settled on a gross basis mainly include currency and commodity derivatives. The table below analyses the undiscounted cash flows of the Group's derivative financial instruments which will be settled on a gross basis and are classified based on the remaining contractual period from the balance sheet date to maturity date.

	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
As at 31 December 2019						
Derivative financial instruments settled on a gross basis						
– Outflow	(652,146)	(611,954)	(1,031,667)	(96,867)	(1,451)	(2,394,085)
– Inflow	652,036	610,048	1,028,315	96,800	3,443	2,390,642
Total	(110)	(1,906)	(3,352)	(67)	1,992	(3,443)

	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
As at 31 December 2018						
Derivative financial instruments settled on a gross basis						
– Outflow	(745,533)	(542,190)	(1,458,561)	(41,111)	(1,241)	(2,788,636)
– Inflow	746,029	542,837	1,458,647	41,052	2,870	2,791,435
Total	496	647	86	(59)	1,629	2,799

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.5 Maturity analysis

The table below analyses the Group's assets and liabilities into relevant maturity groupings based on the remaining period at the end of reporting date to the contractual maturity date.

	On demand	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Overdue	Undated	Total
As at 31 December 2019									
Assets									
Cash and balances with central banks	90,626	–	291	–	–	–	–	669,268	760,185
Due from and placements with banks and other financial institutions	68,990	149,937	95,479	265,628	57,812	10,642	–	–	648,488
Derivative financial assets	–	3,350	4,941	7,339	3,971	1,336	–	–	20,937
Financial investments at FVPL	7,455	5,468	16,748	50,326	58,460	47,292	–	220,749	406,498
Loans and advances to customers	–	645,176	316,350	1,217,899	1,168,046	1,802,390	33,792	–	5,183,653
Financial investments at FVOCI	–	11,231	36,586	112,932	386,254	113,708	–	8,945	669,656
Financial investments at amortised cost	–	21,690	36,753	267,765	1,040,314	562,427	740	–	1,929,689
Other assets	65,540	5	15	7,807	20,326	3,802	696	188,303	286,494
Total assets	232,611	836,857	507,163	1,929,696	2,735,183	2,541,597	35,228	1,087,265	9,905,600
Liabilities									
Due to and placements from banks and other financial institutions	(409,571)	(312,213)	(276,142)	(846,554)	(39,762)	(19,840)	–	–	(1,904,082)
Financial liabilities at FVPL	(1,087)	(4,103)	(6,026)	(7,453)	(8,311)	–	–	–	(26,980)
Derivative financial liabilities	–	(3,494)	(5,876)	(10,477)	(5,121)	(1,456)	–	–	(26,424)
Due to customers	(2,608,492)	(616,996)	(680,301)	(1,018,114)	(1,122,574)	(26,431)	–	–	(6,072,908)
Other liabilities	(60,594)	(50,219)	(145,757)	(398,664)	(277,546)	(141,514)	–	–	(1,074,294)
Total liabilities	(3,079,744)	(987,025)	(1,114,102)	(2,281,262)	(1,453,314)	(189,241)	–	–	(9,104,688)
Net amount on liquidity gap	(2,847,133)	(150,168)	(606,939)	(351,566)	1,281,869	2,352,356	35,228	1,087,265	800,912

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.5 Maturity analysis *(Continued)*

	On demand	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Overdue	Undated	Total
As at 31 December 2018									
Assets									
Cash and balances with central banks	126,424	–	371	–	–	–	–	713,376	840,171
Due from and placements with banks and other financial institutions	93,420	330,936	67,073	207,595	143,572	5,471	–	–	848,067
Derivative financial assets	–	5,601	6,887	13,831	2,859	1,552	–	–	30,730
Financial investments at FVPL	8,232	7,253	9,786	47,586	58,183	50,050	458	194,838	376,386
Loans and advances to customers	–	664,962	257,043	1,191,035	1,088,301	1,514,178	26,853	–	4,742,372
Financial investments at FVOCI	–	13,348	27,707	106,691	232,364	57,520	–	7,388	445,018
Financial investments at amortised cost	–	38,084	52,330	227,158	1,187,867	494,466	600	–	2,000,505
Other assets	54,240	–	165	499	21,311	1,309	781	169,617	247,922
Total assets	282,316	1,060,184	421,362	1,794,395	2,734,457	2,124,546	28,692	1,085,219	9,531,171
Liabilities									
Due to and placements from banks and other financial institutions	(438,924)	(354,689)	(329,637)	(966,127)	(46,308)	(26,608)	–	–	(2,162,293)
Financial liabilities at FVPL	(865)	(2,968)	(5,801)	(5,978)	(7,497)	–	–	–	(23,109)
Derivative financial liabilities	–	(5,036)	(6,199)	(14,435)	(2,199)	(236)	–	–	(28,105)
Due to customers	(2,442,774)	(554,332)	(397,452)	(1,649,194)	(674,006)	(75,566)	–	–	(5,793,324)
Other liabilities	(50,084)	(53,268)	(118,200)	(238,444)	(214,200)	(144,836)	–	–	(819,032)
Total liabilities	(2,932,647)	(970,293)	(857,289)	(2,874,178)	(944,210)	(247,246)	–	–	(8,825,863)
Net amount on liquidity gap	(2,650,331)	89,891	(435,927)	(1,079,783)	1,790,247	1,877,300	28,692	1,085,219	705,308

3.3.6 Off-balance sheet items

The off-balance sheet items of the Group primarily comprise loan commitments, credit card commitments, letter of credit commitments, guarantee and letters of guarantee issued, acceptance notes, etc. The table below lists the liquidity analysis of the off-balance sheet items of the Group, and financial guarantees are included at notional amounts and based on the earliest contractual maturity date.

	Up to 1 year	1–5 years	Over 5 years	Total
As at 31 December 2019				
Loan commitments and other credit related commitments	761,484	22,389	8,030	791,903
Guarantees, acceptances and letters of credit	570,426	104,593	5,248	680,267
Total	1,331,910	126,982	13,278	1,472,170
As at 31 December 2018				
Loan commitments and other credit related commitments	787,886	21,417	9,131	818,434
Guarantees, acceptances and letters of credit	527,162	106,736	3,886	637,784
Total	1,315,048	128,153	13,017	1,456,218

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.4 Fair value of financial assets and liabilities

(a) Determination of fair value and valuation techniques

Certain financial assets and liabilities of the Group are measured at fair value or with fair value disclosed for financial reporting purposes. The fair value has been determined using appropriate valuation techniques and inputs for fair value measurements. The appropriateness of the valuation techniques and the inputs to the fair value measurements are reviewed by the Board of Directors periodically.

Fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

(1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

(2) Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

(3) Level 3 inputs are unobservable inputs for the asset or liability.

The fair value of financial instruments with unadjusted quoted prices for identical instruments in active markets is determined by the open market quotations. These instruments are classified as level 1.

The Group uses valuation techniques to determine the fair value of financial instruments when an open market quotation in active markets is not obtainable.

If the key parameters used in valuation techniques for financial instruments (including debt securities and derivatives) are substantially observable and obtainable from active open market, the instruments are classified as level 2. The second hierarchy of financial instruments held by the Group includes over-the-counter derivatives, certificates of deposit without quotations from active market, loans and advances to customers carried at FVOCI, precious metals, debt securities issued and debt instruments trading in inter-bank market. The fair value of RMB denominated bonds is mainly valued based on the yield curves of the bonds from China Central Depository & Clearing Co., Ltd., while the fair value of the foreign currency denominated bonds is determined based on the valuation results published by Bloomberg. The fair value of foreign currency forwards, swaps and interest rate swaps, currency options is estimated by the discounted cash flow method and Black-Scholes model; the fair value of precious metal contract is mainly determined in accordance with the closing prices of the Shanghai Gold Exchange or the settlement prices of the Shanghai Futures Exchange. The main parameters used in discounted cash flow model include recent market prices, the relevant yield curve, exchange rates and counterparty's credit spreads; main parameters used in Black-Scholes model include the relevant yield curve, exchange rate, level of volatilities and counterparty's credit spreads, etc. All parameters used in valuation techniques are substantially observable and obtainable from active open market.

For loans and advances to customers at fair value, loans and advances to customers at fair value through other comprehensive income, trust and asset management plan, the fair value is determined based on discounted cash flow model using unobservable discount rates that reflect credit risk and liquidity. These financial instruments are classified as Level 3.

For convertible bonds, unlisted equities, unlisted debts, unlisted funds and equity derivatives held by the Group, the fair value of these financial instruments are determined with reference to certain unobservable inputs, and therefore the instruments have been classified by the Group as level 3. Management determines the fair value of these financial instruments using a variety of techniques, including using valuation models that incorporate and take into account unobservable inputs such as Discount for Lack of Marketability (DLOM). The Group has established internal control procedures to monitor the Group's exposure to such financial instruments.

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.4 Fair value of financial assets and liabilities *(Continued)*

(b) Financial instruments not measured at fair value

The table below summarises the carrying amount and fair value of those financial assets and liabilities that are not presented at fair value as at the date of statement of financial position. Financial assets and liabilities with carrying amount approximate to fair value, such as cash and balances with central banks, due from and placements with banks and other financial institutions, loans and advances to customers, due to and placements from banks and other financial institutions, and due to customers, are not included in the table below.

	As at 31 December 2019		As at 31 December 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Financial investments at amortised cost	1,929,689	1,954,341	2,000,505	2,013,818
Financial liabilities				
Debt securities issued	(383,481)	(388,177)	(301,138)	(304,328)

Fair value hierarchy of financial instruments not measured at fair value

	Level 1	Level 2	Level 3	Total
As at 31 December 2019				
Financial assets				
Financial investments at amortised cost	7,655	1,806,199	140,487	1,954,341
Financial liabilities				
Debt securities issued	–	(388,177)	–	(388,177)

	Level 1	Level 2	Level 3	Total
As at 31 December 2018				
Financial assets				
Financial investments at amortised cost	14,022	1,793,650	206,146	2,013,818
Financial liabilities				
Debt securities issued	–	(304,328)	–	(304,328)

The carrying amounts and fair values of other financial assets and liabilities (including loans and advances to customers, due to customers, due from and placements with banks and other financial institutions, due to and placements from banks and other financial institutions) are approximately the same, because the interest rates of most of these assets and liabilities are adjusted following the changes in interest rates determined by PBOC, other regulatory bodies or market.

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.4 Fair value of financial assets and liabilities *(Continued)*

(c) Financial assets and financial liabilities measured at fair value on a recurring basis

The financial assets and liabilities measured at fair value on a recurring basis by the three levels are analysed below:

	Level 1	Level 2	Level 3	Total
As at 31 December 2019				
At fair value through profit or loss				
Debt securities				
– Governments and central banks	4,220	3,382	–	7,602
– Public sector entities	–	2,000	–	2,000
– Banks and other financial institutions	8,757	79,922	104	88,783
– Corporate entities	4,625	28,178	3,762	36,565
Fund investments and other asset management products	56	158,698	11,681	170,435
Equity securities and others	2,576	–	47,141	49,717
Precious metal contracts	–	39,532	–	39,532
Placements with banks and other financial institutions	–	11,864	–	11,864
Derivative financial instruments				
– Foreign exchange and commodity contracts	–	15,784	–	15,784
– Interest rate contracts and others	–	4,145	1,008	5,153
	20,234	343,505	63,696	427,435
At fair value through other comprehensive income				
Debt Investments at FVOCI				
– Governments and central banks	57,694	201,265	–	258,959
– Public sector entities	136	1,972	–	2,108
– Banks and other financial institutions	134,110	195,593	–	329,703
– Corporate entities	39,804	29,299	838	69,941
Investments in equity instruments designated at FVOCI	1,895	421	6,629	8,945
Loans and advances to customers designated at FVOCI	–	235,361	53	235,414
	233,639	663,911	7,520	905,070
Total assets	253,873	1,007,416	71,216	1,332,505
Financial liabilities at FVPL				
– Certificates of deposits issued	–	(13,392)	–	(13,392)
– Financial liabilities related to precious metal contracts	–	(12,950)	–	(12,950)
– Notes issued	–	(638)	–	(638)
Derivative financial instruments				
– Foreign exchange and commodity contracts	–	(20,423)	–	(20,423)
– Interest rate contracts and others	–	(6,001)	–	(6,001)
Debt securities issued	–	(20,437)	–	(20,437)
Total liabilities	–	(73,841)	–	(73,841)

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.4 Fair values of financial assets and liabilities *(Continued)*

(c) Financial assets and financial liabilities measured at fair value on a recurring basis *(Continued)*

	Level 1	Level 2	Level 3	Total
As at 31 December 2018				
At fair value through profit or loss				
Debt securities				
– Governments and central banks	1,925	3,636	–	5,561
– Public sector entities	90	2,498	–	2,588
– Banks and other financial institutions	4,031	86,912	255	91,198
– Corporate entities	696	29,368	3,417	33,481
Fund investments and other asset management products	47	180,884	6,670	187,601
Equity securities and others	1,099	–	9,233	10,332
Precious metal contracts	–	37,232	–	37,232
Placements with banks and other financial institutions	–	8,393	–	8,393
Derivative financial instruments				
– Foreign exchange and commodity contracts	–	26,441	–	26,441
– Interest rate contracts and others	–	3,308	981	4,289
Loans and advances to customers designated at FVPL	–	–	494	494
	7,888	378,672	21,050	407,610
At fair value through other comprehensive income				
Debt Investments at FVOCI				
– Governments and central banks	28,115	38,506	–	66,621
– Public sector entities	124	3,575	–	3,699
– Banks and other financial institutions	152,355	159,984	–	312,339
– Corporate entities	29,900	24,690	381	54,971
Investments in equity instruments designated at FVOCI	2,096	–	5,292	7,388
Loans and advances to customers designated at FVOCI	–	184,159	25	184,184
	212,590	410,914	5,698	629,202
Total assets	220,478	789,586	26,748	1,036,812
Financial liabilities at FVPL				
– Certificates of deposits issued	–	(11,660)	–	(11,660)
– Financial liabilities related to precious metal contracts	–	(11,449)	–	(11,449)
Derivative financial instruments				
– Foreign exchange and commodity contracts	–	(25,640)	–	(25,640)
– Interest rate contracts and others	–	(2,465)	–	(2,465)
Debt securities issued	–	(16,556)	–	(16,556)
Total liabilities	–	(67,770)	–	(67,770)

There was no transfer between level 1 and 2 during the year.

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.4 Fair values of financial assets and liabilities *(Continued)*

(c) Financial assets and financial liabilities measured at fair value on a recurring basis *(Continued)*

Reconciliation of level 3 items

	Financial assets at FVPL	Financial assets at FVOCI
Balance at 1 January 2019	21,050	5,698
Total gains or losses		
– Net gains arising from trading activities	1,120	64
– Other comprehensive income	–	(429)
Additions	53,632	3,235
Disposals and settlement	(9,891)	(941)
Transfer to other levels	(2,215)	(107)
Balance at 31 December 2019	63,696	7,520
Total gains/(losses) for the year ended 31 December 2019		
– Realised gains/(losses)	974	68
– Unrealised gains/(losses)	104	(435)

	Financial assets at FVPL	Financial assets at FVOCI
Balance at 1 January 2018	14,107	1,577
Total gains or losses		
– Net gains arising from trading activities	217	32
– Other comprehensive income	–	(314)
Additions	14,079	4,836
Disposals	(7,353)	(433)
Transfer to other levels	–	–
Balance at 31 December 2018	21,050	5,698
Total gains/(losses) for the year ended 31 December 2018		
– Realised gains/(losses)	327	33
– Unrealised gains/(losses)	(110)	(315)

These financial instruments with fair values determined based on unobservable inputs are primarily convertible bonds, unlisted equities, unlisted debts, unlisted funds, part of the trust and asset management plan, equity derivatives and part of loans and advances to customers. The fair value of these financial instruments is determined primarily using discounted cash flow method and market comparison method. These valuation methods involve inputs from various unobservable assumptions such as cash flow, risk-adjusted discount rate, price to book value ration, price to earning ratio and marketability discounts.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.5 Offsetting financial assets and financial liabilities

Certain financial assets and financial liabilities of the Group are subject to enforceable master netting arrangements or similar agreements. The agreement between the Group and the counterparty generally allows for net settlement of the relevant financial assets and financial liabilities when both elect to settle on a net basis. In the absence of such a mutual consent, financial assets and financial liabilities will be settled on a gross basis. However, each party to the master netting arrangements or similar agreements will have the option to settle all such amounts on a net basis in the event of default of the other party. These financial assets and financial liabilities of the Group are not offset in accordance with IFRS.

As at 31 December 2019, the amount of the financial assets and financial liabilities subject to enforceable master netting arrangements or similar agreements is not material to the Group.

3.6 Capital management

The "capital" in capital management is a broader concept than "shareholders' equity" on the statement of financial position. The Group's objectives in capital management are:

- To comply with the capital requirements set by the regulators of the markets where the Group operates;
- To ensure the Group's ability to maintain a stable operation so as to continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

The Group management adopts administrative measures issued by CBIRC, which was developed based on guideline issued by the Based Committee, in monitoring its capital adequacy and the usage of regulatory capital on a quarterly basis.

The Administrative Measures for the Capital of Commercial Banks (Provisional) specified the regulatory requirements for minimum capital, capital conservation buffer, additional capital surcharge for systemically important banks, countercyclical buffer and Pillar II capital as follows:

- Minimum regulatory requirements for Core Tier 1 Capital adequacy ratio, Tier 1 Capital adequacy ratio and Capital adequacy ratio are 5%, 6% and 8%, respectively;
- Capital conservation buffer requires additional 2.5% on Core Tier 1 Capital adequacy ratio;
- Additional capital surcharge for systemically important banks requires additional 1% on Core Tier 1 Capital adequacy ratio;
- Should the regulators require countercyclical buffer under particular circumstances or regulators impose additional Pillar II capital requirements for specific banks, these requirements shall be met within the specified time limits.

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.6 Capital management *(Continued)*

The Group's capital as monitored by its Planning and Finance Department consists of the following:

- Core Tier 1 Capital, including ordinary shares, eligible portion of capital surplus, statutory reserve, statutory general reserve, retained earnings, eligible portion of non-controlling interests and translation reserve on foreign operations;

- Additional Tier 1 Capital, including Additional Tier 1 Capital instruments issued and related premium and eligible portion of non-controlling interests;

- Tier 2 Capital, including Tier 2 Capital instruments issued and related premium, excess loan loss provisions and eligible portion of non-controlling interests.

The Group's deductible items from Core Tier 1 Capital include: Goodwill, other intangible assets (except land use rights), investments in Core Tier 1 Capital of financial institutions with controlling interests but outside the scope of regulatory consolidation.

In April 2014, CBIRC officially approved the implementation of the advanced approach of capital management adopted by the Bank. In this approach, the Bank elected to use elementary internal rating based ("IRB") approach for corporate risk exposure, IRB approach for retail risk exposure, internal models approach for market risk and standardised approach for operational risk exposure which is compliant with regulatory requirements. For risk exposures not covered by the advanced approaches, the corresponding portion shall be calculated by adopting non-advanced approaches. The capital ratios calculated based on Administrative Measures for the Capital of Commercial Banks (Provisional) are as follows:

Item	As at 31 December 2019	As at 31 December 2018
Core Tier 1 Capital adequacy ratio (%)	11.22	11.16
Tier 1 Capital adequacy ratio (%)	12.85	12.21
Capital adequacy ratio (%)	14.83	14.37
Core Tier 1 Capital	695,084	640,373
Core Tier 1 Capital deductions	(5,595)	(5,566)
Net Core Tier 1 Capital	689,489	634,807
Additional Tier 1 Capital	100,057	60,025
Net Tier 1 Capital	789,546	694,832
Tier 2 Capital	121,710	122,717
Net Capital	911,256	817,549
Risk-weighted asset	6,144,459	5,690,542

(All amounts expressed in millions of RMB unless otherwise stated)

4 NET INTEREST INCOME

	Year ended 31 December	
	2019	2018
Interest income		
Loans and advances to customers	242,948	225,422
Financial investments	88,647	85,449
Due from and placements with banks and other financial institutions	24,167	24,945
Balances with central banks	11,691	13,048
	367,453	348,864
Interest expense		
Due to customers	(139,153)	(128,589)
Due to and placements from banks and other financial institutions	(57,650)	(66,788)
Certificates of deposit issued	(15,048)	(11,344)
Debt securities issued	(11,519)	(11,235)
	(223,370)	(217,956)
Net interest income	144,083	130,908
Including:		
Interest income on impaired financial assets	1,467	1,618

5 FEE AND COMMISSION INCOME

	Year ended 31 December	
	2019	2018
Bank cards	21,050	20,114
Management services	14,400	12,524
Investment banking	4,337	4,424
Agency services	3,098	2,777
Guarantee and commitment	2,520	2,461
Settlement services	2,024	2,167
Others	240	206
	47,669	44,673

	Year ended 31 December	
	2019	2018
Fee income, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading or designated at FVPL	943	701
Fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers	3,541	3,406

(All amounts expressed in millions of RMB unless otherwise stated)

6 FEE AND COMMISSION EXPENSE

	Year ended 31 December	
	2019	2018
Bank card business	**2,884**	2,326
Settlement services	**821**	771
Others	**339**	339
	4,044	3,436

	Year ended 31 December	
	2019	2018
Fee expense, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading or designated at FVPL	**7**	5

7 NET GAINS ARISING FROM TRADING ACTIVITIES

	Year ended 31 December	
	2019	2018
Financial instruments at FVPL	**13,415**	12,606
Foreign exchange	**2,629**	3,636
Interest rate instruments and others	**(108)**	857
	15,936	17,099

Net gains or losses on foreign exchange include trading gains or losses and fair value changes of spot and forward contracts, currency swaps, cross currency interest rate swaps, currency options and the translation of foreign currency monetary assets and liabilities into RMB.

Net gains or losses on interest rate instruments and others include trading gains or losses and fair value changes of interest rate swaps, interest rate options, commodity and other derivatives.

Net gains arising from trading activities for the year ended 31 December 2019 included a loss of RMB56 million (for the year ended 31 December 2018: an income of RMB26 million) in relation to changes in the fair value of financial liabilities designated at fair value through profit or loss.

8 OTHER OPERATING INCOME

	Year ended 31 December	
	2019	2018
Leasing income	**12,821**	10,523
Income from sales of precious metal merchandise	**1,370**	2,351
Revaluation of investment properties	**31**	117
Net gain on the disposal of fixed and foreclosed assets	**287**	15
Other miscellaneous income	**2,290**	2,807
	16,799	15,813

Other miscellaneous income mainly includes income arising from miscellaneous banking services provided to the Group's customers.

(All amounts expressed in millions of RMB unless otherwise stated)

9 CREDIT IMPAIRMENT LOSSES

Credit impairment losses:

	Year ended 31 December	
	2019	2018
Due from and placements with banks and other financial institutions	(731)	(43)
Loans and advances to customers at amortised cost	49,427	42,813
Loans and advances to customers at FVOCI	(346)	(317)
Off-balance sheet businesses	1,434	(1,142)
Financial investments at amortised cost	(120)	(362)
Debt investments at FVOCI	(160)	265
Other receivables	1,610	1,075
Accrued interest of loans and advances to customers at amortised cost	322	1,127
Others	518	38
	51,954	43,454

10 OTHER ASSETS IMPAIRMENT LOSSES

	Year ended 31 December	
	2019	2018
Impairment losses on property and equipment	233	33
Impairment losses on foreclosed assets	37	27
	270	60

11 OTHER OPERATING EXPENSES

	Year ended 31 December	
	2019	2018
Staff costs and benefits (Note 12)	32,927	29,995
General operating and administrative expenses	25,528	28,368
Depreciation and amortisation	8,105	5,677
Costs of operating lease business	8,934	6,414
Tax and surcharges	2,697	2,501
Provision for outstanding litigations	50	549
Others	2,760	3,248
	81,001	76,752

Since the presentation of "Other operating expenses" has been changed, we have restated the comparative information of the year before.

12 STAFF COSTS AND BENEFITS

	Year ended 31 December	
	2019	2018
Salaries, bonuses, allowances and subsidies	21,933	21,075
Post-employment benefit (a)	4,208	3,380
Other social security and benefit costs	6,786	5,540
	32,927	29,995

(All amounts expressed in millions of RMB unless otherwise stated)

12 STAFF COSTS AND BENEFITS *(Continued)*

(a) Post-employment benefit

Defined contribution plans

The Group participates in various defined contribution retirement benefit plans organised by municipal and provincial governments in Mainland China under which it is required to make monthly contributions to these plans at rates ranging from 10% to 27% of the employees' basic salary for the year. The Group's contributions to these pension plans are charged to profit or loss and other comprehensive income in the year to which they relate.

Employees who retire after 1 January 2009 can voluntarily participate in an Annuity Plan. The Bank contributes to the Annuity Plan based on certain percentage of the employees' gross salary which is recognised in profit or loss as incurred.

The amount recognised in profit or loss is as follows:

	Year ended 31 December	
	2019	2018
Expenses incurred for retirement benefit plans and unemployment insurance	**2,331**	2,532
Expenses incurred for annuity plan	**1,855**	820
Total	**4,186**	3,352

The amount payable at the end of the year is as follows:

	As at 31 December 2019	As at 31 December 2018
Expenses incurred for retirement benefit plans and unemployment insurance	**65**	64
Expenses incurred for annuity plan	**966**	14
Total	**1,031**	78

Defined benefit plans

The Group pays supplementary retirement benefits to employees in Mainland China, who retired before 31 December 2008. The Group's obligations in respect of supplementary retirement benefits are calculated by estimating the amount of future benefits that the Group is committed to pay to the employees after their retirement using actuarial techniques. Such benefits, which are estimated by using key parameters such as inflation rate and mortality ratio, are discounted to their present values. The discount rate is the yield on government bonds at the end of reporting date, the maturity dates of which approximate to the terms of the Group's obligations. Actuarial gains or losses and changes in actuarial assumptions are recognised in other comprehensive income, and amendments to pension plan are recognised in profit or loss in the period of a plan amendment. The amounts recognised in the statement of financial position represent the present value of unfunded obligations.

The Group's retirement benefit obligations in locations other than Mainland China are immaterial and are made in accordance with the relevant local policies and regulations.

	As at 31 December 2019	As at 31 December 2018
Statement of financial position		
– Obligations for pension benefits	**399**	408

(All amounts expressed in millions of RMB unless otherwise stated)

12 STAFF COSTS AND BENEFITS *(Continued)*

(a) Post-employment benefit *(Continued)*

Defined benefit plans *(Continued)*

Amounts recognised in comprehensive income in respect of the supplementary retirement benefits are as follows:

	Year ended 31 December	
	2019	2018
Components of defined benefit costs recognised in profit or loss	**22**	28
Components of defined benefit costs recognised in other comprehensive income	**20**	25
Total	**42**	53

Past service cost and interest expense are recognised in other operating expense in the income statement.

Movements in the unfunded obligations over the year are as follows:

	Year ended 31 December	
	2019	2018
Present value of unfunded obligations at the beginning of the year	**408**	395
Retirement benefits paid during the year	**(51)**	(40)
Interest expense	**20**	25
Past service cost	**2**	3
Net actuarial losses recognised in the current year	**20**	25
Present value of unfunded obligations at the end of the year	**399**	408

The average duration of the supplementary retirement benefits plan at 31 December 2019 is 10.21 years (31 December 2018: 10.95 years).

The Group expects to make a contribution of RMB40 million (2018: RMB41 million) to the defined benefit plan during the next financial year.

The supplementary retirement benefits plan exposes the Group to actuarial risks such as interest risk, longevity risk and inflation risk. A decrease in the government bond yield will increase the present value of unfunded obligations. The present value of unfunded obligations is calculated by reference to the best estimate of the mortality of plan participants. An increase in the life expectancy of the plan participants will increase the plan's liability. The present value of unfunded obligations is also measured by future payment standards, which are determined by inflation rate. Hence, an increase in inflation rate will increase the present value of the unfunded obligations.

The principal actuarial assumptions regarding interest risk and inflation risk used by the Group are discount rate and inflation rate, which were 3.22% (31 December 2018: 3.47%) and 2.68% (31 December 2018: 2.12%) respectively as at 31 December 2019. In the meantime, assumptions regarding future mortality rate are set based on published statistics by China Insurance Regulatory Commission. As at 31 December 2019, an average longevity of a pensioner after retirement at age 60 for male is 19.70 years (31 December 2018: 19.70 years) while a pensioner after retirement at age 55 for female is 28.70 years (31 December 2018: 28.70 years).

12 STAFF COSTS AND BENEFITS *(Continued)*

(a) Post-employment benefit *(Continued)*

Defined benefit plan *(Continued)*

Significant actuarial assumptions for the determination of the unfunded obligation are discount rate, inflation rate and mortality. The sensitivity analysis below is based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

(1) If the discount rate is 100 basis points higher (lower), the defined benefit obligation would decrease by RMB23 million (increase by RMB26 million).

(2) If the expected inflation rate increases (decreases) by 1%, the defined benefit obligation would increase by RMB26 million (decrease by RMB23 million).

(3) If the life expectancy increases (decreases) by one year for men and women, the defined benefit obligation would increase by RMB32 million (decrease by RMB32 million).

The sensitivity analysis above may not be representative of the actual change in the unfunded obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

In presenting the above sensitivity analysis, the present value of the unfunded obligation has been calculated at the end of the reporting period, which is the same as that applied in calculating the unfunded obligation liability recognised in the statement of financial position.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

13 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(a) Directors', supervisors' and senior management's emoluments before taxation

(in thousands of RMB)	Year ended 31 December 2019			
Name	Emoluments	Remuneration	Other benefits	Total
Executive directors				
Mr. Ren, Deqi	–	579	200	779
Mr. Hou, Weidong	–	521	183	704
Non-executive directors				
Mr. Wang, Taiyin	–	672	178	850
Mr. Song, Guobin	–	672	191	863
Mr. He, Zhaobin	–	672	191	863
Mr. Chan Siu Chung	–	–	–	–
Mr. Song, Hongjun	–	–	–	–
Mr. Chen, Junkui	–	–	–	–
Mr. Liu, Haoyang	–	–	–	–
Ms. Li, Jian	292	–	–	292
Mr. Liu, Li	292	–	–	292
Mr. Jason Yeung Chi Wai	282	–	–	282
Mr. Raymond Woo Chin Wan	282	–	–	282
Mr. Cai, Haoyi	–	–	–	–
Mr. Shi, Lei	6	–	–	6
Supervisors				
Mr. Zhang, Minsheng	–	–	–	–
Mr. Wang, Xueqing	–	–	–	–
Ms. Tang, Xinyu	–	–	–	–
Ms. Xia, Zhihua	–	–	–	–
Mr. Li, Yao	–	232	–	232
Mr. Chen, Hanwen	–	137	–	137
Ms. Chen, Qing	–	853	169	1,022
Mr. Du, Yarong	–	841	169	1,010
Mr. Guan, Xingshe	–	800	169	969
Mr. Wang, Xuewu	–	408	86	494
Total	1,154	6,387	1,536	9,077
Directors and supervisors that resigned in 2019				
Mr. Peng, Chun	–	145	45	190
Mr. Peter Wong Tung Shun	–	–	–	–
Mr. Wu, Wei	–	304	105	409
Ms. Helen Wong Pik Kuen	–	–	–	–
Mr. Liu, Hanxing	–	–	–	–
Mr. Luo, Mingde	–	–	–	–
Mr. Yu,Yongshun	–	–	–	–
Mr. Song, Shuguang	–	48	17	65
Mr. Gu, Huizhong	–	–	–	–
Mr. Zhao, Yuguo	–	–	–	–
Mr. Liu, Mingxing	–	–	–	–
Ms. Zhang, Lili	–	–	–	–
Mr. Fen, Xiaodong	–	–	–	–
Mr. Xu, Ming	–	417	83	500
Total	–	914	250	1,164

13 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(Continued)*

(a) Directors', supervisors' and senior management's emoluments before taxation *(Continued)*

(in thousands of RMB)	Year ended 31 December 2018			
Name	Emoluments	Remuneration	Other benefits	Total
Executive directors				
Mr. Peng, Chun	–	712	179	891
Mr. Ren, Deqi	–	356	103	459
Mr. Hou, Weidong	–	641	174	815
Non-executive directors				
Mr. Wang, Dongsheng	–	–	–	–
Mr. Wang, Taiyin	–	1,563	170	1,733
Mr. Song, Guobin	–	1,563	210	1,773
Mr. He, Zhaobin	–	1,563	210	1,773
Ms. Huang, Bijuan	–	–	–	–
Mr. Liu, Hanxing	–	–	–	–
Mr. Luo, Mingde	–	–	–	–
Mr. Liu, Haoyang	–	–	–	–
Mr. Yu, Yongshun	–	–	–	–
Ms. Li, Jian	250	–	–	250
Mr. Liu, Li	250	–	–	250
Mr. Yang, Zhiwei	250	–	–	250
Mr. Hu, Zhanyun	250	–	–	250
Mr. Cai, Haoyi	–	–	–	–
Supervisors				
Mr. Gu, Huizhong	–	–	–	–
Mr. Zhao, Yuguo	–	–	–	–
Mr. Liu, Mingxing	–	–	–	–
Ms. Zhang, Lili	–	–	–	–
Mr. Wang, Xueqing	–	–	–	–
Ms. Tang, Xinyu	–	–	–	–
Ms. Xia, Zhihua	–	–	–	–
Mr. Li, Yao	–	200	–	200
Ms. Chen, Qing	–	853	161	1,014
Mr. Du, Yarong	–	840	161	1,001
Mr. Xu, Ming	–	833	161	994
Mr. Guan, Xingshe	–	133	28	161
Total	1,000	9,257	1,557	11,814
Directors and supervisors that resigned in 2018				
Mr. Niu, Ximing	–	331	195	526
Ms. Yu, Yali	–	427	114	541
Mr. Shen, Rujun	–	534	158	692
Mr. Song, Shuguang	–	712	195	907
Mr. Fan, Jun	–	484	91	575
Mr. Chen, Zhiwu	146	–	–	146
Total	146	2,488	753	3,387

(All amounts expressed in millions of RMB unless otherwise stated)

13 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(Continued)*

(a) Directors', supervisors' and senior management's emoluments before taxation *(Continued)*

(1) The total compensation package for directors and supervisors for the year ended 31 December 2019 has not yet been finalised in accordance with regulations of the PRC relevant authorities. The amount of the compensation not provided for is not expected to have significant impact to the Group's 2019 financial statements. The final compensation will be disclosed in a separate announcement when determined. The total final compensation for the year ended 31 December 2018 was disclosed in Information on the First Interim General Meeting of Stockholders in 2020 issued on 11 March 2020.

(2) Staff supervisors Ms. Chen, Qing, Mr. Du, Yarong, Mr. Wang, Xuewu and Mr. Guan, Xingshe received compensation according to their staff position of the Bank and did not received additional compensation for being staff supervisors.

(3) During 2019 and 2018, there was no arrangement under which a director or a supervisor waived or agreed to waive any remuneration.

(4) Other benefits include social insurance, housing fund, enterprise annuity paid by the Bank.

(b) Five highest paid individuals

The five highest paid individuals in the Group for the related years are as follows:

	Year ended 31 December	
	2019	2018
Salary	**14**	14
Discretionary bonuses	**14**	14
Employer's contribution to pension scheme and other benefits	**2**	2
Total	**30**	30

Emoluments of the above five highest paid individuals in the Group are within the following bands:

	Number of employees As at 31 December	
	2019	2018
HKD4,000,001 – 4,500,000	**–**	–
HKD4,500,001 – 5,000,000	**3**	2
HKD5,000,001 – 5,500,000	**1**	2
HKD5,500,001 – 6,000,000	**–**	–
HKD6,000,001 – 6,500,000	**–**	–
HKD6,500,001 – 7,000,000	**–**	–
HKD7,000,001 – 7,500,000	**–**	–
HKD7,500,001 – 8,000,000	**–**	–
HKD8,000,001 – 8,500,000	**–**	–
HKD8,500,001 – 9,000,000	**–**	–
HKD9,000,001 – 9,500,000	**–**	–
HKD9,500,001 – 10,000,000	**–**	1
HKD10,000,001 – 10,500,000	**1**	–
	5	5

During 2019 and 2018, no emolument was paid by the Group to any of the directors, supervisors and the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

14 INCOME TAX

	Year ended 31 December 2019	2018
Current income tax		
– Mainland China enterprise income tax	11,789	6,838
– Hong Kong profits tax	1,059	1,058
– Income tax arising in Macao, Taiwan and other countries or regions	680	593
	13,528	8,489
Deferred income tax (Note 25)	(3,390)	3,413
	10,138	11,902

The provision for enterprise income tax in Mainland China is calculated based on the statutory rate of 25% (2018: 25%) of the assessable income of the Bank and each of the subsidiaries established in Mainland China. Taxation arising in other jurisdictions (including Hong Kong) is calculated at the rates prevailing in the relevant jurisdictions, the shortfall arising from the differential in tax rates of overseas branches as compared with the Mainland China tax rate shall be reported and paid by the Mainland China head office.

The taxation on the Group's profit before tax differs from the theoretical amount that would arise using the tax rate of the home country of the Group at 25% (2018: 25%). The major reconciliation items are as follows:

	Year ended 31 December 2019	2018
Profit before tax	88,200	86,067
Tax calculated at a tax rate of 25%	22,050	21,517
Effect of different tax rates in Hong Kong, Macao and Taiwan and other countries (or regions)	(206)	(33)
Tax effect of expense not deductible for tax purposes	3,094	3,589
Tax effect arising from income not subject to tax (1)	(15,231)	(12,395)
Income tax adjustment for prior years	431	(776)
Income tax expense	10,138	11,902

(1) The income not subject to tax is mainly comprised of fund investment income and interest income generated from PRC treasury bonds and municipal government bonds.

15 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit attributable to shareholders of the Bank by the weighted average number of ordinary shares in issue during the period.

	Year ended 31 December 2019	2018
Net profit attributable to shareholders of the Bank	77,281	73,630
Less: Net profit attributable to preference shareholders of the Bank	(2,671)	(2,618)
Net profit attributable to ordinary shareholders of the Bank	74,610	71,012
Weighted average number of ordinary shares in issue (expressed in millions) at the end of the year	74,263	74,263
Basic and diluted earnings per share (expressed in RMB per share)	1.00	0.96

(All amounts expressed in millions of RMB unless otherwise stated)

15 BASIC AND DILUTED EARNINGS PER SHARE *(Continued)*

The Bank issued non-cumulative preference shares on 29 July 2015 and 2 September 2016 under the terms and conditions as detailed in Note 34.1 Preference Shares. For the purpose of calculating basic earnings per share, a cash dividend of RMB2,671 million on non-cumulative preference shares declared for the period was deducted from the amounts attributable to ordinary shareholders of the Bank. The conversion feature of preference shares is considered to fall within contingently issuable ordinary shares. The triggering events of conversion did not occur for the year ended 31 December 2019, therefore the conversion feature of preference shares has no effect on the basic and diluted earnings per share calculation.

The Bank issued non-cumulative perpetual bonds on 18 September 2019 under the terms and conditions as detailed in Note 34.2 Perpetual Bonds. For the purpose of calculating basic earnings per share, distributions on non-cumulative perpetual bonds declared in respect of the period should be deducted from the amounts attributable to shareholders of the Bank. The Bank has not declared any distributions on perpetual bonds for the year ended 31 December 2019.

16 CASH AND BALANCES WITH CENTRAL BANKS

	As at 31 December 2019	As at 31 December 2018
Cash	**14,481**	14,665
Mandatory reserve deposits	**653,190**	703,649
Excess reserve deposits	**76,145**	111,759
Fiscal deposits and others	**16,078**	9,727
Accrued interest	**291**	371
	760,185	840,171

The Group places mandatory reserves with PBOC and several other central banks of overseas countries and regions. Such mandatory reserves are not available for use by the Group in its day-to-day operations.

The Bank's domestic mandatory deposit reserve rates as at the balance sheet date are as follows:

	As at 31 December 2019 %	As at 31 December 2018 %
Domestic mandatory reserve rate for deposits denominated in RMB	**12.50**	14.00
Domestic mandatory reserve rate for deposits denominated in foreign currencies	**5.00**	5.00

Reserve rate for deposits denominated in RMB of the Group's subsidiaries in Mainland China is subject to relevant regulations of PBOC.

Mandatory reserve rate for deposits with central banks of overseas countries and regions is subject to regulations of local regulatory bodies.

Excess reserve deposits with central banks are mainly used for capital settlement, financial institution transfer, etc.

(All amounts expressed in millions of RMB unless otherwise stated)

17 DUE FROM AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 December 2019	As at 31 December 2018
Due from banks and other financial institutions		
– Banks and other financial institutions operating in Mainland China	96,489	104,270
– Banks and other financial institutions operating outside Mainland China	39,783	58,697
Accrued interest	559	933
Less: Allowance for impairment losses	(176)	(254)
Financial assets purchased under resale agreements		
– Securities	15,217	116,871
– Bills	329	2,846
Accrued interest	20	92
Less: Allowance for impairment losses	(11)	(166)
Placements with and loans to banks		
– Banks operating in Mainland China	100,074	194,008
– Banks operating outside Mainland China	55,132	47,437
Placements with and loans to other financial institutions		
– Placements with and loans to other financial institutions in Mainland China	262,885	275,020
– Placements with and loans to other financial institutions outside Mainland China	74,080	42,898
Accrued interest	4,979	6,749
Less: Allowance for impairment losses	(872)	(1,334)
	648,488	848,067

As at 31 December 2019, placements and bonds purchased under resale agreements with certain wealth management products that were sponsored and not consolidated by the Group amounted to RMB4,500 million (31 December 2018: RMB96,473 million). These transactions were carried out at market prices and the Group were not contractually obliged to make such arrangements. The maximum exposure to loss of those transactions approximated the carrying amount of the placements and bonds purchased under resale agreements. The average exposure of the above transactions for the year ended 31 December 2019 was RMB47,930 million and the weighted average outstanding period was 2.42 days (The average exposure during 2018 was RMB54,670 million and the weighted average outstanding period was 6.01 days). As at the approval date of these consolidated financial statements, the placements and bonds purchased under resale agreements had been matured and the amounts had been fully repaid.

(All amounts expressed in millions of RMB unless otherwise stated)

18 FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December 2019	As at 31 December 2018
Government bonds		
– Listed in Hong Kong	2,829	1,746
– Listed outside Hong Kong (a)	3,176	3,036
– Unlisted	1,597	779
Other debt securities		
– Listed in Hong Kong	21,244	13,043
– Listed outside Hong Kong (a)	100,680	109,396
– Unlisted – corporate entities	3,869	3,609
– Unlisted – banks	1,555	1,219
Equity securities and others		
– Listed in Hong Kong	820	1
– Listed outside Hong Kong	1,756	1,099
– Unlisted	47,141	9,232
Fund investments and other asset management products		
– Listed outside Hong Kong	92	–
– Unlisted	170,343	187,601
Precious metal contracts	39,532	37,232
Placements with banks and other financial institutions	11,864	8,393
Total	406,498	376,386

(a) Debt securities traded in the China domestic inter-bank bond market are included in "Listed outside Hong Kong".

Debt securities at fair value through profit or loss are analysed by issuer as follows:

	As at 31 December 2019	As at 31 December 2018
– Banks and other financial institutions	88,783	91,198
– Corporate entities	36,565	33,481
– Governments and central banks	7,602	5,561
– Public sector entities	2,000	2,588
	134,950	132,828

The financial investments at fair value through profit or loss include financial assets held for trading and financial assets that cannot pass the 'SPPI test'.

(All amounts expressed in millions of RMB unless otherwise stated)

19 DERIVATIVE FINANCIAL INSTRUMENTS

The following derivative instruments are utilised by the Group for trading or hedging purposes:

Currency and commodity forwards are contracts between two parties to buy or sell certain currencies or commodities at a specified future date at a predetermined price. The party agreeing to buy the underlying currency or commodities in the future assumes a long position, and the party agreeing to sell the currency or commodities in the future assumes a short position. The price agreed upon is called the delivery price, which is equal to the forward price at the time the contract is entered into.

Currency, commodity and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies, commodities or interest rates (for example, fixed rate for floating rate) or a combination of these (i.e. cross-currency interest rate swaps). The Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

Currency, commodity and interest rate options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) on or before a set date or during a set period, a specific amount of a currency or commodity at a predetermined price or to receive an interest payment based on a variable interest rate and pay at a fixed interest rate or vice versa. The seller receives a premium from the purchaser in consideration for assuming foreign exchange, interest rate risk or commodity price fluctuations. Options may be either exchange-traded or negotiated between the Group and a customer (over the counter market).

The notional amounts of certain types of financial instruments provide a reference of the amounts recognised in the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments may become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates, foreign exchange rates or commodity price relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The fair values of derivative instruments held are set out in the following tables.

	Contractual/Notional Amount	**Fair values**	
		Assets	**Liabilities**
As at 31 December 2019			
Foreign exchange and commodity contracts	**2,173,598**	**15,784**	**(20,423)**
Interest rate contracts and others	**3,826,987**	**5,153**	**(6,001)**
Total amount of derivative instruments recognised	**6,000,585**	**20,937**	**(26,424)**

	Contractual/Notional Amount	Fair values	
		Assets	Liabilities
As at 31 December 2018			
Foreign exchange and commodity contracts	2,541,252	26,441	(25,640)
Interest rate contracts and others	831,692	4,289	(2,465)
Total amount of derivative instruments recognised	3,372,944	30,730	(28,105)

The tables above provide a breakdown of the contractual or notional amounts and the fair values of the Group's derivative financial instruments outstanding at year end. These instruments, comprising foreign exchange, interest rate and commodity derivatives allow the Group and its customers to transfer, modify or reduce their foreign exchange, interest rate and commodity price fluctuation risks.

(All amounts expressed in millions of RMB unless otherwise stated)

19 DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

The Group undertakes its transactions in foreign exchange, interest rates and commodity contracts with other financial institutions and customers. Management has established limits for these contracts based on counterpart types, industry sectors and countries. Related risks are regularly monitored and controlled by management.

Notional amounts of derivative financial instruments by original currency:

	As at 31 December 2019	As at 31 December 2018
RMB	4,442,337	1,785,452
USD	1,209,161	1,384,347
HKD	204,007	129,328
Others	145,080	73,817
Total	6,000,585	3,372,944

Hedge accounting

The above derivative financial instruments include those designated as hedging instruments by the Group as follows:

	Contractual/Notional	Fair values	
	Amount	Assets	Liabilities
As at 31 December 2019			
Derivative financial instruments designated as hedging instruments in fair value hedges	**121,791**	**295**	**(1,794)**
Derivative financial instruments designated as hedging instruments in cash flow hedges	**29,379**	**130**	**(168)**
Total	**151,170**	**425**	**(1,962)**

	Contractual/Notional	Fair values	
	Amount	Assets	Liabilities
As at 31 December 2018			
Derivative financial instruments designated as hedging instruments in fair value hedges	71,133	1,122	(353)
Derivative financial instruments designated as hedging instruments in cash flow hedges	26,935	479	(201)
Total	98,068	1,601	(554)

(All amounts expressed in millions of RMB unless otherwise stated)

19 DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

Hedge accounting *(Continued)*

(a) Fair value hedge

The Group uses interest rate swaps to hedge against changes in fair value arising from changes in interest rates. Some purchased interest rate swap contracts are designated as hedging instruments, whose terms are identical with those of the corresponding hedged items regarding interest rate, maturity and currency. The Group uses regression analysis to evaluate the effectiveness of hedging. With the supporting of testing results, the Group's management considers the hedging relationship to be highly effective. The hedged items include due from and placements with banks and other financial institutions, debt investments at FVOCI, due to and placements from banks and other financial institutions, loans and advances to customers and certificates of deposits issued.

The following table shows the profit or loss effects of the fair value hedges:

	Year ended 31 December	
The Group	2019	2018
Net gains/(losses) from fair value hedges:		
Hedging instruments	(2,504)	(28)
Hedged items attributable to the hedged risk	2,250	(81)
Total	(254)	(109)

(b) Cash flow hedge

The Group uses foreign exchange contracts to hedge against exposures to cash flow variability primarily resulting from foreign exchange risks, and uses interest rate swaps to hedge against exposures to cash flow variability primarily resulting from interest rate risks. The hedged items include debt investments at FVOCI, due from and placements with banks and other financial institutions, loans and advances to customers, due to and placements from banks and other financial institutions and certificates of deposits issued. The Group mainly uses regression analysis to evaluate the effectiveness of hedging. With the supporting of testing results, the Group's management considers the hedging relationship to be highly effective.

The Group's loss from the hedging instruments of RMB210 million (31 December 2018: profit of RMB147 million) was recognised in other comprehensive income and the gains or losses arising from the ineffective portion of cash flow hedge was immaterial for the year ended 31 December 2019. There were no transactions for which cash flow hedge accounting had to be ceased, as a result of the highly probable cash flows no longer being expected to occur.

(All amounts expressed in millions of RMB unless otherwise stated)

20 LOANS AND ADVANCES TO CUSTOMERS

20.1 Loans and advances to customers

	As at 31 December 2019	As at 31 December 2018
Loans and advances to customers		
– Carried at amortised cost	5,068,861	4,669,550
– Carried at FVOCI	235,414	184,184
– Carried at FVPL	–	494
Less: Allowance for impairment losses	(132,719)	(123,861)
Accrued interest	14,648	14,195
Less: Allowance for impairment losses of accrued interest	(2,551)	(2,190)
	5,183,653	4,742,372

20.2 Movements of gross carrying amount and ECL allowance

Movements of gross carrying amount – Corporate loan at amortised cost:

	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2019	2,848,956	127,820	57,147	3,033,923
Addition, net	365,201	(58,429)	(4,964)	301,808
Written-offs and disposals	–	(217)	(27,330)	(27,547)
Transfers:	(105,437)	70,823	34,614	–
Transfer between Stage 1 and Stage 2, net	*(95,474)*	*95,474*	*–*	*–*
Transfer between Stage 1 and Stage 3, net	*(9,963)*	*–*	*9,963*	*–*
Transfer between Stage 2 and Stage 3, net	*–*	*(24,651)*	*24,651*	*–*
Modification of contractual cash flows of financial assets	–	(413)	(82)	(495)
Exchange differences	6,259	117	31	6,407
As at 31 December 2019	3,114,979	139,701	59,416	3,314,096

	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2018	2,791,561	150,487	62,557	3,004,605
Addition, net	154,030	(87,260)	(5,255)	61,515
Written-offs and disposals	–	(527)	(38,461)	(38,988)
Transfers:	(103,366)	64,901	38,465	–
Transfer between Stage 1 and Stage 2, net	*(88,892)*	*88,892*	*–*	*–*
Transfer between Stage 1 and Stage 3, net	*(14,474)*	*–*	*14,474*	*–*
Transfer between Stage 2 and Stage 3, net	*–*	*(23,991)*	*23,991*	*–*
Modification of contractual cash flows of financial assets	18	148	(212)	(46)
Exchange differences	6,713	71	53	6,837
As at 31 December 2018	2,848,956	127,820	57,147	3,033,923

(All amounts expressed in millions of RMB unless otherwise stated)

20 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

20.2 Movements of gross carrying amount and ECL allowance *(Continued)*

Movements of ECL allowance – Corporate loan at amortised cost:

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
As at 1 January 2019	**23,323**	**42,503**	**36,577**	**102,403**
Addition/(Reversal)	**3,443**	**(3,596)**	**(4,142)**	**(4,295)**
Transfer in/(out)	**(51)**	**189**	**–**	**138**
Written-offs and disposals	**–**	**(217)**	**(27,330)**	**(27,547)**
Transfers:	**844**	**(13,068)**	**12,224**	**–**
Transfer between Stage 1 and Stage 2, net	***1,148***	***(1,148)***	**–**	**–**
Transfer between Stage 1 and Stage 3, net	***(304)***	**–**	***304***	**–**
Transfer between Stage 2 and Stage 3, net	**–**	***(11,920)***	***11,920***	**–**
Remeasurement	**(4,459)**	**14,145**	**24,560**	**34,246**
Recoveries of loans written-off in previous years	**–**	**–**	**1,464**	**1,464**
Unwind of discount	**–**	**–**	**(1,292)**	**(1,292)**
Exchange differences	**25**	**4**	**24**	**53**
As at 31 December 2019	**23,125**	**39,960**	**42,085**	**105,170**

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
As at 1 January 2018 (Restated)	25,027	50,159	36,406	111,592
Addition/(Reversal)	(2,123)	1,320	30,879	30,076
Written-offs and disposals	–	(527)	(38,461)	(38,988)
Transfers:	381	(8,488)	8,107	–
Transfer between Stage 1 and Stage 2, net	*741*	*(741)*	–	–
Transfer between Stage 1 and Stage 3, net	*(360)*	–	*360*	–
Transfer between Stage 2 and Stage 3, net	–	*(7,747)*	*7,747*	–
Recoveries of loans written-off in previous years	–	–	1,062	1,062
Unwind of discount	–	–	(1,447)	(1,447)
Exchange differences	38	39	31	108
As at 31 December 2018	23,323	42,503	36,577	102,403

(All amounts expressed in millions of RMB unless otherwise stated)

20 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

20.2 Movements of gross carrying amount and ECL allowance *(Continued)*

Movements of gross carrying amount – Individual loan at amortised cost:

	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2019	**1,612,415**	**7,872**	**15,340**	**1,635,627**
Addition, net	**138,887**	**(1,906)**	**(4,226)**	**132,755**
Written-offs and disposals	**–**	**–**	**(14,436)**	**(14,436)**
Transfers:	**(25,008)**	**3,116**	**21,892**	**–**
Transfer between Stage 1 and Stage 2, net	***(7,504)***	***7,504***	***–***	***–***
Transfer between Stage 1 and Stage 3, net	***(17,504)***	***–***	***17,504***	***–***
Transfer between Stage 2 and Stage 3, net	***–***	***(4,388)***	***4,388***	***–***
Exchange differences	**812**	**3**	**4**	**819**
As at 31 December 2019	**1,727,106**	**9,085**	**18,574**	**1,754,765**

	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2018	1,388,170	5,721	15,991	1,409,882
Addition, net	240,290	(1,515)	(2,902)	235,873
Written-offs and disposals	–	–	(11,180)	(11,180)
Transfers:	(17,027)	3,635	13,392	–
Transfer between Stage 1 and Stage 2, net	*(5,541)*	*5,541*	*–*	*–*
Transfer between Stage 1 and Stage 3, net	*(11,486)*	*–*	*11,486*	*–*
Transfer between Stage 2 and Stage 3, net	*–*	*(1,906)*	*1,906*	*–*
Exchange differences	982	31	39	1,052
As at 31 December 2018	1,612,415	7,872	15,340	1,635,627

(All amounts expressed in millions of RMB unless otherwise stated)

20 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

20.2 Movements of gross carrying amount and ECL allowance *(Continued)*

Movements of ECL allowance – Individual Loan at amortised cost:

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
As at 1 January 2019	7,710	2,302	11,446	21,458
Addition/(Reversal)	909	(225)	(1,219)	(535)
Written-offs and disposals	–	–	(14,436)	(14,436)
Transfers:	380	(686)	306	–
Transfer between Stage 1 and Stage 2, net	*295*	*(295)*	–	–
Transfer between Stage 1 and Stage 3, net	*85*	–	*(85)*	–
Transfer between Stage 2 and Stage 3, net	–	*(391)*	*391*	–
Remeasurement	(605)	1,800	18,816	20,011
Recoveries of loans written-off in previous years	–	–	1,224	1,224
Unwind of discount	–	–	(175)	(175)
Exchange differences	–	2	–	2
As at 31 December 2019	8,394	3,193	15,962	27,549

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
As at 1 January 2018	6,506	1,395	11,626	19,527
Addition	730	1,450	10,557	12,737
Written-offs and disposals	–	–	(11,180)	(11,180)
Transfers:	460	(545)	85	–
Transfer between Stage 1 and Stage 2, net	*272*	*(272)*	–	–
Transfer between Stage 1 and Stage 3, net	*188*	–	*(188)*	–
Transfer between Stage 2 and Stage 3, net	–	*(273)*	*273*	–
Recoveries of loans written-off in previous years	–	–	517	517
Unwind of discount	–	–	(171)	(171)
Exchange differences	14	2	12	28
As at 31 December 2018	7,710	2,302	11,446	21,458

(All amounts expressed in millions of RMB unless otherwise stated)

20 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

20.2 Movements of gross carrying amount and ECL allowance *(Continued)*

Movements of gross carrying amount – Loans and advances to customers at fair value through other comprehensive income

	Stage 1	**Stage 2**	**Stage 3**	**Total**
As at 1 January 2019	**178,874**	**6,731**	**258**	**185,863**
Addition, net	**49,941**	**(193)**	**(310)**	**49,438**
Transfers:	**(102)**	**–**	**102**	**–**
Transfer between Stage 1 and Stage 2, net	***–***	***–***	***–***	***–***
Transfer between Stage 1 and Stage 3, net	***(102)***	***–***	***102***	***–***
Changes in the fair value	**244**	**(134)**	**3**	**113**
As at 31 December 2019	**228,957**	**6,404**	**53**	**235,414**

	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2018	156,612	7,184	209	164,005
Addition, net	28,129	(7,712)	(44)	20,373
Transfers:	(7,029)	6,980	49	–
Transfer between Stage 1 and Stage 2, net	*(6,980)*	*6,980*	*–*	*–*
Transfer between Stage 1 and Stage 3, net	*(49)*	*–*	*49*	*–*
Changes in the fair value	1,162	279	44	1,485
As at 31 December 2018	178,874	6,731	258	185,863

(All amounts expressed in millions of RMB unless otherwise stated)

20 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

20.2 Movements of gross carrying amount and ECL allowance *(Continued)*

Movements of ECL allowance – Loans and advances to customers at fair value through other comprehensive income:

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
As at 1 January 2019	1,163	283	233	1,679
Addition/(Reversal)	(321)	(78)	53	(346)
Transfers:	(3)	–	3	–
Transfer between Stage 1 and Stage 2, net	–	–	–	–
Transfer between Stage 1 and Stage 3, net	(3)	–	3	–
As at 31 December 2019	839	205	289	1,333

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
As at 1 January 2018 (Restated)	1,587	278	131	1,996
Addition/(Reversal)	(138)	(279)	100	(317)
Transfers:	(286)	284	2	–
Transfer between Stage 1 and Stage 2, net	(284)	284	–	–
Transfer between Stage 1 and Stage 3, net	(2)	–	2	–
As at 31 December 2018	1,163	283	233	1,679

20.3 Loans and advances to customers analysed by security type

	As at 31 December 2019	As at 31 December 2018
Unsecured loans	1,844,304	1,554,652
Guaranteed loans	943,076	895,738
Collateralised and other secured loans	2,516,895	2,403,838
Including: Loans secured by collateral	*1,926,508*	*1,732,818*
Pledged loans	*590,387*	*671,020*
Total	5,304,275	4,854,228

(All amounts expressed in millions of RMB unless otherwise stated)

20 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

20.4 Overdue loans analysed by security type

	As at 31 December 2019				
	Overdue within three months	Overdue between three months and one year	Overdue between one year and three years	Overdue over three years	Total
Unsecured loans	10,622	12,014	1,009	299	23,944
Guaranteed loans	4,983	7,781	11,294	3,893	27,951
Collateralised and other secured loans	13,318	8,823	11,358	5,126	38,625
Including: Loans secured by collateral	*11,805*	*7,934*	*9,505*	*4,695*	*33,939*
Pledged loans	*1,513*	*889*	*1,853*	*431*	*4,686*
Total	28,923	28,618	23,661	9,318	90,520

	As at 31 December 2018				
	Overdue within three months	Overdue between three months and one year	Overdue between one year and three years	Overdue over three years	Total
Unsecured loans	11,133	10,402	400	460	22,395
Guaranteed loans	6,344	10,847	9,561	4,099	30,851
Collateralised and other secured loans	8,366	10,830	11,930	4,792	35,918
Including: Loans secured by collateral	*7,553*	*9,429*	*10,329*	*4,306*	*31,617*
Pledged loans	*813*	*1,401*	*1,601*	*486*	*4,301*
Total	25,843	32,079	21,891	9,351	89,164

(All amounts expressed in millions of RMB unless otherwise stated)

21 FINANCIAL INVESTMENTS

	As at 31 December 2019	As at 31 December 2018
Financial investments at amortised cost		
– Listed in Hong Kong	**7,427**	6,007
– Listed outside Hong Kong	**1,747,791**	1,759,249
– Unlisted	**149,170**	209,518
Accrued interest	**28,564**	29,100
Less: Allowance for impairment losses	**(3,263)**	(3,369)
Total	**1,929,689**	2,000,505
Financial investments at FVOCI		
Debt investments at FVOCI		
– Listed in Hong Kong	**155,781**	106,465
– Listed outside Hong Kong	**382,695**	236,079
– Unlisted	**115,776**	91,209
Accrued interest	**6,459**	3,877
Subtotal	**660,711**	437,630
Equity investments at FVOCI		
– Listed in Hong Kong	**677**	991
– Listed outside Hong Kong	**1,639**	1,423
– Unlisted	**6,629**	4,974
Subtotal	**8,945**	7,388
Total	**669,656**	445,018

The Group designates part of non-trading equity investments as financial investments measured at FVOCI.

(All amounts expressed in millions of RMB unless otherwise stated)

21 FINANCIAL INVESTMENTS *(Continued)*

The movements in the gross carrying amount of financial investments are summarised as follows:

	Debt investments at FVOCI			Financial investments at amortised cost			
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2019	437,630	–	–	2,002,789	–	1,085	2,441,504
New financial assets originated or purchased	415,485	–	–	289,477	–	–	704,962
Financial assets derecognised during the year	(205,700)	–	–	(360,855)	–	(21)	(566,576)
Transfers:	–	–	–	(1,816)	1,497	319	–
Transfer between Stage 1 and Stage 2, net	–	–	–	*(1,497)*	*1,497*	–	–
Transfer between Stage 1 and Stage 3, net	–	–	–	*(319)*	–	*319*	–
Transfer between Stage 2 and Stage 3, net	–	–	–	–	–	–	–
Changes in accrual interest	2,582	–	–	(536)	–	–	2,046
Exchange differences and other movements	5,822	–	–	1,013	–	–	6,835
Changes in fair value	4,892	–	–	–	–	–	4,892
As at 31 December 2019	660,711	–	–	1,930,072	1,497	1,383	2,593,663

	Debt investments at FVOCI			Financial investments at amortised cost			
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2018	369,318	–	–	1,886,559	54	576	2,256,507
New financial assets originated or purchased	283,626	–	–	406,039	–	–	689,665
Financial assets derecognised during the year	(224,823)	–	–	(319,166)	(54)	(16)	(544,059)
Transfers:	–	–	–	(525)	–	525	–
Transfer between Stage 1 and Stage 2, net	–	–	–	–	–	–	–
Transfer between Stage 1 and Stage 3, net	–	–	–	*(525)*	–	*525*	–
Transfer between Stage 2 and Stage 3, net	–	–	–	–	–	–	–
Changes in accrual interest	3,877	–	–	29,100	–	–	32,977
Exchange differences and other movements	3,037	–	–	782	–	–	3,819
Changes in fair value	2,595	–	–	–	–	–	2,595
As at 31 December 2018	437,630	–	–	2,002,789	–	1,085	2,441,504

(All amounts expressed in millions of RMB unless otherwise stated)

21 FINANCIAL INVESTMENTS *(Continued)*

The movements in allowance for impairment losses of financial investments are summarised as follows:

	Debt investments at FVOCI			Financial investments at amortised cost			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2019	718	–	467	2,884	–	485	4,554
Addition/(Reversal)	114	–	(81)	(148)	–	(13)	(128)
Written-offs	–	–	–	–	–	–	–
Recovery after written-offs	–	–	–	–	–	13	13
Transfers:	–	–	–	(56)	52	4	–
Transfer between Stage 1 and Stage 2, net	–	–	–	*(52)*	*52*	–	–
Transfer between Stage 1 and Stage 3, net	–	–	–	*(4)*	–	*4*	–
Transfer between Stage 2 and Stage 3, net	–	–	–	–	–	–	–
Remeasurement	(193)	–	–	(226)	126	141	(152)
Exchange differences	21	–	7	1	–	–	29
As at 31 December 2019	660	–	393	2,455	178	630	4,316

	Debt investments at FVOCI			Financial investments at amortised cost			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2018	438	–	454	3,246	10	475	4,623
Addition/(Reversal)	273	–	(8)	(336)	(10)	(16)	(97)
Written-offs	–	–	–	–	–	–	–
Recovery after written-offs	–	–	–	–	–	–	–
Transfers:	–	–	–	(26)	–	26	–
Transfer between Stage 1 and Stage 2, net	–	–	–	–	–	–	–
Transfer between Stage 1 and Stage 3, net	–	–	–	*(26)*	–	*26*	–
Transfer between Stage 2 and Stage 3, net	–	–	–	–	–	–	–
Exchange differences	7	–	21	–	–	–	28
As at 31 December 2018	718	–	467	2,884	–	485	4,554

(All amounts expressed in millions of RMB unless otherwise stated)

21 FINANCIAL INVESTMENTS *(Continued)*

Debt securities analysed by issuer are as follows:

	As at 31 December 2019	As at 31 December 2018
Debt investments at FVOCI		
– Governments and central banks	258,959	66,621
– Public sector entities	2,108	3,699
– Banks and other financial institutions	329,703	312,339
– Corporate entities	69,941	54,971
Total	660,711	437,630
Bond investments at amortised cost		
– Governments and central banks	1,521,473	1,439,657
– Public sector entities	25,689	28,364
– Banks and other financial institutions	215,817	292,631
– Corporate entities	27,038	38,411
Total	1,790,017	1,799,063

The certificates of deposits held included in financial investments are analysed as follows:

	As at 31 December 2019	As at 31 December 2018
Financial investments at FVOCI		
– Listed in Hong Kong	1,411	1,047
– Listed outside Hong Kong	3,606	44,682
– Unlisted	38,088	44,354
Total	43,105	90,083

The maturity profile of certificates of deposits in the inter-bank market held by the remaining period as at period end to the contractual maturity dates are summarised as follows:

	As at 31 December 2019	As at 31 December 2018
Within 3 months	3,129	14,407
3 months to 12 months	15,341	58,075
1 year to 5 years	22,368	17,072
Over 5 years	2,267	529
Total	43,105	90,083

(All amounts expressed in millions of RMB unless otherwise stated)

22 PRINCIPAL SUBSIDIARIES

22.1 Details of the principal subsidiaries

Name of subsidiaries	Place of incorporation and operation	Date of incorporation	Issued and fully paid up share capital	Proportion of ownership interest and voting power held by the Group (%)	Principal activities
Bank of Communications Financial Leasing Co., Ltd.	Mainland China	20 Dec. 2007	RMB8,500,000,000	100.00	Financial leasing
Bank of Communications International Trust Co., Ltd.	Mainland China	18 Oct. 2007	RMB5,764,705,882	85.00	Trust investment
Bank of Communications Schroder Fund Management Co., Ltd.	Mainland China	4 Aug. 2005	RMB200,000,000	65.00	Fund management
BoCommlife Insurance Company Limited	Mainland China	27 Jan. 2010	RMB5,100,000,000	62.50	Life Insurance
BoCom International Holdings Company Limited (formerly known as BoCom Securities Company Limited)	Hong Kong China	2 May. 2007	HKD2,734,392,000	73.14	Securities dealing and brokerage
China BoCom Insurance Co., Ltd. (formerly known as China Communications Insurance Company Limited)	Hong Kong China	1 Nov. 2000	HKD400,000,000	100.00	General insurance and reinsurance
Dayi BoCom Xingmin Rural Bank Ltd.	Mainland China	15 Aug. 2008	RMB60,000,000	61.00	Commercial banking
Zhejiang Anji BoCom Rural Bank Ltd.	Mainland China	18 Mar. 2010	RMB180,000,000	51.00	Commercial banking
Xinjiang Shihezi BoCom Rural Bank Company Ltd.	Mainland China	13 Apr. 2011	RMB150,000,000	51.00	Commercial banking
Qingdao Laoshan BoCom Rural Bank Company Ltd.	Mainland China	16 Aug. 2012	RMB150,000,000	51.00	Commercial banking
Bank of Communications (Luxemburg) Limited	Luxembourg	7 May. 2015	EUR100,000,000	100.00	Commercial banking
Bank of Communications Financial Assets Investment Co., Ltd.	Mainland China	29 Dec. 2017	RMB10,000,000,000	100.00	Debt-to-equity swaps
Bank of Communications (Hong Kong) Limited	Hong Kong China	29 Jan.2018	HKD17,900,000,000	100.00	Commercial banking
BOCOM Wealth Management Co., Ltd.	Mainland China	6 June. 2019	RMB8,000,000,000	100.00	Financial products issuing and financial consulting
BoCom Brazil Holding Company Ltd.	Brazil	11 Mar. 2016	BRL533,377,877	100.00	Investment
BANCO Bocom BBM S.A.	Brazil	29 Jun. 1967	BRL313,686,111	80.00	Commercial banking

As at 31 December 2019, the amount of non-controlling interests of these subsidiaries is insignificant to the Group.

22.2 Changes of principal subsidiaries

(1) On 6 June 2019, the Bank set up a wholly-owned subsidiary, BOCOM Wealth Management Co., Ltd., which was approved by CBIRC on 28 May 2019 with the registered capital of RMB8 billion. As at 31 December 2019, the Bank held 100% of the total capital of BOCOM Wealth Management Co., Ltd.

(2) On 4 December 2019, the Bank increased the capital of Bocom Brazil Holding Company Ltda by BRL32,122,063.84. As at 31 December 2019, the Bank and its subsidiary held 100% of Bocom Brazil Holding Company Ltda.

(3) The liquidation of Bank of Communications (UK) Limited was completed in 2019 and deregistration was completed on 23 January 2020. As at 31 December 2019, Bank of Communications (UK) Limited was no longer included in the Group’s consolidated financial statements.

(All amounts expressed in millions of RMB unless otherwise stated)

22 PRINCIPAL SUBSIDIARIES *(Continued)*

22.3 Auditors of subsidiaries

For the year ended 31 December 2019, PricewaterhouseCoopers was the auditor of all principal subsidiaries incorporated in Hong Kong (for the year ended 31 December 2018: PricewaterhouseCoopers).

For the year ended 31 December 2019, PricewaterhouseCoopers ZhongTian Certified Public Accountants LLP was the auditor of all principal subsidiaries incorporated in PRC (for the year ended 31 December 2018: PricewaterhouseCoopers ZhongTian Certified Public Accountants LLP).

For the year ended 31 December 2019, Bank of Communications (Luxemburg) Limited was audited by PricewaterhouseCoopers, Société coopérative (for the year ended 31 December 2018: PricewaterhouseCoopers, Société coopérative).

For the year ended 31 December 2019, BoCom Brazil Holding Company Ltda and BANCO Bocom BBM S.A. were audited by PricewaterhouseCoopers LLP(for the year ended 31 December 2018: PricewaterhouseCoopers LLP).

23 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	As at 31 December 2019	As at 31 December 2018
Investments in associates		
Investment cost	3,506	2,977
Share of net profit of associates for the year	1,080	666
Share of other equity changes of associates for the year	71	44
Dividend income	(93)	(42)
Subtotal	4,564	3,645
Investments in joint ventures	36	8
Total	4,600	3,653

The Group's investments in associates mainly include the investments in Jiangsu Changshu Rural Commercial Bank Co., Ltd. and Bank of Tibet Co., Ltd.

Jiangsu Changshu Rural Commercial Bank Co., Ltd. was incorporated in Changshu City, Jiangsu Province on 3 December 2001. The registered capital of the entity is RMB2,741 million, and the principal activities of the entity are banking activities. The Group held 9.01% of equity interest in this associate as at 31 December 2019 (31 December 2018: 8.84%).

There are 15 directors at the Board of Directors of Jiangsu Changshu Rural Commercial Bank Co., Ltd., of which 3 directors were nominated by the Group. Accordingly, the Group is able to exert significant influence on such company, so such company is accounted for as an associate.

Bank of Tibet Co., Ltd. was incorporated in Tibet Autonomous Region, PRC on 30 December 2011. The registered capital of the entity is RMB3,320 million, and the principal activities of the entity are banking activities. The Group held 10.60% of equity interest in this associate as at 31 December 2019 (31 December 2018: 10.60%).

There are 12 directors at the Board of Directors of Bank of Tibet Co., Ltd., of which 3 directors were nominated by the Group. Accordingly, the Group is able to exert significant influence on such company, so such company is accounted for as an associate.

(All amounts expressed in millions of RMB unless otherwise stated)

24 PROPERTY AND EQUIPMENT

	Land and buildings	Construction in progress	Equipment	Transportation equipment	Property improvement	Total
Cost						
As at 1 January 2019	61,594	2,407	25,523	108,553	9,133	207,210
Additions	173	965	2,077	28,201	103	31,519
Disposals	(468)	–	(2,250)	(2,314)	(124)	(5,156)
Construction in progress transfer in/(out)	326	(731)	–	–	405	–
Other transfers in/(out)	139	(16)	–	–	(139)	(16)
As at 31 December 2019	61,764	2,625	25,350	134,440	9,378	233,557
Accumulated depreciation						
As at 1 January 2019	(16,860)	–	(20,288)	(11,540)	(5,103)	(53,791)
Charge for the year	(1,975)	–	(2,065)	(5,908)	(822)	(10,770)
Disposals	157	–	2,110	171	101	2,539
As at 31 December 2019	(18,678)	–	(20,243)	(17,277)	(5,824)	(62,022)
Allowance for impairment losses						
As at 1 January 2019	–	(16)	–	(117)	–	(133)
Provision for impairment	–	–	–	(233)	–	(233)
Decrease	–	–	–	10	–	10
As at 31 December 2019	–	(16)	–	(340)	–	(356)
Net book value						
As at 31 December 2019	43,086	2,609	5,107	116,823	3,554	171,179

As at 31 December 2019, the net book value of aircrafts and vessels leased out by the Group under operating lease arrangements was RMB116,540 million (31 December 2018: RMB96,623 million). Among them, the net book value of the aircrafts and vessels used as collateral for borrowings was RMB59,957 million (31 December 2018: RMB59,279 million).

As at 31 December 2019, the property and equipment with re-registration procedure not completed amounted to RMB198 million (31 December 2018: RMB203 million). However, this registration process does not affect the rights of the Bank to these assets.

(All amounts expressed in millions of RMB unless otherwise stated)

24 PROPERTY AND EQUIPMENT *(Continued)*

	Land and buildings	Construction in progress	Equipment	Transportation equipment	Property improvement	Total
Cost						
As at 1 January 2018	58,158	4,286	25,184	82,885	7,961	178,474
Additions	1,367	1,249	2,149	25,745	139	30,649
Transfer in from investment properties	458	–	–	–	–	458
Disposals	(294)	–	(1,810)	(77)	(138)	(2,319)
Construction in progress transfer in/(out)	2,433	(3,076)	–	–	643	–
Other transfers in/(out)	(528)	(52)	–	–	528	(52)
As at 31 December 2018	61,594	2,407	25,523	108,553	9,133	207,210
Accumulated depreciation						
As at 1 January 2018	(15,006)	–	(19,607)	(7,018)	(4,251)	(45,882)
Charge for the year	(1,890)	–	(2,249)	(4,591)	(866)	(9,596)
Transfer in from investment properties	–	–	–	–	–	–
Transfers in	7	–	–	–	(7)	–
Disposals	29	–	1,568	69	21	1,687
As at 31 December 2018	(16,860)	–	(20,288)	(11,540)	(5,103)	(53,791)
Allowance for impairment losses						
As at 1 January 2018	–	(16)	–	(84)	–	(100)
Provision for impairment	–	–	–	(33)	–	(33)
Decrease	–	–	–	–	–	–
As at 31 December 2018	–	(16)	–	(117)	–	(133)
Net book value						
As at 31 December 2018	44,734	2,391	5,235	96,896	4,030	153,286

(All amounts expressed in millions of RMB unless otherwise stated)

25 DEFERRED INCOME TAX

Deferred income taxes for transactions in PRC are calculated on all temporary differences using an effective tax rate of 25% for the year ended 31 December 2019 (for the year ended 31 December 2018: 25%). Deferred income taxes for transactions in Hong Kong are calculated on all temporary differences using an effective tax rate of 16.5% (for the year ended 31 December 2018: 16.5%).

The movements in the deferred income tax account are as follows:

	Allowance for impairment losses	Provisions	Retirement supplementary pension payable	Changes in fair value of financial assets at FVOCI	Changes in fair value of derivative instruments	Changes in fair value of investment properties	Changes in fair value of financial investments and financial liabilities at FVPL	Others	Total
Balance at 1 January 2019	18,947	1,516	102	484	(412)	(584)	(538)	1,862	21,377
Recognised in profit or loss	2,742	324	(3)	–	1,778	(96)	(1,036)	(319)	3,390
Recognised in other comprehensive income	(611)	–	–	(1,014)	5	–	–	–	(1,620)
Balance at 31 December 2019	21,078	1,840	99	(530)	1,371	(680)	(1,574)	1,543	23,147

	Allowance for impairment losses	Provisions	Retirement supplementary pension payable	Changes in fair value of financial assets at FVOCI	Changes in fair value of derivative instruments	Changes in fair value of investment properties	Changes in fair value of financial investments and financial liabilities at FVPL	Others	Total
Balance at 31 December 2017	12,844	110	99	–	(163)	(522)	916	1,988	15,272
Impact of adoption of IFRS 9 on opening balance	9,004	–	–	1,095	–	–	36	–	10,135
Balance at 1 January 2018	21,848	110	99	1,095	(163)	(522)	952	1,988	25,407
Recognised in profit or loss	(2,901)	1,406	3	–	(243)	(62)	(1,490)	(126)	(3,413)
Recognised in other comprehensive income	–	–	–	(611)	(6)	–	–	–	(617)
Balance at 31 December 2018	18,947	1,516	102	484	(412)	(584)	(538)	1,862	21,377

(All amounts expressed in millions of RMB unless otherwise stated)

25 DEFERRED INCOME TAX *(Continued)*

Deferred income tax assets and liabilities are attributable to the following items:

	As at 31 December 2019		As at 31 December 2018	
	Deductible/ (Taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (Taxable) temporary differences	Deferred income tax assets/(liabilities)
Deferred income tax liabilities				
Changes in fair value of financial assets at FVOCI	(4,632)	(1,158)	(351)	(88)
Changes in fair value of financial assets and liabilities at FVPL	(8,272)	(2,068)	(4,021)	(1,005)
Changes in fair value of derivative instruments	(20,937)	(5,235)	(30,566)	(7,642)
Changes in fair value of investment properties	(2,720)	(680)	(2,334)	(584)
Others	(2,408)	(602)	(336)	(84)
	(38,969)	(9,743)	(37,608)	(9,403)
Deferred income tax assets				
Allowance for impairment of assets	84,312	21,078	75,789	18,947
Retirement supplementary pension payable	399	99	408	102
Provisions	7,361	1,840	6,063	1,516
Changes in fair value of financial assets and liabilities at FVPL	1,976	494	1,866	467
Changes in fair value of financial assets at FVOCI	2,512	628	2,288	572
Changes in fair value of derivative instruments	26,424	6,606	28,921	7,230
Others	8,580	2,145	7,782	1,946
	131,564	32,890	123,117	30,780
Net deferred income tax assets	92,595	23,147	85,509	21,377

The above net deferred income tax assets are disclosed separately on the statements of financial position based on different taxation authorities and entities:

	As at 31 December 2019	As at 31 December 2018
Deferred income tax assets	24,065	21,975
Deferred income tax liabilities	(918)	(598)

(All amounts expressed in millions of RMB unless otherwise stated)

26 OTHER ASSETS

	As at 31 December 2019	As at 31 December 2018
Interest receivable[(1)]	3,827	3,849
Settlement accounts	7,567	7,562
Other receivables and prepayments	41,344	30,050
Less: Allowance for impairment losses (c)	(2,717)	(2,152)
Investment properties (b)	7,894	7,899
Right-of-use assets(e)	6,521	Not applicable
Land use rights and others	1,936	1,869
Intangible assets (a)	1,368	1,309
Long-term deferred expenses	714	692
Precious metal	758	925
Foreclosed assets	759	824
Goodwill (d)	430	437
Refundable deposits	493	425
Unsettled assets	33	33
Others	15,723	15,286
	86,650	69,008

Note 1: The interest receivable account only reflects the interest for relevant financial instruments which is due but not received on balance sheet date.

(a) Intangible assets

	Software
Cost	
As at 1 January 2019	3,028
Additions	365
Transfers in	–
Disposals	(7)
As at 31 December 2019	3,386
Accumulated amortisation	
As at 1 January 2019	(1,719)
Amortisation expense	(306)
Transfers in	–
Disposals	7
As at 31 December 2019	(2,018)
Net book value	1,368

	Software
Cost	
As at 1 January 2018	2,780
Additions	270
Transfers in	–
Disposals	(22)
As at 31 December 2018	3,028
Accumulated amortisation	
As at 1 January 2018	(1,452)
Amortisation expense	(271)
Transfers in	–
Disposals	4
As at 31 December 2018	(1,719)
Net book value	1,309

(All amounts expressed in millions of RMB unless otherwise stated)

26 OTHER ASSETS *(Continued)*

(b) Investment properties

	As at 1 January 2019	Additions/ (Decreases) of the year	Gains on property revaluation	Exchange differences	As at 31 December 2019
Investment properties	**7,899**	**–**	**31**	**(36)**	**7,894**

	As at 1 January 2018	Additions/ (Decreases) of the year	Gains on property revaluation	Exchange differences	As at 31 December 2018
Investment properties	8,217	(458)	117	23	7,899

The Group's investment properties are located in active real estate markets. The external appraisers make reasonable estimation of fair value using market prices of the similar properties.

As at 31 December 2019, fair value hierarchies of the investment properties of the Group are as follows:

	Level 1	Level 2	Level 3	As at 31 December 2019
Commercial property units located in Hong Kong	–	–	1,171	1,171
Commercial property units located outside Hong Kong	–	–	6,723	6,723

The valuation of investment properties was performed by independent qualified professional valuers not connected to the Group. Valuation methodologies include "Rental Income Approach" and "Direct Comparison Approach". The inputs to these models mainly include growth rate of rental, capitalisation rate and unit price.

(c) Allowance for impairment losses

	As at 1 January 2019	Amounts accrued	Reversal	Written-offs	Transfers (in)/out	Recoveries after written-offs	Exchange differences	As at 31 December 2019
Other receivables and prepayments	**(2,152)**	**(2,134)**	**524**	**1,140**	**(13)**	**(80)**	**(2)**	**(2,717)**
Total	**(2,152)**	**(2,134)**	**524**	**1,140**	**(13)**	**(80)**	**(2)**	**(2,717)**

	As at 1 January 2018	Amounts accrued	Reversal	Written-offs	Transfers (in)/out	Recoveries after written-offs	Exchange differences	As at 31 December 2018
Other receivables and prepayments	(1,940)	(1,574)	499	864	41	(41)	(1)	(2,152)
Total	(1,940)	(1,574)	499	864	41	(41)	(1)	(2,152)

(All amounts expressed in millions of RMB unless otherwise stated)

26 OTHER ASSETS *(Continued)*

(d) Goodwill

	As at 1 January 2019	Addition during the year	Decrease during the year	Exchange differences	As at 31 December 2019
Bank of Communications International Trust Co., Ltd.	200	–	–	–	200
BoCommLife Insurance Company Limited	122	–	–	–	122
BANCO Bocom BBM S.A	115	–	–	(7)	108
Total	437	–	–	(7)	430

	As at 1 January 2018	Addition during the year	Decrease during the year	Exchange differences	As at 31 December 2018
Bank of Communications International Trust Co., Ltd.	200	–	–	–	200
BoCommLife Insurance Company Limited	122	–	–	–	122
BANCO Bocom BBM S.A	131	–	–	(16)	115
Total	453	–	–	(16)	437

At each end of year, the Group performed impairment tests on goodwill. In the test, the Group compares the book value of cash-generating unit (CGU) or CGUs (including goodwill) with the recoverable amount. If the recoverable amount is less than the book value, the related difference is recognised in profit or loss.

The Group calculates the recoverable amount of CGU and CGUs using cash flow models based on the management's approved financial forecasts and fixed growth rates afterwards.

As indicated by the impairment tests, goodwill arising from business combinations is not impaired and therefore, no impairment loss is recognised.

(e) Right-of-use assets

	As at 31 December 2019
Gross:	
Opening balance	14,493
Additions	2,124
Decreases	(3,104)
Balance at the end of the period	13,513
Accumulated depreciation:	
Opening balance	(7,372)
Additions	(2,550)
Decreases	2,930
Balance at the end of the period	(6,992)
Net book value:	
As at 1 January 2019	7,121
As at 31 December 2019	6,521
Lease liabilities	
As at 31 December 2019	6,344

(All amounts expressed in millions of RMB unless otherwise stated)

26 OTHER ASSETS *(Continued)*

(e) Right-of-use assets *(Continued)*

As at 31 December 2019, leases not yet commenced to which the lease is committed were RMB195 million.

The Group's right-of-use assets include the above assets and land use rights.

27 DUE TO AND PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 December 2019	As at 31 December 2018
Borrowing from central banks	456,314	511,284
Accrued interest	6,619	8,854
Due to banks		
– Banks operating in Mainland China	284,254	327,250
– Banks operating outside Mainland China	14,213	16,729
Due to other financial institutions		
– Other financial institutions operating in Mainland China	602,870	724,295
– Other financial institutions operating outside Mainland China	14,645	11,851
Accrued interest	5,672	21,199
Placements from banks		
– Banks operating in Mainland China	154,740	131,865
– Banks operating outside Mainland China	245,877	260,241
Placements from other financial institutions		
– Other financial institutions operating in Mainland China	701	651
– Other financial institutions operating outside Mainland China	10,303	8,083
Accrued interest	1,016	2,478
Financial assets sold under repurchase agreements		
– Securities	34,176	107,367
– Bills	72,553	30,072
Accrued interest	129	74
Total	1,904,082	2,162,293

28 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December 2019	As at 31 December 2018
Certificates of deposit issued	13,392	11,660
Financial liabilities related to precious metal contracts	12,950	11,449
Notes issued	638	–
Total	26,980	23,109

Except for certificates of deposit issued and notes issued which are designated at fair value through profit or loss, the financial liabilities at fair value through profit or loss are financial liabilities held for trading.

Financial liabilities designated at fair value through profit or loss

	As at 31 December 2019	As at 31 December 2018
Difference between carrying amount and maturity amount		
Fair values	14,030	11,660
Amount payable at maturity	13,976	11,663
Total	54	(3)

(All amounts expressed in millions of RMB unless otherwise stated)

28 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS *(Continued)*

Financial liabilities designated at fair value through profit or loss *(Continued)*

For the year ended 31 December 2019 and the year ended 31 December 2018, there were no significant changes in the fair value of the Group's financial liabilities designated at fair value through profit or loss that were attributable to the changes in credit risk.

29 DUE TO CUSTOMERS

	As at 31 December 2019	As at 31 December 2018
Corporate demand deposits	1,835,688	1,748,857
Corporate time deposits	2,196,096	2,195,241
Individual demand deposits	762,669	687,393
Individual time deposits	1,207,253	1,089,095
Other deposits	3,364	3,903
Due to customers	6,005,070	5,724,489
Accrued interest	67,838	68,835
Total	6,072,908	5,793,324
Including:		
Deposits pledged as collateral	246,727	297,707

30 CERTIFICATES OF DEPOSITS ISSUED

Certificates of deposits at year end were issued by the Bank's domestic branches, branches in Macau, Taipei, Hong Kong, New York, Tokyo, Singapore, Seoul, Sydney, London, Luxembourg and Frankfurt, and BANCO Bocom BBM S.A., which were measured at amortised cost.

31 DEBT SECURITIES ISSUED

		As at 31 December 2019	As at 31 December 2018
Carried at amortised cost:			
Subordinated bonds	31.1	25,950	39,450
Tier 2 capital bonds	31.2		
The Bank		73,843	70,017
Subsidiaries		1,994	1,994
Bonds			
The Bank	31.3	194,422	115,431
Subsidiaries	31.3	83,688	70,777
Accrued interest		3,584	3,463
Subtotal		383,481	301,132
Carried at fair value:			
Bonds	31.3		
The Bank		20,437	16,556
Total		403,918	317,688

Note 1: Debt securities issued are designated as fair value through profit or loss upon initiation as the Hong Kong branch of the Bank considers such designation could eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise result from measuring the corresponding financial assets or recognising the gains or losses on them on different basis. Accordingly, the debts are designated as fair value through profit or loss with changes in fair values charged to profit and loss account. For the year ended 31 December 2019 and the year ended 31 December 2018, there were no significant changes that were attributable to the Group's changes in credit risks.

(All amounts expressed in millions of RMB unless otherwise stated)

31 DEBT SECURITIES ISSUED *(Continued)*

31.1 Subordinated bonds

Detailed information of subordinated bonds is disclosed as follows:

	Currency	Issue place	Coupon rate %	Par value (CCY)	Issue date	Maturity	Note	Issue amount	Ending balance	Opening balance
09 BoComm 02	RMB	Mainland China	4.00	13,500	2009/07/01	15 years	(a)	13,500	–	13,500
11 BoComm 01	RMB	Mainland China	5.75	26,000	2011/10/21	15 years	(b)	26,000	25,950	25,950
Total								39,500	25,950	39,450

(a) The Group has redeemed full face value of 09 BoComm 02 by exercising redemption option on 3 July 2019.

(b) The Group has an option to redeem 11 BoComm 01 on 24 October 2021. The bonds bear a fixed coupon rate of 5.75%.

31.2 Tier 2 capital bonds

Detailed information of Tier 2 capital bonds is disclosed as follows:

	Currency	Issue place	Coupon rate %	Par value (CCY)	Issue date	Maturity	Note	Issue amount	Ending balance	Opening balance
The Bank										
14 BoComm 01	RMB	Mainland China	5.80	28,000	2014/08/18	10 years	(a)	28,000	–	27,976
14 BoComm 01-USD	USD	Hong Kong China	4.50	1,200	2014/10/03	10 years	(b)	8,371	–	8,169
14 BoComm 01-Euro	EUR	Hong Kong China	3.625	500	2014/10/03	12 years	(c)	3,908	3,883	3,904
17 BoComm 02	RMB	Mainland China	4.50	30,000	2017/04/11	10 years	(d)	30,000	29,960	29,968
19 BoComm 01	RMB	Mainland China	4.10	30,000	2019/08/14	10 years	(e)	30,000	30,000	–
19 BoComm 02	RMB	Mainland China	4.49	10,000	2019/08/14	15 years	(f)	10,000	10,000	–
Subtotal								110,279	73,843	70,017
Subsidiaries										
18 Leasing 02	RMB	Mainland China	5.15	2,000	2018/09/18	10 years	(g)	2,000	1,994	1,994
Subtotal								2,000	1,994	1,994
Total								112,279	75,837	72,011

(a) The Group has redeemed full par value of 14 BoComm 01 by exercising redemption option on 19 August 2019.

(b) The Group has redeemed full face value of 14 BoComm 01-USD by exercising redemption option on 3 October 2019.

(c) The Group has an option to redeem 14 BoComm 01-Euro as a whole on 3 October 2021. If the issuer does not exercise the redemption right by 3 October 2021, the interest rate will be adjusted based on interest rate of 5-year Euro plus 300 basis points.

(d) The Group has an option to redeem them at the par value partially or as a whole on 13 April 2022, the first day upon the end of the fifth interest-bearing year, provided that CBIRC's permission is acquired in advance and the Group's capital structure fulfills the CBIRC requirements on capital if the redemption is exercised.

(All amounts expressed in millions of RMB unless otherwise stated)

31 DEBT SECURITIES ISSUED *(Continued)*

31.2 Tier 2 capital bonds *(Continued)*

(e) The Group has an option to redeem them at the par value partially or as a whole on 16 August 2024, the first day upon the end of the fifth interest-bearing year, provided that CBIRC's permission is acquired in advance and the Group's capital structure fulfills the CBIRC requirements on capital if the redemption is exercised.

(f) The Group has an option to redeem them at the par value partially or as a whole on 16 August 2029, the first day upon the end of the tenth interest-bearing year, provided that CBIRC's permission is acquired in advance and the Group's capital structure fulfills the CBIRC requirements on capital if the redemption is exercised.

(g) The Group has an option to redeem them at the par value partially or as a whole on 20 September 2023, the first day upon the end of the fifth interest-bearing year, provided that CBIRC's permission is acquired in advance.

These Tier 2 capital bonds have the write-down feature, which allows the Group to write down the entire principal of the bonds when regulatory triggering events as stipulated in the offering documents occur and any accumulated unpaid interest would become not payable. These bonds are regarded as Tier 2 capital without any guarantees provided and the proceeds of the debts cannot be used for compensating daily operating loss of the Group.

31.3 Bonds

Detailed information of bonds held at amortised cost is as follows:

	Currency	Issue place	Coupon rate %	Par value (CCY)	Issue date	Maturity	Issue amount	Ending balance	Opening balance
The Bank									
15 BoComm	RMB	Mainland China	3.45	30,000	2015/12/17	5 years	30,000	30,000	30,000
16 BoComm Green Financial bond 01	RMB	Mainland China	2.94	10,000	2016/11/18	3 years	10,000	–	10,000
16 BoComm Green Financial bond 02	RMB	Mainland China	3.25	20,000	2016/11/18	5 years	20,000	20,000	20,000
17 BoComm Green Financial bond	RMB	Mainland China	4.29	20,000	2017/10/26	3 years	20,000	20,000	20,000
18 Bocom Micro Small Enterprises Bond	RMB	Mainland China	3.79	10,000	2018/11/28	3 years	10,000	10,000	10,000
19 Bocomm 01	RMB	Mainland China	3.35	50,000	2019/11/27	3 years	50,000	50,000	–
19 Bocomm 02	RMB	Mainland China	3.36	40,000	2019/12/13	3 years	40,000	40,000	–
14 Formosa Bond B	RMB	Taiwan China	3.85	500	2014/06/23	5 years	500	–	499
14 Formosa Bond C	RMB	Taiwan China	4.15	500	2014/06/23	7 years	500	498	499
17 medium-term notes 01	USD	Hong Kong China	3MLibor +0.78	700	2017/05/15	3 years	4,883	4,886	4,802
17 medium-term notes 02	USD	Hong Kong China	3MLibor +0.88	300	2017/05/15	5 years	2,093	2,094	2,058
17 medium-term notes 03	USD	Hong Kong China	3MLibor +0.80	400	2017/12/04	3 years	2,790	2,792	2,744
17 medium-term notes 04	USD	Hong Kong China	3MLibor +0.90	600	2017/12/04	5 years	4,186	4,188	4,116
18 medium-term notes 01	USD	Hong Kong China	3MLibor +0.75	600	2018/05/17	3 years	4,186	4,188	4,116
18 medium-term notes 02	USD	Hong Kong China	3MLibor +0.85	700	2018/05/17	5 years	4,883	4,886	4,802
P14JHTP1B	RMB	Taiwan China	3.75	900	2014/12/04	5 years	900	–	898
P14JHTP1C	RMB	Taiwan China	3.90	700	2014/12/04	7 years	700	692	698
P14JHTP1D	RMB	Taiwan China	4.00	200	2014/12/04	10 years	200	198	199
Sub-total							205,821	194,422	115,431
Subsidiaries									
13 Azure Orbit	USD	Hong Kong China	3.75	500	2013/03/06	10 years	3,488	3,484	3,427
14 Azure Orbit	USD	Hong Kong China	3.375	500	2014/04/25	5 years	3,488	–	3,428
5 Year medium-term notes	USD	Hong Kong China	3.125	385	2015/08/18	5 years	2,686	2,497	2,642
3 Year USD bond	USD	Hong Kong China	2.23	400	2016/03/15	3 years	2,790	–	2,745
5 Year USD bond	USD	Hong Kong China	2.748	600	2016/03/15	5 years	4,186	4,179	4,105

(All amounts expressed in millions of RMB unless otherwise stated)

31 DEBT SECURITIES ISSUED *(Continued)*

31.3 Bonds *(Continued)*

	Currency	Issue place	Coupon rate %	Par value (CCY)	Issue date	Maturity	Issue amount	Ending balance	Opening balance
3 Year USD bond	USD	Hong Kong China	3.50	300	2018/01/25	3 years	2,093	2,090	2,035
5 Year USD bond	USD	Hong Kong China	3.75	950	2018/01/25	5 years	6,627	6,592	6,496
10 Year USD bond	USD	Hong Kong China	4.00	250	2018/01/25	10 years	1,744	1,727	1,692
19 Brazil bonds	BRL	Brazil	110%SELIC	200	2019/01/30	5 years	339	66	–
16 Leasing 01	RMB	Mainland China	3.17	4,000	2016/07/21	3 years	4,000	–	3,898
16 Leasing 02	RMB	Mainland China	3.05	1,500	2016/09/07	3 years	1,500	–	1,199
16 Leasing 03	RMB	Mainland China	3.25	500	2016/09/07	5 years	500	449	449
17 Leasing 01	RMB	Mainland China	4.53	2,000	2017/07/18	3 years	2,000	1,949	1,947
17 Leasing 02	RMB	Mainland China	4.60	3,000	2017/08/22	3 years	3,000	2,398	2,395
17 Leasing 03	RMB	Mainland China	4.70	3,000	2017/10/18	3 years	3,000	2,398	2,395
18 Leasing 02	RMB	Mainland China	4.14	4,000	2018/10/22	3 years	4,000	3,993	3,989
Azure Nova	USD	Hong Kong China	2.25	500	2016/10/25	3 years	3,488	–	3,431
Azure Nova	USD	Hong Kong China	2.625	1,000	2016/10/25	5 years	6,976	6,956	6,847
Azure Nova	USD	Hong Kong China	3.00	700	2017/03/21	3 years	4,883	4,882	4,788
Azure Nova	USD	Hong Kong China	3.50	1,050	2017/03/21	5 years	7,325	7,308	7,171
Azure Nova	USD	Hong Kong China	4.25	250	2017/03/21	10 years	1,744	1,737	1,708
19 USD medium-term notes 01	USD	Hong Kong China	4.00	800	2019/01/22	3 years	5,581	4,134	–
19 USD medium-term notes 02	USD	Hong Kong China	4.375	700	2019/01/22	5 years	4,883	3,139	–
19 USD medium-term notes 03	USD	Hong Kong China	3MLibor+1.2	120	2019/04/12	3 years	837	837	–
19 Leasing 01	RMB	Mainland China	3.68	800	2019/05/20	3 years	5,000	4,550	–
19 Leasing 02	RMB	Mainland China	3.65	700	2019/07/08	3 years	5,000	4,990	–
19 USD medium-term notes 04	USD	Hong Kong China	3MLibor+1.18	120	2019/09/05	5 years	2,790	1,408	–
19 USD medium-term notes 05	USD	Hong Kong China	2.625	120	2019/09/05	5 years	1,395	914	–
18 Leasing 01	RMB	Mainland China	4.53	4,000	2018/07/05	3 years	4,000	3,994	3,990
19 Leasing 03	RMB	Mainland China	3.49	3,500	2019/10/22	3 years	3,500	3,492	–
19 USD medium-term notes 06	USD	Hong Kong China	2.99	180	2019/10/25	3 years	1,256	1,256	–
19 USD medium-term notes 07	USD	Hong Kong China	3MLibor+1.08	600	2019/12/10	3 years	4,186	2,269	–
Sub-total							108,285	83,688	70,777
Total							314,106	278,110	186,208

Detailed information of bonds held at fair value is as follows:

	Currency	Issue place	Coupon rate %	Par value (CCY)	Issue date	Maturity	Issue amount	Fair value at the end of the period	Fair value at the beginning of the period
14 Hong Kong bond	HKD	Hong Kong China	4.00	500	2014/02/14	7 years	448	462	455
14 Hong Kong bond 02	HKD	Hong Kong China	3.20	350	2014/04/02	5 years	314	–	309
16 Hong Kong medium-term notes	USD	Hong Kong China	2.25	500	2016/01/25	3 years	3,488	–	3,462
16 Hong Kong USD medium-term notes	USD	Hong Kong China	3MLibor+0.88	550	2016/08/16	3 years	3,837	–	3,792
17 Hong Kong USD medium-term notes	USD	Hong Kong China	3MLibor+0.78	850	2017/02/21	3 years	5,930	5,931	5,856
18 Hong Kong medium-term notes	HKD	Hong Kong China	2.95	3,000	2018/05/18	2 years	2,687	2,743	2,682
19 Hong Kong RMB medium-term notes	RMB	Hong Kong China	3.40	2,500	2019/03/21	2 years	2,500	2,526	–
19 Hong Kong medium-term notes	HKD	Hong Kong China	2.85	3,500	2019/03/21	5 years	3,135	3,186	–
19 Hong Kong USD medium-term notes	USD	Hong Kong China	3MLibor+0.78	800	2019/03/21	3 years	5,581	5,589	–
Total							27,920	20,437	16,556

(All amounts expressed in millions of RMB unless otherwise stated)

32 OTHER LIABILITIES

	As at 31 December 2019	As at 31 December 2018
Lease liabilities	6,344	Not applicable
Insurance contracts reserve	31,936	22,821
Settlement accounts	19,275	21,692
Staff compensation payable	11,118	9,309
Deposits received for finance lease	7,661	7,677
VAT and other taxes payable	4,536	4,515
Provision for outstanding litigations (a)	1,029	982
Allowance for impairment losses of off-balance sheet businesses (b)	6,332	5,081
Dividends payable	87	77
Others	75,063	59,560
Total	163,381	131,714

(a) Movements in the provision for outstanding litigations

	As at 1 January 2019	Amounts accrued during the year	Amounts settled during the year	Amounts reversed during the year	Exchange differences	As at 31 December 2019
Provision for outstanding litigations	982	421	(3)	(371)	–	1,029

	As at 1 January 2018	Amounts accrued during the year	Amounts settled during the year	Amounts reversed during the year	Exchange differences	As at 31 December 2018
Provision for outstanding litigations	449	640	(16)	(91)	–	982

(b) Movements in the allowance for impairment losses of off-balance sheet businesses

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
As at 1 January 2019	4,741	340	–	5,081
Addition	1,068	917	–	1,985
Transfer out	(7)	(182)	–	(189)
Transfers:	(8)	8	–	–
Transfer between Stage 1 and Stage 2, net	*(8)*	*8*	–	–
Remeasurement	(442)	(109)	–	(551)
Exchange differences	6	–	–	6
As at 31 December 2019	5,358	974	–	6,332

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
As at 1 January 2018	5,475	725	–	6,200
Reversal	(864)	(106)	–	(970)
Transfer in/(out)	–	–	–	–
Transfers:	372	(372)	–	–
Transfer between Stage 1 and Stage 2, net	*372*	*(372)*	–	–
Remeasurement	(258)	86	–	(172)
Exchange differences	16	7	–	23
As at 31 December 2018	4,741	340	–	5,081

33 SHARE CAPITAL AND CAPITAL SURPLUS

	Number of shares (in millions)	Ordinary shares of RMB1 each	Capital surplus	Total
As at 1 January 2019	**74,263**	**74,263**	**113,663**	**187,926**
As at 31 December 2019	**74,263**	**74,263**	**113,663**	**187,926**

	Number of shares (in millions)	Ordinary shares of RMB1 each	Capital surplus	Total
As at 1 January 2018	74,263	74,263	113,663	187,926
As at 31 December 2018	74,263	74,263	113,663	187,926

As at 31 December 2019 and 31 December 2018, the number of A shares of the Group was 39,251 million, and the number of H shares of the Group was 35,012 million, both with par value of RMB1 per share.

As at 31 December 2019 and 31 December 2018, the Group's capital surplus is listed as follows:

	As at 1 January 2019	Additions	Reductions	As at 31 December 2019
Share premium	**113,046**	**–**	**–**	**113,046**
Property revaluation gain designated by MOF	**472**	**–**	**–**	**472**
Donation of non-cash assets	**148**	**–**	**–**	**148**
Movements in non-controlling interests	**(41)**	**–**	**–**	**(41)**
Capital increase in an associate	**16**	**–**	**–**	**16**
Others	**22**	**–**	**–**	**22**
Total	**113,663**	**–**	**–**	**113,663**

	As at 1 January 2018	Additions	Reductions	As at 31 December 2018
Share premium	113,046	–	–	113,046
Property revaluation gain designated by MOF	472	–	–	472
Donation of non-cash assets	148	–	–	148
Movements in non-controlling interests	(41)	–	–	(41)
Capital increase in an associate	16	–	–	16
Others	22	–	–	22
Total	113,663	–	–	113,663

34 OTHER EQUITY INSTRUMENTS

34.1 Preference shares

34.1.1 Preference shares outstanding at the end of the period

	Issue date	Accounting classification	Dividend rate	Issue price	Amount in shares	In original currency (in millions)	In RMB (in millions)	Maturity	Conversion condition	Conversion
Offshore preference shares										
Preference shares in USD	2015-07-29	Equity	5.00%	USD20/share	122,500,000	2,450	14,982	No maturity date	Mandatory	No conversion during the year
Domestic preference shares										
Preference shares in RMB	2016-09-02	Equity	3.90%	RMB100/share	450,000,000	45,000	45,000	No maturity date	Mandatory	No conversion during the year
					Total		59,982			
					Less: Issuance fees		(106)			
					Carrying amount		59,876			

34.1.2 Main clauses

Offshore preference shares

(a) Dividend

The offshore preference shares will accrue dividends on their issue price at the relevant dividend rate below:

(1) From and including the issue date to but excluding the first reset date, at the rate of 5.00% per annum; and

(2) The dividend rate will be re-priced every five years thereafter with reference to the five-year US treasury bonds yield plus a fixed premium of 3.344%. As authorised by the shareholders' annual general meeting, the Board of Directors has the sole discretion to declare and distribute dividends on offshore preference shares.

The dividend for offshore preference shares is non-cumulative. Where the Bank determines to cancel the dividend for offshore preference shares in whole or in part, the omitted dividend will not be carried forward and claimed in the future period. After receiving dividends at the agreed dividend rate, offshore preference shareholders of the Bank will not participate in the distribution of residual profits with ordinary shareholders. Domestic preference shares issued by the Bank have the same dividend distribution order as the offshore preference shares.

(b) Conditions to distribution of dividends

The Bank could pay dividends while the Bank still has distributable after-tax profit after making up previous years' losses, contributing to the statutory reserve and making general provisions, and the Bank's capital adequacy ratio meets regulatory requirements. Offshore preference shareholders of the Bank are senior to the ordinary shareholders on the right to dividends.

Subject to a resolution to be passed at a shareholders' general meeting of the Bank on each such occasion, the Bank may elect to cancel (in whole or in part) any dividend. The Bank shall not distribute any dividends to its ordinary shareholders before it declares such dividends to preference shareholders for the relevant periods.

34 OTHER EQUITY INSTRUMENTS *(Continued)*

34.1 Preference shares *(Continued)*

34.1.2 Main clauses *(Continued)*

Offshore preference shares (Continued)

(c) Mandatory conversion trigger events

Upon occurrence of the triggering events as stipulated by the offering documents and subject to regulatory approval, offshore preference share shall be mandatorily converted into ordinary H Shares of the Bank (as converted into Hong Kong dollars at the fixed exchange rate of USD1.00 to HKD7.7555), partially or entirely. The initial mandatory convertible price is HKD6.51 per share. To balance the interest between preference shareholders and ordinary shareholders, the mandatory conversion price of the preference shares will be cumulatively adjusted in sequence where certain events occur including issuances of bonus shares, capitalisation of reserves, new issuances of ordinary shares at a price lower than the market price (excluding equity increases due to exercise of convertible financing instruments that can be converted into ordinary shares) and rights issues, subject to terms and formulas provided for in the offering documents. Appropriation of dividends to ordinary shareholders is not trigger event for price adjustment.

(d) Order of distribution and liquidation method

On winding-up of the Bank, distribution to offshore preference shareholders is made after all debts of the Bank (including subordinated debts) and obligations that are issued or guaranteed by the Bank and specifically stated to be distributed prior to the offshore preference shares; all offshore preference shareholders are ranked the same in the distribution sequence without priority among them and have the same repayment sequence rights as holders of obligations with equivalent rights. In addition, distribution is made to offshore preference shareholders prior to ordinary shareholders.

On winding-up of the Bank, any remaining assets of the Bank shall, after the distributions in accordance with the terms and conditions of the offshore preference shares have been made, be applied to the claims of the offshore preference shareholders equally in all respects with the claims of holders of any parity obligations (which term, for the avoidance of doubt, includes the domestic preference shares and any other preference shares of the Bank issued from time to time to investors outside the PRC) and in priority to the claims of the holders of ordinary shares.

The distribution amount obtained by the offshore preference shareholders shall be the total par value of the issued and outstanding preference shares plus dividends declared but not paid in the current period; if the distribution amount is insufficient, domestic and offshore preference shareholders will share the distribution amount on a proportional basis.

(e) Redemption

The offshore preference shares are perpetual and have no maturity date. The Bank may, subject to obtaining CBIRC approval and in compliance with the redemption preconditions, redeem all or some of the offshore preference shares on 29 July 2020 and on any dividend payment date thereafter. The redemption period ends at the date when shares are fully converted or redeemed.

Domestic preference shares

(a) Dividend

The domestic preference shares will accrue dividends on their issue price at the relevant dividend rate below:

(1) From and including the issue date to but excluding the first reset date, at the rate of 3.90% per annum; and

(2) The dividend rate will be re-priced every five years thereafter with reference to the arithmetic average value (rounding off to 0.01%) of five-year Chinese treasury bonds yield at the date which is 20 transaction days before the reset date (excluding the date) plus a fixed premium of 1.37%. As authorised by the shareholders' annual general meeting, the Board of Directors has the sole discretion to declare and distribute dividends on domestic preference shares.

34 OTHER EQUITY INSTRUMENTS *(Continued)*

34.1 Preference shares *(Continued)*

34.1.2 Main clauses *(Continued)*

Domestic preference shares (Continued)

(a) Dividend *(Continued)*

The dividend for domestic preference shares is non-cumulative. Where the Bank determines to cancel the dividend for domestic preference shares in whole or in part, the omitted dividend will not be carried forward and claimed in the future period. After receiving dividends at the agreed dividend rate, domestic preference shareholders of the Bank will not participate in the distribution of residual profits with ordinary shareholders. Domestic preference shares issued by the Bank have the same dividend distribution order as the offshore preference shares.

(b) Conditions to distribution of dividends

The Bank could pay dividends while the Bank still has distributable after-tax profit after making up previous years' losses, contributing to the statutory reserve and making general provisions, and the Bank's capital adequacy ratio meets regulatory requirements. Domestic preference shareholders of the Bank are senior to the ordinary shareholders on the right to dividends.

Subject to a resolution to be passed at a shareholders' general meeting of the Bank on each such occasion, the Bank may elect to cancel (in whole or in part) any preference share dividend. The Bank shall not distribute any dividends to its ordinary shareholders before it declares such dividends to preference shareholders for the relevant periods.

(c) Mandatory conversion trigger events

Upon occurrence of the triggering events as stipulated by the offering documents and subject to regulatory approval, domestic preference shares shall be mandatorily converted into ordinary A Shares of the Bank, partially or entirely. The initial mandatory conversion price is RMB6.25 per share. To balance the interest between preference shareholders and ordinary shareholders, the mandatory conversion price of the preference shares will be cumulatively adjusted in sequence where certain events occur including issuances of bonus shares, capitalisation of reserves, new issuances of ordinary shares at a price lower than the market price (excluding equity increased due to exercise of convertible financing instruments that can be converted into ordinary shares) and rights issues, subject to terms and formulas provided for in the offering documents. Appropriation of dividends to ordinary shareholders is not trigger event for price adjustment.

(d) Order of distribution and liquidation method

On winding-up of the Bank, distribution to domestic preference shareholders is made after all debts of the Bank (including subordinated debts) and obligations that are issued or guaranteed by the Bank and specifically stated to be distributed prior to the domestic preference shares; all domestic preference shareholders are ranked at the same in the distribution sequence without priority among them and have the same repayment sequence rights as holders of obligations with equivalent rights. In addition, distribution is made to domestic preference shareholders prior to ordinary shareholders.

On winding-up of the Bank, any remaining assets of the Bank shall, after the distributions in accordance with the terms and conditions of the domestic preference shares have been made, be applied to the claims of the domestic preference shareholders equally in all respects with the claims of holders of any parity obligations (which term, for the avoidance of doubt, includes the domestic preference shares and any other preference shares of the Bank issued from time to time to investors outside the PRC) and in priority to the claims of the holders of ordinary shares.

The distribution amount obtained by the domestic preference shareholders shall be the total par value of the issued and outstanding preference shares plus dividends declared but not paid in the current period; if the distribution amount is insufficient, domestic and offshore preference shareholders will share the distribution amount on a proportional basis.

34 OTHER EQUITY INSTRUMENTS *(Continued)*

34.1 Preference shares *(Continued)*

34.1.2 Main clauses *(Continued)*

Domestic preference shares (Continued)

(e) Redemption

The domestic preference shares are perpetual and have no maturity date. The Bank may, subject to obtaining CBIRC approval and in compliance with the redemption preconditions, redeem all or some of the domestic preference shares on 2 September 2021 and on any preference share dividend payment date thereafter. The redemption period ends at the date when shares are fully converted or redeemed.

34.1.3 Movements of preference shares issued

	As at 1 January 2019	Movements		As at 31 December 2019
		Additions	Decreases	
Offshore preference shares				
Amount (shares)	122,500,000	–	–	**122,500,000**
In RMB (millions)	14,924	–	–	**14,924**
Domestic preference shares				
Amount (shares)	450,000,000	–	–	**450,000,000**
In RMB (millions)	44,952	–	–	**44,952**

34.2 Perpetual bonds

34.2.1 Perpetual bonds outstanding at the end of the period

	Issue date	Accounting classification	Original interest rate	Issue price	Amount in shares	In original currency (in millions)	In RMB (in millions)	Maturity
Perpetual bonds in RMB	18 September 2019	Equity	4.20%	RMB100/bond	400,000,000	40,000	40,000	No fixed maturity date
					Total		40,000	
					Less: Issue fees		(6)	
					Carrying amount		39,994	

34.2.2 Main clauses

(1) Principal amount

The principal amount is RMB40 billion.

(2) Maturity date

The perpetual bonds will continue to be outstanding so long as the Bank's business continues to operate.

(3) Coupon rate

The coupon rate of the perpetual bonds will be adjusted every 5 years from the settlement date of issuance. During each coupon rate adjustment period, the interest payments will be calculated at the same coupon rate. The coupon rate at the time of issuance will be determined by book building and centralised allocation. The interest rate of the perpetual bonds does not contain any interest rate step-up mechanism or any other redemption incentives.

34 OTHER EQUITY INSTRUMENTS *(Continued)*

34.2 Perpetual bonds *(Continued)*

34.2.2 Main clauses *(Continued)*

(3) Coupon rate (Continued)

The coupon rate is determined by a benchmark rate plus a fixed spread. The benchmark rate is the arithmetic average of the yields to maturity (rounded up to 0.01%) of 5 (exclusive) trading days prior to the announcement date of the subscription agreement, as indicated by the applicable ChinaBond Government Bond Yield Curve for five-year products published on www.ChinaBond.com.cn (or other websites approved by the China Central Depository & Clearing Co., Ltd.). The fixed spread is the difference between the coupon rate and the benchmark rate as determined at the time of issuance. The fixed spread will not be adjusted once determined.

(4) Conditional redemption rights of the Bank

The Bank has conditional redemption rights. After five years from the issuance of the perpetual bonds, the Bank may redeem the perpetual bonds in whole or in part on each distribution payment date (including the fifth distribution payment date since the issuance). If, after the issuance, the perpetual bonds no longer qualify as Additional Tier 1 Capital as a result of an unforeseeable change or amendment to relevant provisions of supervisory regulations, the Bank may redeem the whole but not part of the perpetual bonds.

(5) Subordination

The claims in respect of the perpetual bonds are subordinated to the claims of depositors, general creditors, and subordinated indebtedness that rank senior to the perpetual bonds; and will rank in priority to all classes of equity shares held by the Bank's shareholders and rank pari passu with the claims in respect of any other Additional Tier 1 Capital instruments of the Bank that rank pari passu with the perpetual bonds. If subsequent amendments to the PRC Enterprise Bankruptcy Law or relevant regulations are applicable to the Bank, such relevant laws and regulations shall prevail.

(6) Write-down/Write-off clauses

Upon the occurrence of Additional Tier 1 Capital Trigger Event, namely, the Bank's Core Tier 1 Capital Adequacy Ratio having fallen to 5.125% (or below), the Bank has the right, subject to the approval of the China Banking and Insurance Regulatory Commission but without the need for the consent of the bondholders, to write down whole or part of the aggregate amount of the perpetual bonds then issued and outstanding, in order to restore the Core Tier 1 Capital Adequacy Ratio to above 5.125%. In the case of a partial write-down, all of the perpetual bonds then issued and outstanding shall be written down on a pro rata basis, according to the outstanding par value, with all Additional Tier 1 Capital instruments with equivalent write-down clauses of the Bank. The perpetual bonds may be subject to write-down more than once, in order to restore the Core Tier 1 Capital Adequacy Ratio of the Bank to above 5.125%.

(7) Distribution payment

The Bank shall have the right to cancel, in whole or in part, distributions on the bonds and any such cancellation shall not constitute an event of default. When exercising such right, the Bank will take into full consideration the interest of the bondholders. The Bank may, at its sole discretion, use the proceeds from the cancelled distributions to meet other obligations as they fall due. Cancellation of any distributions on the bonds, no matter in whole or in part, will not impose any other restriction on the Bank, except in relation to dividend distributions to ordinary shares. Any cancellation of any distribution on the bonds, no matter in whole or in part, will require the deliberation and approval of the general shareholders meeting, and the Bank shall give notice to the investors on such cancellation in a timely manner.

The distributions on the perpetual bonds are non-cumulative, namely, upon cancellation, any amount of distribution unpaid to the holders of the perpetual bonds in the applicable period will not accumulate or compound to the subsequent distribution period thereafter.

(All amounts expressed in millions of RMB unless otherwise stated)

34 OTHER EQUITY INSTRUMENTS *(Continued)*

34.2 Perpetual bonds *(Continued)*

34.2.2 Main clauses *(Continued)*

(8) Put option

Investors have no right to redeem their subscription from the Bank.

The net proceeds from the Bank's issuance of the above bonds, after deducting offering related expenses, will be used to replenish the Additional Tier 1 Capital of the Bank.

34.3 Interests attributable to holders of other equity instruments

	As at 31 December 2019	As at 31 December 2018
Total equity attributable to equity holders of the parent company	793,247	698,405
Equity attributable to ordinary shareholders of the parent company	693,377	638,529
Equity attributable to preference shareholders of the parent company	59,876	59,876
Equity attributable to perpetual bond holders of the parent company	39,994	–
Including: Net profit attributable to preference shareholders	*2,671*	*2,618*
Dividends paid to preference shareholders during the year	*2,671*	*2,618*
Total equity attributable to non-controlling interests	7,665	6,903
Equity attributable to non-controlling interests of ordinary shares	7,665	6,903

35 RESERVES AND RETAINED EARNINGS

Pursuant to the relevant PRC regulations, the appropriation of profits to the statutory general reserve, the discretionary reserve and the distribution of dividends in each year are based on the recommendations of the Directors and are subject to the resolutions to be passed at the General Meeting.

Pursuant to the relevant PRC regulations, the bank is required to appropriate 10% of its net profit for the year to the undistributable statutory surplus reserve until the reserve balance reaches 50% of its registered capital.

Pursuant to the relevant PRC banking regulations, the Bank is required to transfer a certain amount of its net income to the statutory general reserve through its profit appropriation. It is determined based on the overall unidentified loss exposure; normally no lower than 1.5% of the ending balance of risk assets. The statutory general reserve is an integral part of shareholders' equity but not subject to dividend distribution. Such statutory general reserve is recognised in the statement of financial position upon approval by the shareholders at the Annual General Meeting. Regulatory reserve of the Hong Kong branch required by the Hong Kong Monetary Authority is also included in above statutory general reserve.

Since 1 July 2012, pursuant to *Administrative Measures for the Provisioning of Financial Enterprises* (Cai Jin [2012] No. 20), the Bank made general reserve for the risk assets as defined by the policy. The Bank's subsidiaries and oversea branches, if required by local regulation requirements, also need to make such accrual for risk assets.

In accordance with the relevant PRC legislation, upon the approval by shareholders at the General Meeting, discretionary reserve can be appropriated following the appropriation of statutory reserve from the distributable profit of the Bank and its domestic subsidiaries.

(All amounts expressed in millions of RMB unless otherwise stated)

35 RESERVES AND RETAINED EARNINGS *(Continued)*

The 2018 Annual General Meeting of Shareholders, held on 21 June 2019, considered and adopted the 2018 profit distribution scheme, which stipulates the follows:

	Year ended 31 December	
	2019	2018
Statutory reserve	–	6,833
Statutory general reserve	2,738	8,705
Discretionary reserve	–	–
Total	2,738	15,538

During the year ended 31 December 2019, the Group and the Bank transferred RMB3,286 million (2018: RMB9,811 million) and RMB2,738 million (2018: RMB8,705 million) respectively to the General Reserve pursuant to the regulatory requirements in the PRC and overseas jurisdictions. Of this amount, RMB2,738 million (2018: RMB8,705 million) related to general reserve proposed for the Bank for the year ended 31 December 2018 was approved in the 2018 Annual General Meeting of Shareholders dated 21 June 2019.

Revaluation reserve

The movements of revaluation reserve are set out below:

As at 31 December 2018	1,397
Changes in fair value recorded in equity	4,681
Changes in fair value reclassified from equity to profit or loss	(1,031)
Income tax relating to components of other comprehensive income	(1,637)
Transferred from other comprehensive income	11
As at 31 December 2019	3,421
As at 31 December 2017	(2,365)
Impact of adoption of IFRS 9 on opening balance	1,891
Opening balance under IFRS 9 (restated)	(474)
Changes in fair value recorded in equity	2,719
Changes in fair value reclassified from equity to profit or loss	(228)
Income tax relating to components of other comprehensive income	(624)
Transferred from other comprehensive income	4
As at 31 December 2018	1,397

(All amounts expressed in millions of RMB unless otherwise stated)

35 RESERVES AND RETAINED EARNINGS *(Continued)*

Retained earnings

The movements of retained earnings are set out below:

As at 31 December 2018	**129,161**
Impact from adoption of IFRS 16	**(616)**
Opening balance under IFRS 16 (restated)	**128,545**
Profit for the year	**77,281**
Appropriation to statutory reserve	**(381)**
Appropriation to general reserve	**(3,286)**
Appropriation to discretionary reserve	**(57)**
Dividends payable to ordinary shareholders	**(22,279)**
Dividends payable to preference shareholders	**(2,671)**
Others	**(11)**
As at 31 December 2019	**177,141**
As at 31 December 2017	124,514
Impact from adoption of IFRS 9	(28,257)
Opening balance under IFRS 9 (restated)	96,257
Profit for the year	73,630
Appropriation to statutory reserve	(7,055)
Appropriation to general reserve	(9,811)
Appropriation to discretionary reserve	(29)
Dividends payable to ordinary shareholders	(21,209)
Dividends payable to preference shareholders	(2,618)
Others	(4)
As at 31 December 2018	129,161

36 DIVIDENDS

	Year ended 31 December	
	2019	2018
Dividends to ordinary shareholders of the Bank	**22,279**	21,209
Dividends to preference shareholders of the Bank	**2,671**	2,618

Under PRC Company Law and the Bank's Articles of Association, the net profit after tax as reported in the PRC statutory financial statements can only be distributed as dividends after allowances for the following:

(1) Making up cumulative losses from prior years, if any;

(2) Allocations to the non-distributable statutory reserve of 10% of the net profit of the Bank as determined under the relevant PRC accounting standards;

(3) Allocations to statutory general reserve;

(4) Allocations to the discretionary reserve upon approval by the Annual General Meeting. These funds form part of the shareholders' equity.

The cash dividends are recognised in the consolidated statement of financial position upon approval by the shareholders at Annual General Meeting.

(All amounts expressed in millions of RMB unless otherwise stated)

36 DIVIDENDS *(Continued)*

Pursuant to the approval by the Annual General Meeting of Shareholders on 21 June 2019, the Bank appropriated RMB2,738 million to the statutory general reserve. It was also resolved that a cash dividend of RMB0.30 (before tax) for each ordinary share, with total amount of RMB22,279 million, calculated based on 74,263 million shares outstanding (the par value per share is RMB1) as at 31 December 2018, would be distributed to ordinary shareholders.

Pursuant to the approval by the Board meeting on 29 April 2019, the Bank appropriated overseas preference dividends on 29 July 2019 with a dividend yield of 5% (the actual dividend yield obtained by the preference shareholders) with total amount of USD136 million. Since 7 September 2019 is not a working day, the dividend payment day defers to 9 September 2019. The Bank will appropriate domestic preference dividends on 9 September 2019 with a dividend yield of 3.9% (the actual dividend yield obtained by the preference shareholders), with total amount of RMB1,755 million.

On 27 March 2020, the Board of Directors of the Bank proposed to appropriate RMB7,075 million to the statutory reserve and RMB4,454 million to the statutory general reserve. A cash dividend of RMB0.315 (before tax) for each share, totalling RMB23,393 million, calculated based on the total number of shares outstanding of 74,263 million shares (RMB1 per share) as at 31 December 2019 was also proposed. The proposal will be subject to the approval by the Shareholders' Meeting of the Bank.

37 FINANCIAL GUARANTEES AND CREDIT-RELATED COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES

Financial guarantees and credit-related commitments

The following tables provide the contractual amounts of the Group's financial guarantees and credit-related commitments which the Group has committed to its customers:

	As at 31 December 2019	As at 31 December 2018
Letters of guarantee	268,812	268,097
Letters of credit commitments	139,948	141,137
Acceptance bills	271,507	228,550
Credit card commitments	736,039	759,994
Loan commitments		
– Under 1 year	20,459	12,709
– 1 year and above	35,405	45,731
	1,472,170	1,456,218

Capital expenditure commitments

	As at 31 December 2019	As at 31 December 2018
Contracted but not provided for	60,310	66,968

Operating lease commitments

Where the Group is the lessee, the future minimum lease payments on buildings and equipment under non-cancellable operating leases are as follows:

	As at 31 December 2018
Within 1 year (inclusive)	3,918
Beyond 1 year but no more than 2 years (inclusive)	2,772
Beyond 2 years but no more than 3 years (inclusive)	1,908
Beyond 3 years but no more than 5 years (inclusive)	2,215
More than 5 years	1,532
	12,345

(All amounts expressed in millions of RMB unless otherwise stated)

37 FINANCIAL GUARANTEES AND CREDIT-RELATED COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES *(Continued)*

Operating lease commitments *(Continued)*

The Group acts as lessor in operating leases principally through aircraft and vessels leasing undertaken by its subsidiaries. The future minimum lease receivables on certain aircraft and vessel under irrevocable operating leases are as follows:

	As at 31 December 2019	As at 31 December 2018
Within 1 year (inclusive)	13,496	11,204
Beyond 1 year but no more than 2 years (inclusive)	12,818	11,045
Beyond 2 years but no more than 3 years (inclusive)	12,176	10,768
Beyond 3 years but no more than 5 years (inclusive)	22,920	20,983
More than 5 years	42,024	59,827
	103,434	113,827

Commitments on security underwriting and bond acceptance

The Group is entrusted by the Ministry of Finance ('MOF') to underwrite certain Certificated Bonds and Savings Bonds. The investors of Certificated Bonds and Savings Bonds have early redemption right while the Group has the obligation to buy back those Certificated Bonds and Savings Bonds. The redemption price is the principal value of the Certificated Bonds or Savings Bonds plus unpaid interest till redemption date. As at 31 December 2019, the principal value of the certain Certificated Bonds and Savings Bonds that the Group had the obligation to buy back amounted to RMB83,777 million (31 December 2018: RMB74,423 million). The MOF will not provide funding for the early redemption of these Certificated Bonds and Savings Bonds on a back-to-back basis but will pay interest and principal at maturity. The Group expects the amount of redemption before the maturity dates of these bonds through the Group will not be material.

The original maturities of these bonds vary from 1 to 5 years.

As at 31 December 2019, the Group had no announced but unfulfilled irrevocable commitment on security underwriting (31 December 2018: Nil).

Legal proceedings

The Group has been involved as defendants in certain lawsuits arising from its normal business operations. Management of the Group believes, based on legal advice, that the final result of these lawsuits will not have a material impact on the financial position or operations of the Group. Provision for litigation losses as advised by in-house or external legal professionals is disclosed in Note 32. The total outstanding claims against the Group (defendant) by a number of third parties at the end of the year are summarised as follows:

	As at 31 December 2019	As at 31 December 2018
Outstanding litigations	5,011	3,242
Provision for outstanding litigation (Note 32)	1,029	982

(All amounts expressed in millions of RMB unless otherwise stated)

38 COLLATERALS

(1) Assets pledged

The Group uses part of its assets as collaterals for interbank repurchase arrangements and other liabilities-related business. All of these arrangements mature within 12 months from the date they take effect. The carrying amount of these collaterals and the balance of operations related are listed below:

	Pledged assets		Associated liabilities	
	As at 31 December 2019	As at 31 December 2018	**As at 31 December 2019**	As at 31 December 2018
Investment securities	**468,085**	697,288	**387,547**	581,070
Bills	**78,041**	32,308	**78,041**	32,308
Total	**546,126**	729,596	**465,588**	613,378

Financial assets sold under repurchase agreements included certain transactions under which, title of the pledged securities has been transferred to counterparties. These transactions have been disclosed in Note 43 transfers of financial assets.

(2) Collateral accepted

The Group conducts resale agreements under usual and customary terms of placements, and holds collateral for these transactions. As at 31 December 2019, the Group did not hold any collateral for resale agreements which was permitted to sell or repledge in the absence of default for the transactions (31 December 2018: the fair value of such collaterals amounted to RMB2,758 million). All pledges are conducted under standard and normal business terms. As at 31 December 2019 and 31 December 2018, the Group did not sell or re-pledge any collaterals received.

39 OTHER COMPREHENSIVE INCOME

	Year ended 31 December 2019		
	Before tax amount	**Tax effect**	**Net of tax amount**
Other comprehensive income			
Loans and advances to customers – carried at FVOCI	(391)	(322)	(713)
Amounts recorded in equity	*113*	*(448)*	*(335)*
Amounts reclassified to losses/(gains) in the current year	*(504)*	*126*	*(378)*
Debt investments at FVOCI	4,807	(1,487)	3,320
Amounts recorded in equity	*5,334*	*(1,619)*	*3,715*
Amounts reclassified to losses/(gains) in the current year	*(527)*	*132*	*(395)*
Effective portion of gains or losses on hedging instruments in cash flow hedges	(14)	5	(9)
Amounts recorded in equity	*(210)*	*54*	*(156)*
Amounts reclassified to losses/(gains) in the current year	*196*	*(49)*	*147*
Translation difference on foreign operations	1,141	–	1,141
Changes in fair value of equity investments designated at FVOCI	(748)	188	(560)
Changes in fair value attributable to changes in the credit risk of financial liabilities designated at FVPL	25	–	25
Actuarial gains on pension benefits	(20)	–	(20)
Others	18	–	18
Other comprehensive income for the year	4,818	(1,616)	3,202

(All amounts expressed in millions of RMB unless otherwise stated)

39 OTHER COMPREHENSIVE INCOME *(Continued)*

	Year ended 31 December 2018		
	Before tax amount	Tax effect	Net of tax amount
Other comprehensive income			
Loans and advances to customers – carried at FVOCI	241	(139)	102
Amounts recorded in equity	*241*	*(139)*	*102*
Amounts reclassified to losses in the current year	*–*	*–*	*–*
Debt investments at FVOCI	2,367	(452)	1,915
Amounts recorded in equity	*2,595*	*(509)*	*2,086*
Amounts reclassified to losses in the current year	*(228)*	*57*	*(171)*
Effective portion of gains or losses on hedging instruments in cash flow hedges	23	(6)	17
Changes in fair value recorded in equity	*147*	*(37)*	*110*
Changes in fair value reclassified from equity to profit or loss	*(124)*	*31*	*(93)*
Translation difference on foreign operations	1,998	–	1,998
Changes in fair value of equity instruments designated at FVOCI	81	(20)	61
Changes in fair value attributable to changes in the credit risk of financial liabilities designated at FVPL	(14)	–	(14)
Actuarial gains on pension benefits	(25)	–	(25)
Others	18	–	18
Other comprehensive income for the year	4,689	(617)	4,072

40 NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

Analysis of the balance of cash and cash equivalents

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise the following balances with original maturities of less than or equal to 90 days used for the purpose of meeting short-term cash commitments:

	As at 31 December 2019	As at 31 December 2018
Cash and balances with central banks	**85,246**	123,665
Due from and placements with banks and other financial institutions	**82,489**	119,827
	167,735	243,492

41 CONSOLIDATED STRUCTURED ENTITIES

Structured entities consolidated by the Group include certain trust investment plans, funds and securitization products issued, managed and invested by the Group. The Group controls these entities because the Group has power over, is exposed to, or has right to, variable returns from its involvement with these entities and has the ability to use its power over these entities to affect the amount of the Group's returns. As at 31 December 2019, the consolidated structured entities sponsored and managed by the Group amounted to 6,147 million, and the consolidated structured entities held by Group amounted to 19,846 million.

As at 31 December 2018, wealth management products where the Group provided financial guarantee amounted to 138,366 million, which have been matured and paid during 2019.

(All amounts expressed in millions of RMB unless otherwise stated)

42 UNCONSOLIDATED STRUCTURED ENTITIES

The Group has been involved in other structured entities through investments in structured entities or acting as sponsors of structured entities that provide specialised investment opportunities to investors. These structured entities generally finance the purchase of assets by issuing units of the products. The Group does not control these structured entities and therefore, these structured entities are not consolidated.

As at 31 December 2019, those structured entities sponsored by the Group consist primarily of funds, trusts, asset management products, wealth management products with principals not guaranteed by the Group and securitization products. The Group earns commission income by providing management services to the investors of these structured entities. In addition, the Group is also involved in certain structured entities sponsored by the Group or third parties through direct investments. These investments are recognised as financial investments at fair value through profit or loss, financial investments at fair value through other comprehensive income, and financial investments at amortised cost.

As at 31 December 2019 and 31 December 2018, amount of unconsolidated structured entities sponsored by the Group are set out as below:

	Sponsored amount		
	As at 31 December 2019	As at 31 December 2018	Type of income
Funds	357,568	242,502	Commission income
Trusts and asset management products	893,739	1,054,073	Commission income
Wealth management products ("WMPs")	1,003,226	960,003	Commission income
Securitization products	295	–	Commission income
Total	2,254,828	2,256,578	

For the year ended 31 December 2019, the Group's commission income from providing service to the investors of the structured entities managed by the Group was RMB3,948 million (For the year ended 31 December 2018: RMB2,936 million), and interest income from placements and repurchase transactions with those unconsolidated WMPs was RMB1,204 million (For the year ended 31 December 2018: RMB1,612 million).

As at 31 December 2019 and 31 December 2018, the carrying amount of interests in unconsolidated structured entities held by the Group through investment was set out as follows:

	As at 31 December 2019				
	Carrying amount				
	Financial investments at FVPL	Financial investments at FVOCI	Financial investments at amortised cost	Maximum exposure to loss	Type of income
Funds	160,522	–	–	160,522	Net gains arising from trading activities
Trusts and asset management products	8,207	–	139,302	147,509	Net interest income, net gains arising from trading activities
Wealth management products	320	–	–	320	Net gains arising from trading activities
Limited partnerships	798	584	–	1,382	Net gains arising from trading activities, net gains arising from financial investments
Securitization products	–	–	15	15	Net interest income
Total	169,847	584	139,317	309,748	

(All amounts expressed in millions of RMB unless otherwise stated)

42 UNCONSOLIDATED STRUCTURED ENTITIES *(Continued)*

The information of total size of the unconsolidated structured entities listed above is not readily available from the public domain.

	As at 31 December 2018			
	Carrying amount			
	Financial investments at FVPL	Financial investments at amortised cost	Maximum exposure to loss	Type of income
Funds	180,547	–	180,547	Net gains arising from trading activities
Trusts and asset management products	4,906	200,861	205,767	Net interest income, net gains arising from trading activities
Wealth management products	2,101	–	2,101	Net gains arising from trading activities
Total	187,554	200,861	388,415	

43 TRANSFERS OF FINANCIAL ASSETS

43.1 Financial assets sold under repurchase agreements

Sales and repurchase agreements are transactions in which the Group sells a security and simultaneously agrees to repurchase it (or an asset that is substantially the same) at a fixed price on a future date. Since the repurchase prices are fixed, the Group is still exposed to substantially all the credit risks and market risks and rewards of those securities sold. These securities, which the Group does not have the ability to use during the term of the arrangements, are not derecognised from the financial statements but regarded as "collateral" for the secured lending from these because the Group retains substantially all the risks and rewards of these securities. In addition, the Group recognises a financial liability for cash received.

As at 31 December 2019 and 31 December 2018, the Group entered into repurchase agreements with certain counterparties. The proceeds from selling such securities are presented as "financial assets sold under repurchase agreements" (Note 27).

The following table provides a summary of carrying amounts related to the transferred financial assets that are not derecognised and the associated liabilities:

	Collaterals		**Associated liabilities**	
	As at 31 December 2019	As at 31 December 2018	**As at 31 December 2019**	As at 31 December 2018
Investment securities	**3,949**	4,094	**9,828**	3,797

43.2 Securities lending transactions

Transferred financial assets that do not qualify for de-recognition mainly include debt securities lent to counterparties under securities lending agreements. The counterparties are allowed to sell or repledge those securities lent under agreements to repurchase in the absence of default by the Group, but has an obligation to return the securities at the maturity of the contract. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. As at 31 December 2019, the carrying value of debt securities lent to counterparties was RMB6,620 million (31 December 2018: RMB3,810 million).

(All amounts expressed in millions of RMB unless otherwise stated)

43 TRANSFERS OF FINANCIAL ASSETS *(Continued)*

43.3 Asset securitisation

The Group enters into securitisation transactions in the normal course of business by which it transfers credit assets to structured entities which issue asset-backed securities to investors.

The Group may retain interests in the form of subordinated tranches which may give rise to the Group's continuing involvement in the transferred assets. Those financial assets are recognised on the statement of financial position to the extent of the Group's continuing involvement. The extent of the Group's continuing involvement is the extent to which the Group is exposed to changes in the value of the transferred assets.

As at 31 December 2019, loans with an original value of RMB55,702 million and carrying amount of RMB55,144 million (31 December 2018: RMB98,763 million and RMB93,777 million) have been securitised by the Group and the Bank.

As at 31 December 2019, the Group and the Bank retained their continued involvement in securitised credit assets by holding subordinated securities. The value of the assets that the Group and the Bank continued to recognise was RMB4,864 million (31 December 2018: RMB6,108 million).

43.4 Package disposal of impaired loans and advances to customers

The Group disposes impaired loans and advances to customers through transferring to third parties in the normal course of business. For the year ended 31 December 2019, the Group had transferred impaired loans and advances to customers with a gross carrying amount of RMB13,132 million (31 December 2018: RMB8,971 million) and collected cash totalling RMB4,733 million (31 December 2018: RMB3,448 million) from the transfer. The difference between the gross carrying amount and the cash collected had been written off. The Group de-recognised the impaired loans and advances to customers from the Group's financial statements at the time of disposal.

44 RELATED PARTY TRANSACTIONS

(a) Transactions with the MOF

As at 31 December 2019, the MOF was holding 17,732 million (31 December 2018: 19,703 million) shares of Bank of Communications Co., Ltd. which represented 23.88% (31 December 2018: 26.53%) of the total share capital.

The MOF is a Chinese government ministry, primarily responsible for managing state fiscal revenue and expenditures, and establishing and enforcing taxation policies. The Group enters into banking transactions with the MOF under normal course of business and they mainly include the purchase and redemption of financial investments issued by the MOF and the deposits from the MOF.

The related party transaction volumes, outstanding balances at the end of the year and the revenue from related party transactions for the year are listed below:

	As at 31 December 2019	As at 31 December 2018
Bonds issued by MOF	**647,402**	524,736
Accrued interest	**9,515**	8,017

	Year ended 31 December	
	2019	2018
Interest income	**18,935**	16,040
Interest expense	**–**	92

(All amounts expressed in millions of RMB unless otherwise stated)

44 RELATED PARTY TRANSACTIONS *(Continued)*

(a) Transactions with the MOF *(Continued)*

The interest rates of the transactions between the Group and MOF are summarised below:

	Year ended 31 December	
	2019	2018
	%	%
Bonds issued by MOF	**0.13~5.41**	1.927~5.05
Due to customers	**Not applicable**	3.71

(b) Transactions with National Council for Social Security Fund

As at 31 December 2019, National Council for Social Security Fund was holding 12,909 million (31 December 2018: 10,923 million) shares of Bank of Communications Co., Ltd. which represented 17.38% (31 December 2018: 14.71%) of the total share capital. The Group enters into transactions with National Council for Social Security Fund in the normal course of business and they mainly include deposits which are carried out under normal commercial terms and paid at market rates.

Details of transaction volumes and outstanding balances are summarised below:

	As at 31 December 2019	As at 31 December 2018
Due to customers	**70,350**	26,650
Accrued interest	**964**	359

	Year ended 31 December	
	2019	2018
Interest expense	**1,031**	1,355

The interest rates of the transactions between the Group and the National Council for Social Security Fund are summarised below:

	Year ended 31 December	
	2019	2018
	%	%
Due to customers	**3.85~6.10**	3.85~6.10

(c) Transactions with the Hong Kong and Shanghai Banking Corporation Limited and its subsidiaries ("HSBC")

As at 31 December 2019, HSBC was holding 13,886 million (31 December 2018: 13,886 million) shares of the Bank of Communications Co., Ltd. which represented 18.70% (31 December 2018: 18.70%) of the total share capital. Transactions between the Group and HSBC are carried out under normal commercial terms and paid at market rates.

(All amounts expressed in millions of RMB unless otherwise stated)

44 RELATED PARTY TRANSACTIONS *(Continued)*

(c) Transactions with the Hong Kong and Shanghai Banking Corporation Limited and its subsidiaries ("HSBC") *(Continued)*

Details of transaction volumes and outstanding balances are summarised below:

	As at 31 December 2019	As at 31 December 2018
On-balance sheet items		
Due from banks and other financial institutions	1,302	2,250
Derivative financial assets	798	1,592
Financial investments at FVPL	1,323	1,314
Financial investments at amortised cost	230	230
Financial investments at FVOCI	4,634	4,410
Due to banks and other financial institutions	1,644	1,289
Placements from banks and other financial institutions	6,107	13,298
Financial liabilities at FVPL	2,424	2,832
Certificates of deposit issued	22,987	48,776
Derivative financial liabilities	979	760
Financial assets sold under repurchase agreements	2,622	1,807
Off-balance sheet items		
Notional principal of derivative financial instruments	161,086	138,544

	Year ended 31 December	
	2019	2018
Net losses from trading activities	(305)	(984)
Interest income	231	162
Interest expense	1,535	1,385

The interest rates of the transactions between the Group and HSBC are summarised below:

	Year ended 31 December	
	2019	2018
	%	%
Due from banks and other financial institutions	0.01~0.35	0.01~2.84
Placements with banks and other financial institutions	1.39~2.85	0.20~3.55
Financial investments at FVPL	3.30~4.13	3.30~6.68
Financial investments at amortised cost	3.26~4.74	3.26~4.74
Financial investments at FVOCI	1.50~4.75	1.50~5.01
Financial assets purchased under resale agreements	1.38~3.10	2.73~5.60
Due to banks and other financial institutions	0.01~3.80	0.01~6.10
Placements from banks and other financial institutions	(0.24)~3.46	(0.01)~4.75
Financial liabilities at FVPL	0.48~0.75	0.47~1.00
Certificates of deposit issued	1.40~3.30	2.11~3.44
Financial assets sold under repurchase agreements	0.02~2.80	2.34~5.30

(All amounts expressed in millions of RMB unless otherwise stated)

44 RELATED PARTY TRANSACTIONS *(Continued)*

(d) Transactions with state-owned entities in PRC

The Group operates in an economic environment predominated by enterprises directly or indirectly owned and/or controlled by the Government through its authorities, affiliates or other organisations (collectively the "state-owned entities"). During the period, the Group entered into extensive banking transactions with these state-owned entities including, but not limited to, the provision of credit and guarantees, deposits, foreign exchange, derivatives transactions, agency business, underwriting and distribution of bonds issued by the Government as well as trading and redemption of securities issued by the Government.

Management considers that transactions with state-owned entities are activities conducted in the ordinary course of business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and these state-owned entities are ultimately controlled or owned by the Government. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are state-owned entities.

(e) Transactions with subsidiaries

The pricing of the transactions with subsidiaries is determined based on normal commercial banks. These transactions are eliminated on consolidation.

Details of transaction volumes and outstanding balances are summarised below:

The Bank	As at 31 December 2019	As at 31 December 2018
Due from banks and other financial institutions	338	484
Placements with banks and other financial institutions	91,307	74,791
Loans and advances to customers	1,296	7,298
Financial investments at FVPL	1,915	–
Financial investments at amortised cost	2,266	1,721
Financial investments at FVOCI	13,055	–
Derivative financial assets	429	366
Other assets	137	126
Due to banks and other financial institutions	9,651	19,904
Placements from banks and other financial institutions	10,245	10,255
Derivative financial liabilities	543	860
Due to customers	3,544	2,201
Debt securities issued	51	51
Other liabilities	36	31
Sale of financial investments at FVPL to subsidiaries	10,327	–
Sale of financial investments at FVOCI to subsidiaries	28,312	–

	Year ended 31 December	
The Bank	2019	2018
Interest income	2,531	2,291
Interest expense	458	603
Fee and commission income	943	1,063
Fee and commission expense	97	27
Other operating income	562	249
Other operating expense	212	174
Net gains arising from trading activities	755	201

(All amounts expressed in millions of RMB unless otherwise stated)

44 RELATED PARTY TRANSACTIONS *(Continued)*

(e) Transactions with subsidiaries *(Continued)*

The interest rates of the transactions between the Bank and its subsidiaries are summarised below:

The Bank	Year ended 31 December 2019 %	2018 %
Due from banks and other financial institutions	**0.01~4.00**	0.01~4.70
Placements with banks and other financial institutions	**(0.10)~5.40**	0.03~5.45
Financial investments at FVPL	**2.63~4.38**	–
Financial investments at amortised cost	**0.76~4.70**	3.25~4.70
Financial investments at FVOCI	**1.00~4.38**	–
Loans and advances to customers	**2.18~3.97**	0.03~5.52
Due to banks and other financial institutions	**0.02~9.15**	0.01~5.50
Placements from banks and other financial institutions	**(0.10)~5.40**	(0.10)~5.45
Due to customers	**1.50~3.03**	0.01~4.16
Debt securities issued	**5.75**	5.75

(f) Transactions with directors and senior management

The Group enters into transactions, including loans and deposits with directors, senior management and controlled bodies corporate of connected entities with such directors and senior management under the normal course of business and they mainly include loans and deposits, which are carried out under commercial terms and paid at market rates.

Details of transaction volumes and outstanding balances are summarised below:

	As at 31 December 2019	As at 31 December 2018
Due to customers	**18**	8
Loans and advances to customers	**3**	4

Compensations of directors and senior management are disclosed in Note 13.

(g) Transactions with associates

The Group's investments in associates mainly include the investment in Jiangsu Changshu Rural Commercial Bank Co., Ltd. and Bank of Tibet Co., Ltd. Transactions between the Group and associates are carried out under normal commercial terms and paid at market rates.

Details of transaction volumes and outstanding balances are summarised below:

	As at 31 December 2019	As at 31 December 2018
On-balance sheet items		
Due from banks and other financial institutions	**–**	101
Due to banks and other financial institutions	**–**	10
Derivative financial assets	**4**	–
Placements with banks and other financial institutions	**52**	222
Derivative financial liabilities	**3**	–
Off-balance sheet items		
National principal of derivative financial instruments	**5,193**	–

(All amounts expressed in millions of RMB unless otherwise stated)

44 RELATED PARTY TRANSACTIONS *(Continued)*

(g) Transactions with associates *(Continued)*

	Year ended 31 December	
	2019	2018
Net gains from trading activities	**1**	–
Interest income	**10**	2
Interest expense	**2**	10

The interest rates of the transactions between the Group and associates are summarised below:

	Year ended 31 December	
	2019	2018
	%	%
Due from banks and other financial institutions	**0.35~3.88**	2.84~3.88
Placements with banks and other financial institutions	**0.75~2.65**	0.75
Financial assets purchased under resale agreements	**1.38~3.10**	2.66~2.75
Due to banks and other financial institutions	**0.01~5.50**	0.01~5.58

(h) Transactions with other related parties

Details of transaction volumes and outstanding balances are summarised below:

	As at 31 December 2019	As at 31 December 2018
Loans and advances to customers	**2,354**	4,337
Accrued interest	**1**	6
Financial investments at amortised cost	**200**	–
Accrued interest	**4**	–
Due to banks and other financial institutions	**1,851**	1,910
Accrued interest	**20**	18
Due to customers	**46,865**	42,094
Accrued interest	**1,253**	1,076

	Year ended 31 December	
	2019	2018
Interest income	**74**	218
Interest expense	**1,507**	1,265

The interest rates of the transactions between the Group and other related parties are summarised below:

	Year ended 31 December	
	2019	2018
	%	%
Loans and advances to customers	**0.30~6.31**	3.915~5.22
Financial investments at amortised cost	**3.19~3.78**	–
Deposits from banks and other financial institutions	**2.70~5.80**	0.35~5.80
Due to customers	**1.10~4.18**	1.10~4.88

45 SEGMENTAL ANALYSIS

The Group's senior management reviews the Group's operation by the particular economic areas in which the Group's branches and subsidiaries provide products or services. The Group's operating segments are decided based upon location of the assets, as the Group's branches and subsidiaries mainly serve local customers.

The reportable operating segments derive their revenue primarily from the commercial banking services provided to customers and investing activities, including deposits/loans, bills, trade finance, money market placements and takings and securities investments. The operating segments are:

(1) Northern China – including Beijing, Tianjin, Hebei Province, Shanxi Province and Inner Mongolia Autonomous Region;
(2) North Eastern China – including Liaoning Province, Jilin Province and Heilongjiang Province;
(3) Eastern China – including Shanghai (excluding Head Office), Jiangsu Province, Zhejiang Province, Anhui Province, Fujian Province, Jiangxi Province and Shandong Province;
(4) Central and Southern China – including Henan Province, Hunan Province, Hubei Province, Guangdong Province, Hainan Province and Guangxi Zhuang Autonomous Region;
(5) Western China – including Chongqing, Sichuan Province, Guizhou Province, Yunnan Province, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Autonomous Region and Xinjiang Uyghur Autonomous Region;
(6) Head Office;
(7) Overseas – including overseas subsidiaries and the following branches: Hong Kong, New York, Tokyo, Singapore, Seoul, Frankfurt, Macau, Ho Chi Minh City, San Francisco, Sydney, Taipei, London, Luxembourg, Brisbane, Paris, Rome, Brazil, Toronto, Melbourne, Prague and other overseas affiliates.

There were no changes in the reportable segments during the year.

The revenue from external parties reported to the senior management is measured in a manner consistent with that in the consolidated statement of profit or loss and other comprehensive income.

As the Group's major revenue is derived by interest and the senior management relies primarily on net interest income to assess the performance of the segment, the total interest income and expenses for all reportable segments will be presented on a net basis.

The basis on which the Group's senior management reviews the segment performance is profit before tax. Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in inter-segment net interest income. Interest charged for these funds is based on the Group's cost of capital. There are no other material items of income or expenses between the segments.

(All amounts expressed in millions of RMB unless otherwise stated)

45 SEGMENTAL ANALYSIS *(Continued)*

Operating segment information

	Year ended 31 December 2019							
	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Overseas	Head Office	Total
External interest income	29,574	8,829	85,922	50,550	24,236	33,580	134,762	367,453
External interest expense	(29,487)	(8,710)	(58,943)	(33,277)	(15,036)	(24,203)	(53,714)	(223,370)
Inter-segment net interest income/(expense)	17,180	4,799	23,936	15,543	5,724	(370)	(66,812)	–
Net interest income	17,267	4,918	50,915	32,816	14,924	9,007	14,236	144,083
Fee and commission income	4,652	1,531	13,610	8,480	3,365	3,166	12,865	47,669
Fee and commission expense	(37)	(16)	(1,366)	(93)	(31)	(328)	(2,173)	(4,044)
Net fee and commission income	4,615	1,515	12,244	8,387	3,334	2,838	10,692	43,625
Net gains arising from trading activities	344	50	2,295	537	84	341	12,285	15,936
Net gains/(losses) arising from financial investments	–	–	114	–	–	487	(288)	313
Insurance business income	–	–	11,647	–	–	40	–	11,687
Share of profits of associates and joint ventures	–	–	–	–	–	134	280	414
Other operating income	839	168	12,900	533	583	1,711	65	16,799
Total operating income – net	23,065	6,651	90,115	42,273	18,925	14,558	37,270	232,857
Credit impairment losses	(2,034)	(4,882)	(16,255)	(6,268)	(3,591)	(86)	(18,838)	(51,954)
Other assets impairment losses	–	1	(230)	(10)	(15)	(16)	–	(270)
Insurance business expense	–	–	(11,424)	–	–	(8)	–	(11,432)
Other operating expense	(7,400)	(3,298)	(28,719)	(11,441)	(5,967)	(5,516)	(18,660)	(81,001)
Profit before tax	13,631	(1,528)	33,487	24,554	9,352	8,932	(228)	88,200
Income tax								(10,138)
Net profit for the year								78,062
Depreciation and amortisation	(1,101)	(430)	(2,326)	(1,626)	(882)	(608)	(1,132)	(8,105)
Capital expenditure	(356)	(227)	(29,403)	(917)	(382)	(281)	(810)	(32,376)

(All amounts expressed in millions of RMB unless otherwise stated)

45 SEGMENTAL ANALYSIS *(Continued)*

Operating segment information *(Continued)*

	Year ended 31 December 2018							
	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Overseas	Head Office	Total
External interest income	28,500	9,630	78,890	43,787	21,811	29,276	136,970	348,864
External interest expense	(30,461)	(8,934)	(58,022)	(32,062)	(14,467)	(21,499)	(52,511)	(217,956)
Inter-segment net interest income/(expense)	18,118	4,570	23,219	18,182	6,288	(426)	(69,951)	–
Net interest income	16,157	5,266	44,087	29,907	13,632	7,351	14,508	130,908
Fee and commission income	4,342	1,623	13,606	8,160	3,221	3,350	10,371	44,673
Fee and commission expense	(226)	(53)	(1,508)	(285)	(153)	(351)	(860)	(3,436)
Net fee and commission income	4,116	1,570	12,098	7,875	3,068	2,999	9,511	41,237
Net gains arising from trading activities	326	74	1,310	455	154	1,094	13,686	17,099
Net gains/(losses) arising from financial investments	–	–	149	–	–	282	(141)	290
Insurance business income	–	–	7,446	–	–	35	–	7,481
Share of profits of associates and joint ventures	–	–	–	–	–	13	214	227
Other operating income	1,166	218	10,412	804	591	1,511	1,111	15,813
Total operating income – net	21,765	7,128	75,502	39,041	17,445	13,285	38,889	213,055
Credit impairment losses	(2,395)	(7,716)	(10,425)	(5,516)	(4,855)	(399)	(12,148)	(43,454)
Other assets impairment losses	–	–	(27)	(24)	–	(9)	–	(60)
Insurance business expense	–	–	(6,712)	–	–	(10)	–	(6,722)
Other operating expense	(7,234)	(3,321)	(25,618)	(11,252)	(5,980)	(4,968)	(18,379)	(76,752)
Profit before tax	12,136	(3,909)	32,720	22,249	6,610	7,899	8,362	86,067
Income tax								(11,902)
Net profit for the year								74,165
Depreciation and amortisation	(734)	(335)	(1,683)	(1,052)	(611)	(235)	(1,027)	(5,677)
Capital expenditure	(361)	(170)	(27,597)	(974)	(665)	(780)	(798)	(31,345)

(All amounts expressed in millions of RMB unless otherwise stated)

45 SEGMENTAL ANALYSIS *(Continued)*

Operating segment information *(Continued)*

	As at 31 December 2019								
	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Overseas	Head Office	Eliminations	Total
Segment assets	1,219,762	344,260	2,814,349	1,519,238	708,382	1,100,223	4,029,099	(1,853,778)	9,881,535
Including:									
Investments in associates and joint ventures	*–*	*–*	*4*	*6*	*–*	*431*	*4,159*	*–*	*4,600*
Unallocated assets									*24,065*
Total assets									9,905,600
Segment liabilities	(1,202,152)	(346,410)	(2,648,846)	(1,483,516)	(697,188)	(1,067,197)	(3,512,239)	1,853,778	(9,103,770)
Unallocated liabilities									(918)
Total liabilities									(9,104,688)

	As at 31 December 2018								
	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Overseas	Head Office	Eliminations	Total
Segment assets	1,157,867	339,827	2,669,816	1,434,255	688,096	1,006,195	4,224,506	(2,011,366)	9,509,196
Including:									
Investments in associates and joint ventures	*–*	*–*	*4*	*7*	*–*	*67*	*3,575*	*–*	*3,653*
Unallocated assets									21,975
Total assets									9,531,171
Segment liabilities	(1,140,638)	(342,636)	(2,534,865)	(1,399,199)	(681,169)	(991,077)	(3,747,047)	2,011,366	(8,825,265)
Unallocated liabilities									(598)
Total liabilities									(8,825,863)

(All amounts expressed in millions of RMB unless otherwise stated)

45 SEGMENTAL ANALYSIS *(Continued)*

Business Information

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

The business information of the Group is summarised as follows:

	Year ended 31 December 2019				
	Corporate Banking Business	Personal Banking Business	Treasury Business	Other Business	Total
External net interest income	54,158	45,514	42,145	2,266	144,083
Inter-segment net interest income/ (expense)	19,915	15,277	(35,192)	–	–
Net interest income	74,073	60,791	6,953	2,266	144,083
Net fee and commission income	15,168	25,585	543	2,329	43,625
Net gains/(losses) arising from trading activities	1,708	(3)	11,789	2,442	15,936
Net gains arising from financial investments	–	–	313	–	313
Share of profits of associates and joint ventures	–	–	–	414	414
Insurance business income	–	–	–	11,687	11,687
Other operating income	13,763	2,313	–	723	16,799
Total operating income – net	104,712	88,686	19,598	19,861	232,857
Credit impairment losses	(31,854)	(20,803)	1,014	(311)	(51,954)
Other assets impairment losses	(233)	–	–	(37)	(270)
Insurance business expense	–	–	–	(11,432)	(11,432)
Other operating expense					
– Depreciation and amortisation	(2,917)	(4,347)	(406)	(435)	(8,105)
– Others	(31,335)	(34,412)	(2,858)	(4,291)	(72,896)
Profit before tax	38,373	29,124	17,348	3,355	88,200
Income tax					(10,138)
Net profit for the year					78,062
Depreciation and amortisation	(2,917)	(4,347)	(406)	(435)	(8,105)
Capital expenditure	(11,650)	(17,366)	(1,623)	(1,737)	(32,376)

(All amounts expressed in millions of RMB unless otherwise stated)

45 SEGMENTAL ANALYSIS *(Continued)*

	Year ended 31 December 2018				
	Corporate Banking Business	Personal Banking Business	Treasury Business	Other Business	Total
External net interest income	49,366	41,779	37,313	2,450	130,908
Inter-segment net interest income/ (expense)	19,189	9,011	(28,200)	–	–
Net interest income	68,555	50,790	9,113	2,450	130,908
Net fee and commission income	14,392	24,090	604	2,151	41,237
Net gains/(losses) arising from trading activities	2,656	(53)	13,876	620	17,099
Net gains arising from financial investments	–	–	290	–	290
Share of profits of associates and joint ventures	–	–	–	227	227
Insurance business income	–	–	–	7,481	7,481
Other operating income	11,487	3,130	2	1,194	15,813
Total operating income – net	97,090	77,957	23,885	14,123	213,055
Credit impairment losses	(29,726)	(13,607)	141	(262)	(43,454)
Other assets impairment losses	(34)	–	–	(26)	(60)
Insurance business expense	–	–	–	(6,722)	(6,722)
Other operating expense					
– Depreciation and amortisation	(1,708)	(3,581)	(125)	(263)	(5,677)
– Others	(28,557)	(35,979)	(2,671)	(3,868)	(71,075)
Profit before tax	37,065	24,790	21,230	2,982	86,067
Income tax					(11,902)
Net profit for the year					74,165
Depreciation and amortisation	(1,708)	(3,581)	(125)	(263)	(5,677)
Capital expenditure	(9,430)	(19,775)	(688)	(1,452)	(31,345)

	As at 31 December 2019				
	Corporate Banking Business	**Personal Banking Business**	**Treasury Business**	**Other Business**	**Total**
Segment assets	**3,524,914**	**1,829,595**	**4,429,717**	**97,309**	**9,881,535**
Including:					
Investments in associates and joint ventures	*–*	*–*	*–*	*4,600*	*4,600*
Unallocated assets					**24,065**
Total assets					**9,905,600**
Segment liabilities	**(4,340,472)**	**(2,004,467)**	**(2,719,447)**	**(39,384)**	**(9,103,770)**
Unallocated liabilities					**(918)**
Total liabilities					**(9,104,688)**

(All amounts expressed in millions of RMB unless otherwise stated)

45 SEGMENTAL ANALYSIS *(Continued)*

	As at 31 December 2018				
	Corporate Banking Business	Personal Banking Business	Treasury Business	Other Business	Total
Segment assets	3,181,294	1,721,526	4,529,647	76,729	9,509,196
Including:					
Investments in associates and joint ventures	–	–	–	*3,653*	*3,653*
Unallocated assets					21,975
Total assets					9,531,171
Segment liabilities	(4,247,625)	(1,806,316)	(2,742,362)	(28,962)	(8,825,265)
Unallocated liabilities					(598)
Total liabilities					(8,825,863)

There were no significant transactions with a single external customer that the Group mainly relied on.

46 FINANCIAL STATEMENTS OF THE BANK

(a) Statement of financial position of the Bank

	As at 31 December 2019	As at 31 December 2018
ASSETS		
Cash and balances with central banks	**756,179**	835,960
Due from and placements with banks and other financial institutions	**719,284**	895,393
Derivative financial assets	**19,960**	29,447
Loans and advances to customers	**4,971,617**	4,556,775
Financial investments at fair value through profit or loss	**337,752**	356,351
Financial investments at amortised cost	**1,905,492**	1,982,351
Financial investments at fair value through other comprehensive income	**548,454**	324,922
Investments in associates and joint ventures	**4,055**	3,454
Investments in subsidiaries	**54,167**	46,110
Property and equipment	**50,795**	52,740
Deferred income tax assets	**22,571**	20,580
Other assets	**61,539**	43,710
Total assets	**9,451,865**	9,147,793

(All amounts expressed in millions of RMB unless otherwise stated)

46 FINANCIAL STATEMENTS OF THE BANK *(Continued)*

(a) Statement of financial position of the Bank *(Continued)*

	As at 31 December 2019	As at 31 December 2018
Liabilities		
Due to banks and other financial institutions	**1,809,364**	2,092,370
Financial liabilities at FVPL	**26,342**	23,109
Derivative financial liabilities	**26,076**	28,801
Due to customers	**5,914,089**	5,644,733
Certificates of deposits issued	**493,873**	360,766
Current income tax liabilities	**5,524**	1,334
Deferred income tax liabilities	**102**	46
Debt securities issued	**317,205**	244,163
Other liabilities	**97,535**	77,654
Total liabilities	**8,690,110**	8,472,976
Equity		
Share capital	**74,263**	74,263
Other equity investments	**99,870**	59,876
Including: Preference shares	***59,876***	*59,876*
Perpetual bonds	***39,994***	–
Capital surplus	**113,427**	113,427
Other reserves	**318,251**	313,760
Retained earnings	**155,944**	113,491
Total equity	**761,755**	674,817
Total equity and liabilities	**9,451,865**	9,147,793

The financial statements of the Bank were approved and authorised for issuance by the Board of Directors on 27 March 2020 and signed on its behalf by:

Chairman, Executive Director and President: Ren Deqi

Executive Director and Vice President: Hou Weidong

(All amounts expressed in millions of RMB unless otherwise stated)

46 FINANCIAL STATEMENTS OF THE BANK *(Continued)*

(b) Statement of changes in equity of the Bank

					Other reserves										
	Share capital Note 33	Preference shares Note 34	Perpetual bonds Note 34	Capital surplus Note 33	Statutory reserve Note 35	Discretionary reserve Note 35	Statutory general reserve Note 35	Revaluation reserve for financial assets measured at designated FVOCI Note 35	Revaluation reserve for the changes in credit risk of the financial liabilities measured at designated FVPL	Cash flow hedge reserve	Translation reserve on foreign operations	Actuarial changes reserve	Others	Retained earnings Note 35,36	Total
As at 31 December 2018	74,263	59,876	-	113,427	63,072	139,764	108,717	1,247	(20)	29	(404)	10	1,345	113,491	674,817
Impact from adoption of IFRS 16	-	-	-	-	-	-	-	-	-	-	-	-	-	(609)	(609)
As at 1 January 2019 (restated)	74,263	59,876	-	113,427	63,072	139,764	108,717	1,247	(20)	29	(404)	10	1,345	112,882	674,208
Net profit for the year	-	-	-	-	-	-	-	-	-	-	-	-	-	70,752	70,752
Other comprehensive income	-	-	-	-	-	-	-	1,078	25	(47)	697	(20)	18	-	1,751
Total comprehensive income	-	-	-	-	-	-	-	1,078	25	(47)	697	(20)	18	70,752	72,503
Capital contribution by holders of other equity instruments	-	-	39,994	-	-	-	-	-	-	-	-	-	-	-	39,994
Dividends paid to ordinary shareholders	-	-	-	-	-	-	-	-	-	-	-	-	-	(22,279)	(22,279)
Dividends paid to preference shareholders	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,671)	(2,671)
Transfer to reserves	-	-	-	-	-	-	2,738	-	-	-	-	-	-	(2,738)	-
Transfer from other comprehensive income to retained earnings	-	-	-	-	-	-	-	2	-	-	-	-	-	(2)	-
As at 31 December 2019	74,263	59,876	39,994	113,427	63,072	139,764	111,455	2,327	5	(18)	293	(10)	1,363	155,944	761,755
As at 31 December 2017	74,263	59,876	–	113,427	56,239	139,764	100,012	(2,053)	Not applicable	(5)	(1,473)	35	1,327	112,544	653,956
Impact from adoption of IFRS 9	–	–	–	–	–	–	–	1,797	(6)	–	–	–	–	(28,012)	(26,221)
As at 1 January 2018 (restated)	74,263	59,876	–	113,427	56,239	139,764	100,012	(256)	(6)	(5)	(1,473)	35	1,327	84,532	627,735
Net profit for the year	–	–	–	–	–	–	–	–	–	–	–	–	–	68,324	68,324
Other comprehensive income	–	–	–	–	–	–	–	1,503	(14)	34	1,069	(25)	18	–	2,585
Total comprehensive income	–	–	–	–	–	–	–	1,503	(14)	34	1,069	(25)	18	68,324	70,909
Capital contribution by holders of other equity instruments	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Dividends paid to ordinary shareholders	–	–	–	–	–	–	–	–	–	–	–	–	–	(21,209)	(21,209)
Dividends paid to preference shareholders	–	–	–	–	–	–	–	–	–	–	–	–	–	(2,618)	(2,618)
Transfer to reserves	–	–	–	–	6,833	–	8,705	–	–	–	–	–	–	(15,538)	–
As at 31 December 2018	74,263	59,876	–	113,427	63,072	139,764	108,717	1,247	(20)	29	(404)	10	1,345	113,491	674,817

47 NON-ADJUSTING EVENT AFTER REPORTING PERIOD

In accordance with the resolution and authorization of the 7th meeting of the 9th Session of Board of Directors of the Bank, BOCOM International Holdings Company Limited, a subsidiary of the Bank, intends to initiate the establishment of a wholly-owned subsidiary, BOCOM Financial Technology Company Limited through its wholly-owned subsidiary BOCOM International (Shanghai) Equity Investment Management Co., Ltd. The Investment is subject to relevant regulatory approval.

In January 2020, the Board of Directors of the Bank approved a total capital increase to Bank of Communications (Hong Kong) Limited of no more than HKD30 billion. Such capital will be injected by instalments. Such proposal is subject to the ultimate approval by the Bank's Shareholders' General Meeting.

In January 2020, the Board of Directors of the Bank approved the issuance of undated capital bonds with write-down feature which has a total amount of no more than RMB90 billion or equivalent foreign currencies on the domestic and overseas markets, to replenish Additional Tier 1 Capital of the Bank. Such proposal is subject to the ultimate approval by the Bank's Shareholders' General Meeting.

In January 2020, the Board of Directors of the Bank approved the issuance of financial bonds with a total amount of no more than 1% of the total assets of the Group in its latest audited financial statements on the national inter-bank bond market, which can be implemented with stages during the authorised period. The duration of the bond shall not exceed five years.

In January 2020, the Bank's Hong Kong Branch issued three medium term notes with the face value of RMB2 billion due in 2022, USD1.3 billion due in 2023 and HKD2.8 billion due in 2022 respectively.

In March 2020, Bank of Communications (Hong Kong) Limited issued Non-Cumulative Subordinated Additional Tier 1 Capital Securities with the face value of USD0.5 billion.

In March 2020, Bank of Communications Financial Assets Investment Co., Ltd. issued two financial bonds with the face value of RMB 3 billion due 2023 and RMB 7 billion due 2025 respectively.

Since January 2020, the epidemic of COVID-19 has spread around the world, affecting commercial and economic activities. Consequently, it may to some extent influence the quality of credit assets and investment assets or ROE of the Group. The impacts depend on the duration of the epidemic, work of prevention and control, and regulatory policies. The Group will continue to pay close attention to the progression of the epidemic and actively assess and respond to its impacts on the Group's financial position and operating results. As at the reporting date, the assessment is still in progress.

(All amounts expressed in millions of RMB unless otherwise stated)

1 LIQUIDITY RATIO

The liquidity ratios that the Group submitted to the Regulators are calculated in accordance with the formula promulgated by CBIRC.

	As at 31 December 2019	As at 31 December 2018
Liquidity ratio (%)	**72.92**	68.73

2 CURRENCY CONCENTRATIONS

	USD	**HKD**	**Others**	**Total**
As at 31 December 2019				
Spot assets	**962,162**	**240,381**	**182,878**	**1,385,421**
Spot liabilities	**(935,924)**	**(281,692)**	**(120,743)**	**(1,338,359)**
Forward purchases	**1,009,056**	**184,437**	**88,332**	**1,281,825**
Forward sales	**(1,082,162)**	**(116,658)**	**(131,152)**	**(1,329,972)**
Net option position	**(9,379)**	**(1)**	**(506)**	**(9,886)**
Net long/(short) position	**(56,247)**	**26,467**	**18,809**	**(10,971)**
Net structural position	**123,773**	**18,922**	**5,175**	**147,870**

	USD	HKD	Others	Total
As at 31 December 2018				
Spot assets	923,779	190,792	154,296	1,268,867
Spot liabilities	(980,657)	(239,433)	(112,500)	(1,332,590)
Forward purchases	1,176,798	111,895	34,961	1,323,654
Forward sales	(1,164,445)	(50,463)	(67,904)	(1,282,812)
Net option position	(3,652)	–	(728)	(4,380)
Net long/(short) position	(48,177)	12,791	8,125	(27,261)
Net structural position	103,330	18,941	5,048	127,319

The net options position is calculated using the approach as set out by CBIRC in the regulatory report. The net structural position of the Group includes the structural positions of the Group's overseas branches, banking subsidiaries and other subsidiaries substantially involved in foreign exchange. Structural assets and liabilities include:

- Investments in fixed assets and properties, net of depreciation charges;
- Capital and statutory reserve of overseas branches;
- Investments in overseas subsidiaries and related companies; and
- Loan capital

(All amounts expressed in millions of RMB unless otherwise stated)

3 INTERNATIONAL CLAIMS

International claims are the sum of cross-border claims in all currencies and local claims in foreign currencies. The Group is principally engaged in business operations within Mainland China.

For the purpose of this unaudited supplementary financial information, Mainland China excludes Hong Kong Special Administrative Region of the PRC ("Hong Kong"), Macau Special Administrative Region of the PRC ("Macau") and Taiwan.

International claims include loans and advances to customers, deposits and placements with banks and non-bank financial institutions, holdings of trade bills and certificates of deposits and investment securities.

International claims have been disclosed by country or geographical area. A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfers are only made if risk exposure is transferred to other counterparty by risk resolving methods. Exposure to credit risk is also controlled by obtaining collaterals and corporate and individual guarantees.

As at 31 December 2019	**Bank**	**Official sector**	**Non-bank private sector**	**Others**	**Total**
Asia Pacific	**483,803**	**34,641**	**570,466**	**–**	**1,088,910**
Of which attributed to Hong Kong	***145,993***	***16,732***	***236,836***	**–**	***399,561***
North and South America	**33,558**	**32,202**	**67,936**	**–**	**133,696**
Africa	**4,704**	**594**	**10,615**	**–**	**15,913**
Europe	**14,620**	**211**	**24,409**	**–**	**39,240**
	536,685	**67,648**	**673,426**	**–**	**1,277,759**

As at 31 December 2018	Bank	Official sector	Non-bank private sector	Others	Total
Asia Pacific	543,039	49,363	461,398	–	1,053,800
Of which attributed to Hong Kong	*123,413*	*19,119*	*192,390*	–	*334,922*
North and South America	57,414	14,001	50,278	–	121,693
Africa	–	–	–	–	–
Europe	22,481	1,125	57,266	–	80,872
	622,934	64,489	568,942	–	1,256,365

4 OVERDUE AND RESTRUCTURED ASSETS

4.1 Balance of overdue loans

	As at 31 December 2019	As at 31 December 2018
Loans and advances to customers which have been overdue for:		
– Less than 3 months	**28,923**	25,843
– 3 to 6 months	**9,694**	10,983
– 6 to 12 months	**18,924**	21,096
– Over 12 months	**32,979**	31,242
	90,520	89,164
Percentage (%):		
– Less than 3 months	**0.55**	0.54
– 3 to 6 months	**0.17**	0.23
– 6 to 12 months	**0.36**	0.43
– Over 12 months	**0.63**	0.64
	1.71	1.84

(All amounts expressed in millions of RMB unless otherwise stated)

4.2 Overdue and restructured loans

	As at 31 December 2019	As at 31 December 2018
Total restructured loans and advances to customers	7,634	9,415
Including: Restructured loans and advances to customers overdue above 3 months	*1,949*	*3,617*
Percentage of restructured loans and advances to customers overdue above 3 months in total loans	0.04	0.07

5 SEGMENTAL INFORMATION OF LOANS

5.1 Impaired loans and advances to customers by geographical area

	As at 31 December 2019		As at 31 December 2018	
	Impaired loans and advances to customers	Allowance for impairment losses	Impaired loans and advances to customers	Allowance for impairment losses
PRC domestic regions				
– Northern China	5,506	(4,371)	7,734	(5,479)
– North Eastern China	13,826	(9,625)	8,668	(5,586)
– Eastern China	21,573	(14,778)	21,895	(13,549)
– Central and Southern China	14,419	(9,538)	14,941	(9,090)
– Western China	10,373	(7,569)	10,329	(6,084)
– Head office	11,133	(11,514)	7,681	(7,320)
	76,830	(57,395)	71,248	(47,108)
Hong Kong, Macau, Taiwan and overseas regions	1,213	(652)	1,264	(915)
	78,043	(58,047)	72,512	(48,023)

5.2 Overdue loans and advances to customers by geographical area

	As at 31 December 2019		As at 31 December 2018	
	Overdue loans	Allowance for impairment losses	Overdue loans	Allowance for impairment losses
PRC domestic regions				
– Northern China	5,923	(9,268)	7,939	(5,346)
– North Eastern China	15,384	(4,286)	9,619	(5,742)
– Eastern China	24,217	(13,903)	25,229	(15,865)
– Central and Southern China	15,164	(8,566)	15,901	(9,594)
– Western China	8,277	(6,117)	10,536	(6,648)
– Head office	20,582	(13,877)	18,374	(8,983)
	89,547	(56,017)	87,598	(52,178)
Hong Kong, Macau, Taiwan and overseas regions	973	(710)	1,566	(1,143)
	90,520	(56,727)	89,164	(53,321)
Fair value of collaterals	44,293	Not applicable	43,899	Not applicable

(All amounts expressed in millions of RMB unless otherwise stated)

6 LOANS AND ADVANCES TO CUSTOMERS

6.1 The risk concentration analysis for loans and advances to customers by industry sectors (gross)

	As at 31 December 2019			As at 31 December 2018		
Hong Kong		%	Amount covered by collaterals		%	Amount covered by collaterals
Corporate loans						
Manufacturing						
– Petroleum and chemical	957	0.44	–	1,265	0.66	–
– Electronics	863	0.39	316	668	0.35	325
– Textile and clothing	3,079	1.40	636	2,990	1.56	634
– Other manufacturing	30,300	13.81	4,736	29,120	15.21	4,116
Production and supply of power, heat, gas and water	1,529	0.70	400	1,187	0.62	227
Construction	11,125	5.07	1,012	9,455	4.94	1,106
Transportation, storage and postal service	16,682	7.61	4,040	13,435	7.02	4,143
Information transmission, software and IT services	1,059	0.48	31	835	0.44	32
Wholesale and retail	37,106	16.92	3,438	36,487	19.05	3,235
Accommodation and catering	–	–	–	–	–	–
Finance	10,405	4.74	2,354	12,348	6.45	3,211
Real estate	24,510	11.17	10,677	12,934	6.75	6,736
Leasing and commercial services	8,840	4.03	3,152	5,358	2.80	2,649
Education, science, culture and public health	–	–	–	–	–	–
Others	41,297	18.84	5,932	39,937	20.84	4,506
Total corporate loans	187,752	85.60	36,724	166,019	86.69	30,920
Individual loans						
Mortgage	17,496	7.98	17,479	14,445	7.54	14,429
Credit cards	146	0.07	–	156	0.08	–
Others	13,936	6.35	12,876	10,893	5.69	9,912
Total individual loans	31,578	14.40	30,355	25,494	13.31	24,341
Gross amount of loans and advances to customers before impairment allowance	219,330	100.00	67,079	191,513	100.00	55,261
Outside Hong Kong	5,084,945			4,662,715		

Note: The classification of industries is consistent with the latest national standards for industry classification (Industrial classification for national economic activities (GB/T 4754-2017) issued by SAC and AQSIQ in 2017).

The risk concentration analysis for loans and advances to customers by industry sectors is based on the Group's internal classification system.

The ratio of collateral loans to the total loans of the Group was 47% as at 31 December 2019 (31 December 2018: 49%).

(All amounts expressed in millions of RMB unless otherwise stated)

6 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

6.2 Allowance on loans and advances to customers by type of loan

	As at 31 December 2019		As at 31 December 2018	
	Impaired loans	Allowance for impairment losses	Impaired loans	Allowance for impairment losses
Corporates	59,469	(42,085)	57,172	(36,577)
Individuals	18,574	(15,962)	15,340	(11,446)
	78,043	(58,047)	72,512	(48,023)
Fair value of collaterals	29,398	Not applicable	28,349	Not applicable

Collaterals held against such loans mainly include cash deposits and mortgages over properties.

The amount of new provisions charged to statement of profit or loss, and the amount of loans and advances written off during the years are disclosed below:

	Year ended 31 December 2019			Year ended 31 December 2018		
	New provisions	Loans and advances written off as uncollectible	Recoveries of loans and advances written off in previous years	New provisions	Loans and advances written off as uncollectible	Recoveries of loans and advances written off in previous years
Corporates	29,605	(27,547)	1,464	29,759	(38,988)	1,062
Individuals	19,476	(14,436)	1,224	12,737	(11,180)	517
	49,081	(41,983)	2,688	42,496	(50,168)	1,579

APPENDIX 1: INFORMATION RELATED TO LEVERAGE RATIO

Reconciliation of Regulatory Consolidation and Accounting Consolidation

(in millions of RMB)

Serial Number	Item	31 December 2019
1	Total consolidated assets	9,905,600
2	Adjustments of consolidation	(54,233)
3	Adjustments item of customer's assets	0
4	Adjustments of derivatives	40,470
5	Adjustments of securities financing transactions	7,808
6	Adjustments of off-balance-sheet item	736,970
7	Other Adjustments	(5,595)
8	**Balance of adjusted on-and-off-balance-sheet assets**	**10,631,020**

Leverage Ratio Information

(in millions of RMB unless otherwise stated)

SN	Item	31 December 2019
1	On-balance-sheet assets (excluding derivatives and securities financing transactions)	9,732,567
2	Less: Deduction of Tier 1 Capital	(5,595)
3	**Balance of adjusted on-balance-sheet assets (excluding derivatives and securities financing transactions)**	**9,726,972**
4	Replacement costs of derivatives (less eligible margin)	20,934
5	Potential risk exposure of derivatives	40,470
6	Sum of collaterals deducted from the balance sheet	0
7	Less: Assets receivable from providing eligible margin	0
8	Less: Derivative assets resulting from the transactions with central counterparties in providing clearing settlement services for customers	0
9	Notional principal of sold credit derivatives	0
10	Less: Deductible balance of sold credit derivatives	0
11	**Derivative asset balance**	**61,404**
12	Accounting asset balance of securities financing transactions	97,866
13	Less: Balance of deductible securities financing transaction assets	0
14	Counterparty credit risk exposure of securities financing transactions	7,808
15	Balance of securities financing transaction assets from acting for securities financing transactions	0
16	**Securities financing assets balance**	**105,674**
17	Balance of off-balance-sheet items	1,708,677
18	Less: Balance of off-balance-sheet items arising from the reduction of credit transfer	(971,707)
19	**Adjusted off-balance-sheet items balance**	**736,970**
20	Net Tier 1 Capital	789,546
21	Adjusted balance of on-and-off-balance-sheet assets	10,631,020
22	**Leverage ratio (%)**	**7.43**

Note: Information disclosed in Appendix 1 according to the requirements of the Administrative Measures for the Leverage Ratio of Commercial Banks (Revised), which is the difference of items between regulatory consolidation and accounting consolidation.

APPENDIX 2: THE DAILY AVERAGE LIQUIDITY COVERAGE RATIO AND ITS DETAILS OF THE GROUP IN THE FORTH QUARTER OF 2019

(in millions of RMB unless otherwise stated)

Serial Number		Amount before conversion	Amount after conversion
The qualified high-quality liquid assets			
1	The qualified high-quality liquid assets		1,811,837
Cash Outflow			
2	Retail deposits, small business deposits, including:	1,605,982	150,688
3	Stable deposit	195,948	9,685
4	Less stable deposit	1,410,034	141,003
5	Unsecured wholesale funding, including:	4,062,009	1,823,537
6	Business relationship deposit (excluding agency business)	2,272,002	566,710
7	Non-business relationship deposit (including all counterparties)	1,783,997	1,250,817
8	Unsecured debts	6,010	6,010
9	Secured funding		21,678
10	Other items, including:	1,501,138	687,193
11	Cash outflow relates to derivatives and other collateral/pledged assets	651,484	638,102
12	Cash outflow relates to loss of funding on asset-blocked securities	119	119
13	Committed credit and liquidity facilities	849,535	48,972
14	Other contractual obligation to extend funds	46,653	46,653
15	Contingent funding obligations	1,161,116	40,055
16	Total expected cash outflow		2,769,804
Cash Inflow			
17	Secured lending (including reverse repos and securities borrowing)	51,739	51,230
18	Inflows from fully performing exposure	814,295	551,435
19	Other cash inflow	690,008	663,607
20	Total expected cash inflow	1,556,042	1,266,272
			Amount after adjustment
21	The qualified high-quality liquid assets		1,811,837
22	Net cash outflow		1,503,532
23	Liquidity Coverage Ratio (%)		120.69

APPENDIX 3: NET STABLE FUNDING RATIO AND ITEMS FOR THE THIRD QUARTER OF 2019

(in millions of RMB unless otherwise stated)

Serial Number		Unweighted value No maturity	Less than 6 months	6-12 months	Over 1 year	Weighted value
Available Stable Funding Item						
1	Capital	777,744	–	–	102,403	880,147
2	Regulatory Capital	777,744	–	–	82,303	860,047
3	Other capital instruments	–	–	–	20,100	20,100
4	Retail deposits and deposits from small enterprises	798,026	1,236,609	69,186	3,033	1,915,641
5	Stable deposits	378,457	3,263	1,651	1,613	365,815
6	Less stable deposits	419,569	1,233,347	67,535	1,420	1,549,826
7	Wholesale funding	2,084,262	3,223,660	818,012	471,931	2,671,692
8	Operational deposits	2,076,422	130,389	32,268	5,707	1,125,247
9	Other wholesale funding	7,840	3,093,271	785,744	466,224	1,546,445
10	Liabilities with matching interdependent assets	–	–	–	–	–
11	Other liabilities	40,987	18,635	5,521	234,005	224,488
12	Net stable funding ratio derivative liabilities		41,598			
13	All other liabilities and equities not included in the above categories	40,987	18,635	5,521	192,407	224,488
14	**Total available stable funding**					**5,691,968**
Required Stable Funding Item						
15	Total net stable funding ratio high-quality liquid assets					373,070
16	Deposits held at other financial institutions for business relationship	94,025	4,460	–	498	49,740
17	Loans and securities	59,083	1,884,157	933,722	3,619,414	4,342,604
18	Loans to financial institutions secured by Level 1 assets	–	6,599	–	–	990
19	Loans to financial institutions secured by non-Level 1 assets or unsecured	–	542,905	243,670	144,319	347,590
20	Loans to retail and small business customers, non-financial institutions, sovereigns, central banks and public sector entities.	7	1,310,632	649,911	2,017,286	2,692,139
21	Including: with a risk weight less than or equal to 35%	–	37,726	10,325	16,048	34,457
22	Residential mortgages	–	530	659	1,070,717	910,704
23	Including: with a risk weight less than or equal to 35%	–	–	–	–	–
24	Securities that are not in default and do not qualify as high-quality liquid assets, including exchange-traded equities	59,076	23,492	39,482	387,092	391,182
25	Assets with matching interdependent liabilities	–	–	–	–	–
26	Other assets	164,775	72,172	9,801	42,137	252,682
27	Physical traded commodities (including gold)	54,243				46,107
28	Assets posted as initial margin for derivative contracts and contributions to default funds of central counterparties		4,190	3,562		
29	Net stable funding ratio derivative assets		33,248	–		
30	Net stable funding ratio derivative liabilities with additional requirements		41,598	8,320		
31	All other assets not included in the above	110,532	72,172	9,801	4,699	194,693
32	Off-balance-sheet items		2,252,672	94,794		
33	**Total required stable funding**					**5,112,890**
34	**Net stable funding ratio (%)**					**111.33**

Notes:

1. Items to be reported in the "no maturity" bucket include, but are not limited to, capital with perpetual maturity, non-maturity (demand) deposits, short positions, open maturity positions, non-high-quality liquid assets equities, and physical traded commodities.
2. The unweighted value of item 30 "Net stable funding ratio derivative liabilities with additional requirements" is the net stable funding ratio derivative liabilities before the deduction of the variation margin, without differentiation of maturity, and not included in the unweighted value of item 26 "Other assets".

APPENDIX 4: NET STABLE FUNDING RATIO AND ITEMS FOR THE FOURTH QUARTER OF 2019

(in millions of RMB unless otherwise stated)

Serial Number		Unweighted value No maturity	Less than 6 months	6-12 months	Over 1 year	Weighted value
Available Stable Funding Item						
1	Capital	795,515	–	–	93,942	889,457
2	Regulatory Capital	795,515	–	–	73,842	869,357
3	Other capital instruments	–	–	–	20,100	20,100
4	Retail deposits and deposits from small enterprises	853,292	1,229,204	39,892	4,422	1,935,326
5	Stable deposits	410,996	2,705	1,398	1,496	395,839
6	Less stable deposits	442,297	1,226,499	38,495	2,926	1,539,487
7	Wholesale funding	2,139,239	3,013,639	728,116	506,440	2,650,461
8	Operational deposits	2,122,298	111,836	31,319	5,554	1,138,280
9	Other wholesale funding	16,941	2,901,803	696,797	500,886	1,512,181
10	Liabilities with matching interdependent assets	–	–	–	–	–
11	Other liabilities	49,924	146,965	55,548	195,229	233,952
12	Net stable funding ratio derivative liabilities		26,421			
13	All other liabilities and equities not included in the above categories	49,924	146,965	55,548	168,807	233,952
14	**Total available stable funding**					**5,709,197**
Required Stable Funding Item						
15	Total net stable funding ratio high-quality liquid assets					327,080
16	Deposits held at other financial institutions for business relationship	71,237	832	–	498	36,532
17	Loans and securities	27,044	1,689,396	968,586	3,678,284	4,348,607
18	Loans to financial institutions secured by Level 1 assets	–	2,648	–	–	397
19	Loans to financial institutions secured by non-Level 1 assets or unsecured	–	399,915	207,500	156,723	320,460
20	Loans to retail and small business customers, non-financial institutions, sovereigns, central banks and public sector entities.	–	1,252,162	732,684	2,038,118	2,720,633
21	Including: with a risk weight less than or equal to 35%	–	16,462	9,690	22,585	27,756
22	Residential mortgages	–	534	674	1,105,955	940,666
23	Including: with a risk weight less than or equal to 35%	–	–	–	–	–
24	Securities that are not in default and do not qualify as high-quality liquid assets, including exchange-traded equities	27,044	34,137	27,728	377,487	366,451
25	Assets with matching interdependent liabilities	–	–	–	–	–
26	Other assets	158,349	76,598	10,463	160,194	375,316
27	Physical traded commodities (including gold)	51,293				43,599
28	Assets posted as initial margin for derivative contracts and contributions to default funds of central counterparties		6,029	5,124		
29	Net stable funding ratio derivative assets		20,934	–		
30	Net stable funding ratio derivative liabilities with additional requirements		26,421	5,284		
31	All other assets not included in the above	107,056	76,598	10,463	133,231	321,307
32	Off-balance-sheet items		2,399,531	101,881		
33	**Total required stable funding**					**5,189,416**
34	**Net stable funding ratio (%)**					**110.02**

Notes

1. Items to be reported in the "no maturity" bucket include, but are not limited to, capital with perpetual maturity, non-maturity (demand) deposits, short positions, open maturity positions, non-high-quality liquid assets equities, and physical traded commodities.
2. The unweighted value of item 30 "Net stable funding ratio derivative liabilities with additional requirements" is the net stable funding ratio derivative liabilities before the deduction of the variation margin, without differentiation of maturity, and not included in the unweighted value of item 26 "Other assets".

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