

2021 ANNUAL REPORT

Stock Code:03328



CREATE SHARED VALUE
創造共同價值



Contents

Important Reminders	1
Definitions	2
General Information	3
Financial Highlights	6
Statement from Chairman of the Board of Directors	8
Statement from President	11
Statement of Chairman of the Board of Supervisors	15
Management Discussion and Analysis	
Economic and Financial Environment	18
Financial Statement Analysis	18
Business Review	35
Risk Management	61
Outlook	73
Corporate Governance	
Changes in Shares and Shareholders	75
Corporate Governance	84
Report of the Board of Directors	137
Report of the Board of Supervisors	144
Environmental and Social Responsibilities	149
Significant Events	154
Organisation Chart and List of Institutions	156
Consolidated Financial Statements and Others	
Independent Auditor's Report	162
Consolidated Financial Statements	170
Notes to the Consolidated Financial Statements	177
Unaudited Supplementary Financial Information	312
Supplementary Information on Leverage Ratio, Liquidity Coverage Ratio and Net Stable Funding Ratio	319

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 legal responsibilities.
- II. The 2021 Annual Report and its summary of the Bank were reviewed and approved at the 25th Meeting of the 9th Session of the Board of Directors of the Bank on 25 March 2022. The number of directors who should attend the meeting was 16, with 15 directors attending the meeting in person and 1 director attending the meeting by proxy. Independent Non-executive Director Woo Chin Wan, Raymond did not attend the meeting in person due to other commitments and entrusted Independent Non-executive Director Yeung Chi Wai, Jason to attend and vote on behalf of him with a trust deed.
- III. 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 the Annual Report.
- IV. 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.
- V. The proposal on profit distribution for the year of 2021 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 RMB0.355 (including tax) per share would be distributed to registered shareholders of A share and H share, totalling RMB26.363 billion. There is no proposal on bonus share or proposal on conversion of capital reserve into share capital for the current year.
- VI. Prospective statements involved in the report, such as future plans and 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 between plan, forecasting and commitment.
- VII. The Group's operation is mainly exposed to risks including credit risk, market risk, operational risk and compliance risk. The Group has taken and will continue to take various steps to effectively manage risks. For more details which requires investors' attention, please refer to the section of "Management Discussion and Analysis – Risk Management".

DEFINITIONS

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

“Bank”, “BoCom”	Bank of Communications Co., Ltd.
“Group”	The Bank and its subsidiaries
“Ministry of Finance”	Ministry of Finance of the People’s Republic of China
“HSBC”	The Hongkong and Shanghai Banking Corporation Limited
“SSF”	The National Council for Social Security Fund
“CHI”	Central Huijin Investment Ltd.
“PBOC”	The People’s Bank of China
“CBIRC”	China Banking and Insurance Regulatory Commission
“CSRC”	China Securities Regulatory Commission
“Ministry of Agriculture and Rural Affairs”	The Ministry of Agriculture and Rural Affairs of the People’s Republic of China
“SSE”	The Shanghai Stock Exchange
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Hong Kong Listing Rules”	<i>The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited</i>
“Corporate Governance Code”	Appendix 14 <i>Corporate Governance Code</i> of Hong Kong Listing Rules

Major products and services of the Bank

“Win to Fortune”	A corporate and interbank wealth management brand of the Bank, providing comprehensive one-stop wealth management solutions for corporate, government institutions and interbank financial customers through intelligent financial service and digital transformation.
“OTO Fortune”	A main brand of retail business of the Bank with the core value of “creating and sharing abundant wealth with noble virtue” devoted to realising value maintenance and appreciation of wealth for customers.
Personal Mobile Banking	A mobile APP providing online business processing and other services to personal customers of the Bank and covering a variety of financial products and life service needs of customers.
Corporate Mobile Banking	A portable and convenient channel providing online account opening, account enquiry, reconciliation management, transfer and payment, wealth management and investment, financial information, business signing and termination for corporate customers through APPs on mobile phones and tablet computers, with close and convenient channels.
Corporate Online Banking	An electronic transaction system of the Bank providing financial services such as account enquiry, corporate payment, cash management, international business, wealth management and investment and financial services for corporate customers through the Internet.
BoCom e-Platform	A channel of the Bank providing financial services such as wealth management, account management, payment and settlement, and factor market business for interbank and end customers.
“Go Pay”	A one-stop digital service platform of finance and life for all customers.
“Benefit Loan”	An online credit consumption loan product of the Bank for qualified customers.
“Haoshang Loan”	A credit service of credit cards for designated use provided by the Bank to target customers for automatic installments of the consumption at specific merchants, and customers’ repayment of transaction principal and the installment fee in installments.
“Inclusive e-Loan”	An online inclusive financing business of the Bank for qualified customers.
“BoCom e-Customs”	A financial service brand of the Bank connecting with the Single Window of international trades, providing online financial services for qualified import and export corporate customers, covering reservation of account opening, exchange rate enquiry, international inward/outward remittance, international trade financing and unsecured loans of small and micro enterprises.
“BoCom Yinongtong”	A financial service brand of the Bank for rural revitalisation covering policy advisory, credit financing, wealth management, payment and settlement and comprehensive services and so on.
“Xingnong e-Loan”	An online financing service of the Bank for new types of agricultural business entities.
“Cloud Banking”	An online customer service platform of the Bank for account managers based on the service ability of WeCom.

GENERAL INFORMATION

I. 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
Authorised representatives: Ren Deqi, Gu Sheng

Secretary of the Board of Directors and Company Secretary: Gu Sheng

Registered address: 188 Yin Cheng Zhong Lu,
(Shanghai) Pilot Free Trade Zone, PRC

Contact and address: 188 Yin Cheng Zhong Lu, Pudong New District, Shanghai
Postal code: 200120
Tel: 86-21-58766688
Fax: 86-21-58798398
E-mail: investor@bankcomm.com
Official website: www.bankcomm.com
Principal place of business in Hong Kong: 20 Pedder Street, Central, Hong Kong

Information Disclosure Channels and Places Where the Annual Report is Available

A share: *China Securities Journal, Shanghai Securities News, Securities Times* and website of the SSE at www.sse.com.cn
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 Shares

Classes	Stock exchange	Stock name	Stock code
A Share	Shanghai Stock Exchange	Bank of Communications	601328
H Share	The Stock Exchange of Hong Kong Limited	BANKCOMM	03328
Domestic Preference Share	Shanghai Stock Exchange	BOCOM PREF1	360021

Domestic auditor: PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership)
42/F, New Bund Centre, 588 Dongyu Road, Pudong New Area, Shanghai 200126, PRC
Name of auditor signed: Ma Yingni, Ying Chenbin

International auditor: PricewaterhouseCoopers Registered Public Interest Entity Auditor
22/F, Prince's Building, Central, Hong Kong
Name of auditor signed: Ling Tung Man Tom

PRC legal advisor: AllBright Law Offices

Hong Kong legal advisor: DLA Piper Hong Kong

Share Registrar and Transfer Office

A Share: China Securities Depository and Clearing Corporation Limited, Shanghai Branch No. 188 South Yanggao 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

GENERAL INFORMATION

II. COMPANY PROFILE AND PRINCIPAL ACTIVITIES

Founded in 1908, the Bank is one of the note-issuing banks with the longest history in modern China. The Bank reopened after reorganisation on 1 April 1987 and became the first nationwide state-owned joint-stock commercial bank in China, with Head Office located in Shanghai. The Bank was listed on the Hong Kong Stock Exchange in June 2005 and on the Shanghai Stock Exchange in May 2007.

Upon approval by the CBIRC, the Bank provides customers with various corporate and personal financial products & services, such as deposits and loans, supply chain finance, cash management, international settlement and trade financing, investment banking, asset custody, wealth management, bank cards, private banking, treasury businesses, etc. In addition, the Group is involved in businesses such as financial leasing, fund, wealth management, trust, insurance, overseas securities, and debt-to-equity swap through wholly-owned or controlling subsidiaries. During the Reporting Period, the Group's operating mode, primary businesses and key performance drivers had no significant change.

HONOURS AND REWARDS

TOP 11

Top 1000 World Banks 2021
(ranked 11)
The Banker (UK)

TOP 137

Fortune Global 500 – 2021
(ranked 137)
Fortune (USA)

Advanced Unit in National Poverty Alleviation

The CPC Central Committee, the State Council

First prize of FinTech Development Award in 2020

The People's Bank of China

First prize of Shanghai Financial Innovation Achievement Award in 2020

Shanghai Municipal People's Government

Best Open Bank Award, Best Corporate Mobile Banking Award and Best Personal Mobile Banking Award

China Financial Certification Authority (CFCA)
Best Bank for Cash Management Service

Best Bank for Payment and Settlement Solution (Project of Intelligent Financial Services Platform of Jiangsu Financial Leasing)

The Asset

Best Bank for International Business

Trade Finance

Best Innovative Investment Bank in 2021, Best Bank for Securitisation Deal in 2021

Asia Money

Credit Card Centre in 2021

21st Century Business Herald

Assessment A+ on Protecting Financial Consumers' Rights and Interests of the People's Bank of China in 2020

The People's Bank of China

Excellent Bank for Brand Construction in 2021

China.com.cn

2021 People's Corporate Social Responsibility – Corporate Performance Award

People.cn

Bank of Communications Financial Leasing Co., Ltd.

Best Financial Leasing Company in 2021

Financial Times

Top 50 World Aircraft Leasing Company in 2021 (ranked 10), Award on Structured Lease Transaction in 2021

Airfinance Journal (UK)

Bank of Communications Schroder Fund Management Co., Ltd.

Star Fund Companies with Positive Return for Five Consecutive Years

Securities Times

Golden Bull Fund Management Company

China Securities Journal

BOCOM Wealth Management Co., Ltd.

Golden Bull Award on Bank Wealth Management Company

China Securities Journal

The 14th Golden Shell Award on Excellent Wealth Management Subsidiary in 2021

21st Century Business Herald

BOCOM International Holdings Company Limited

TOP 20 Most Popular Dual-currency PE Institutions among LP in 2021

FOF WEEKLY

Bank of Communications International Trust Co., Ltd.

Excellent Risk Management Trust Company of the Year

Securities Times

BOCOM MSIG Life Insurance Company Limited

Outstanding Life Insurance Company of the Year

National Business Daily

FINANCIAL HIGHLIGHTS

I. KEY FINANCIAL DATA AND FINANCIAL INDICATORS

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	2021	2020	2019	2018	2017
Full year results					
				<i>(in millions of RMB)</i>	
Net interest income	161,693	153,336	144,083	130,908	124,873
Net fee and commission income	47,573	45,086	43,625	41,237	40,551
Net operating income	269,748	246,724	232,857	213,055	196,520
Credit impairment losses	66,371	62,059	51,954	43,454	Not applicable
Operating expenses	74,545	66,004	66,560	64,040	60,405
Profit before tax	93,959	86,425	88,200	86,067	83,265
Net profit (attributable to shareholders of the Bank)	87,581	78,274	77,281	73,630	70,223
As at the end of the year					
				<i>(in millions of RMB)</i>	
Total assets	11,665,757	10,697,616	9,905,600	9,531,171	9,038,254
Loans and advances to customers ¹	6,560,400	5,848,424	5,304,275	4,854,228	4,579,256
Total liabilities	10,688,521	9,818,988	9,104,688	8,825,863	8,361,983
Due to customers ¹	7,039,777	6,607,330	6,072,908	5,793,324	5,545,366
Shareholders' equity (attributable to shareholders of the Bank)	964,647	866,607	793,247	698,405	671,143
Per share					
				<i>(in RMB)</i>	
Earnings per share (attributable to the ordinary shareholders of the Bank) ²	1.10	0.99	1.00	0.96	0.91
Net assets per share (attributable to ordinary shareholders of the Bank) ³	10.64	9.87	9.34	8.60	8.23
Key financial ratios					
				<i>(%)</i>	
Return on average assets	0.80	0.77	0.80	0.80	0.81
Return on weighted-average shareholders' equity ²	10.76	10.35	11.20	11.36	11.40
Net interest margin ⁴	1.56	1.57	1.58	1.51	1.51
Cost-to-income ratio ⁵	29.00	28.29	30.11	31.50	31.85
Non-performing loan ratio	1.48	1.67	1.47	1.49	1.50
Provision coverage ratio	166.50	143.87	171.77	173.13	154.73
Capital adequacy ratios					
				<i>(in millions of RMB unless otherwise stated)</i>	
Net capital ⁶	1,139,957	1,021,246	911,256	817,549	790,381
Including: Net core tier-1 capital ⁶	783,877	727,611	689,489	634,807	609,454
Other tier-1 capital ⁶	176,348	134,610	100,057	60,025	59,975
Tier-2 capital ⁶	179,732	159,025	121,710	122,717	120,952
Risk-weighted assets ⁶	7,379,912	6,695,462	6,144,459	5,690,542	5,646,313
Capital adequacy ratio (%) ⁶	15.45	15.25	14.83	14.37	14.00
Tier-1 capital adequacy ratio (%) ⁶	13.01	12.88	12.85	12.21	11.86
Core tier-1 capital adequacy ratio (%) ⁶	10.62	10.87	11.22	11.16	10.79

Notes:

- Loans and advances to customers do not include interest receivable on related loans. Due to customers includes interest payable of related deposits.
- Calculated pursuant to the requirements of *Regulations on the Preparation of Information Disclosure for Companies Offering Securities to the Public No. 9 – Calculation and Disclosure of Return on Net Assets and Earnings per Share (2010 Revision)* issued by the CSRC.

3. Refer to shareholder's equity attributable to the ordinary shareholders of the Bank after the deduction of other equity instruments against the total issued ordinary shares as at the end of the period.
4. Represented the ratio of net interest income to total average interest-bearing assets.
5. Calculated pursuant to China Accounting Standards, as business and management fees divided by net operating income after the deduction of other operating costs, which is consistent with the financial report under China Accounting Standards.
6. Calculated pursuant to the *Administrative Measures for the Capital Management of Commercial Banks (Trial Implementation)* by the CBIRC.

STATEMENT FROM CHAIRMAN OF THE BOARD OF DIRECTORS



Ren Deqi

Chairman

The year 2021 is a milestone marking the confluence of the Two Centenary Goals under the context of changes unseen in a century intertwined with unprecedented pandemic outbreak. Faced with the complicated external environment, Bank of Communications, under the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, intensively focused on the comprehensive and accurate application of the new development philosophy in all fields of endeavor as well as the services to creating the new development pattern, and firmly established the strategic goal of building a world-class bank. Led by the “14th Five-Year Plan”, we sought for new chapters, started new layouts, and consolidated the development trend of “making progress and improving quality while maintaining stability”. Throughout the year, the business scale grew steadily, and the structure was consistently optimised with obvious improvement in both quality and performance, which resulted in a good start of the “14th Five-Year Plan”.

STATEMENT FROM CHAIRMAN OF THE BOARD OF DIRECTORS

Keep upright and innovative, plan carefully for serving the country's most fundamental interests with our own responsibility and mission. Based on the implementation of the decisions and plans of the Party Central Committee, we connected with the national “14th Five-Year Plan”, leveraged our own advantages to formulate and implement the “14th Five-Year Plan” of the Bank, and built distinctive business features with two major breakthroughs – the construction of “Shanghai Base” and the construction of New Digital BoCom. As the only large-scale bank headquartered in Shanghai, we felt it obligatory to support and serve the major strategic tasks handed over to Shanghai by the central government. With the advantage of Shanghai Base and the exemplary leading role of the development in the Yangtze River Delta region, we led the coordinated development of other regions upon experience gained from pilot projects. Also, we accelerated the digital transformation to build a New Digital BoCom with excellent experience, diverse ecology, intelligent control and efficient operation, and innovated the financial supply to provide a BoCom solution to serving the creation of the new development pattern while highlighting our four business features of inclusive finance, trade finance, sci-tech finance and wealth finance.

Adhere to the original aspiration, seek progress upon stability, and promote high-quality development through strategic implementation. We resolutely promoted the implementation of strategies and actively served as the main force of the “national team” of finance in boosting economic growth and benefiting people and enterprises, reaching a new level in terms of the quality and effectiveness of serving the real economy. Throughout the year, the total amount of financing in support to the real economy exceeded one trillion, with an increasing focus on key areas and weak links such as manufacturing, strategic emerging industries, and inclusive small and micro businesses, and the incremental amount of credit in the three key regions of the Yangtze River Delta, the Beijing-Tianjin-Hebei Region and the Guangdong-Hong Kong-Macao Greater Bay Area accounted for more than 60%. Centring on key scenarios such as government services and livelihood consumption, the Bank consistently extended the depth and breadth of the “BoCom e-Services” solution, implemented the successful cases like Benefit Medical Payment, digital renminbi and capital supervision, and innovatively launched a new generation of mobile banking to better satisfy the demands for diversified financial services upon people's better life.

Build the line of defense, keep the bottom line, and construct a security shield for asset quality with strong risk control. Faced with the complex environment of downward economic pressure added with the continuing pandemic influence, we strengthened our forward-looking research and judgment on various risks, continued to adjust and optimise the structure along with development, and consolidated the foundation for risk prevention and control. The Bank deepened the reform of risk credit and anti-money laundering, and used technologies such as big data, artificial intelligence and knowledge graph to strengthen the risk measurement and monitoring system. The Bank also increased the disposal of non-performing assets and continued fighting the tough battle of risk asset disposal. As at the end of the Reporting Period, the balance and proportion of non-performing loans and overdue loans witnessed “double declines”, which was a significant achievement in tackling asset quality and further consolidated the ability to respond to risks in a complex environment.

STATEMENT FROM CHAIRMAN OF THE BOARD OF DIRECTORS

Provide finance for the people, work together with society, and achieve sustainable development through fulfilling social responsibilities. We actively served rural revitalization, improved the policy system, product system and channel system for serving rural revitalization, and innovated the digital service model. The Bank continued to provide paired assistance to Tianzhu County in Gansu Province, Litang County in Sichuan Province and Hunyuan County in Shanxi Province, and the donations to these three paired counties kept increasing for 6 consecutive years. The Bank spared no effort in public welfare undertakings such as the assistance to those in difficulties, flood relief, and the aid for the disabled and the students, and has donated more than 51.00 million cumulatively during the Reporting Period. In addition, the Bank adhered to the philosophy of green development and served the national strategy of “carbon peaking and carbon neutrality” by actively supporting carbon emission reduction projects and tilting credit resources to the field of green development. The protection of consumer rights and interests was also improved to a new stage.

At present, China’s economy witnesses a consistent recovery and development with steady industrial upgrading and consumption upgrading, as well as increasingly active sci-tech innovation. The creation of new development pattern is thus deepened, which has brought new opportunities and created new tracks for the development of the banking industry. At the same time, the situation of pandemic prevention and control is still severe, the global geopolitics is experiencing significant changes, and China’s economy is facing the triple pressures of demand contraction, supply shock, and weakening expectations that have not been seen for many years.

In 2022, we shall stick to the principle of “stability as priority and seek progress upon stability”, steadily promote the implementation of the “14th Five-Year Plan” of the Bank, seize the policy opportunities, give full play to the advantage of “Shanghai Base”, and fully implement the national strategy. We shall strengthen our business features through serving the real economy and people’s demand for a better life while optimising the business structure and client structure to improve business performance. By advancing the technological empowerment and reshaping the business process, business expansion mode and means of service, we shall consistently improve customer experience and grasp the development opportunities to form our advantages. We shall also emphasise the coordination between development and security, resolutely win the battle of tackling asset quality and firmly keep the bottom line of the prevention and control over financial risks.

A seemingly ordinary road always turns out to be the most rugged one, and no easy success comes without hard work. We sincerely appreciate the concern and support from all sectors of society. BoCom will continue to anchor the goal of high-quality development, create more value for our customers, shareholders and the society, and move across the cycle along the long-term journey to achieve steady and sustainable development.

STATEMENT FROM PRESIDENT



Liu Jun

Vice Chairman,
Executive Director and President

In 2021, faced with major global changes and the pandemic outbreak both unseen in a century, Bank of Communications, together with the shareholders and customers, actively responded to the challenges and sought success through difficulties to accurately and comprehensively apply the new development philosophy in all fields of endeavor, proactively integrate into the new development pattern and accelerate the Bank's "14th Five-Year Plan". The Bank managed to satisfy the demands of the real economy and people's better life with high-quality financial services while the business indicators witnessed an overall improvement. At the end of 2021, total assets of the Group reached 11.67 trillion, representing an increase of 9.05% over the end of the previous year; net profit attributable to the Bank was 87.581 billion, representing a year-on-year increase of 11.89%; net operating income increased by 9.42% on a year-on-year basis; non-performing ratio was 1.48%, representing a decrease of 19 basis points over the end of the previous year; provision coverage ratio was 166.50%, representing an increase of 22.63 percentage points over the end of the previous year; ROAA and ROAE increased by 0.03 and 0.41 percentage point on a year-on-year basis respectively. The underpinning of the solid and sound operating fundamentals was the clear long-term value creation logic of origin orientation, main business focus, technological empowerment, and value sharing.

STATEMENT FROM PRESIDENT

Fulfil our mission and responsibility to serve the real economy.

Plants with strong roots grow well, and efforts with the right focus will ensure success. In the past year, following the overall trend of China's bright long-term economic prospect, we were deeply involved in the brand-new industrial track and multi-level consumption space under the supply-side structural reform, achieving simultaneous improvement in both performance and capacity through better serving the country's most fundamental interests and people's expectations. On the asset side, we aggregated the "share + loan + debt" instrument portfolio to smooth the asset and capital loops at the G-B-C ends, so as to inject the flows of funds into the "domestic and international dual circulation" and realise precise capital contribution. At the end of 2021, the loans of group customers increased by 12.17% over the end of the previous year, reaching the highest level in recent years; loans to strategic emerging industries, inclusive small and micro enterprises, and agriculture increased by 90.90%, 49.23%, and 14.13% respectively; the amount incurred of trade financing increased by 31.16% on a year-on-year basis; and the proportion of personal loans also increased over the beginning of the year. On the liability side, we focused on "customer + scenario + marketing" to intensively explore customer expansion and capital retention, actively promoting the liability structure adjustment. The daily average balance of due to group customer increased by 382.8 billion, and the average rate of cost was 2.10%, representing a year-on-year decrease of 10 basis points. Based on the accurate grasp of business opportunities under the cross-cycle and countercyclical policies, the business scale saw a steady growth, and the level of interest margins stabilised against the trend, the volume and the price together driving the Group's profitability to improve significantly.

Practise inclusive finance to make a better life.

Customer needs are the source and purpose of value creation. In the past year, adhering to the customer-oriented "concentric circles" principle and focusing on people's needs for a better life, we strived to build a "solid triangle" of "customer + scenario + product". In addition, we practised the philosophies of green finance and ESG, and acted against the benchmark of the "industry leader", to actively push forward modular and compound product innovation in fields like supply chain, sci-tech innovation, medical care, and consumption. In particular, we leveraged the advantage of "Shanghai Base" and paved our way with the "One Thing" mechanism, accelerating the construction of "four features" – inclusive finance, trade finance, sci-tech finance and wealth finance. "Benefit Medical Payment" was successively launched in 29 cities; 12 mainstream platforms such as TravelSky and CSCC were connected, which helped the industrial chain rapid financing product line instantly "make a hit"; "BoCom e-Customs" took the lead in terms of both function building and customer development in Shanghai, Shenzhen, Xiamen and other cities; the number of customers of the CIPS standard transmit product ranked first in the market; and 236.4 thousand digital renminbi application scenarios were implemented. Benefiting from the efficient integration of customers, scenarios and products, the balance of AUM reached 4,256.38 billion at the end of 2021, and the number of high- and mid-end customers increased by 15.29% on a year-on-year basis.

Impose sound risk control to lay a solid foundation for development.

The key to business risk management is to balance the relationship between the “accelerator” and the “brake”. Over the past year, we stuck to the systemic philosophy and dealt with rare events with the thinking of high probability, thus making significant progress in the battle for asset quality improvement. Moreover, the top-level structure of modern risk governance was further refined, and the effect of the mechanism constructions of comprehensive risk management and internal control system was also revealed. While a special post-loan (investment) management team was set up in all domestic branches, diverse “Toolkit” applications for risk prevention and mitigation were put into use, and the mechanisms of business accountability and special approver were also effectively implemented. Besides, we launched the Phase I of digital retail risk control middle office, with direct connection to the Group’s business data system and introduction of external data, boosting significant improvements in risk warning and decision-making intelligence. In 2021, the cumulative disposal of non-performing loans reached 83.936 billion, representing a year-on-year increase of 1.025 billion, and the amount and ratio of non-performing loans, as well as the amount and ratio of overdue loans, both witnessed “double decreases”. The consolidated and sound asset quality laid a solid foundation for the long-term steady development of the Group.

Reinforce sci-tech empowerment to deepen development transformation.

The wave of science and technology has both stricken and reshaped the banking industry. Over the past year, we accelerated the digital transformation in all respects, and sped up the shift of our business model from empirical judgement to data analysis and from human-intensive to human-computer interactive. The cumulative investment in science and technology was 8.750 billion, representing a year-on-year increase of 23.60%, and the proportion of FinTech investment in the operating income increased by 0.50 percentage point on a year-on-year basis. With the successive release of development plans for FinTech, data governance and open banking as part of the “14th Five-Year Plan”, the enterprise-level data middle office took its shape, the cloud platform of a new generation and the multi-party secure computing platform kept making progress, the version 6.0 of personal mobile banking was officially unveiled, the open banking construction achieved good performance in different aspects, and the “all-time” online banking was linked with the “personalised” offline outlets, thereby creating a three-dimensional cycle of omni-channel customer acquisition, customer activation and customer attraction. At the same time, we extended the digital application from the upgrading of business model to the transformation of organisational model initiated the construction of a shared middle office from all dimensions of data, marketing, and risk etc., strengthened the full-process and cross-line collaboration, so as to promote the compatibility between institutional rigidity and organisational flexibility. The consistent investment and comprehensive application of science and technology forged a new engine for the Group’s future value growth.

STATEMENT FROM PRESIDENT

2022 Outlook: Keep upright and stable while seeking innovation and progress.

The year 2022 is important for China to march on a new journey of building a modern socialist country in all respects and set out toward the Second Centenary Goal, which is also crucial for BoCom to intensively implement the “14th Five-Year Plan”. At a new start towards our journey, we will closely follow the trend of the times as China propels high-quality development. Insist on being both upright and innovative and achieve the high quality development of BoCom at an accelerated speed, making changes and breakthroughs in the positive interaction between stability and improvement.

– Keep upright and stable: uphold the original aspiration and mission, adhering to the main business and the bottom line.

Faced with external fluctuations and challenges, we will uphold our original aspiration and persist in doing what we should do. We will focus more on key areas of national strategies such as sci-tech innovation, manufacturing industry, inclusive small and micro enterprises, rural revitalisation, and green and low-carbon, devote ourselves to exploring the advantage of Shanghai Base, and be dedicated to building a comprehensive module service solution of “investment banking + commercial banking, equity + debt, incubation + industry”, thus making BoCom’s contributions to industry upgrading, widespread entrepreneurship and innovation, and common prosperity of the people. The long-term competition under risk pressure is a matter of resolve and endurance. We will further promote the leap to an intelligent enterprise-level risk management system structure, enhance the system support, and forge the professional capabilities, actively responding to various risk exposures in the context of economic downturn.

– Seek innovation and progress: Plough into digital transformation, forging long-term growth momentum.

In the new era of digital economy, with customer needs as the centre, product application as the guidance, process recreation as the focus and technical innovation as the guarantee, we will actively promote the enterprise-level modelling and structural transformation, build a modular, componentised and parametric product factory, and establish a powerful shared middle office that integrates the elements of techniques, process and data, so as to achieve abstract extraction, rapid response and agile iteration for customer needs. By highlighting the construction of scenarios like “Great Health”, “Great Travel” and “Payment+”, opening up the entire chain of “wealth management-asset management-investment banking” and strengthening the coordination between products from “internal source + external source”, we will promote the shift of product innovation from single breakthrough to large-scale application to realise the joint creation and enhancement of banking value together with customer value.

Although the journey ahead may be arduous, with sustained actions, we will forge ahead and eventually reach our destination to embrace a bright future.

STATEMENT OF CHAIRMAN OF THE BOARD OF SUPERVISORS



Xu Jiming

Chairman of the Board
of Supervisors

History is renewed every day as time passes by. The year 2021 marked the opening of a new chapter in the “14th Five-Year Plan” of Bank of Communications, and the Bank consolidated the development trend of making progress and improving quality while maintaining stability. Under the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, the Board of Supervisors continuously optimised and improved supervision, and promoted the modernisation of corporate governance across the Bank.

Over the past year, the Board of Supervisors intensively focused on the major decisions and plans of the Party Central Committee, and solidly promoted the supervision of key areas. By analysing the quality and effectiveness of the Bank’s support to the development of the real economy and evaluating the achievements of digital transformation, the Board of Supervisors carried out strategic supervision to emphasise the connection between the strategies with the mechanisms of performance appraisal and asset-liability allocation. The supervision of internal risk control was also strengthened to further the control on asset quality in key areas across the Bank and improve the internal control evaluation system. Moreover, the Board of Supervisors promoted the supervision of duty performance and explored the establishment of a duty performance evaluation system, striving for a comprehensive and accurate result.

STATEMENT OF CHAIRMAN OF THE BOARD OF SUPERVISORS

Over the past year, the Board of Supervisors centred on the implementation of the new development philosophy to explore and innovate the means of supervision. By playing an active role in various supervision, a number of supervisors led teams to conduct grass-root investigations in response to hot and difficult issues of the Bank, and conducted in-depth analysis on the quality and effectiveness of operation and management in key areas of the Bank. The Board of Supervisors created a “matrix” supervision mode, which facilitated a comprehensive and three-dimensional analysis on key projects of the Bank from multiple dimensions such as strategy formulation, business development and risk management, forming a more scientific supervision perspective.

It will be a long journey yet with a promising future. In 2022, with the goal of “targeted supervision”, the Board of Supervisor shall closely centre on the major decisions and plans of the Party Central Committee as well as the priorities of the Bank, and further fulfil its duty in the corporate governance system to make contribution to the high-quality development of the Bank.

优势直击 链融天下 助力产业 全链升级

蕴通财富 | 蕴通产业链 金融服务方案

- 全流程、全链条、全场景，共享优势！
- 高效率、高服务、高保障，共掌商机！
- 新科技、新产品、新智慧，共赢未来！

快易收

快易付

快易贴

智慧汽车金融

经销商融资

交通银行公司
金融服务号



敬请关注

客服热线:95559 www.bankcomm.com

始于1908 · 您的财富管理银行

 交通銀行
BANK OF COMMUNICATIONS

I. ECONOMIC AND FINANCIAL ENVIRONMENT

Despite all the risks and challenges at home and abroad in 2021, under the strong leadership of the CPC Central Committee, China's economy improved with stability, achieved new results in high-quality development and took a step forward in the construction of new development pattern, realising an auspicious start of the 14th Five-Year Plan. China managed to coordinate the pandemic prevention and control with the socio-economic development, ensured adequate supply to stabilise market prices and reinforced the relief policies to further support enterprises. Under such circumstances, the grain output hit a new high, the business operations continued to improve and the high-tech industries developed rapidly. The cross-cycle adjustment of macro policies was advanced steadily, the real economy improved with stability, the employment situation and prices of commodities remained generally stable, the import and export trade witnessed steady growth and people's livelihoods were firmly guaranteed.

The prudent monetary policy adopted was flexible and precise, reasonable and appropriate. With a focus on China's own situation and an emphasis on stability, the policies scientifically managed the market expectation, managed to serve the real economy and effectively prevented and controlled financial risks, creating an appropriate monetary and financial environment for high-quality development of economy. The PBOC reduced the deposit reserve ratio twice and comprehensively applied multiple monetary policy tools including reducing deposit reserve ratio, re-lending, rediscounting, medium-term lending facility and open market operations to ensure reasonable and abundant liquidity. In addition, the PBOC gave full play to the leading role of the structural monetary policy tool, reinforced the relief policies to further support medium and small micro enterprises and increased re-lending limits for projects supporting agricultural and small enterprises.

The banking industry continuously strengthened support to the real economy, keeping a steady growth of asset scale. The credit structure was consistently optimised and targeted support was provided to key fields and weak parts like manufacturing industry and small and micro enterprises. The actual loan interest rates were relatively stable but slightly declined, and thus the weighted average interest rate of loans was kept at a historically low level. Therefore, the real economy received an infusion from the financial system. Structural optimisation was realised for terms of deposits, consolidating the pricing pattern of deposit market with well-regulated layers and differentiated competition.

II. FINANCIAL STATEMENT ANALYSIS

During the Reporting Period, the Group resolutely carried out the decisions and arrangements by the CPC Central Committee and the State Council, earnestly implemented the "three major tasks of serving the real economy, managing financial risks management and deepening financial reforms" and coordinated pandemic prevention and control with business development. The Group coordinated development with safety, keeping and consolidating the development status of maintaining stability with progress made and quality improved, and thus achieved an auspicious start for the "14th Five-Year Plan".

The Group improved the ability of value creation. During the Reporting Period, the Group's net profit (attributable to shareholders of the Bank) amounted to 87.581 billion, representing a year-on-year increase of 11.89%. The Group's net operating income amounted to 269.748 billion, representing a year-on-year increase of 9.33%. The net interest margin stood at 1.56%, representing a year-on-year decrease of 0.01 percentage point. The return on average assets stood at 0.80%, representing a year-on-year increase of 0.03 percentage point. The return on weighted average net assets stood at 10.76%, representing a year-on-year increase of 0.41 percentage point.

The Group optimised the structure of assets and liabilities. As at the end of the Reporting Period, the total assets of the Group increased by 9.05% over the end of the previous year to 11.67 trillion. The balance of the Group's loans and advances to customers increased by 0.71 trillion or 12.17% over the end of the previous year to 6.56 trillion. The balance of the Group's due to customers increased by 0.43 trillion or 6.54% over the end of the previous year to 7.04 trillion.

The Group consolidated asset quality while maintaining stability. As at the end of the Reporting Period, non-performing loan ratio of the Group was 1.48%, representing a decrease of 0.19 percentage point over the end of the previous year. Provision coverage ratio was 166.50%, representing an increase of 22.63 percentage points over the end of the previous year. Overdue loan ratio was 1.33%, representing a decrease of 0.21 percentage point over the end of the previous year.

(I) Analysis on Key Income Statement Items

1. Profit before tax

During the Reporting Period, the Group's profit before tax increased by 7.534 billion on a year-on-year basis, representing an increase of 8.72% to 93.959 billion. Profit before tax was mainly derived from net interest income and net fee and commission income. Credit impairment losses increased by 4.312 billion or 6.95% on a year-on-year basis.

The selected items from the income statement of the Group during the periods indicated are shown below:

(in millions of RMB unless otherwise stated)

	2021	2020	Increase/ (decrease)(%)
Net interest income	161,693	153,336	5.45
Net non-interest Income	108,055	93,388	15.71
Including: Net fee and commission income	47,573	45,086	5.52
Net operating income	269,748	246,724	9.33
Credit impairment losses	(66,371)	(62,059)	6.95
Impairment losses on other assets	(2,320)	(484)	379.34
Insurance business expense	(17,054)	(15,729)	8.42
Other operating expenses	(90,044)	(82,027)	9.77
Including: Operating expenses	(74,545)	(66,004)	12.94
Profit before tax	93,959	86,425	8.72
Income tax	(5,020)	(6,855)	(26.77)
Net profit	88,939	79,570	11.77
Net profit attributable to shareholders of the Bank	87,581	78,274	11.89

FINANCIAL STATEMENT ANALYSIS

The breakdown of the net operating income of the Group during the periods indicated is shown below:

(in millions of RMB unless otherwise stated)

Item	2021		Increase/ (decrease) on a year-on-year basis (%)
	Amount	Proportion (%)	
Net interest income	161,693	59.94	5.45
Net fee and commission income	47,573	17.64	5.52
Net gains arising from trading activities	23,344	8.65	68.62
Net gains arising from financial investments	1,311	0.49	11.38
Net share of profits of associates and joint ventures	277	0.10	24.77
Insurance business income	16,515	6.12	8.87
Other operating income	19,035	7.06	6.41
Total net operating incomes	269,748	100.00	9.33

2. Net interest income

During the Reporting Period, the Group's net interest income increased by 8.357 billion on a year-on-year basis to 161.693 billion, accounting for 59.94% of the net operating income, which was a major component of the Group's income. During the Reporting Period, the Group fulfilled its responsibilities as a large state-owned bank, deepened the supply-side structural reform of the financial sector, and increased the granting of loans to customers, resulting in a year-on-year incremental increase in the interest income. At the same time, the Group seized the opportunity of loose liquidity, continued to optimise the liability structure, and gradually decreased the debt-to-cost ratio, making the interest expense remain basically the same as the previous year.

The average balances, associated interest income and expenses and average rate of return or average rate of cost of the Group's interest-bearing assets and interest-bearing liabilities during the periods indicated are shown below:

(in millions of RMB unless otherwise stated)

	From January to December 2021			From January to December 2020		
	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	780,069	10,699	1.37	788,180	10,770	1.37
Due from and placements with banks and other financial institutions	737,444	12,266	1.66	811,543	16,180	1.99
Loans and advances to customers	6,154,222	266,419	4.33	5,522,008	251,468	4.55
Investment securities	2,716,367	88,262	3.25	2,672,875	90,683	3.39
Interest-bearing assets	10,388,102	377,646	3.64	9,794,606	369,101	3.77
Non-interest-bearing assets	1,018,481			947,106		
Total assets	11,406,583			10,741,712		
Liabilities and Shareholders' Equity						
Due to customers	6,708,100	140,982	2.10	6,325,312	139,142	2.20
Due to and placements from banks and other financial institutions	1,982,978	38,581	1.95	2,053,415	46,653	2.27
Debt securities and others	1,270,806	36,390	2.86	1,037,751	29,970	2.89
Interest-bearing liabilities	9,961,884	215,953	2.17	9,416,478	215,765	2.29
Shareholders' equity and non-interest-bearing liabilities	1,444,699			1,325,234		
Total liabilities and shareholders' equity	11,406,583			10,741,712		
Net interest income		161,693			153,336	
Net interest spread¹			1.47			1.48
Net interest margin²			1.56			1.57
Net interest spread^{1,3}			1.68			1.69
Net interest margin^{2,3}			1.77			1.77

Notes:

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

During the Reporting Period, the Group's net interest income increased by 5.45% on a year-on-year basis. The net interest spread was 1.47%, representing a decrease of 1 basis point on a year-on-year basis. The net interest margin decreased by 1 basis point on a year-on-year basis to 1.56%.

FINANCIAL STATEMENT ANALYSIS

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

(%)	2021			
	January – March	April – June	July – September	October – December
Net interest spread	1.44	1.47	1.46	1.50
Net interest margin	1.54	1.55	1.54	1.59
Net interest spread ^{Note}	1.65	1.68	1.67	1.72
Net interest margin ^{Note}	1.75	1.77	1.76	1.81

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

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 2021 and 2020 Increase/(Decrease) due to		
	Amount	Interest rate	Net increase/ (decrease)
Interest-bearing assets			
Cash and balances with central banks	(71)	–	(71)
Due from and placements with banks and other financial institutions	(1,475)	(2,439)	(3,914)
Loans and advances to customers	28,766	(13,815)	14,951
Investment securities	1,474	(3,895)	(2,421)
Changes in interest income	28,694	(20,149)	8,545
Interest-bearing liabilities			
Due to customers	8,421	(6,581)	1,840
Due to and placements from banks and other financial institutions	(1,599)	(6,473)	(8,072)
Debt securities and others	6,735	(315)	6,420
Changes in interest expenses	13,557	(13,369)	188
Changes in net interest income	15,137	(6,780)	8,357

During the Reporting Period, the Group's net interest income increased by 8.357 billion on a year-on-year basis, of which the increase of 15.137 billion was due to changes in the average balances of assets and liabilities and the decrease of 6.780 billion was due to changes in the average rate of return and average rate of cost.

(1) Interest income

During the Reporting Period, the Group's interest income increased by 8.545 billion or 2.32% on a year-on-year basis to 377.646 billion. The interest income from loans and advances to customers, investment securities and cash and balances with central banks accounted for 70.55%, 23.37% and 2.83% 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 14.951 billion or 5.95% on a year-on-year basis to 266.419 billion, which was mainly due to the impact of the average balance of loans and advances to customers increasing by 632.214 billion. The increase was mainly generated from medium and long-term corporate and personal loans.

Analysis of the average income of loans and advances to customers by business type and term structure*(in millions of RMB unless otherwise stated)*

	From January to December 2021			From January to December 2020		
	Average balance	Interest income	Average rate of return (%)	Average balance	Interest income	Average rate of return (%)
Corporate loans	3,917,298	158,362	4.04	3,531,559	151,301	4.28
– Short-term loans	1,300,743	44,440	3.42	1,251,162	49,603	3.96
– Medium and long-term loans	2,616,555	113,922	4.35	2,280,397	101,698	4.46
Personal loans	2,075,137	103,576	4.99	1,797,028	94,684	5.27
– Short-term loans	547,418	29,541	5.40	493,737	31,033	6.29
– Medium and long-term loans	1,527,719	74,035	4.85	1,303,291	63,651	4.88
Discounted bills	161,787	4,481	2.77	193,421	5,483	2.83
Total loans and advances to customers	6,154,222	266,419	4.33	5,522,008	251,468	4.55

B. Interest income from investment securities

During the Reporting Period, interest income from investment securities decreased by 2.421 billion or 2.67% on a year-on-year basis to 88.262 billion, which was mainly due to the year-on-year decrease by 14 basis points in the average rate of return 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 excess reserves. During the Reporting Period, interest income from cash and balances with central banks decreased by 71 million or 0.66% on a year-on-year basis to 10.699 billion, which was mainly due to the year-on-year decrease by 8.111 billion in the average balance of cash and balances with central banks.

D. Interest income from due from and placements with banks and other financial institutions

During the Reporting Period, the interest income from due from and placements with banks and other financial institutions decreased by 3.914 billion or 24.19% on a year-on-year basis to 12.266 billion, which was mainly due to the year-on-year decrease of 33 basis points in the average rate of return on due from and placements with banks and other financial institutions.

(2) Interest expenses

During the Reporting Period, the Group's interest expenses increased by 0.188 billion or 0.09% on a year-on-year basis to 215.953 billion. During the Reporting Period, since the overall market interest rates declined, interest expenses on due to and placements from banks and other financial institutions decreased.

FINANCIAL STATEMENT ANALYSIS

A. Interest expenses on due to customers

Due to customers is the Group's primary funding source. During the Reporting Period, interest expenses on due to customers increased by 1.840 billion or 1.32% on a year-on-year basis to 140.982 billion, accounting for 65.28% of total interest expenses. During the Reporting Period, the Group focused on reducing the scale of high-cost deposits such as structured time deposits, continuously optimising the deposit structure and strengthening deposit cost control, so that the growth of interest expenses on customer deposits was significantly slower than that of the deposit scale.

Analysis of the average cost of due to customers by product category

(in millions of RMB unless otherwise stated)

	From January to December 2021			From January to December 2020		
	Average balance	Interest expenses	Average rate of cost (%)	Average balance	Interest expenses	Average rate of cost (%)
Corporate deposits	4,395,310	88,165	2.01	4,236,366	89,749	2.12
– Demand deposits	1,897,980	16,706	0.88	1,867,106	17,401	0.93
– Time deposits	2,497,330	71,459	2.86	2,369,260	72,348	3.05
Personal deposits	2,312,790	52,817	2.28	2,088,946	49,393	2.36
– Demand deposits	774,599	3,689	0.48	811,519	6,593	0.81
– Time deposits	1,538,191	49,128	3.19	1,277,427	42,800	3.35
Total due to customers	6,708,100	140,982	2.10	6,325,312	139,142	2.20

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

During the Reporting Period, interest expenses on due to and placements from banks and other financial institutions decreased by 8.072 billion or 17.30% on a year-on-year basis to 38.581 billion, which was mainly due to a year-on-year decrease of 32 basis points in the average rate of cost of due to and placements from 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 6.420 billion or 21.42% on a year-on-year basis to 36.390 billion, which was mainly due to a year-on-year increase of 233.055 billion in the average balance of debt securities issued and others.

3. Net fee and commission income

Net fee and commission income is an important component of the Group's net operating income. During the Reporting Period, relying on the advantage of full licenses, the Group created a "second curve" of sustained profit growth starting from building the feature of wealth management brand, with net fee and commission income increasing by 2.487 billion or 5.52% on a year-on-year basis to 47.573 billion. Wealth management and agency services were the main drivers of the Group's net fee and commission income.

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

(in millions of RMB unless otherwise stated)

	2021	2020	Increase/ (decrease)(%)
Bank cards	20,136	20,107	0.14
Wealth management business	11,775	9,856	19.47
Custody and other fiduciary businesses	7,484	7,033	6.41
Agency services	5,664	4,200	34.86
Investment banking	3,120	3,706	(15.81)
Guarantee and commitment	2,527	2,617	(3.44)
Settlement services	1,296	1,531	(15.35)
Others	283	248	14.11
Total fee and commission income	52,285	49,298	6.06
Less: Fee and commission expenses	(4,712)	(4,212)	11.87
Net fee and commission income	47,573	45,086	5.52

Fee income from wealth management business increased on a year-on-year basis, which was mainly due to the significant increase in the scale of wealth management products and funds of the Group. Fee income from agency services increased on a year-on-year basis, which was mainly due to the significant increase in the income from funds on consignment.

4. Operating expenses

During the Reporting Period, the Group's operating expenses increased by 8.541 billion or 12.94% on a year-on-year basis to 74.545 billion. The Group's cost-to-income ratio was 29.00%, representing a year-on-year increase of 0.71 percentage point. The cost-to-income ratio is around 27% if the tax exemption effect of bond interest income and other income was restored. Other employees' cost increased by 16.41% on a year-on-year basis, which was due to the decrease of employees' social insurance expenditure in the previous year resulting from the social insurance reduction policy.

The breakdown of the Group's operating expenses for the periods indicated is shown below:

(in millions of RMB unless otherwise stated)

	2021	2020	Increase/ (decrease)(%)
Staff remuneration, bonus, allowance and welfare ^{Note}	25,383	22,920	10.75
Other staff costs	11,442	9,829	16.41
Operating expenses ^{Note}	29,621	25,367	16.77
Depreciation and amortisation	8,099	7,888	2.67
Total operating expenses	74,545	66,004	12.94

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

FINANCIAL STATEMENT ANALYSIS

5. Asset impairment losses

During the Reporting Period, the Group's asset impairment losses were 68.691 billion, representing a year-on-year increase of 6.148 billion or 9.83%, of which the credit impairment losses on loans increased by 6.676 billion or 11.86% on a year-on-year basis to 62.945 billion. The fundamentals of China's economy, characterised by improvement with long-term sustainability, remained unchanged. However, the COVID-19 pandemic increased the complexity and uncertainty of social environment. The Group updated all the parameters in the impairment model in a timely manner to reflect the impact of social environment changes on asset credit risk and continued to increase the amount of provisions. Thus the asset impairment losses increased correspondingly to keep the Group resilient in risk management.

6. Income tax

During the Reporting Period, the Group's income tax expenses decreased by 1.835 billion or 26.77% on a year-on-year basis to 5.020 billion. The effective tax rate of 5.34% 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 968.141 billion or 9.05% over the end of the previous year to 11,665.757 billion, which was mainly due to the increase in the scale of loans and advances to customers as well as financial investments.

The balances (after provision) of the key components of the Group's total assets and their proportions to the total assets as at the dates indicated are shown below:

(in millions of RMB unless otherwise stated)

	31 December 2021		31 December 2020	
	Balance	Proportion (%)	Balance	Proportion (%)
Loans and advances to customers (after provision)	6,412,201	54.97	5,720,568	53.48
Financial investments	3,523,249	30.20	3,237,337	30.26
Cash and balances with central banks	734,728	6.30	817,561	7.64
Due from and placements with banks and other financial institutions	632,708	5.42	571,130	5.34
Others	362,871	3.11	351,020	3.28
Total assets	11,665,757	100.00	10,697,616	100.00

(1) Loans and advances to customers

During the Reporting Period, the Group focused on its major responsibilities and business, and continuously enhanced the quality and efficiency of its service to the real economy. The Group actively implemented national strategies on significant regions and increased credit resources to key areas like manufacturing, inclusive small and micro enterprises and green credit, as well as to major regions such as the Yangtze River Delta, resulting in steady growth in the total amount of loans and consistent improvement of the loan structure.

The balance and breakdown of the Group's loans and advances to customers at the dates indicated are shown below:

(in millions of RMB unless otherwise stated)

	31 December 2021		31 December 2020		31 December 2019	
	Balance	Proportion (%)	Balance	Proportion (%)	Balance	Proportion (%)
Corporate loans	4,138,582	63.09	3,707,471	63.39	3,346,476	63.09
– Short-term loans	1,309,291	19.96	1,251,162	21.39	1,189,543	22.43
– Medium and long-term loans	2,829,291	43.13	2,456,309	42.00	2,156,933	40.66
Personal loans	2,285,096	34.83	1,980,882	33.87	1,754,765	33.08
– Mortgage	1,489,517	22.70	1,293,773	22.12	1,135,428	21.41
– Credit card	492,580	7.51	464,110	7.94	467,387	8.81
– Others	302,999	4.62	222,999	3.81	151,950	2.86
Discounted bills	136,722	2.08	160,071	2.74	203,034	3.83
Total	6,560,400	100.00	5,848,424	100.00	5,304,275	100.00

As at the end of the Reporting Period, the Group's total loans and advances to customers increased by 711.976 billion or 12.17% over the end of the previous year to 6,560.400 billion, among which the renminbi loans from domestic branches increased by 633.862 billion or 12.10% over the end of the previous year.

The corporate loan balance was 4,138.582 billion, achieving an increase of 431.111 billion or 11.63% over the end of the previous year, whose proportion in loans and advances to customers decreased by 0.30 percentage point to 63.09% over the end of the previous year. Short-term loans increased by 58.129 billion, and medium and long-term loans increased by 372.982 billion, whose proportion in loans and advances to customers increased to 43.13%.

The balance of personal loans was 2,285.096 billion, representing an increase of 304.214 billion or 15.36% over the end of the previous year, whose proportion in loans and advances to customers increased by 0.96 percentage point to 34.83% over the end of the previous year. Mortgage loans increased by 195.744 billion or 15.13% over the end of the previous year, whose proportion in loans and advances to customers increased to 22.70%. Credit card loans increased by 28.470 billion or 6.13% over the end of the previous year.

Discounted bills decreased by 23.349 billion or 14.59% over the end of the previous year.

FINANCIAL STATEMENT ANALYSIS

Distribution of loans and advances to customers by security types

(In millions of RMB unless otherwise stated)

	31 December 2021		31 December 2020	
	Balance	Proportion (%)	Balance	Proportion (%)
Unsecured loans	2,085,835	31.79	1,812,785	31.00
Guaranteed loans	1,056,138	16.10	990,248	16.93
Collateralised and other secured loans	3,418,427	52.11	3,045,391	52.07
– Loans secured by collateral	2,488,276	37.93	2,191,847	37.48
– Pledged loans	930,151	14.18	853,544	14.59
Total	6,560,400	100.00	5,848,424	100.00

Expected credit loss allowance for loans and advances to customers

(in millions of RMB)

	31 December 2021	31 December 2020
Balance at the end of the previous year	140,561	134,052
Accrual/(Reversal) in the period	62,945	56,269
Transfer in/(Transfer out) in the period	(984)	(683)
Write-offs and disposals in the period	(47,519)	(53,828)
Recovered after written-off	6,324	5,052
Exchange differences	(165)	(301)
Balance at the end of the period	161,162	140,561

(2) Financial investments

As at the end of the Reporting Period, the Group's net balance of financial investments increased by 285.912 billion or 8.83% over the end of the previous year to 3,523.249 billion.

The breakdown of investments by nature

(in millions of RMB unless otherwise stated)

	31 December 2021		31 December 2020	
	Balance	Proportion (%)	Balance	Proportion (%)
Bonds	3,021,272	85.75	2,787,701	86.11
Equity instruments and others	501,977	14.25	449,636	13.89
Total	3,523,249	100.00	3,237,337	100.00

The breakdown of investments by the presentation basis of financial statements

(in millions of RMB unless otherwise stated)

	31 December 2021		31 December 2020	
	Balance	Proportion (%)	Balance	Proportion (%)
Financial investments at fair value through profit and loss	638,483	18.12	482,588	14.91
Financial investments at amortised cost	2,203,037	62.53	2,019,529	62.38
Financial investments at fair value through other comprehensive income	681,729	19.35	735,220	22.71
Total	3,523,249	100.00	3,237,337	100.00

As at the end of the Reporting Period, the balance of the Group's bond investments increased by 233.571 billion or 8.38% over the end of the previous year to 3,021.272 billion. In the future, the Bank will reinforce the research and judgement of the economic and financial situation, and focus on the allocation of incremental investment and optimisation of historical bond investments. Firstly is to maintain the overall strategy of investing mainly in interest rate bonds and make reasonable arrangements for investment in treasury bonds and local treasury bonds. Secondly is to keep tracking national industrial policies and changes in enterprise operations in real time to optimise the reserve and investment of credit bonds projects. Thirdly is to increase the bond transaction volume and expedite the turnover of treasury bonds and policy bank financial bonds. Fourthly is to optimise the investment structure and seek the opportunity to replace some historical low-yield bonds with other assets of higher yield.

The breakdown of securities investment by issuers

(in millions of RMB unless otherwise stated)

	31 December 2021		31 December 2020	
	Balance	Proportion (%)	Balance	Proportion (%)
Government and central banks	2,325,896	76.98	2,057,685	73.81
Public sector entities	27,073	0.90	26,940	0.97
Interbank institutions and other financial institutions	472,688	15.65	552,765	19.83
Corporate entities	195,615	6.47	150,311	5.39
Total	3,021,272	100.00	2,787,701	100.00

As at the end of the Reporting Period, financial bonds held by the Group amounted to 472.688 billion, including bonds issued by policy banks of 147.738 billion and by interbank institutions and non-bank financial institutions of 324.950 billion, which accounted for 31.25% and 68.75% 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
Policy Bank Bond issued in 2018	6,901	4.99	23/01/2023	1.65
Policy Bank Bond issued in 2017	6,330	4.39	07/09/2027	1.47
Policy Bank Bond issued in 2017	5,688	4.44	08/11/2022	1.35
Policy Bank Bond issued in 2018	5,009	4.98	11/01/2025	1.20
Policy Bank Bond issued in 2018	4,400	4.97	28/01/2023	1.05
Policy Bank Bond issued in 2017	3,335	4.30	20/08/2024	0.78
Commercial Bank Bond issued in 2017	3,000	4.38	29/08/2022	17.56
Commercial Bank Bond issued in 2017	2,983	3 Month LIBOR + 0.95	24/04/2022	0.62
Policy Bank Bond issued in 2019	2,862	2.70	19/03/2024	0.42
Policy Bank Bond issued in 2018	2,750	4.88	08/02/2028	0.66

FINANCIAL STATEMENT ANALYSIS

(3) Foreclosed asset

The selected information of the Group's foreclosed asset on the dates indicated is shown below:

	31 December 2021	31 December 2020
Original value of foreclosed assets	1,437	1,109
Less: Impairment allowance	(407)	(142)
Net value of foreclosed assets	1,030	967

(in millions of RMB)

2. Liabilities

Thoroughly implementing the Measures for *Liability Quality Management of Commercial Banks* issued by the CBIRC, the Group established a liability quality management system commensurate with the amount and complexity of the Bank's liabilities and continuously improve the capability and level of liability quality management. During the Reporting Period, the Bank conscientiously implemented the requirements of the "six characteristics"¹ of liability quality management, and continued to expand the Bank's liability business, consolidate the customer basis, and strengthen the monitoring and analysis of liability quality, resulting in a sound overall liability quality.

As at the end of the Reporting Period, the Group's total liabilities increased by 869.533 billion or 8.86% over the end of the previous year to 10,688.521 billion. Among them, due to customers increased by 432.447 billion or 6.54% over the end of the previous year, which accounted for 65.86% of total liabilities and represented a decrease of 1.43 percentage points over the end of the previous year. The balance of due to and placements from interbank institutions and other financial institutions increased by 191.682 billion or 21.18% over the end of the previous year, which accounted for 10.26% of total liabilities and represented an increase of 1.04 percentage points over the end of the previous year.

Due to customers

Due to customers is the Group's primary funding source. As at the end of the Reporting Period, the Group's balance of due to customers increased by 432.447 billion or 6.54% over the end of the previous year to 7,039.777 billion. In terms of customer structure, the proportion of corporate deposits was 64.63%, representing a decrease of 1.08 percentage points over the end of the previous year. The proportion of personal deposits was 34.13%, representing an increase of 0.95 percentage point over the end of the previous year. In terms of deposit tenure, the proportion of demand deposits decreased by 1.29 percentage points over the end of the previous year to 41.37%, while the proportion of time deposits increased by 1.16 percentage points over the end of the previous year to 57.39%.

¹ Stability of liability sources, diversity of liability structures, rationality of liability and asset matching, proactivity of liability acquisition, appropriateness of liability costs and authenticity of liability items.

The balance and breakdown of the Group's due to customers as of the dates indicated are shown below:

(in millions of RMB unless otherwise stated)

	31 December 2021		31 December 2020		31 December 2019	
	Balance	Proportion (%)	Balance	Proportion (%)	Balance	Proportion (%)
Corporate deposits	4,550,020	64.63	4,341,524	65.71	4,031,784	66.39
– Demand deposits	2,061,672	29.28	2,005,934	30.36	1,835,688	30.23
– Time deposits	2,488,348	35.35	2,335,590	35.35	2,196,096	36.16
Personal deposits	2,402,812	34.13	2,192,231	33.18	1,969,922	32.44
– Demand deposits	850,831	12.09	812,534	12.30	762,669	12.56
– Time deposits	1,551,981	22.04	1,379,697	20.88	1,207,253	19.88
Other deposits	3,359	0.05	5,499	0.08	3,364	0.06
Accrued interest	83,586	1.19	68,076	1.03	67,838	1.11
Total	7,039,777	100.00	6,607,330	100.00	6,072,908	100.00

3. Off-balance sheet items

The Group's off-balance sheet items included derivative financial instruments, contingencies and commitments as well as collaterals.

The Group entered into various derivative financial instruments including interest rate contracts, exchange rate contracts, precious metals and commodity contracts for trading, hedging, asset and liability management and on behalf of customers. Please refer to Note 21. Derivative financial instruments to the Consolidated Financial Statements for the details of nominal amount and fair value of the derivative financial instruments.

The Group's contingencies and commitments mainly included outstanding litigations, credit related commitments and financial guarantees, capital expenditure commitments, operating leasing commitments, commitments on security underwriting and bond acceptance. Please refer to Note 40. Credit related commitments and financial guarantees, other commitments and contingent liabilities to the Consolidated Financial Statements for the details of contingencies and commitments.

The Group uses part of its assets as collaterals for interbank repurchase arrangements and other liabilities-related business. Please refer to Note 41. Collaterals to the Consolidated Financial Statements for the details.

(III) Analysis on Key Cash Flow Items

As at the end of the Reporting Period, the balance of Group's cash and cash equivalents decreased by 112.812 billion over the end of the previous year to 194.308 billion.

The net cash outflow from operating activities increased by 184.173 billion on a year-on-year basis to 34.775 billion, which was mainly resulted from increases of issuance of loans, increases of financial assets held for trading and decreases in due to central banks.

The net cash outflows from investing activities decreased by 19.043 billion on a year-on-year basis to 75.548 billion, which was mainly due to a year-on-year decrease in cash outflows related to bond investments at fair value through other comprehensive income.

FINANCIAL STATEMENT ANALYSIS

The net cash inflows from financing activities decreased by 86.971 billion on a year-on-year basis to 1.306 billion, which was mainly due to the year-on-year decrease of cash inflows from issuance of bonds.

(IV) Segment Analysis

1. Operating results by geographical segments

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

(in millions of RMB unless otherwise stated)

	2021				2020			
	Profit before tax	Proportion (%)	Net operating income ¹	Proportion (%)	Profit before tax	Proportion (%)	Net operating income ¹	Proportion (%)
Yangtze River Delta	45,781	48.72	98,807	36.63	38,643	44.71	88,119	35.72
Pearl River Delta	12,027	12.80	23,432	8.69	9,677	11.20	20,354	8.25
Bohai Rim Economic Zone	13,312	14.17	30,220	11.20	11,894	13.76	27,368	11.09
Central China	18,922	20.14	37,080	13.75	15,574	18.02	34,246	13.88
Western China	7,520	8.00	24,100	8.93	12,426	14.38	19,987	8.10
North Eastern China	(5,899)	(6.28)	7,273	2.70	392	0.45	6,672	2.70
Overseas	7,769	8.27	13,135	4.87	8,453	9.78	13,856	5.62
Head Office ²	(5,473)	(5.82)	35,701	13.23	(10,634)	(12.30)	36,122	14.64
Total³	93,959	100.00	269,748	100.00	86,425	100.00	246,724	100.00

Notes:

- Including net interest income, net fee and commission income, investment income/(losses), gains/(losses) on changes in fair value, net gains/(losses) on exchange and exchange rate products, insurance business income, other operating income, gains on disposals of assets and other income. Same applies hereinafter.
- Head Office included the Pacific Credit Card Centre. Same applies hereinafter.
- Total included profit/(loss) attributable to non-controlling interests.
- Due to the adjustment to the standards of dividing segments and evaluation guidelines of income allocation within segments, comparative data have been restated in accordance with the current presentation.

2. Deposits and loans and advances by geographical segments

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

(in millions of RMB unless otherwise stated)

	31 December 2021		31 December 2020	
	Loans and advances balances	Proportion (%)	Loans and advances balances	Proportion (%)
Yangtze River Delta	1,780,637	27.14	1,556,325	26.61
Pearl River Delta	857,521	13.07	711,150	12.16
Bohai Rim Economic Zone	965,957	14.72	838,415	14.34
Central China	1,092,985	16.66	960,512	16.42
Western China	774,445	11.80	681,997	11.66
North Eastern China	247,023	3.77	232,864	3.98
Overseas	348,948	5.32	359,368	6.14
Head Office	492,884	7.52	507,793	8.69
Total	6,560,400	100.00	5,848,424	100.00

Note: Due to the adjustment to the standards of dividing segments, comparative data have been restated in accordance with the current presentation. Same applies hereinafter.

The Group's deposit balances by geographical segments as at the dates indicated are as below:

(in millions of RMB unless otherwise stated)

	31 December 2021		31 December 2020	
	Deposit balances	Proportion (%)	Deposit balances	Proportion (%)
Yangtze River Delta	1,878,481	26.68	1,756,275	26.58
Pearl River Delta	871,667	12.38	772,738	11.70
Bohai Rim Economic Zone	1,491,168	21.18	1,371,844	20.76
Central China	1,130,712	16.06	1,073,570	16.25
Western China	763,629	10.85	735,313	11.13
North Eastern China	360,775	5.12	330,485	5.00
Overseas	456,074	6.48	495,356	7.50
Head Office	3,685	0.05	3,673	0.06
Accrued interest	83,586	1.20	68,076	1.02
Total	7,039,777	100.00	6,607,330	100.00

3. Operating results by business segments

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

The Group's profit before tax and operating income from each of the Group's business segments for the periods indicated are as below:

(in millions of RMB unless otherwise stated)

	2021		2020	
	Amount	Proportion (%)	Amount	Proportion (%)
Net operating income	269,748	100.00	246,724	100.00
Corporate banking	120,464	44.66	109,755	44.48
Personal banking	124,119	46.01	113,904	46.17
Treasury businesses	23,528	8.72	21,769	8.82
Other businesses	1,637	0.61	1,296	0.53
Profit before tax	93,959	100.00	86,425	100.00
Corporate banking	32,950	35.07	40,584	46.96
Personal banking	43,138	45.91	29,297	33.90
Treasury businesses	17,224	18.33	16,284	18.84
Other businesses	647	0.69	260	0.30

Note: Due to the adjustment to the assessment rules for income and expense distribution among business segments, comparative data have been prepared in accordance with the current presentation.

(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 by the CBIRC in 2014, the Bank steadily promoted the implementation and deepened the application of advanced methods in accordance with regulatory requirements. Upon the approval by the CBIRC in 2018, the Bank expanded the application scope of advanced methods and ended the parallel period. According to the *Additional Regulatory Rules on Systemically Important Banks (Trial Implementation)* issued by the PBOC and the CBIRC in 2021, the additional capital requirement of the Group is 0.75%. 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 15.45%, 13.01%, and 10.62% respectively, all of which met various regulatory capital requirements.

FINANCIAL STATEMENT ANALYSIS

(in millions of RMB unless otherwise stated)

	31 December 2021		31 December 2020	
	The Group	The Bank	The Group	The Bank
Net core tier-1 capital	783,877	659,155	727,611	614,452
Net tier-1 capital	960,225	833,945	862,221	747,744
Net capital	1,139,957	1,006,266	1,021,246	900,694
Core tier-1 capital adequacy ratio (%)	10.62	10.01	10.87	10.21
Tier-1 capital adequacy ratio (%)	13.01	12.67	12.88	12.42
Capital adequacy ratio (%)	15.45	15.29	15.25	14.96

Notes:

1. The above calculation excluded China BoCom Insurance Co., Ltd. and BOCOM MSIG Life Insurance Company Limited.
2. According to the implementation scope of the Advanced Measurement Approach of Capital Management approved by the CBIRC, the credit risk that met the regulatory requirements was assessed by the internal rating-based approach, the market risk by the internal model approach, and the operational risk by the standardised approach. The credit risk not covered by the internal rating-based approach was assessed by the weighted approach. The market risk not covered by the internal rating-based approach was assessed by the standardised approach. The operational risk not covered by the standardised approach was assessed by the basic-indicator approach.

For further information on the Group's capital measurement, please refer to the *2021 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 Bank.

(VI) Leverage Ratio

The Group calculated the leverage ratio pursuant to the *Administrative Measures for the Leverage Ratio of Commercial Banks (Revised)* issued by the CBIRC. Also, according to the *Additional Regulatory Rules on Systemically Important Banks (Trial Implementation)* issued by the PBOC and the CBIRC in 2021, the additional required leverage ratio of the Group is 0.375%. As at the end of the Reporting Period, the Group's leverage ratio was 7.60%, which met the regulatory requirements.

(in millions of RMB unless otherwise stated)

	31 December 2021	30 September 2021	30 June 2021	31 March 2021
Net tier-1 capital	960,225	940,024	919,374	884,862
Balance of adjusted on- and off-balance sheet assets	12,632,573	12,402,546	12,283,568	11,984,683
Leverage ratio (%)	7.60	7.58	7.48	7.38

Please refer to "Supplementary Information on Leverage Ratio, Liquidity Coverage Ratio and Net Stable Funding Ratio" for more information on the leverage ratio of the Group.

III. BUSINESS REVIEW

(I) Development Strategies and Implementation

In 2021, while remaining committed to the strategic objective of “building the first-tier bank with wealth management characteristics and global competitive capabilities in the world”, the Group focused on the new development stage, carried out a new vision for development comprehensively, and was devoted to accelerating the high-quality development in the progress of serving to create a new development pattern. In accordance with the requirements of high-quality development, the Group issued an outline of the development plan for the period of the 14th Five-Year Plan and used the example of serving the Yangtze River Delta integrated development as a leading case. The Group took the lead in making innovation and breakthroughs by focusing on the two main areas of the construction of “Shanghai Base” and the construction of “New Digital BoCom”, built four business features and improved five professional capabilities, promoting both reasonable growth in quantity and steady improvement in quality of the business.

1. Leverage the advantage of “Shanghai Base”

As the only large-scale state-owned commercial bank headquartered in Shanghai, the Bank kept leveraging the advantage of “Shanghai Base” and implemented the “Three New Major Tasks” assigned by CPC Central Committee to Shanghai, reinforced the “Four Functions” and futhered the construction of “Five Centres”. As such, by taking “Shanghai Base” as the “innovation origin” and the “reform test field” of overall high quality development, the Bank played a leading role in institutional innovation and demonstration.

In terms of management mechanism, the Bank conducted an in-depth multidimensional and systematic research on policies, systems, markets, industries and customer segments of “Shanghai Base”, in a bid to provide targeted guidance and support to core areas and key parts. Besides, the Bank strengthened decentralisation and empowerment by piloting all innovative products in Shanghai Base, and optimised its differential assessment to increase the “penetration of financial services” to key customer segments and boost the market share of its primary businesses.

In terms of business development, the Bank clarified the logical disruptions and impediments in the business processes, created innovative products and services with scenario-based finance, formulated the “One Thing” mechanism and promoted it through duplication. Focusing on the great medical care and health ecological scenario, the Bank optimised “One Thing for Benefit Medical Payment”. By serving the full public and private chains of the green, the scientific, the strategic emerging and other key industries, the Bank developed “One Thing for Sci-tech Finance”. Through consolidating the achievements of the offshore/onshore integration reform and enhancing product integration, the Bank realised “One Thing for Cross-border Finance”.

2. Construct a “New Digital BoCom”

The Bank stayed in line with the overall development context of digital economy, deepened the financial supply-side reform, increased resource investment, and created new growth points of business value. The Bank insisted on customer orientation and value creation, and deepened its digital thinking and enterprise-level thinking, empowered operation and management, products and services, business processes, scenarios construction with digital thinking and methods, thus promoting process recreation, reshape of rules, development of function and ecological construction, so as to make its financial services more inclusive, adaptable and competitive.

BUSINESS REVIEW

To establish data services featuring integration, efficient reuse and instant enablement, the Bank strived to improve data management and application systems across the Group, optimised production relationships with data as a key factor, and enhanced advanced productivity featured on “algorithm + computational capability”. The Bank built a distributed and cloud computing core technology platform that might act as an exemplary and leading role in the industry and thus established a technology architecture characterised by high efficiency, agility, flexible scheduling and integrated innovation to ensure the Bank’s independent control over core key business. Furthermore, the Bank also spared efforts to establish a network security protection system and operating mode matching with the digital transformation to provide the best solution to network security under the new balance among risk, cost and business development.

3. Create four business features

The feature of inclusive finance. The Bank implemented the requirements on “enhancing the inclusiveness of finance”, accessed more customers and scenarios, satisfied the financial needs in various areas including small and micro enterprises, urban governance, rural revitalisation and livelihood consumption, and thereby steadily improved the quality and efficiency of inclusive financial businesses.

The feature of trade finance. The Bank served to create a new development pattern and facilitate the “dual circulation”. Concentrating on the core node enterprises on the industrial chain, supply chain and value chain, the Bank attempted to further develop chain-based financial services, so as to better satisfy enterprises’ needs in daily production and operation activities, enhance customer stickiness and attract more deposits for settlement purpose.

The feature of sci-tech finance. In response to the strategy of reinvigorating China with science and technology, the Bank built an integrated service system with characteristics of both commercial bank and investment bank, and made great efforts to improve the ability and level of serving strategic emerging industries, advanced manufacturing industry, sci-tech innovation, green and low-carbon, and the upgrading of traditional industries, etc. By optimising customer structure and asset structure, the Bank was able to increase the interest income and the income from intermediary businesses.

The feature of wealth finance. The Bank actively served people’s demands for a better life and the national strategy of coping with the aging population, and thus built an integrated operating system of “Great Wealth-Great Asset Management-Great Investment Bank” to provide comprehensive financial services for people’s wealth accumulation, preservation, appreciation and inheritance. Besides, the Bank also kept scaling up asset under management (AUM) and optimised the income structure.

4. Improve five professional capabilities

The capability of customer operations. Insisting on customer orientation, the Bank improved the refined, tiered and categorised management for corporate, retail and interbank customers. It also formulated targeted strategies to comprehensively enhance customer experience and achieve in-depth customer operations and efficient risk control.

The capability of technology empowerment. The Bank speeded up the construction of a “New Digital BoCom”, promoted the deep integration of technology and businesses, and accelerated the progress to make breakthroughs in management mechanisms, basic capabilities and resource investments of technology and data, managing to improve the quality and efficiency of operation and management across the board.

The capability of risk management. The Bank constructed a risk management system and mechanism featured with “full coverage, full process, specialisation, and accountability”, and constantly strengthened risk controls to hold the bottom line of preventing systematic and regional financial risks.

The capability of cooperative operation. The Bank took full advantage of integrated operation and international network to strengthen the integrated collaborative capability of the Group and continuously exert this capability for development.

The capability of resource allocation. Centring around the direction and priorities for further development, the Bank continued to optimise its organisation, personnel, channel, finance and evaluation system etc., so as to ensure that the strategies were effectively implemented.

2021 is the first year of the 14th Five-Year Plan. During the Reporting Period, by leveraging the exemplary and leading role of “Shanghai Base”, the Bank served the high-quality and integrated development of the Yangtze River Delta from points to the whole area. The proportion of regional inclusive loans for small and micro enterprises to all kinds of loans, the increase amount of international settlement, the quarterly daily average AUM balance of retail and the revenue growth from the consignment of personal wealth management products were all higher than the bank average. During the Reporting Period, the profit before tax in the Yangtze River Delta region was 45.781 billion, contributing to 48.72% of the Group’s profit with a year-on-year increase of 4.01 percentage points.

With regard to the construction of a “New Digital BoCom”, innovative products and services including “BoCom e-Service”, digital renminbi and mobile banking 6.0 were launched, which made the four featured businesses more online, more digital, and more open. Moreover, phased progress was made in the construction of a new generation cloud platform, data middle-office and multi-party secure computing platform, which led to a smooth operation of the Group’s production and network security, and sustained growth in the driving forces of data and technology. In 2021, the investment in FinTech increased by 23.60% on a year-on-year basis, and the proportion of FinTech talents recruited by the Bank increased from 32% in 2019 to 55% in 2021.

BUSINESS REVIEW

With regard to the four business features, the “Benefit Medical Payment” was launched in 29 cities with more than 250 cooperative hospitals. The balance of inclusive loans for small and micro enterprises increased by 49.23% over the end of the previous year and the balance of “Inclusive e-Loan” increased by 94% over the end of the previous year. The MAUs of Go Pay APP and Mobile Banking APP after repeated MAUs were removed increased by 17.56% over the end of the previous year. The Bank promoted the launch of products and services including “BoCom e-Customs” and CIPS standard transmit product. During the Reporting Period, the volume of trade financing incurred in domestic branches increased by 31.28% on a year-on-year basis. In order to meet financial service needs in different life cycles of sci-tech innovation enterprises, the Bank built “BoCom Sci-tech Innovation” brand and improved sci-tech innovation series products. As at the end of the Reporting Period, loans to strategic emerging industries increased by more than 90% over the end of the previous year. The Bank enriched wealth management product category by launching the brand “BoCom Elderly Care” and “Five Services” for personal pension finance. As at the end of the Reporting Period, personal financial assets under management (AUM²) of domestic branches increased by 9.26% over the end of the previous year. During the Reporting Period, through consignment of wealth management products, funds and wealth management business. The Group reported fees and commission income from wealth management of 17.310 billion, representing an increase of 24.32% on a year-on-year basis.

(II) Corporate Banking Business

- ◆ **The Bank served the real economy and increased the financial supply for key areas and weak links.** During the Reporting Period, the Group’s corporate loan balance increased by 431.111 billion or 11.63% over the end of the previous year, in which green credit, agriculture-related loans and related loans to the manufacturing industry increased by 31.37%, 14.13% and 16.16% respectively, exceeding the average growth rate of the Group’s loans.
- ◆ **The Bank served national strategies and supported the development of key areas.** As at the end of the Reporting Period, the balance of loans of three major regions including the Yangtze River Delta, the Beijing-Tianjin-Hebei Region and the Guangdong-Hong Kong-Macao Greater Bay Area increased by 15.30% over the end of the previous year, exceeding the average growth rate of the Group’s loans by 3.13 percentage points. Balance of loans in these three major regions accounted for 52.15%, representing an increase of 1.42 percentage points over the end of the previous year.
- ◆ **The Bank accelerated the development of trade finance and sci-tech finance.** During the Reporting Period, the Bank grasped the opportunities of the “dual circulation” new development pattern and the industrial upgrading. The volume of trade financing incurred increased by 31.16% on a year-on-year basis, and the proportion of its balance in corporate loans increased by 1.37 percentage points. Sci-tech finance credit customers reached 23 thousand, and loans to strategic emerging industries increased significantly by 142.0 billion or 90.90% over the end of the previous year, whose proportion in corporate loans increased by 3.29 percentage points.

² Excluding the fair value of customer’s securities. Same as below.

1. Customer development

The Bank accelerated the construction of customer projects, and further established a stratified operation and service system. As at the end of the Reporting Period, the total number of corporate customers of domestic branches increased by 14.21% over the end of the previous year, and the number of new accounts increased by 41.02% on a year-on-year basis. For group customers, the Bank adopted a professional and intensive operation model. The Bank improved the refined service levels for top customers by establishing an integrated three-dimensional service team consisting of the Head Office, the branches and the sub-branches and by adhering to the rule of “one strategy for one account”. As at the end of the Reporting Period, the number of the Bank’s group customers reached 82.9 thousand, representing an increase of 8,114 over the end of the previous year. For government institutions customers, the Bank enhanced its dominant position in the cooperation between bank and government by building systems and platforms, as well as targeting at cooperation entry points. As at the end of the Reporting Period, the number of government institutions customers reached 70.8 thousand, representing an increase of 1,914 over the end of the previous year. For small and micro basic customers, the Bank drew on the optimisation of the account opening process, outlets integration initiatives and centralised operation of online outbound call teams, to promote the construction of online and remote customer acquisition channels continuously. As at the end of the Reporting Period, the number of small and micro basic customers reached 2,032.3 thousand, representing an increase of 265 thousand over the end of the previous year.

2. Scenario construction

The Bank intensively explored scenario construction through digital thinking and integrated financial services into subdivided scenarios such as medical care, schools, parks and customs. The Bank also optimised the customer experience of some innovative products like Benefit Medical Payment, BoCom Smart Schools, Intelligent Financial Service Platform and BoCom e-Customs, upgrading the comprehensive financial solutions to all fields. Benefit Medical Payment has been launched in 29 cities including Shanghai, Nanjing, Dalian, Guangzhou and Yichang. The Intelligent Financial Services Platform had 80 thousand registered customers in total, representing an increase of 30 thousand over the end of the previous year, and received 239.6 billion in settlement volume, a significant increase of 330% year-on-year. In addition, the Bank launched the innovative “Smart Bookkeeping” product, which was an algorithm-based solution to the pain point of matching customer transfers and accounts receivables reconciliation, with the amount of cumulative transactions exceeding 2.0 billion. The Bank enriched the financial services functions of BoCom e-Customs and took lead among other interbank institutions in terms of featured functions development and customer development in regions such as Shanghai, Shenzhen and Xiamen.

BUSINESS REVIEW

3. Services to inclusive small and micro enterprises

The Bank accelerated inclusive digital transformation. Relying on “Inclusive e-Loan” to build a comprehensive online financing product system, the Bank realised the dual driving forces of online standard products and customised products for individual scenarios. Online standard products such as mortgage, credit and guarantee can be combined in various ways to meet the differentiated needs of customers. Also, the Bank cooperated with the Federation of Industry and Commerce and other third-party data platforms to realise scenario customisation in key areas such as supply chain, sci-tech innovation, rural revitalisation, medical insurance, mass entrepreneurship and innovation, and individual industrial and commercial households. The Bank also increased credit granting in key areas such as initial loans for small and micro enterprises, renewal loans, credit loans, manufacturing loans, and medium and long-term loans, and provide financial services for small and micro enterprises in key national strategic areas such as small and micro sci-tech innovation, green finance, and industrial chain. In addition, the Bank strengthened digital management and improved the risk control levels of the whole process both online and offline. At the end of the Reporting Period, the balance of inclusive loans to small and micro enterprises was 338.819 billion, which was an increase of 49.23% over the end of the previous year. The number of customers with loan balances was 212.2 thousand, representing an increase of 43.49% over the end of the previous year. The accumulated average interest rate of inclusive loans to small and micro enterprises was 4.00%. The comprehensive financing cost of small and micro customers decreased by 0.49 percentage point. Also, non-performing loan ratio of inclusive small and micro enterprises was 1.16%, representing a decrease of 1.02 percentage points over the end of the previous year. Also, 2,779 business outlets of the Bank provided financial services such as financing services to small and micro enterprises.

4. Industrial chain finance

The Bank implemented the requirements of stabilising and strengthening the chain, and stimulated special authorisation, system innovation and process optimisation, to meet the personalised financing needs of enterprises in the principle of “one policy for one chain”. Concentrating on technological empowerment, the Bank developed an industrial chain rapid financing product line. The volume incurred of rapid discounted bills amounted to 39.484 billion, and the volume incurred of Express Pay reached 2.826 billion. The Bank also launched BoCom’s self-built smart transaction chain platform. Moreover, the Bank connected with 12 mainstream platforms, such as TravelSky and CSCC, to realise convenient and contactless cross-scenario financial cooperation, and automate the whole process of rapid payment, which greatly improved user experience. By making use of innovative products, the Bank was able to cooperate deeply with leading enterprises in key industries such as electricity, construction, automobiles and pharmaceuticals to meet the financing demands of both upstream and downstream enterprises. During the Reporting Period, the industrial chain finance business increased by 23.46% on a year-on-year basis. As at the end of the Reporting Period, the balance of industrial chain finance reached 155.998 billion, representing an increase of 25.08% over the end of the previous year.

5. *Sci-tech finance*

The Bank applied internal and external data to establish and improve list library and tag pool of sci-tech finance customers, which could present accurate customer portrait and identification. The Bank focused on ten major business scenarios including start-up capital, venture capital, introduction of strategic investors, and corporate listing, providing one-stop financing services for technical enterprises in the full scale and whole process of equity, debt and loan. The Bank gave priority to key areas such as “specialisation, delicacy, characterisation and novelty”, and “new infrastructure and new urbanisation initiatives and major projects”, and developed industry-specific marketing plans to further expand sci-tech finance customers. As at the end of the Reporting Period, there were 23 thousand sci-tech finance credit customers, representing an increase of 19.53% over the end of the previous year. The loan balance of strategic emerging industries was 298.241 billion, representing an increase of 90.90% compared with the end of previous year. There were 527 “little giant” enterprises of “specialisation, delicacy, characterisation and novelty”, which increased by 304 compared with the previous year, and their loan balances reached 10.143 billion, representing an increase of 5.171 billion over the end of the previous year. During the Reporting Period, such arrangements were implemented in scenarios like start-up capital and equity investment, achieving a “loan + share” financing scale of 106.163 billion.

6. *Investment bank*

The Bank intensified its efforts in scaling up full financing to build an innovative investment bank. As at the end of the Reporting Period, the bond underwriting according to NAFMII (debt financing instruments for non-financial enterprises) reached 389.509 billion, representing an increase of 14.68% on a year-on-year basis. By virtue of scenario innovation, the Bank delved into mergers and acquisitions (M&A). In the last two years, the net increases of domestic M&A loan balance were 32.6 billion and 41.1 billion respectively, both ranking first among banking institutions. As at the end of the Reporting Period, the historical balance ranked 5th among banking institutions, which have climbed by 2 ranks over the end of the previous year. Focusing on the characteristic of “sci-tech finance”, 7 private equity investment funds were set up to invest in strategic emerging industries and sci-tech innovation enterprises, and “Win to Fortune e-Smart”, an information consultancy service, was launched to further integrate financing service with collaborative intelligence. To make constant contribution to the society and the well-being of the public, the Bank underwrote the Panda Bond (Bond Connect) of the BRICS New Development Bank in pursuit of the United Nation Sustainable Development Goals, and developed 14 Credit Risk Mitigation Warrants (CRMW) amounting to 4.165 billion. The ability to innovate products and services was lifted in all respects and so recognised by the market that the Bank was awarded 2021 “Best Bond Underwriter Bank” by Wind, and 2021 “Most Innovative Asset Securitisation Business Award” by *Asia Money*.

BUSINESS REVIEW

(III) Personal Banking Businesses

- ◆ **The Bank enhanced the capacity of retail customer expansion and operation with “financial assets + data assets”.** Focusing on government affairs, travel, education, healthcare and other livelihood scenarios as well as food and beverage consumption, the Bank upgraded products and service solutions to acquire more customers in various scenarios. As at the end of the Reporting Period, the number of middle and high-end customers³ increased by 15.29% over the end of the previous year. During the Reporting Period, the number of debit card customers acquired online increased by 7.3 percentage points compared with the end of the previous year while that of credit cards accounted for over 50% of the total.
- ◆ **The Bank intensified wealth finance feature to realise a rapid growth in net fee and commission income.** As at the end of the Reporting Period, personal financial assets under management (AUM⁴) of domestic branches reached 4,256.38 billion, representing an increase of 9.26% over the end of the previous year. Revenue from consignment of personal wealth management products by domestic branches increased by 28.37% on a year-on-year basis. Net fee and commission income from personal financial services accounted for 64.62% of the Group’s related income, representing an increase of 2.32 percentage points on a year-on-year basis.
- ◆ **The Bank developed consumer finance business with a steady increase in personal loans.** As at the end of the Reporting Period, the balance of personal loans was 2,285.096 billion, representing an increase of 15.36% over the end of the previous year, of which the balance of personal mortgage loans increased by 15.13% over the end of the previous year. During the Reporting Period, the cumulative amount of consumptions through debit cards and credit cards were 2,603.405 billion and 3,015.569 billion respectively, representing a year-on-year increase of 32.02% and 3.83% respectively. As at the end of the Reporting Period, the balance of personal loans accounted for 34.83% of the Group’s loan balance, representing an increase of 0.96 percentage point over the end of the previous year.

1. Retail customers and AUM

With the goal of increasing the income of urban and rural residents and promoting common prosperity, the Bank continued to build the wealth finance strengths and adhered to the double-factor growth of “financial assets + data assets” to enhance joint expansion and in-depth management capabilities of retail customers. The customer acquisition through multiple channels and under all scenarios gradually became effective, data-driven business strategies became increasingly enriched, and customer structure was consistently optimised, resulting in the accelerated growth in AUM. As at the end of the Reporting Period, the number of retail customers of domestic branches (including debit card and credit card customers) increased by 3.76% over the end of the previous year to 185 million. The number of qualified customers of OTO Fortune increased by 15.31% over the end of the previous year to 2,002.8 thousand. The scale of AUM increased by 9.26% or 360.814 billion over the end of the previous year to 4,256.38 billion.

³ Including the qualified OTO Fortune customers of domestic branches and the private banking customers of the Group.

⁴ Excluding the fair value of customer’s securities.

2. *Wealth management*

Adhering to the concept of “customer orientation and continuous value creation for customers”, the Bank developed the feature of wealth finance. The Bank leveraged the Group’s advantages to enhance product creation and supply capabilities. By adhering to open integration, the Bank introduced highly competitive products from outside the Group and established partnerships with 6 external institutions on wealth management products consignment, which diversified the wealth management offerings. Quantitative indicators were considered together with experts’ experience to build the “OTO Best Choice” product system covering wealth management, funds and insurance to provide customers with more professional wealth allocation choices. During the Reporting Period, the “Cross-border Wealth Management” service, among the first batch of pilots, enriched customers’ investment choices. To accelerate the digital transformation, the Bank launched an online open platform for wealth with cooperative institutions to provide customers with more professional investment information, product promotion, investor education, investment companion and other services.

During the Reporting Period, revenue from consignment of personal wealth management products by domestic branches increased by 28.37% on a year-on-year basis to 9.837 billion. Including: the balance of personal public funds product on consignment increased by 33.73% over the end of the previous year to 319.371 billion. The balance of non-monetary market fund on consignment was 304.3 billion, ranking the 5th in the list of banking consignment agencies published by Asset Management Association of China. The Bank realised a net income of fund on consignment (including securities dealers and exclusive accounts) of 3.576 billion, representing an increase of 80.08% on a year-on-year basis, and the compound annual growth rate (CAGR) in the recent three years was 145.78%. The balance of wealth management products on consignment increased by 7.54% over the end of the previous year to 945.122 billion; the net income of wealth management was 3.770 billion, representing an increase of 11.11% on a year-on-year basis. The balance of insurance products on consignment was 221.381 billion, representing an increase of 19.00% over the end of the previous year. The net income of agency insurance business was 1.909 billion, representing an increase of 22.14% on a year-on-year basis.

3. *Consumer finance*

The Bank acted on the principle that “houses are for living in, not for speculation” to meet the reasonable demands for self-occupied houses. The Bank took the initiative to become digital-oriented and developed scenario-based consumption loans to meet people’s daily consumption needs concerning clothing, food, housing, travel and medical care, to expand residents’ consumption range and improve the consumption level. Besides, the Bank increased the support to consumption loans for new energy vehicles, and developed green credit to promote green economy. The customer loan process was continuously improved to bolster efficiency and customer experience while a retail risk control middle-office was set up to uniformly manage retail loan risks, reinforce control over use of funds and properly satisfy credit demands. As at the end of the Reporting Period, the market share of personal consumption loans (including credit cards) was 4.95%⁵, representing an increase of 0.17 percentage point over the end of the previous year, while the personal housing mortgage loan balance increased by 15.13% over the end of the previous year to 1,489.517 billion.

⁵ Standards of 17 commercial banks

BUSINESS REVIEW

4. *Private banking*

The product category of the Bank was increasingly diversified. The Bank put more efforts in intra group combination and external cooperation by launching private wealth management products, investment trust products, TOF products, sunlight private products, and the first CTA alternative investment strategy wealth management products, innovated the first charity trust product which was exclusively available to family trust customers with charitable willingness, and customised ingenuity inheritance, equity and other family trust solutions, thus constantly enriching the product investment strategies to satisfy the wealth management needs of private banking customers.

The Bank also carried out a reform in private banking business model by deepening the tiered and hierarchical management of customers, and establishing a collaborative marketing and maintenance mechanism for both the Head Office and the branches for ultra-high net worth private banking customers. Moreover, the Bank strengthened the construction and management of the private banking team, and continuously improved the professional ability to serve customers. Focusing on market hotspots and business demands, the Bank expanded the scope of investment researches. Guided by the investment and research report while using the asset allocation proposal as a tool, the Bank further enhanced the professional capacity of asset allocation services. As at the end of the Reporting Period, there were 70.4 thousand private banking customers of the Group, representing an increase of 15.30% over the end of the previous year; the assets of private banking customers under management of the Group were 995.199 billion, representing an increase of 19.36% over the end of the previous year. Major interbank⁶ market share of private banking businesses has risen for 4 consecutive years.

5. *Bank card*

Credit card: With a focus on high-quality customers, the Bank promoted the digital transformation of customer acquisition through “data-driven + online operation” to stimulus customer activity. The 5.0 version of the credit card Go Pay APP was released, and two characteristic channels, “Points Paradise” and “Discount”, were integrated and launched to meet customers’ needs for a better life and improve customer experience. The Go Pay 5.0 Harmony version, which was developed simultaneously, was among the first batch of APPs in the financial industry to support the Harmony operating system. Furthermore, the Bank launched a variety of cards with popular themes such as Honor of Kings and Luo Tianyi, to increase the appeal to customer segment of high-quality young generation. The number of new active accounts increased by 38.88% on a year-on-year basis. As at the end of the Reporting Period, there were 74,268.8 thousand registered domestic credit cards, representing an increase of 1,612.9 thousand over the end of the previous year. During the Reporting Period, the credit card business won nine awards, including “Financial Service Product of Outstanding Brand Power” and “Popular Star Credit Card”. The Credit Card Centre was awarded as a “Class A Institution” in the 2020 Comprehensive Evaluation of Shanghai Banking Institutions by Shanghai Branch of the PBOC.

⁶ Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of China, China Construction Bank, BoCom, China Merchants Bank.

The Bank promoted and applied artificial intelligence technology in many fields. Hence, robotic process automation was applied in 137 internal management processes, processing 700 thousand transactions per month. By applying the deep semantic understanding model to the self-developed Athena intelligent robot, the function points with a low online resolution rate were optimised. Also, the Bank set up a “robot+” collection system to improve the collection capacity of robots and the efficiency of manual processing, while the robot stage recovery rate increased by 7 percentage points over the end of the previous year.

Through marketing campaigns such as “Super Red Friday”, “Ultra Super Red Friday”, “Weekly Swipe” and “Yearly Prize”, the Bank drove quarter-on-quarter growth in consumption to achieve dual promotion of brand exposure and business conversion. In addition, the Bank paid close attention to key festivals and online channel marketing, and continued to promote card-binding and card-use activities with third-party platforms so as to increase the amount of mobile payment transactions. During the Reporting Period, the cumulative amount of consumption through credit cards was 3,015.569 billion, representing a year-on-year increase of 3.83%. The Bank also continued to optimise risk pricing strategies and accelerate the development of scenario-based instalments. The balance in instalments at the end of the Reporting Period increased by 10.50% compared with the end of the previous year. As at the end of the Reporting Period, the credit card overdraft balance in domestic branches was 492.486 billion.

Debit card: The Bank, in consideration of national strategy and needs of subdivided customer segments, enriched debit card products and launched debit cards themed on rural revitalisation, green and low-carbon and the Yangtze River Delta etc. At the end of the Reporting Period, the accumulated number of debit cards issued amounted to 165.7514 million, representing a net increase of 6.5125 million over the end of the previous year. Under the support of cooperative institutions, the Bank upgraded payment products to improve card holders’ payment experience on mainstream platforms. The Bank launched marketing activities in retail stores, supermarkets, entities for transportation, culture and travel through cooperation with China Unionpay and other leading platforms to drive rapid growth of consumption payments. During the Reporting Period, the accumulated consumption paid by debit card amounted to 2,603.405 billion, representing a year-on-year increase of 32.02%.

With a focus on inclusive livelihood scenarios, the Bank practised the concept of “payment benefiting the people” and aimed at customer acquisition through digital means. The Bank actively facilitated the establishment of a digital government affairs platform and integrated online account system with government affair scenarios, creating a new model of government-bank cooperation. The Bank established a membership system and introduced more payment discounts to meet the demands of travel scenarios such as urban traffic, tourism and car owner services. The Bank innovated payment methods for scenarios such as medical service and online sales of medicines to foster the health ecosystem. With attentions to the development of smart education and schools in various regions and key areas of education reform, the Bank developed an open banking model to enable convenient payment in campus scenarios and made BoCom plans in respect of training funds supervision and smart canteen. During the Reporting Period, the number of debit card customers acquired online increased by 7.30 percentage points compared with the end of the previous year.

BUSINESS REVIEW

(IV) Interbank and Financial Market Businesses

- ◆ The Bank actively established the financial scenarios of interbank cooperation, intensively participated in the market construction of bonds, currencies, foreign exchange and commodities of China, and transformed financial market innovation into quality products and services satisfying the demands of individuals, enterprises, governments and interbank institutions, to improve the capability to serve the real economy.

1. *Interbank businesses*

Serve the development of financial factor market. The Bank connected with Shanghai Clearing House and launched the first batch of commodity clearing business, to provide settlement service for commodity transactions and support the stabilisation of industrial and supply chains. During the Reporting Period, the volume of the Bank's agent clearing business in Shanghai Clearing House topped in the market, and thus won awards including the Excellent Member of Clearing and Excellent Member of Settlement of Shanghai Clearing House. The Bank cooperated with Shanghai Futures Exchange and Dalian Commodity Exchange to take the lead in conducting online pledge financing business for standard and non-standard warrants, making it a market leader in terms of the volume of securities and futures settlement. During the Reporting Period, the average balance of demand deposits of financial factor market was 184.657 billion.

Promote the standard transmit product application of Cross-border Interbank Payment System ("CIPS"). The Bank joined hands with CIPS Co., Ltd. to effectively promote the security of core cross-border renminbi payment technologies. During the Reporting Period, the Bank actively promoted the application and deployment of CIPS standard transmit product. It became the first pilot bank to apply the direct participant version of the CIPS standard transmit product, and encouraged its customers to apply the indirect participant version and enterprise version of the CIPS standard transmit product, ranking first in terms of the number of customers applying the standard transmit product.

Build an interbank cooperation platform. The Bank built the BoCom e-Platform, including interbank wealth management platform and value connection platform, where the former is used to provide interbank customers with wealth management, account management, payment and settlement, factor market business and other services, while the latter is used to provide terminal customers of small and medium-sized banks with wealth management and other services. As at the end of the Reporting Period, there were 1,775 interbank customers in cooperation with BoCom e-Platform, representing an increase of 225 over the end of the previous year.

Support the development of capital markets. The Bank cooperated with securities and futures companies in settlement business. As at the end of the Reporting Period, the Bank joined hands with 105 securities companies in third-party depository management business, achieving cooperation with 97.22% of securities company customers, joined hands with 91 securities companies in the financing and securities depository management business, achieving cooperation with 96.81% of securities company customers, and joined hands with 148 futures companies in the bank-futures transfer business, achieving cooperation with 98.67% of futures company customers.

2. Financial market businesses

The Bank actively played its role in market making, quotation and trading to support the steady operation of financial market. During the Reporting Period, the trading volume in renminbi money market of domestic branches amounted to 71.3 trillion; the trading volume in foreign currency market amounted to USD1.84 trillion; the trading volume of renminbi bonds amounted to 4.05 trillion; the trading volume in interbank foreign exchange market amounted to USD3.54 trillion; the trading volume of self-operated gold amounted to 3,661 tons, maintaining its market position as an active trading bank.

The Bank supported the construction of Shanghai as an international financial centre and actively pushed forward innovation in products. The Bank was designated as one of bond market makers and pioneer domestic investors for “Southbound Trading” under Bond Connect, and has completed the first batch of “Southbound Trading” transactions. The Bank successfully issued the first foreign currency interbank deposit in the market, concluded the first-day transaction of multiple foreign exchange derivatives in the interbank market and became an X-Swap (an electronic transaction system for interest rate swaps) bridging agency and a quotation agency for interest rate options.

By means of investment and transactions on an overall basis, the Bank put more efforts in serving the real economy. The Bank invested more in central and local government bonds, and strengthened its support of bond investment businesses to the real economy. As at the end of the Reporting Period, the scale of financial investments reached 3,523.249 billion, representing an increase of 8.83% over the end of the previous year, and the securities investment yield was 3.25%. To serve the demands of enterprises for risk avoiding and value preservation, the Bank completed designated renminbi interest rate swap transactions amounting to 12.1 billion during the Reporting Period.

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

3. Asset custody

The Bank strengthened its cooperation with leading fund companies, vigorously innovated products and developed public fund custody businesses, with the focus on top-performing public funds. Moreover, the Bank insisted on full-range product layout and deepened cooperation in custody businesses with financial institutions including insurance, securities and trust companies to fully develop the custody market. Focusing on the three pillars of pension, the Bank optimised its custody services to support and secure people’s livelihood. As at the end of the Reporting Period, the assets under custody reached 12.08 trillion, representing an increase of 16.89% over the end of the previous year.

BUSINESS REVIEW

4. Wealth management businesses

The Bank stuck to the principle of issuing low-fluctuating wealth management products to safeguard investors' property with sustained and prudent performance. The Bank paced up the layout of omni-channel product marketing system and exploited the potential of customers of the Bank to expand consignment channels outside the Bank. As at the end of the Reporting Period, the wealth management products sold by 16 consignment agencies outside the Bank amounted to 409.859 billion, ranking top in the industry. As at the end of the Reporting Period, the balance of off-balance sheet asset management products of the Group reached 1,384.278 billion, representing an increase of 24.89% over the end of the previous year, and the balance of net-worth wealth management products reached 1,224.664 billion, accounting for 88.47% of the wealth management products and representing an increase of 27 percentage points over the end of the previous year.

(V) Integrated Operation

- ◆ The Group established development pattern with commercial banking business as the body, in close coordination and connection with other businesses including financial leasing, fund, wealth management, trust, insurance, overseas securities and debt-to-equity swap, so as to provide comprehensive financial services for customers.
- ◆ During the Reporting Period, net profits of subsidiaries⁷ that are attributable to shareholders of the Bank amounted to 10.952 billion, representing a year-on-year increase of 33.51%, the proportion of which to the Group's net profit increased by 2.02 percentage points on a year-on-year basis to 12.50%. As at the end of the Reporting Period, total assets of the subsidiaries increased by 9.74% over the end of the previous year to 543.897 billion, the proportion of which to the total assets of the Group increased by 0.03 percentage point over the end of the previous year to 4.66%.

Bank of Communications Financial Leasing Co., Ltd. As the Bank's wholly-owned subsidiary, the company was set up in December 2007 with a registered capital of 14.0 billion. The main business scope includes financing leasing and operating leasing in sectors such as aviation, shipping and energy power, transportation infrastructure, equipment manufacturing and livelihood services. The company was elected as the Fifth Chief Administration Unit of China Banking Association (CBA) Financial Leasing Committee. During the Reporting Period, the company adhered to the development strategies of "Professionalism, Internationalisation, Differentiation and Characteristics", and was deeply engaged in aviation, shipping, traditional financing leasing and other businesses. The company's main indicators still ranked first in the industry. As at the end of the Reporting Period, total assets, net assets and balance of leasing assets were 318.887 billion, 35.844 billion and 286.370 billion respectively, representing a year-on-year increase of 3.11%, 12.72% and 6.55% respectively. Total assets of aviation and shipping amounted to 175.553 billion, with fleets of 272 planes and 430 ships. The company's net profit during the Reporting Period was 3.530 billion, representing a year-on-year increase of 10.27%. The company actively practiced "green finance", supported sustainable development, and owned green leasing assets exceeding 12.0 billion. The company successfully issued the first double certified green and sustainable development bonds of Chinese leasing companies and won the award of "Best Sustainable Development Bond" of *The Asset*. During the Reporting Period, it won 18 honours such as the "Best Financial Leasing Company of the Year" of *Financial Times*.

⁷ Excluding Bank of Communications (Luxembourg) S.A., Bank of Communications (Brazil) Co., Ltd. and Bank of Communications (Hong Kong) Limited, same applies hereinafter.

The company gave full play to the leading role of innovation. The company entered into a strategic cooperation agreement with Shanghai Pilot Free Trade Zone Lin-Gang Special Area and successfully completed the first FTA SPV cross-border equipment leasing innovation project in the domestic financial leasing industry in the Yangshan Special Comprehensive Bonded Zone. For the first time, the company was involved in the specialized subdivision field of sawdust ship and was the first in the world to deliver a super large ethane transport ship with a B-type cabin and the largest capacity. In addition, the company completed the delivery of the first passenger to cargo conversion with a full process operating leasing model in the domestic financial leasing industry. At last, the company strengthened its cooperation with the Group and deepen the promotion of the “Leasing+” business model. During the Reporting Period, the scale of joint financing with domestic provincial branches of the Group was 42.5 billion.

Bank of Communications International Trust Co., Ltd. The company was set up in October 2007 with a registered capital of 5.765 billion, of which the Bank and Hubei Provincial Communications Investment Group Co., Ltd. contributed 85% and 15% stock rights respectively. The main business scope includes trust loans, investment funds trusts, accounts receivable financing, real estate trusts, securities investment trusts, family trusts, charitable trusts, credit asset securitisation, corporate asset securitisation, qualified domestic institutional investor (QDII), and private equity investment trusts. During the Reporting Period, with the strategic goal of “building the most trustworthy first-class trust company”, the company focused on four strategic pillar businesses including private investment banking, securities investment, wealth management and fiduciary services, and business performance remained rising steadily. As at the end of the Reporting Period, the total assets, net assets and the assets under management of the company were 17.637 billion, 14.478 billion and 609.124 billion respectively. The company’s net profit during the Reporting Period was 1.235 billion, representing an increase of 1.39% on a year-on-year basis. The company has been awarded the highest regulatory compliance rating by the CBIRC for four consecutive years. In addition, the company has been rated as Level A (the highest level) for six consecutive years since the China Trustee Association launched the industry rating and has won the “Cheng Xin Tuo” Excellent Trust Company Award granted by the *Shanghai Securities News*.

During the Reporting Period, the company settled the first “carbon neutrality” asset securitisation transaction and the charitable trust for humanistic medicine among other enterprises in the industry. In addition, the company developed an comprehensive trust service scheme covering “finance + investment”, “non-standard and standard products”, “domestic + overseas (QDII)” and “corporate + individual + charity” based on its trust expertise, to assist the Group to enhance the ability of integrated financial service with the goal of Great Investment Bank – Great Asset Management – Great Wealth Management – Great Operation. Moreover, the company helped the Group with the layout of four business features through asset securitisation, family trusts and equity investment. The company, together with the Group, registered the first ABN shelf offering project of “N+N+N” mode in the interbank market, namely BoCom Share Chain 10.0 billion supply chain targeted assets-backed notes from 2021 to 2023, to serve small and micro enterprises in financing by introducing open market funds.

BUSINESS REVIEW

Bank of Communications Schroder Fund Management Co., Ltd. The company was set up in August 2005 with a registered capital of 0.2 billion. It was jointly contributed by the Bank, Schroder Investment Management Limited and China International Marine Containers (Group) Co., Ltd., with the stock rights accounting for 65%, 30% and 5% respectively. The primary businesses include fund raising, fund sales and asset management. As at the end of the Reporting Period, the yield of equity investment under active management ranked 2/70 in the industry in recent seven years, 10/88 in recent five years and 16/108 in recent three years. The rate of return of 4 fund products in recent seven years was more than 300%, the rate of return of 4 fund products in recent five years was more than 200%, and the rate of return of 25 fund products in recent three years was more than 100%. As at the end of the Reporting Period, the company's total assets and net assets were 6.999 billion and 5.724 billion respectively, and the public fund under management reached 547.3 billion, representing an increase of 61% over the end of the previous year. The company's net profit during the Reporting Period was 1.786 billion, representing an increase of 42% on a year-on-year basis.

As the backbone of the Group to build wealth management feature, the company, centring on the Group's strategy and the 14th Five-Year Plan, continuously improved core competitiveness in investment research and built multi-level product lines. Relying on spillover effect of initiative management investment research advantages, the company improved its management ability in rights & interests, fixed income+ and FOF, investment advisory portfolios, strived to make itself a first-class fund company with core competitiveness for high-quality development and actively assisted the Group in the construction of wealth management ability. During the Reporting Period, the company and the Bank jointly focused on the layout and sales of pension financial products, and thus BoCom One Year Stable Pension FOF became the largest FOF product under management in the market, with a scale of over 24.0 billion as at the end of the Reporting Period.

BOCOM Wealth Management Co., Ltd. As a wholly-owned subsidiary of the Bank, the company was set up in June 2019 with a registered capital of 8.0 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. During the Reporting Period, the company utilised the asset allocation advantages of the Bank and organised a professional investment research team to develop investment research capability in integrating upstream and downstream of asset management business. As to the "stable fixed income intensified" series wealth management products, the corresponding management team were awarded "2021 Gamma Award for Outstanding Bank Wealth Management Team" by *Securities Times*. As at the end of the Reporting Period, the company's total assets and net assets were 10.206 billion and 9.929 billion respectively. The company's net profit during the Reporting Period was 1.155 billion, indicating an increase of 73.61% on a year-on-year basis. The company received 28 prestigious awards including Golden Bull Award, G.D.M, and Golden-shell Award, issued by regulators and mainstream media.

As a core supplier of wealth management products and an integrated platform for innovation and development of the great asset management business, the company actively coordinated with the wealth value chain, enriched the product lines for the elderly and inclusive customers, and prioritised the wealth management needs of the Group customers. Meanwhile, the company took the chance of net-worth transformation of wealth management products and insisted on the customer-oriented business philosophy. Owing to the company's customer base, channel development ability, steady products and asset management ability, the wealth management products business saw a continuing growth. As at the end of the Reporting Period, the balance of wealth management products increased by 129.43% over the end of the previous year to 1,224.664 billion. The company actively expanded consignment agencies outside the Bank, and the balance of products sold under consignment outside the Bank reached 409.859 billion, accounting for 33.47% of the balance of products. In addition, the scope of sales on consignment outside the Bank ranked top among wealth management subsidiaries. The company was awarded "2021 Model of Channel Development with Outstanding Competitiveness" by *China Business Journal*.

BOCOM MSIG Life Insurance Company Limited. The company was set up in January 2010 with a registered capital of 5.1 billion, of which the Bank and the MS&AD Insurance Group contributed 62.50% and 37.50% stock rights respectively. The business scope includes life insurance, health insurance, accident insurance and reinsurance businesses of the aforementioned insurances in Shanghai as well as regions where its branches were established. During the Reporting Period, with the strategic goal of "becoming a company with a leading position in growth and profitability of guaranteed insurance", the company was committed to providing insurance guarantee and highlighted distinctive operation. As at the end of the Reporting Period, the company's total assets and net assets were 93.018 billion and 7.596 billion respectively. During the Reporting Period, the original premium income was 16.941 billion, representing an increase of 15.48% on a year-on-year basis. The net profit was 0.910 billion, representing a decrease of 12.07% on a year-on-year basis, and the value of new business increased by 10.5% on a year-on-year basis.

The company constantly improved the marketing process to acquire high-end customers, and initiated the construction of new elderly care service system to meet the needs of middle- and high-end customers on elderly care security across the life cycle. To further enhance the company's expertise in banking and insurance business and meet customers' needs, the company established a team consisting nearly 100 wealth planners to serve local institutions and undertake cross-regional businesses. Through the allocation of premium and premium trusts, the company satisfied the high net-worth customers by maintaining and passing on their wealth, thus realising a closed-loop operation in the Group.

BUSINESS REVIEW

BOCOM Financial Asset Investment Co., Ltd. As a wholly-owned subsidiary of the Bank, the company was set up in December 2017 with a registered capital of 10.0 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 its supporting services. As at the date of disclosing this Report, the CBIRC has approved the Bank's additional capital contribution of 5.0 billion to the company. During the Reporting Period, the company made efforts to develop the main business of market-oriented debt-to-equity swap, and actively reduced leverage ratio and controlled risks to serve the real economy. The gross incremental investment was 12.327 billion, the amount of withdrawal from projects was 4.711 billion and the net incremental investment of the year was 7.616 billion. As at the end of the Reporting Period, the company's total assets and net assets were 57.070 billion and 14.305 billion respectively. The company's net profit during the Reporting Period was 2.906 billion, representing an increase of 135.30% on a year-on-year basis.

BOCOM International Holdings Company Limited. The company was set up in June 1998 (formerly known as Communications Securities Co., Ltd. It changed its name to BOCOM International Holdings Company Limited in May 2007). It was listed on the main board of Hong Kong Stock Exchange on 19 May 2017. The main businesses include securities brokerage and margin financing, corporate financing and underwriting, asset management and consulting, investment and loan. As at the end of the Reporting Period, the Bank's shareholding in the company was 73.14%. During the Reporting Period, the company adopted the business strategy of "highlighting the businesses in Yangtze River Delta and Pearl River Delta, focusing on two fields of the industry and achieving transformation with intelligent and digital technologies", provided customers with comprehensive financial services of the integrated industrial chain and accomplished 23 IPO underwriting projects and 140 bond underwriting projects. The total amount of bond underwriting of the company and Hong Kong Branch of the Bank ranked the fifth on the list of offshore bond underwriting amount of domestic institutions. As at the end of the Reporting Period, the total assets and net assets of the company were HKD32.662 billion and HKD7.424 billion respectively. The company's net profit during the Reporting Period was HKD312 million, representing a decrease of 63.3% on a year-on-year basis, which is mainly due to the impact of the investment market downturn, especially due to losses in the fixed income securities in the fourth quarter of 2021

China BOCOM Insurance Co., Ltd. As a wholly-owned subsidiary of the Bank, the company was set up in November 2000 with a registered capital of HKD0.4 billion. The main business is the operation of 17 types of general insurances approved by the Insurance Authority of Hong Kong. During the Reporting Period, the company gave full play to the advantage of holding full business licenses for general insurances, and improved the quality and efficiency of its main underwriting business simultaneously. As at the end of the Reporting Period, the company's total assets and net assets were HKD0.797 billion and HKD0.585 billion respectively. The company's gross premiums during the Reporting Period increased by 13.70% on a year-on-year basis, the premium profits before expenditure increased by 22.59% on a year-on-year basis and the net compensation rate was 30.84%. The net profit was HKD9.38 million and revenue from business collaboration amounted to HKD13.01 million, representing a year-on-year increase of 7.20%.

(VI) Global Service Capabilities

- ◆ The Group formed an overseas operating network covering major international financial centres across five continents, and had 23 overseas branches (sub-branches) and representative offices in 18 countries and regions, with 69 overseas operating outlets.
- ◆ During the Reporting Period, the net profit of overseas banking institutions amounted to 5.701 billion, whose contribution to the Group's total net profit accounted for 6.51%. As at the end of the Reporting Period, the total assets of overseas banking institutions amounted to 1,187.234 billion, whose contribution to the Group's total assets accounted for 10.18%.

1. International settlement and trade financing

To act upon the call for “stabilising foreign trade” and “speeding up the development of new forms and models for foreign trade”, the Group launched cross-border e-Commerce financial services and connected with comprehensive platform for cross-border trade and market procurement trade to serve the development of new forms and models of foreign trade in various regions in China. To back up foreign trade enterprises, the Group launched export credit insurance to enhance their risk resisting capabilities and financing products under credit insurance to address their fund demands, especially for small and micro enterprises. The Group provided exchange risk management service for foreign trade enterprises to help them establish a neutral concept of exchange rate risk. During the Reporting Period, the amount of international settlement processed by the Bank reached USD483.158 billion, representing a year-on-year increase of 45.24%. The volume of financing for cross-border trade reached USD33.963 billion, representing a year-on-year increase of 44.52%.

2. Overseas service network

The Group had 23 overseas branches (sub-branches) and representative offices in places including Hong Kong, New York, London, Singapore, Tokyo, Frankfurt, Luxembourg and Sydney, providing customers with financial services including deposits, loans, international settlement, trade financing and foreign currency exchange. As at the end of the Reporting Period, the Group established overseas banking service network with 1,000 banks in 126 countries and regions, set up 241 cross-border renminbi interbank accounts for 103 overseas renminbi participating banks in 31 countries and regions. In addition, 81 foreign currency settlement accounts in 27 major currencies were opened in 62 banks in 31 countries and regions.

3. Cross-border renminbi transactions

To support the development of the real economy, the Bank launched the “Kua Rong Tong” service, through which overseas banks satisfied 21.901 billion of the renminbi financing needs of domestic customers with account financing funds. The Group leveraged its advantages of domestic and overseas collaboration, and the volume of cross-border transfer of domestic trade financing assets processed this year amounted to 36.268 billion, representing an increase of 363.79% on a year-on-year basis. During the Reporting Period, the volume of cross-border renminbi settlement of domestic banking institutions reached RMB1,212.132 billion, representing an increase of 60.50% on a year-on-year basis.

BUSINESS REVIEW

4. Offshore services

Relying on offshore services advantages, the Bank served the development of high-level opening up and the construction of Shanghai as an international financial centre and enhanced its financial service capabilities. During the Reporting Period, the net operating income of offshore services increased by 13.51% on a year-on-year basis to USD137.0441 million. As at the end of the Reporting Period, the total assets of offshore services increased by 35.69% over the end of the previous year to USD15.936 billion.

**Column****BOCOM-HSBC Strategic Cooperation**

During the Reporting Period, based on the positioning of “deepening strategic cooperation and creating shared value”, the Bank carried out close communication and sincere cooperation with its overseas strategic partner HSBC to promote a mutually beneficial and win-win cooperation.

Optimise mechanism and maintain smooth communication. Under circumstances of normalised pandemic prevention and control, the two parties used online channels to hold top-level meetings between the chairmen, and informal talks were held between the president and the CEO of both parties to discuss the direction of cooperation. The senior management of both parties communicated regularly through summit meetings and executive chairman meetings to set objectives and direction for the annual cooperation.

Leverage complementary advantages and promote business cooperation. The two parties continued to promote cooperation in various business areas under the unified framework of “1+1 Global Financial Services” in accordance with the principles of mutual benefits and market orientation. BoCom and HSBC joined hands to assist Chinese enterprises to “go global”, concluding 3 cooperative syndicated loan projects. The parties consolidated their cooperative advantages in Hong Kong, concluding 18 cooperative syndicated loan projects and 38 bond underwriting projects. Cooperations in overseas financing and treasury business were promoted in an orderly manner with foreign currency settlement continuously increasing, and the scale of cooperative custody business reached 82.4 billion.

Facilitate exchanges and further the experience sharing. Both parties, under the framework of “Resources and Experience Sharing (RES)”, exchanged experiences with the focus on business development and risk compliance to promote sharing of information.

In the future, the Bank will join hands with HSBC to deeply integrate into China’s national strategies, explore joint services to the “Belt and Road Initiative” and the construction of Guangdong-Hong Kong-Macao Greater Bay Area, jointly support the construction of Shanghai as the international financial centre, and build an “experimental field for green finance cooperation” to explore the potential of cooperation and create more values together.

(VII) Channel Construction

1. Corporate online banking and corporate mobile banking

Centring on customer experience, the Bank provided professional and intelligent corporate online financial services via PC terminal and mobile terminal, and enhanced its ability to empower the high-quality development of corporate customers with FinTech. As at the end of the Reporting Period, the number of contracted customers of corporate online banking (Bank-corporate direct connection) increased by 17.17% over the end of the previous year, and the annual cumulative transaction volume saw an increase of 14.08% on a year-on-year basis. The number of contracted customers of corporate mobile banking increased by 36.62% over the end of the previous year, and the annual cumulative transaction volume saw an increase of 73.23% on a year-on-year basis.

2. Personal mobile banking

Adhering to the customer-oriented principle and taking the best practices of the industry as the benchmark, the Bank innovatively proposed the design concept of “renovation for innovation, vision in integration” and launched the new-generation personal mobile banking of version 6.0, which is an intelligent and personalised one-stop financial service platform, with reinforced digital service capabilities in open interconnection, wealth growth and human-caring technology. As at the end of the Reporting Period, there were 38.1103 million monthly active users (MAU), increasing by 22.82% on a year-on-year basis.

3. Go Pay

The Bank accelerated digital transformation and development of service channels and released the new version 5.0 of Go Pay APP for credit card, which has a reinforced intelligence level and better customer experience. To attract mobile banking customers to use Go Pay APP, the Bank made a series of functional optimisations including log in. After that, a total of 5.20 million customers logged in the Go Pay APP through mobile banking authorisation in this year. As at the end of the Reporting Period, the number of MAUs of Go Pay APP increased by 3.9270 million compared with that before the new version was released, and it kept growing month by month. In October 2021, Go Pay APP got the second place in the annual appraisal report of credit card APPs published by Sina Finance. As at the end of the Reporting Period, the accumulated number of registered customers of Go Pay APP was 70.2658 million while the number of MAUs was 26.5726 million. The frequencies of Go Pay App used in financial and non-financial scenarios were 82.99% and 55.37% respectively.

4. Personal payment

The Bank deeply developed functions related to online payment. The Bank took the lead in accessing personal mobile banking to UnionPay Cashier, realising the scenario embedding and payment linkage to the head Internet platform. Besides, the Bank interconnected with Alipay and allowed customers to make payments through scanning personal payee code of Alipay.

BUSINESS REVIEW

5. *Open banking*

The Bank continuously enriched exportable products and business solutions and provided various platforms with online financial services including online factoring, e-Letter of guarantee, distributor fast lending, Jiao eBao, bank and enterprise payment. In addition, the Bank accelerated the development of livelihood consumption scenarios and launched standard scenario solutions such as e-Government wallet, Benefit Medical Payment, smart schools and fund supervision. As at the end of the Reporting Period, 1,369 interfaces were launched for open banking with a cumulative 0.26 billion calls. There were 256 new cooperative institutions and 366.6 thousand new electronic accounts with non-zero balance, which are 6.09 and 4.57 times that of the previous year, respectively.

6. *Third-party platforms*

The Bank strived to develop new media channels such as “BoCom” WeChat Mini Program and Cloud Banking to enhance its capability of converting and operating new customer acquired from the channels. As at the end of the Reporting Period, customers served by “BoCom” WeChat Mini Program increased approximately tenfold over the end of the previous year. Cloud Banking was updated and was accessible to WeCom of the Bank, serving 2.3684 million customers.

(VIII) FinTech and Digital Transformation

- ◆ During the Reporting Period, the Bank’s investment in FinTech⁸ increased by 23.60% on a year-on-year basis to 8.750 billion, which accounted for 4.03% of the operating income, representing an increase of 0.50 percentage point on a year-on-year basis.
- ◆ As at the end of the Reporting Period, the number of FinTech employees was 4,539, which accounted for 5.03% of the Group’s total employees.

1. *Draw an IT strategic plan*

To adapt to the new situation and requirements in the new development stage, the Bank kept improving the top-level design of FinTech and strengthening the leading role of technology. During the Reporting Period, the Bank released the Action Plan for Digital Transformation, the FinTech Development Plan and the Data Governance Plan under the “14th Five-Year Plan” successively, and put forward the “POWER” vision for FinTech development, in which P stands for Platform, O stands for Open, W stands for Wise, E stands for Enterprise and R stands for Reinvent. By leveraging the dual driving forces of technological innovations and data elements, the Bank was committed to constructing a “New Digital BoCom” with excellent customer experience, abundant ecosystems, intelligent risk control and efficient operation.

⁸ Including investment in the communication equipment expenses and line rent expenses, comparative data has been restated in accordance with the current presentation.

During the Reporting Period, the Bank won a number of FinTech awards. For instance, its “Multi-party Secure Computing Platform and Scenario Application Project” won the first prize in the appraisal of FinTech Development Award by the PBOC. The CIPS standard transmit product was awarded the first prize in Shanghai Financial Innovation Competition by Shanghai Municipal People’s Government in 2020. “One Thing for Medical Payment” won the 2021 “Shanghai Standard” and Shanghai Finance Excellent Application Scenario Award. The Bank established the Special Committee on Data Industrialisation under the Shanghai FinTech Industry Alliance, and attended the 2021 World Artificial Intelligence Conference as a glory partner and was selected as one of the Top 30 of 2021 SAIL Award.

2. Deepen the empowerment of technology

Focusing on the four business features of inclusive finance, trade finance, sci-tech finance and wealth finance, the Bank innovated a number of influential products to improve the operation and management capability.

Empower business development. The Bank released the 6.0 version of Mobile Banking and constructed a unified view and insight system for customers. With the help of big data analysis and intelligent algorithms, the Bank offered customers the most suitable services and products to provide better customer experience. The Bank established a new commercial service system covering debit/credit card, domestic/overseas card, exclusive/discounted services and online/offline merchants, and built a “five centralised” operation system to provide comprehensive services for the merchants. To enable medium- and small-sized enterprises to realise digital transformation, the Bank launched the digital salary scenario-based solution named “Salary & Taxation Manager”. The Bank strengthened the function of “Inclusive e-Loan” by integrating with various types of guarantees for individuals and legal persons to provide online one-stop financing support for small and micro enterprises and individual industrial and commercial households. In addition, the interbank wealth management and value connection platform “BoCom e-Platform” went online to offer online one-stop services of investment, financing and settlement to interbank customers.

Empower operation and management. The main functions of the enterprise-level marketing middle office of personal banking business was launched and connected with seven online service channels such as Mobile Banking, Go Pay, Message Centre and New-generation Customer Service Platform. It could handle the calculation of 30.0 billion strategy list sets every day while allowing flexible settings with thousands of labels. The Bank enriched marketing strategy for digital scenarios to implement targeted operations by level and by category with quantised data. With the launch of the New-Generation Customer Service Platform and the introduction of the domestic multimedia communication platform, the Group was enabled to share customer service resources, initiatively launched virtual customer service provided by 3D digital human and 4G video customer service, and improved the digital and intelligent level of customer services. The phase I goal of “an integrated platform for centralised decision making, anti-fraud, modelling, supervision, data and operation” for enterprise-level retail risk control middle-office was basically achieved, consistently enhancing the ability of digital risk control.

BUSINESS REVIEW

3. Strengthen data governance capability

The Bank raised the level of data standardisation management, formulating more than 31 thousand data standards throughout the year. Moreover, the Bank promoted the unification of standards in the system structure and enabled online services for data standardisation, data asset and indicator system. To effectively control data quality, the Bank established a data quality closed-loop control mechanism and made over 10 thousand rules to inspect data quality. The Bank basically completed the construction of the enterprise-level data middle office and deployed big data clusters with sufficient hashrate and “one lake, one house” data bases to help the Bank’s digital services quickly respond to demands such as statistics and reporting, business digital transformation and management innovation. The Bank built a unified data analysis platform to provide data analysis application support in various scenarios including risk control modelling, business analysis, marketing, customer development for operation and management, facilitating data inspection and use independently. In addition, the Bank reinforced interconnection with external data, established cooperative relations with 12 provincial big data bureaus and 59 municipal big data bureaus., and settled in the Beijing International Big Data Exchange and Shanghai Data Exchange, connecting with a total of 133 external data sources, to exploit values of internal and external data.

4. Expand the application of innovative technologies

The Bank launched the new-generation cloud platform and the pilot projects for credit card core system. The Bank deepened the application of artificial intelligence technologies by adopting the online model of “manual + AI”, with a year-on-year decrease of 20% in human customer service of intelligent customer service at 95559 and an improved one-stop resolution rate up to 91% for customer problems. By launching the pilot application of the privacy computing platform, BoCom made an important step forward in exploring and establishing a mechanism for the exchange and integration of banking data with external public data and industry data, as well as information security protection. A total of 5 projects in the Bank were selected to participate in the FinTech Innovation Regulatory Pilot Programmes of the PBOC, with breakthroughs made in the application of basic and cutting-edge technologies.

5. Step up efforts to improve network security

The Bank improved the network security governance system adapting to digital transformation, established unified security standards across the Group, optimised the standards for the customer information security management system and carried out special governance campaigns. All these efforts were made to provide better protection for customer information security and privacy. Also, the Bank further increased investment in information security technologies and upgraded the integrated security defence system. With its smooth 24/7 security operation service mechanism and strong security protection capabilities, the Group achieved splendid results in the national security competition. During the Reporting Period, the Bank’s production and network were in steady and safe operation, with the actual usable rate of more than 99.99% of important information systems, which ensured the security and stability of financial services.



Column

Construct a new ecosystem for digital renminbi payment and facilitate the new development of digital economy

As one of the designated digital renminbi operating institution, the Bank gave full play to the comprehensive operation advantages of the Group and its customer basis, leveraged the opportunity of digital transformation and the breakthrough of FinTech, and further advanced the construction of “FinTech+(non-)financial scenarios”, highlighting innovations and characteristics.

Focus on scenario ecosystem and create regional advantages. The Bank closely followed regulatory policies and market dynamics, leveraged the digital renminbi’s convenient and secure feature of “payment as settlement” and built ecological applications of digital renminbi in aspect of government affairs and people’s livelihood, such as traffic, education, medical care and taxation. During the Reporting Period, the Bank took the lead in launching the nationwide service of contract signing and tax payment with digital renminbi in Hainan Province. The Bank developed over 60 living consumption scenarios of digital renminbi payment covering library, student affairs centre, school infirmary, catering stores, dining halls and school bus for teachers and students of Sanya College. Currently, it is the educational pilot scenario with the largest population and the largest scale in Hainan Province.

Highlight the demonstration effect and cultivate market awareness. The Bank built a digital renminbi demonstration block to enrich the public consumption experience, make digital renminbi more popular and enhance the brand effect of digital renminbi. During the Reporting Period, the Bank selected 32 places of cultural and tourist spots, universities and popular locations in 11 pilot areas, such as Nanjing Road Pedestrian Street in Shanghai, Beijing Happy Valley and Soochow University as demonstration blocks of digital renminbi consumption. To promote the featured achievements of digital renminbi construction, the Bank cooperated with multi-channel media (platforms) such as local government newspaper, Shanghai Metro, Himalaya and Sina Weibo.

Provide comprehensive services and promote the organic integration. The Bank integrated the digital renminbi application with the digital transformation of enterprises and industries, building an ecosystem of mutual development with the customers based on the construction of (non-) financial ecological scenarios. During the Reporting Period, the Bank launched a few innovative service modes for China TravelSky Holding Company, such as mother-child wallet and smart contract, and built a complete digital renminbi ecosystem for the four civil aviation service fields of cash management, ticket sales, freight settlement and airport charges. In addition, the Bank provided convenient and contactless consumption solutions of “Face Recognition + Digital renminbi Payment in Digital Park” to Xi’an Financial Electronic Settlement Centre and created organic ecosystem for enterprise digital transformation with non-financial service facilitating digital renminbi payment.

金融科技简流程 线上服务助外贸

蕴通财富 | 交银e关通

交通银行成功接入中国国际贸易单一窗口，灵活利用数据共享平台，为客户提供“账户开立、交易结算、贸易融资”一站式金融服务。

- 🌐 全程在线安全便捷
- 🏠 申办使用一站通行
- 🌍 业务全面覆盖广泛
- 🏦 本外币账户预约开立
- 🚢 海关税费在线支付
- 📄 汇总征税保函在线申请
- 📊 实时汇率在线查询
- 🏦 国际结算款项收付
- 🌐 国际贸易融资线上办理



客服热线:95559 www.bankcomm.com

交通银行公司
金融服务号



敬请关注

IV. RISK MANAGEMENT

The Board of Directors of the Bank established the overall risk appetite of “Stability, Balance, Compliance and Innovation” for the Bank and further set specific indicators of risk limits against various risks including credit, market, operation, liquidity, interest rate of banking book, information technology and country to exercise strict control over various risk types and thus ensured the bottom line of preventing the occurrence of systematic and regional risks.

(I) Risk Management Framework

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

(II) Risk Management Tool

The Bank actively practiced digital transformation in risk management and built an enterprise-level risk control application under the guideline of being market-driven, customer-based, grass roots-oriented and urgency-prioritised. The Bank built a strong foundation for risk data across the Group, optimised the unified view of risks, improved the integrated risk monitoring system covering the Group, and enhanced intelligent risk management. In 2021, the Bank, as a financial institution, took the lead in integrating the multi-party secure computing technology into risk management by launching “BoCom Multi-party Secure Computing Platform and Scenario Application Project” which won the first prize of 2020 FinTech Development Award by the PBOC. During the Reporting Period, the Group pushed forward the construction of risk measurement system, created a full lifecycle model management platform, strengthened the unified management of risk measurement throughout the Group and optimised the measurement system covering all types of major risks. The Group launched the project of implementing new capital management measures and promoted the construction and upgrading of systems.

RISK MANAGEMENT

(III) Credit Risk Management

During the Reporting Period, the Bank continued to strengthen unified credit risk management. On the basis of maintaining steady increase in the aggregate amount of credit, the Group promoted credit structure adjustment and strived to develop green finance. The Group provided proactive support to key fields such as inclusive small and micro enterprises, advanced manufacturing and strategic emerging industries, and reinforced control over real estate, implicit government debts, overcapacity and credit card. The Group consolidated the foundation of management base, optimised the framework of credit granting policy, in which process the outline of credit granting and risk policy, the guidelines on industry investment, “one policy for one bank” and some special policies were upgraded in a timely manner. Moreover, the Group made the credit process online and more automated, promoted online mortgage registration throughout China and extended its “cross-provincial business” to many cities in Yangtze River Delta region. With these efforts, the system tools were upgraded continuously, which enriched post loan (investment) management and risk monitoring. In addition, risk classification became more sophisticated with the asset quality improved steadily.

The Group enhanced disposal and collection of non-performing loans. During the Reporting Period, the disposal of non-performing loans reached 83.936 billion, representing a year-on-year increase of 1.025 billion. On the one hand, the Head Office successfully disposed projects with significant risks based on its professional disposal capacity, and hence improved the effectiveness of disposal of non-performing loans. On the other hand, the Group actively implemented new regulatory policies on the pilot transfer of non-performing loans and expanded channels to dispose personal and corporate non-performing loans.

For the real estate sector, first, the Group strictly controlled the access conditions and enhanced differentiated management by following the principle of “different policies tailored for different cities and households to achieve systematic management” and the customer selecting standards of “location, form of trade, customer, cost and return”. Second, the Bank took measures to dissolve risks, including ensuring “Three Stabilities” (stabilities in the cost of land usage, housing price and expectation) and ensuring “Three Securities” (securities in house delivery, people’s livelihood and social stability), requiring all branches to cooperate with local governments in “Two Upholds” (to uphold steady and sound development of the real estate market and to uphold legitimate rights and interests of housing consumers) according to rules of laws and market. Third, the Group enhanced the risk prevention and control, made full use of internal and external tools to strengthen risk monitoring and implement risk checking, improved the initiative of risk management to achieve early identification, early warning, early detection and early response to risks, and in the end promoted the adjustment of industrial structure. As at the end of the Reporting Period, the amount of non-performing loans in real estate increased by 0.549 billion, and the non-performing loan ratio was 1.25%, representing a decrease of 0.1 percentage point over the end of the previous year.

For credit card business, the Group improved the balanced decision-making model and evaluation system of risk and return, made progress in data management, promoted model application and upgraded risk control system, completed customer portraits, and implemented targeted policies. The Group consistently made progress in the optimisation of client base, strengthening of customer operation and scaling-up of high-quality assets. Moreover, the Group strengthened the collection of non-performing loans, focused on the settlement and collection of substantially non-performing loans, proactively coped with the historical risks, ensured the controllable quality of credit card assets. As at the end of the Reporting Period, the non-performing loan ratio of credit card business was 2.2%, representing a decrease of 0.07 percentage point over the end of the previous year.

During the Reporting Period, owing to reinforced risk identification, prompt risk response and strict classification standards of asset quality, the Group saw a constantly consolidated asset quality foundation and a rising asset quality level. As at the end of the Reporting Period, the balance of non-performing loans was 96.796 billion and the non-performing loan ratio was 1.48%, representing a decrease of 0.902 billion and 0.19 percentage point respectively over the end of the previous year. The period also witnessed a decrease in both the balance and proportion of overdue loans.

Distribution of loans by five categories of loan classification

(in millions of RMB unless otherwise stated)

	31 December 2021		31 December 2020		31 December 2019	
	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)
Pass loan	6,374,975	97.17	5,668,199	96.92	5,111,715	96.37
Special mention loan	88,629	1.35	82,527	1.41	114,517	2.16
Total performing loan balance	6,463,604	98.52	5,750,726	98.33	5,226,232	98.53
Sub-standard loan	52,960	0.81	52,652	0.90	16,963	0.32
Doubtful loan	25,978	0.40	26,713	0.46	42,508	0.80
Loss loan	17,858	0.27	18,333	0.31	18,572	0.35
Total non-performing loan balance	96,796	1.48	97,698	1.67	78,043	1.47
Total	6,560,400	100.00	5,848,424	100.00	5,304,275	100.00

RISK MANAGEMENT

Distribution of special mention loans and overdue loans by business type

(in millions of RMB unless otherwise stated)

	31 December 2021				31 December 2020			
	Special mention loan balance	Special mention loan ratio (%)	Overdue loan balance	Overdue loan ratio (%)	Special mention loan balance	Special mention loan ratio (%)	Overdue loan balance	Overdue loan ratio (%)
Corporate loans	73,858	1.78	53,503	1.29	71,677	1.93	60,851	1.64
Personal loans	14,737	0.64	33,653	1.47	10,841	0.55	29,264	1.48
Mortgage	3,966	0.27	9,001	0.60	2,395	0.19	7,132	0.55
Credit cards	9,637	1.96	20,462	4.15	7,684	1.66	18,245	3.93
Personal business loans	381	0.20	1,533	0.81	204	0.17	1,648	1.36
Others	753	0.66	2,657	2.32	558	0.55	2,239	2.19
Discounted bills	34	0.02	6	0.004	9	0.01	88	0.05
Total	88,629	1.35	87,162	1.33	82,527	1.41	90,203	1.54

The balance of corporate overdue loan was 53.503 billion, representing a decrease of 7.348 billion over the end of the previous year. The overdue loan ratio was 1.29%, representing a decrease of 0.35 percentage point over the end of the previous year. The balance of personal overdue loan was 33.653 billion, representing an increase of 4.389 billion over the end of the previous year. The overdue loan ratio was 1.47%, representing a decrease of 0.01 percentage point over the end of the previous year.

Distribution of loans and non-performing loans by business type

(in millions of RMB unless otherwise stated)

	31 December 2021				31 December 2020			
	Loans	Proportion (%)	Non-performing loans	Non-performing loan ratio (%)	Loans	Proportion (%)	Non-performing loans	Non-performing loan ratio (%)
Corporate loans	4,138,582	63.09	77,618	1.88	3,707,471	63.39	78,830	2.13
Personal loans	2,285,096	34.83	19,168	0.84	1,980,882	33.87	18,773	0.95
Mortgage	1,489,517	22.70	5,083	0.34	1,293,773	22.12	4,849	0.37
Credit cards	492,580	7.51	10,821	2.20	464,110	7.94	10,558	2.27
Personal business loans	188,293	2.87	1,301	0.69	120,985	2.07	1,542	1.27
Others	114,706	1.75	1,963	1.71	102,014	1.74	1,824	1.79
Discounted bills	136,722	2.08	10	0.01	160,071	2.74	95	0.06
Total	6,560,400	100.00	96,796	1.48	5,848,424	100.00	97,698	1.67

Distribution of loans and non-performing loans by industry*(in millions of RMB unless otherwise stated)*

	31 December 2021				31 December 2020			
	Loans	Proportion (%)	Non-performing loans	Non-performing loan ratio (%)	Loans	Proportion (%)	Non-performing loans	Non-performing loan ratio (%)
Corporate loans	4,138,582	63.09	77,618	1.88	3,707,471	63.39	78,830	2.13
Transportation, storage and postal services	763,419	11.64	10,873	1.42	708,649	12.12	9,738	1.37
Manufacturing	732,565	11.16	28,305	3.86	658,203	11.25	29,301	4.45
Leasing and commercial services	650,742	9.92	11,517	1.77	577,500	9.87	10,876	1.88
Real estate	419,820	6.40	5,260	1.25	348,185	5.95	4,711	1.35
Water conservancy, environmental and other public facilities	382,201	5.83	3,357	0.88	334,399	5.72	234	0.07
Production and supply of electric power, heat, gas and water	268,772	4.10	2,496	0.93	221,313	3.78	2,156	0.97
Wholesale and retail trade	215,554	3.29	5,649	2.62	204,856	3.50	9,823	4.80
Construction	157,729	2.40	1,504	0.95	135,732	2.32	3,683	2.71
Finance	132,633	2.02	–	–	118,702	2.03	10	0.01
Education, science, culture and public health	122,196	1.86	2,759	2.26	112,961	1.93	2,908	2.57
Mining	120,216	1.83	2,413	2.01	125,367	2.14	2,625	2.09
Others	77,884	1.19	743	0.95	85,570	1.48	1,075	1.26
Information transmission, software and information technology services	60,718	0.93	1,149	1.89	41,148	0.70	989	2.40
Accommodation and catering	34,133	0.52	1,593	4.67	34,886	0.60	701	2.01
Personal loans	2,285,096	34.83	19,168	0.84	1,980,882	33.87	18,773	0.95
Discounted bills	136,722	2.08	10	0.01	160,071	2.74	95	0.06
Total	6,560,400	100.00	96,796	1.48	5,848,424	100.00	97,698	1.67

The Group actively supported the development of real economy with its new loans preferentially going to industries such as manufacturing, services and transportation, and kept reasonable growth of real estate loans. Meanwhile, the Group cooperated with relevant departments and local governments to maintain the steady and sound development of the real estate market and safeguard the legitimate rights and interests of housing consumers. In addition, the Group strictly held control over industries with severe overcapacity. As at the end

RISK MANAGEMENT

of the Reporting Period, the balance of loans to industries with severe overcapacity accounted for 2.30% of the total domestic loans, representing a decrease of 0.3 percentage point over the end of the previous year.

Distribution of loans and non-performing loans by region

(in millions of RMB unless otherwise stated)

	31 December 2021				31 December 2020			
	Loans	Proportion (%)	Non-performing loans	Non-performing loan ratio (%)	Loans	Proportion (%)	Non-performing loans	Non-performing loan ratio (%)
Yangtze River Delta	1,780,637	27.14	22,399	1.26	1,556,325	26.61	20,149	1.29
Pearl River Delta	857,521	13.07	5,559	0.66	711,150	12.16	7,332	1.03
Bohai Rim Economic Zone	965,957	14.72	13,893	1.44	838,415	14.34	17,058	2.03
Central China	1,092,985	16.66	19,224	1.76	960,512	16.42	18,788	1.96
Western China	774,445	11.80	9,661	1.25	681,997	11.66	9,220	1.35
North Eastern China	247,023	3.77	12,090	4.89	232,864	3.98	10,998	4.72
Overseas	348,948	5.32	3,139	0.90	359,368	6.14	3,586	1.00
Head Office	492,884	7.52	10,831	2.20	507,793	8.68	10,567	2.08
Total	6,560,400	100.00	96,796	1.48	5,848,424	100.00	97,698	1.67

Notes:

1. Head Office included the Pacific Credit Card Centre.
2. Due to the adjustment to the standards of dividing segments, comparative data has been restated in accordance with the current presentation.

The Group implemented differentiated policies of “one policy for one bank” to make dynamic adjustments to business authorisation based on regional economic traits.

Overdue loans and advances

(in millions of RMB unless otherwise stated)

Overdue period	31 December 2021		31 December 2020	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 3 months	23,164	0.35	25,480	0.44
3 months to 1 year	29,433	0.45	34,145	0.58
1 to 3 years	27,164	0.42	25,916	0.44
Over 3 years	7,401	0.11	4,662	0.08
Total	87,162	1.33	90,203	1.54

The Group adopted prudent classification standards for overdue loans. All the corporate loans overdue for more than 60 days were included in non-performing loans. Loans overdue for over 90 days were included in non-performing loans and accounted for 66% of non-performing loans.

As at the end of the Reporting Period, the balance of overdue loans was 87.162 billion, representing a decrease of 3.041 billion over the end of the previous year. The overdue ratio was 1.33%, representing a decrease of 0.21 percentage point over the end of the previous year. The balance of loans overdue for over 90 days was 63.998 billion, representing a decrease of 0.725 billion over the end of the previous year.

Restructured loans

(in millions of RMB unless otherwise stated)

	31 December 2021		31 December 2020	
	Amount	Proportion (%)	Amount	Proportion (%)
Restructured loans	8,792	0.13	8,299	0.14
Including: Restructured loans overdue over three months	1,625	0.02	2,394	0.04

Loan migration rates

(%)	2021	2020	2019
Pass loan migration rate	1.86	1.84	1.71
Special mention loan migration rate	45.72	46.59	29.76
Sub-standard loan migration rate	29.61	25.48	42.76
Doubtful loan migration rate	17.42	19.92	10.92

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 to the largest single borrower of the Group accounted for 3.21% of the Group's net capital, and the total loans to top 10 customers accounted for 15.98% of the Group's net capital. The situation of loans to top 10 single borrowers as at the end of the Reporting Period is shown below.

(in millions of RMB unless otherwise stated)

	As at 31 December 2021		
	Industry	Amount	Percentage of total loans (%)
Customer A	Transportation, storage and postal services	36,593	0.57
Customer B	Production and supply of electric power, heat, gas and water	34,700	0.53
Customer C	Production and supply of electric power, heat, gas and water	25,000	0.38
Customer D	Transportation, storage and postal services	13,677	0.21
Customer E	Transportation, storage and postal services	12,864	0.20
Customer F	Transportation, storage and postal services	12,768	0.19
Customer G	Manufacturing -- Electronics	12,114	0.18
Customer H	Transportation, storage and postal services	12,000	0.18
Customer I	Transportation, storage and postal services	11,319	0.17
Customer J	Transportation, storage and postal services	11,148	0.17
Total of Top 10 Customers		182,183	2.78

RISK MANAGEMENT

(IV) Market Risk Management

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

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

The exchange rate risk and general market risk of interest rate risk of trading book of legal persons were assessed with the use of the internal model-based approach to measure capital at risk by the Group, while the market risk not covered by the internal model-based approach was assessed under the standardised approach to measure capital at risk. 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. Daily capital transaction positions of the Group and the most updated market data were obtained to perform position valuation and sensitivity analysis in a timely manner. In addition, using the historical simulation method, the Group measured VaR of market risk on a daily basis from different perspectives, including risk factors and investment portfolios and products and performed reverse testing on a daily basis to verify the accuracy of the VaR model. The results of internal model approach were applied to capital measurement, quota monitoring and management, performance assessment and risk monitoring and analysis.

During the Reporting Period, the Group kept improving the market risk management system, improved management policies and procedures, optimised the risk management system, strengthened product management, optimised limit setting, strengthened risk assessment and investigation, and continuously improved the management of market risk. The Group closely monitored the financial market fluctuations, enhanced exposure monitoring and risk warning in the event of financial market volatility, and strictly controlled the market risk exposure limits.

(V) Liquidity Risk Management

The governance structure of liquidity risk management of the Group consisted of a decision-making body comprised the Board of Directors and its Special Committees and Senior Management, a supervisory body comprised the Board of Supervisors and Audit Supervision and an executive body comprised Financial Management Department, Financial Markets Department, Risk Management Department, Operations and Channel Management Department, branches, subsidiaries and the 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 system, and effectively identify, measure, monitor and manage the liquidity risk at legal entity level and group level, subsidiaries, branches and business lines to ensure that the liquidity needs can be timely satisfied at a reasonable cost.

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

During the Reporting Period, the Group thoroughly implemented the regulatory requirements, paid close attention to the macroeconomic development, adhered to a prudent liquidity management strategy and continued to reinforce on- and off-balance sheet liquidity risk management. By predicting risks ahead of time and forecasting in advance and performing cash flow calculation and analysis, the Group reinforced the coordination and integration to improve financing management and high quality liquid asset (HQLA) 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 tests 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. The Group's overall liquidity risk is stable, with the liquidity ratio, the liquidity coverage ratio (LCR), the net stable funding ratio (NSFR) and the liquidity matching rate (LMR) all meeting regulatory requirements.

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

	Standard value	31 December 2021	31 December 2020	31 December 2019
Liquidity ratios (%)	≥25	67.11	69.24	72.92

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

The liquidity coverage ratio is the ratio of HQLA to net cash outflows in the following 30 days. The aim is to ensure that commercial banks have sufficient qualified HQLA 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 HQLA 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 no 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 2021 was 115.70% (the daily average within the quarter was the arithmetic average of daily data of the quarter, the number of daily data required was 92). The ratio decreased by 7.59 percentage points over the previous quarter mainly due to increase in net cash outflows.

RISK MANAGEMENT

The NSFR 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 funds 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 no 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 2021 was 109.93%, representing a decrease of 0.87 percentage point over the previous quarter, which was mainly due to the increase in loans to retail and small business customers, non-financial institutions, sovereignty, central banks and public sector entities. In the fourth quarter of 2021, the net stable funding ratio was 108.64%, representing a decrease of 1.29 percentage points over the previous quarter, which was mainly due to the increase in loans to retail and small business customers, non-financial institutions, sovereigns, central bank and public sector entities, among others.

For more details about the LCR and the average of detailed items during the fourth quarter and the net stable capital ratio and detailed items in the last two quarters of 2021, please refer to "Supplementary Information on Leverage Ratio, Liquidity Coverage Ratio and Net Stable Funding Ratio".

(VI) 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, operational risk event collection and management and key risk indicator monitoring. During the Reporting Period, the Group further enhanced the operational risk classification and matrix evaluation mechanism, strengthened the integrated management of operational risks of subsidiaries, and strengthened operational risk monitoring assessment on key areas. The Group revised and improved the business continuity management and outsourcing risk management system, and strengthened business continuity and outsourcing risk management.

(VII) Legal Compliance and Anti-money Laundering

During the Reporting Period, the Bank made efforts to improve its legal compliance management framework, strengthened the identification, monitoring, prevention, control and resolution of legal compliance risk, and improved legal knowledge education and the construction of compliance culture, contributing to steady legal and compliance management. During the Reporting Period, the Group took the measures to enhance anti-money laundering management capabilities, including improving the anti-money laundering management policy, process and system, increasing the effectiveness and efficiency of anti-money laundering reform, advancing the evaluation of money laundering risk, strengthening customer identification, strictly managing large-sum transactions and suspicious transactions, and strengthening sanction compliance management.

(VIII) Reputation Risk Management

The Group implemented the *Administrative Measures for Reputational Risk of Banks and Insurance Institutions (Trial Implementation)* and took measures in the management requirements of “Respond Rapidly and Act Precisely”. As for the governance structure, the Group brought the leadership of the Party into every phase of the management of reputational risk, and improved the risk governance structure of “Board of Directors, Board of Supervisors and Top Management Team”. As for the mechanism, the Group established a sound management system of reputational risk of the Group and optimised the top-level design. Also, the Group made efforts to develop a mechanism with four cores including controlling at source, responding rapidly, handling quickly and acting precisely, and making joint prevention and control, which contributes to abilities to deal with public opinions. As for execution, the Group optimised the closed-loop management of the whole process, consolidated the normal construction as a normal practice, and improved the management of reputational risk. During the Reporting Period, reputational risk was under control and negative public opinions were actively handled. No event occurred regarding significant reputational risk.

(IX) Cross-Industry, Cross-Border and By-Country Risk Management

The Group set up the risk management system across industries and boarders, characterised by “centralised management, clear allocation, adequate tools, IT support, risk quantification, and consolidation of substantially controlled entities”. All subsidiaries and overseas branches take into account both the Group’s standardised requirements and the respective requirements from local regulatory governing bodies while performing risk management. During the Reporting Period, considering the uncertainties caused by the global COVID-19 pandemic and changes in the external environment, the Group emphasised the prevention and control of the pandemic and risk management in overseas institutions, improved the risk assessment mechanism and strengthened the development and drilling of various emergency plans to ensure stable operation of business. In addition, the Group also strengthened management of key areas such as employees’ awareness of pandemic prevention, liquidity, business continuity and asset quality in overseas institutions. The Group enhanced the consolidation management, refined the full lifecycle management of subsidiaries, and improved the periodic statistical monitoring mechanism. The Group strengthened by-country risk management, continuously improved the internal management mechanism, monitored and implemented limit management requirements, refined by-country risk rating and carried out by-country risk assessment and warning.

(X) Management of Large Exposure Risk

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

RISK MANAGEMENT

(XI) Climate and Environmental Risk Management

The Group actively served the “carbon peak and carbon neutrality” national strategy, integrated climate and environmental risks into its comprehensive risk management system, included climate and environmental risk management as an important part in its medium and long-term plan, actively took measures to improve the governance structure, optimised the management and control means, and prepared to identify and respond to physical risks and transformation risks.

During the Reporting Period, the Group officially became a supporting institution of the Task Force on Climate Related Financial Disclosure (TCFD), and carried out risk detection and evaluation on high carbon emission customers which provided effective support for the goal of high-quality development in the new era. In 2021, the Bank was engaged in the climate risk stress test initiated by the PBOC, in an effort to evaluate the potential impact of the green-oriented transition of society and economy on the quality of assets in industries with high carbon emissions, in the context of “carbon peak and carbon neutrality”. According to the test, under stressed scenarios, the credit risks of customers in thermal power, steel and cement rose somewhat, however, the overall risk was under control with limited impact on the capital adequacy of the Bank.

V. OUTLOOK

In 2022, the global economy is still faced with multiple uncertainties. The international situation is complex and it is changing constantly with the shift of the macro policy of major developed economies abroad, the relatively large pressure of pandemic prevention and control at home and abroad and the economic and financial situation being still complex and severe. China adheres to the two-pronged approach of both pandemic prevention and control and economic and social development, accelerates the construction of a new development pattern, comprehensively deepens reform and the policy of opening up, and insists on innovation-driven development. China's economic fundamentals will still witness a stable performance with improvement and long-term sustainability.

Opportunities and challenges coexist in China's banking industry. On the one hand, the frequent introduction of various regulatory policies has paved new ways and brought new opportunities for the banking industry. In 2022, economic policies will further strengthen focus on structural adjustment in a targeted and direct manner, providing favourable opportunities for commercial banks to adjust and optimise business structure and customer structure. Under the new development pattern of "dual circulation", expanding domestic demand becomes the strategic move and demands from livelihood consumption continue to unleash, which bring up opportunities for commercial banks to develop inclusive finance and consumer finance. The burgeoning digital economy has created a broad stage for financial innovation and development, and the rapid evolution of digital technology has energised the digital transformation of banks. On the other hand, the external environment is characterised by instability, uncertainty and imbalance, which brings challenges to the development of the banking industry. Some developed countries' withdrawal from ultra-easy policies will cause a strong adverse spillover effect, under which the global financial market may experience more fluctuations. The fact that market risk, liquidity risk and credit risk are intertwined puts forward higher requirements of the comprehensive risk management capabilities and resilience of commercial banks.

In 2022, the Group will continue to adhere to the general work keynote of making progress while remaining stability, fully and faithfully implement the new development philosophy, serve the construction of new development pattern, and deeply promote the strategy of the Group's "14th Five-Year Plan". The Group will also leverage the advantage of being based in the Yangtze River Delta and its exemplary role, accelerate the digital transformation, coordinated development with security and achieve high quality development. The Group will emphasise the following areas:

Make more targeted efforts in serving the real economy. The Group shall resolutely implement the decisions and the deployment of the Party Central Committee, closely follow the policy orientation and continue to increase financial supply to key areas such as inclusive small and micro enterprises, green development and strategic emerging industries while providing reinforced support for the real economy. The Group shall also strengthen product design capabilities in complex financial products and develop business characteristics and comparative advantages in these segments to further promote value enhancement. The Group shall make efforts to promote common prosperity with its advantage in integrated operations, providing diversified financial services for people's livelihood, clothing, shelter and transportation, as well as education, medical care and elderly care, to contribute to rural revitalisation, improvement in people's livelihood and consumption upgrading.

OUTLOOK

Promote the integrated development of Yangtze River Delta with full strength. The Group shall strengthen the ability of serving the regional development strategy of the country, provide in-depth services for the enablement of “Three New Major Tasks”, “Four Functions” and “Five Centres” in Shanghai and, by taking the lead in institutional innovation and demonstration, make the city the “origin of innovation” and the “test field of reform” for strategy implementation. By making full use of the “one thing” mechanism, the Group shall achieve rapid breakthroughs in great medical and health ecology, sci-tech finance, cross-border finance and other areas, and accelerate the replication and promotion of innovation experience to more sectors and branches on the premise that all risks are under control.

Accelerate the Group’s digital transformation. The Group shall be centred around customer demands and accelerate whole process digitalisation to promote a thorough reconstruction of all the tiers and links of the Bank, including value system, operation and management, business flows, and customer service with digital technology. The Group shall promote the construction of a New Digital BoCom by holistic transformation, revolutionary remodeling and all-round empowerment. The Group will further consolidate the construction of network security, improve information security management mechanism so as to ensure the smooth development of information systems and the stability and safety of financial services.

Win the battle for asset quality. The Group shall further the reform of risk credit and anti-money laundering, improve mechanism of risk monitoring, early warning and response, and implement a normalised and institutionalised comprehensive risk detection mechanism to ensure the responsibility for risk management and control. In addition, the Group shall focus on major risky areas and improve the ability of risk mitigation and resolution to identify cross risks and comprehensive management capabilities. Additional efforts shall also be made to strengthen the integration of internal control and crime prevention, coordinate crime prevention and control with risk management, and keep the bottom line for prevention and control of financial risks.

CHANGES IN SHARES AND SHAREHOLDERS

I. CHANGES IN 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.

	31 December 2021		Increase/ decrease during the Reporting Period	31 December 2020	
	Number of shares (share)	Percentage (%)		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. Renminbi 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 shares	74,262,726,645	100.00	-	74,262,726,645	100.00

II. SHAREHOLDERS OF ORDINARY SHARES

As at the end of the Reporting Period, the total number of shareholders of ordinary shares of the Bank was 389,938, of which 358,022 were holders of A shares and 31,916 were holders of H shares. As at 28 February 2022, the total number of shareholders of ordinary shares of the Bank was 370,924, of which 339,134 were holders of A shares and 31,790 were holders of H shares.

CHANGES IN SHARES AND SHAREHOLDERS

(I) Shareholdings of Top 10 Ordinary Shareholders as at the end of the Reporting Period¹

Name of shareholders (Full name)	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	Shares pledged or frozen	Nature of shareholders
The Ministry of Finance of the People's Republic of China	-	13,178,424,446	17.75	A Share	Nil	Government
	-	4,553,999,999	6.13	H Share	Nil	
HKSCC Nominees Limited ^{2,6}	4,487,725	14,979,558,684	20.17	H Share	Unknown	Foreign legal entity
The Hongkong and Shanghai Banking Corporation Limited ("HSBC") ^{2,3}	-	13,886,417,698	18.70	H Share	Nil	Foreign legal entity
The National Council for Social Security Fund ("SSF") ^{2,4}	-	3,105,155,568	4.18	A Share	Nil	Government
	-	1,405,555,555	1.89	H Share	Nil	
China Securities Finance Corporation Limited	(330,937,589)	1,891,651,202	2.55	A Share	Nil	State-owned legal entity
Capital Airports Holdings Company Limited	-	1,246,591,087	1.68	A Share	Nil	State-owned legal entity
Hong Kong Securities Clearing Company Limited ("HKSCC")	207,403,176	858,910,456	1.16	A Share	Nil	Foreign legal entity
Shanghai Haiyan Investment Management Co., Ltd. ⁵	-	808,145,417	1.09	A Share	Nil	State-owned legal entity
Yunnan Hehe (Group) Co., Ltd. ⁵	-	745,305,404	1.00	A Share	Nil	State-owned legal entity
FAW Equity Investment (Tianjin) Co., Ltd.	-	663,941,711	0.89	A Share	Nil	State-owned legal entity

Notes:

- The relevant data and information are based on the Bank's register of members at the Share Registrar and Transfer Office.
- The aggregate number of shares held by 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. The data included 249,218,915 and 7,648,921,777 H shares indirectly held by HSBC and SSF respectively, which were registered under HKSCC Nominees Limited. The data did not include 13,886,417,698 and 1,405,555,555 H shares of the Bank directly held by the aforementioned two shareholders respectively, which were registered in the Bank's register of members.
- 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 was due to a purchase of H shares by HSBC from the secondary market in 2007 and thereafter receiving bonus shares issued by the Bank and participating in the rights issue of the Bank. Those extra shares have been registered under HKSCC Nominees Limited.
- This included the 1,970,269,383 A shares of the Bank held by the Sixth Transfer Account for State-owned Capital of the SSF. Other than the above shareholdings, the SSF held additional 7,648,921,777 H shares of the Bank, of which 7,027,777,777 H shares were registered under HKSCC Nominees Limited and 621,144,000 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 12,159,632,900 A shares and H shares of the Bank, representing 16.37% of the Bank's total ordinary shares issued.**
- Shanghai Haiyan Investment Management Co., Ltd. and Yunnan Hehe (Group) Co., Ltd. are parties acting in concert as defined under the *Provisional Measures on Shareholdings Administration of Commercial Banks*. 7 subordinate enterprises of China National Tobacco Corporation including Shanghai Haiyan Investment Management Co., Ltd. and Yunnan Hehe (Group) Co., Ltd. authorised and entrusted China National Tobacco Corporation to present at the Shareholders' General Meeting of the Bank and to exercise the voting rights on their behalf.
- HKSCC Nominees Limited is a wholly-owned subsidiary of HKSCC.
- The Bank is not aware of the existence of any related relationship among the other Top 10 shareholders, or whether they are parties acting in concert as defined in the *Provisional Measures on Shareholdings Administration of Commercial Banks*.

(II) Controlling Shareholders/Actual Controllers

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

(III) Substantial Shareholders

In accordance with the *Provisional Measures on the Shareholdings Administration of Commercial Banks* issued by the CBIRC, as at the date of disclosing this Report, the Bank's substantial shareholders including the Ministry of Finance, HSBC, SSF, Shanghai Haiyan Investment Management Co., Ltd., Capital Airports Holdings Company Limited and Daqing Petroleum Administration Bureau are detailed as follows:

1. Substantial shareholders holding 5% or more shares of the Bank⁹

- (1) The Ministry of Finance is the largest shareholder of the Bank, which was incorporated in October 1949 as a division of the State Council, in charge of national financial revenue and expenditure as well as fiscal and taxation policies. Its person in charge is Liu Kun, its registered address is No. 3 South Lane, San Li He, Xicheng District, Beijing and its unified social credit code is 11100000000013186G. As at the end of the Reporting Period, the Ministry of Finance held a total of 17,732,424,445 A shares and H shares of the Bank, representing a shareholding of 23.88% of the Bank. To the knowledge of the Bank, this shareholder did not pledge any shares of the Bank.
- (2) HSBC is the second largest shareholder of the Bank, which was incorporated in 1866, primarily providing comprehensive local and international banking services and related financial services in the Asia-Pacific region. Its Co-chief Executive Officers are Liao, Yi Chien David and Surendra Roshia, and its registered address is No. 1 Queen's Road Central, Central, Hong Kong. As at the end of the Reporting Period, the ordinary share capital issued by HSBC is HKD116.1025 billion and USD7.198 billion, which was divided into 46.4410 billion ordinary shares. Its business registration certificate number is 00173611-000, its controlling shareholder is HSBC Asia Holdings Limited, its actual controller is HSBC Holdings plc and its ultimate beneficiary is HSBC Holdings plc. As at the end of the Reporting Period, HSBC beneficially held 14,135,636,613 H shares of the Bank, representing a shareholding of 19.03% of the Bank. This shareholder has no parties acting in concert. To the knowledge of the Bank, this shareholder did not pledge any shares of the Bank.
- (3) The SSF is the third largest shareholder of the Bank, which was incorporated in August 2000. It is an independent legal entity under the management of the Ministry of Finance, responsible for managing and operating national social security fund. Its legal representative is Liu Wei, its registered capital is RMB8.00 million, its registered address is South Wing, Fortune Time Building, No. 11 Fenghuiyuan, Xicheng District, Beijing and its unified social credit code is 12100000717800822N. Pursuant to the regulations of the Ministry of Finance and the Ministry of Human Resources and Social Security, the SSF is entrusted to manage the following funds: national social security fund, central government subsidy for personal accounts, part of basic pension insurance funds for enterprise employees, basic pension insurance fund and part of state-owned capital transferred. To the knowledge of the Bank, this shareholder did not pledge any shares of the Bank.

⁹ Excluding HKSCC Nominees Limited.

CHANGES IN SHARES AND SHAREHOLDERS

Details of connected transactions between the Bank and the Ministry of Finance, HSBC and the SSF are disclosed in Note 47. Related party transactions to the Consolidated Financial Statements.

2. Other substantial shareholders under regulatory standards

Pursuant to the *Provisional Measures on the Shareholdings Administration of Commercial Banks* (CBIRC Decree [2018] No. 1), the Bank's other substantial shareholders included:

- (1) Capital Airports Holdings Company Limited As at the end of the Reporting Period, Capital Airports Holdings Company Limited held 1.68% shares of the Bank, and did not pledge any shares of the Bank. Capital Airports Holdings Company Limited was established on 13 June 1988 with a registered capital of 53.7 billion and its legal representative is Wang Changyi. Capital Airports Holdings Company Limited is a large cross-regional state-owned enterprise group with the core of airport business. The shareholder's sole controlling shareholder is Civil Aviation Administration of China, with no parties acting in concert.
- (2) Shanghai Haiyan Investment Management Co., Ltd. As at the end of the Reporting Period, Shanghai Haiyan Investment Management Co., Ltd. held 1.09% of shares of the Bank, and did not pledge any shares of the Bank. Shanghai Haiyan Investment Management Co., Ltd. was established on 15 October 2009 with a registered capital of 9.0 billion. Its legal representative is Zhou Donghui, and its main business scope include industrial investment and investment management, etc. Its sole controlling shareholder is Shanghai Tobacco Group Co., Ltd. This shareholder with Yunnan Hehe (Group) Co., Ltd. and other companies totalling 7 subordinate enterprises (holding 3.00% of the Bank's shares in total) of China National Tobacco Corporation authorised and entrusted China National Tobacco Corporation to present at the Shareholders' General Meeting of the Bank and to exercise their voting right on behalf, constituting a relationship of acting in concert.
- (3) Daqing Petroleum Administration Bureau. As at the end of the Reporting Period, Daqing Petroleum Administration Bureau held 0.4% of the Bank's shares, and did not pledge any shares of the Bank. Daqing Petroleum Administration Bureau was established on 14 September 1991 with a registered capital of RMB46.5 billion and its legal representative is Zhu Guowen. Its main business scope includes onshore oil and gas exploration and mineral resource exploration. The shareholder's sole controlling shareholder is China National Petroleum Corporation, and it has no parties acting in concert.

As at the end of the Reporting Period, the Bank was involved in connected transactions including loans, debt investment and other on-balance sheet credit with the related parties of the aforesaid substantial shareholders under the *Measures for the Administration of Related Party Transactions of Banking and Insurance Institutions*. As at the end of the Reporting Period, the on- and off-balance sheet net credit amount was 56.289 billion.

3. The transactions between the Bank and its substantial shareholders and all related parties were conducted in accordance with general commercial terms and conditions, and the terms were fair and reasonable.

(IV) 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 (the “SFO”)*

As at the end of the Reporting Period, to the knowledge of the directors, supervisors and chief executives of the Bank, the substantial shareholders and other persons (excluding the directors, supervisors and chief executives 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	Percentage of total issued A shares (%)	Percentage of total issued shares (%)
The Ministry of Finance of the People’s Republic of China	Beneficial owner	13,178,424,446 ²	Long position	33.57	17.75
The National Council for Social Security Fund	Beneficial owner	3,105,155,568 ³	Long position	7.91	4.18

Name of substantial shareholders	Capacity	Number of H shares	Nature of interest ¹	Percentage of total issued H shares (%)	Percentage of total issued shares (%)
The National Council for Social Security Fund	Beneficial owner	9,054,477,332 ³	Long position	25.86	12.19
The Ministry of Finance of the People’s Republic of China	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:

- Long positions held other than through equity derivatives.
- 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, respectively representing 6.13% and 17.75% of the total ordinary shares issued by the Bank.
- To the knowledge of the Bank, as at the end of the Reporting Period, the SSF held a total of 9,054,477,332 H shares and 3,105,155,568 A shares (please refer to the details in Shareholdings of Top 10 Ordinary Shareholders and relevant notes) of the Bank, respectively representing 12.19% and 4.18% of the Bank’s total ordinary shares issued.
- HSBC Holdings 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 Holdings plc was deemed to own the interests associated with the 14,135,636,613 H shares held by HSBC.

CHANGES IN SHARES AND SHAREHOLDERS

Save as disclosed above, as at the end of the Reporting Period, no other person (excluding the directors, supervisors and chief executives of the Bank) or corporation were 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.

III. INFORMATION OF PREFERENCE SHARES

(I) Information of Preference Shareholders

As at the end of the Reporting Period, the shareholders of preference shares of the Bank was 94. As at 28 February 2022, the shareholders of preference shares of the Bank was 90.

Top 10 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	Shares pledged or frozen	Nature of shareholders
China Mobile Communications Group Co., Ltd	-	100,000,000	22.22	Domestic preference share	Nil	State-owned legal entity
HwaBao Trust Co., Ltd. – HwaBao Trust – Baofu Investment No.1 Collective Capital Trust Plan	48,910,000	48,910,000	10.87	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
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
Ping An Life Insurance Co., Ltd. – Proprietary fund	-	18,000,000	4.00	Domestic preference share	Nil	Others
China National Tobacco Corporation – Henan Branch	-	15,000,000	3.33	Domestic preference share	Nil	State-owned legal entity
China Life Property & Casualty Insurance Company Limited – Traditional – Common insurance product	-	15,000,000	3.33	Domestic preference share	Nil	Others
CITIC Securities – Postal Saving Bank – CITIC Securities Xingchen No.28 Collective Asset Management Plan	14,000,000	14,000,000	3.11	Domestic preference share	Nil	Others
Everbright Securities Asset Management (“EBSAM”) – Everbright Bank – EBSAM Xinyou No.4 Collective Asset Management Plan	13,000,000	13,000,000	2.89	Domestic preference share	Nil	Others
CMW Asset Management – CMB – China Merchants Wealth – Chengcai No.1 Collective Asset Management Plan	10,225,000	10,225,000	2.27	Domestic preference share	Nil	Others

Notes:

- Shareholdings of preference shareholders are summarised according to the Bank’s register members of preference shareholders.
- “Percentage” refers to the percentage of number of preference shares held by preference shareholders in the total number of preference shares.
- The Bank is not aware of the existence of any related relationship among the top 10 preference shareholders or any relationship between the above shareholders and top 10 ordinary shareholders, or whether they are parties acting in concert.

(II) Dividends Distribution of Preference Shares

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

In accordance with the resolution and authorisation of the Shareholders' General Meeting, the 19th meeting of the 9th Session of the Board of Directors of the Bank was held on 29 April 2021, at which the proposal for the dividend distribution of "BOCOM PREF1" was considered and approved. The dividend on "BOCOM PREF1" was calculated at the nominal dividend yield of 3.9% and amounted to RMB1,755,000,000, which was distributed on 7 September 2021 in cash. Besides, the first adjustment period for dividend yield of "BOCOM PREF1" has been 5 years. According to relevant provisions of the prospectus, the nominal dividend yield of "BOCOM PREF1" would be adjusted to 4.07% effective from 7 September 2021, and the dividend was distributed annually.

Please refer to the announcement published by the Bank for details of dividend distribution of preference shares and adjustment of the nominal dividend yield.

(III) Restoration of Voting Rights

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

(IV) Accounting Policy for Preference Shares and its Rationale

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

IV. ISSUANCE, LISTING, TRADING AND REDEMPTION OF SECURITIES

During the Reporting Period, the Bank issued neither ordinary shares and convertible bonds, nor corporate bonds that were required to be disclosed in accordance with the *Standards on the Content and Format of Information Disclosure of Publicly Listed Company No.2 – Content and Format of the Annual Report (2021 Revision)* and the *Administrative Measures for Information Disclosure of Enterprise Credit Bonds*. During the Reporting Period, the Bank and its subsidiaries did not purchase, sell or redeem any of the Bank's listed securities except as disclosed in "(II) Redemption of Bonds" below.

The Bank did not issue preference shares during the past three years. During the Reporting Period, there was no redemption or conversion of preference shares.

The Bank has no employee stock.

CHANGES IN SHARES AND SHAREHOLDERS

(I) Issuance of Bonds

According to the resolution of the 2019 Annual General Meeting, and with the approvals by the CBIRC and the PBOC, the Bank issued a 40.0 billion special financial bond for loans to small and micro enterprises in China's National Interbank Bond Market in April 2021 with a term of 3 years and a coupon rate of 3.4%. The proceeds were all used for loans to small and micro enterprises.

According to the resolution of the 2020 First Extraordinary General Meeting, and with the approvals by the CBIRC and the PBOC, the Bank issued a 41.5 billion undated capital bond in China's National Interbank Bond Market in June 2021. The coupon rate for the first five years is 4.06%, and the rate is adjusted every five years. The issuer is entitled to the right of redemption with pre-conditions on each interest payment date from the 5th year and thereafter. The net proceeds after deducting offering related expenses were all used to replenish the additional tier-1 capital of the Bank.

According to the resolution of the 2021 First Extraordinary General Meeting, and with the approvals by the CBIRC and the PBOC, the Bank issued a 30.0 billion tier-2 capital bond in China's National Interbank Bond Market in September 2021 with a fixed coupon rate of 3.65% and a fixed term of 10 years. The issuer is entitled to the right of redemption with pre-conditions at the end of the 5th year. The net proceeds after deducting offering related expenses were all used to replenish the tier-2 capital of the Bank.

(II) Redemption of Bonds

With the approval by the CBIRC, the Bank fully redeemed the 26.0 billion subordinated bond issued in October 2011 in China's National Interbank Bond Market in advance in October 2021. The bond had a term of 15 years and the issuer is entitled to the right of redemption with pre-conditions at the end of the 10th year.

With the approval by the CBIRC, the Bank fully redeemed the EUR0.5 billion tier-2 capital bonds issued abroad in 2014 in the Hong Kong Stock Exchange in advance in October 2021. The bond has a term of 12 years and the issuer is entitled to the right of redemption with pre-conditions at the end of the 7th year, and the principal of redemption plus the final interest payment amounted to EUR509,062,500.

In November 2021, the Bank fully redeemed the 20.0 billion 5-year green financial bond issued in November 2016 in China's National Interbank Bond Market on the due date.

In November 2021, the Bank fully redeemed the 10.0 billion 3-year special financial bond for loans to small and micro enterprises with a term of 3 years issued in November 2018 in China's National Interbank Bond Market on the due date.

Please refer to Note 33. Debt securities issued to the Consolidated Financial Statements for other bonds issued and still in existence.

(III) Equity Linked Agreement

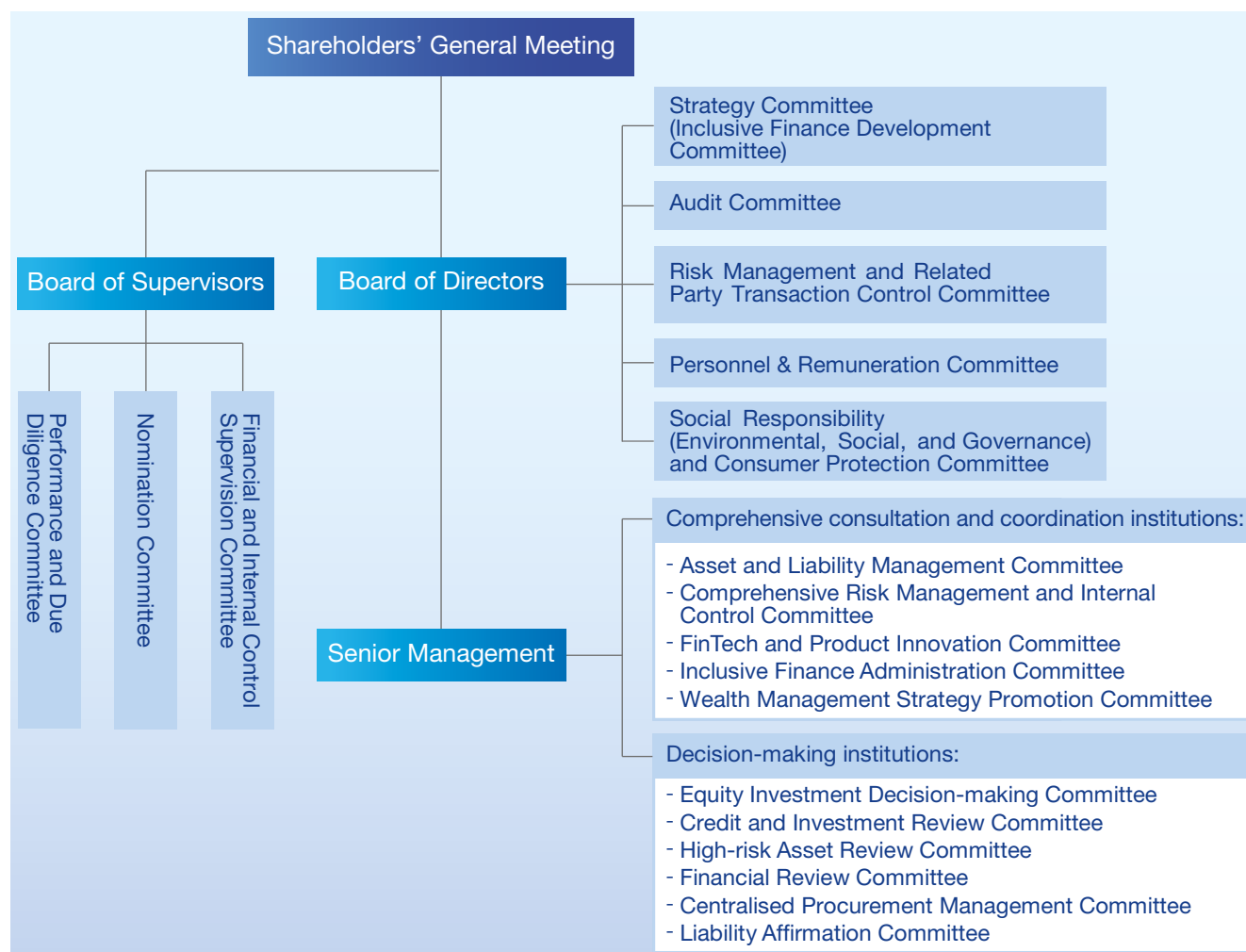
The Bank privately issued 450 million domestic preference shares in September 2016. Assuming that the Bank triggers a mandatory share conversion event and all preference shares are mandatorily required to be converted into ordinary shares at the initial share conversion price, the number of the above domestic preference shares being converted into ordinary A shares will not exceed 7.2 billion shares. Please refer to Note 36. Other equity instruments to the Consolidated Financial Statements for other details of domestic preference shares.

CORPORATE GOVERNANCE

Sound corporate governance is the basis for the stable development of commercial banks, and plays a significant role in effectively serving the real economy, preventing and mitigating financial risks, and protecting the legitimate rights and interests of financial consumers. With the vision of “building the bank with the best corporate governance”, the Bank aspired to the best practices in corporate governance, continuously promoted the organic integration of the Party’s leadership with corporate governance and improved the structure and system of corporate governance. While accelerating the construction of a governance mechanism for modern financial enterprises that operates and balances coordinately with statutorily defined transparent authorities and responsibilities, the Bank ensured that the operating system generally led by the Party Committees, strategically decided by the Board of Directors, legally supervised by the Board of Supervisors and authorised by senior management runs effectively and hence consistently improved the scientificity, robustness and effectiveness of corporate governance. During the Reporting Period, the corporate governance of the Bank strictly abided by the *Company Law*, *the Securities Law* and the normative documents and requirements concerning corporate governance for listed companies 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.



II. CURRENT STATUS OF CORPORATE GOVERNANCE

During the Reporting Period, the Bank strengthened the Party's leadership in the improvement of corporate governance and continuously improved the coordination and communication mechanism between the Party Committee and the Board of Directors, and thus achieved the combination of pre-research and discussion of the Party Committee with the decision-making mechanism in corporate governance. The Bank actively built a diversified and professional Board of Directors with international horizons, highlighted the strategic management responsibilities of the Board of Directors and fostered the governance culture and values featured with prudence, compliance, openness and transparency. In addition, the Bank enhanced the supervisory function of the Board of Supervisors, and especially focused on supervising the implementation of national economic and financial policies and major strategies, as well as the performance of duties, financial activities, internal control and risk management of the Board of Directors, senior management and its members. The senior management implemented business development strategies and various decisions of the Shareholders' General Meeting and the Board of Directors to achieve the business management goals. The Bank strengthened supervision on risk management, capital management, internal control and compliance and internal/external audit to promote the high-quality development of the Bank.

During the Reporting Period, the Shareholders' General Meeting of the Bank approved the 2021-2025 Capital Management Scheme while the Board of Directors approved the Outline on Development Plan for the 14th Five-Year Plan Period (2021-2025), the Strategic Management Measures and a series of sub-plans such as Development Plan on FinTech, Risk Management Plan and Data Governance, which informed the Bank's strategic planning system during the 14th Five-Year Plan Period. The Board of Directors approved the Green Finance Policy, the Measures for Liability Quality Management, Restoration and Disposal Plan and Relevant Administrative Measures, Administrative Measures for Agency Sales of Financial Products, Administrative Measures for Reputational Risk (Provisional) and revised the Compliance Policy, Policy on Business Continuity, Guidance on Corporate Social Responsibility, etc., which further improved the completeness and effectiveness of corporate governance systems.

During the Reporting Period, the Bank completed the self-inspection of corporate governance in accordance with the *Notice of China Securities Regulatory Commission on Special Action for the Governance of Listed Companies* (Zheng Jian Ban Fa [2020] No.69) and identified no issues to be rectified.

CORPORATE GOVERNANCE

III. SHAREHOLDERS AND SHAREHOLDERS' GENERAL MEETINGS

(I) Shareholders

The largest three shareholders of the Bank are the Ministry of Finance, HSBC and the SSF. 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 were listed as a whole and there was no horizontal competition or related transactions arising from certain restructuring. The Bank laid great importance to the protection of shareholders' equity and maintained smooth communication channels with shareholders through holding Shareholders' General Meeting and performance announcements, hosting shareholders and setting up investor hotline to ensure that all shareholders enjoy equal status and have the right of knowledge, participation and voting on significant matters. Shareholders can make inquiries to the Board of Directors and make proposals at the Shareholders' General Meeting through the contacts and contact information listed in the "Corporate Information" of this Annual Report. Please refer to Article 98 and Article 111 of the *Articles of Association* of the Bank for the method of convening the Extraordinary General Meeting of Shareholders and the procedure of putting forward proposals at the Shareholders' General Meeting.

(II) Shareholders' General Meetings

The Shareholders' General Meeting is the highest authority of the Bank, and exercises relevant functions in accordance with laws. During the Reporting Period, the Shareholders' General Meetings were convened and held in strict accordance with the relevant laws and regulations and the *Articles of Association* of the Bank. Details are presented below.

Session	Date	Proposal	Resolution	Website Designated for Publishing Resolution
2021 First Extraordinary General Meeting	24 March 2021	2 proposals including <i>the Proposal on Capital Management Plan of Bank of Communications Co., Ltd. (2021 – 2025)</i>	Pass	The official website of the Bank www.bankcomm.com The SSE website www.sse.com.cn The website of the Hong Kong Stock Exchange www.hkexnews.hk
2020 First Extraordinary General Meeting	29 June 2021	6 proposals including <i>the 2020 Work Report of Board of Directors of the Bank of Communication Co., Ltd.</i>	Pass	The same as above
2021 Second Extraordinary General Meeting	28 October 2021	3 proposals including <i>the 2020 Director's Remuneration Plan of Bank of Communications Co. Ltd.</i>	Pass	The same as above

(III) Implementation of the Resolutions of Shareholders' General Meeting By the Board of Directors

The Board of Directors of the Bank fully implemented the relevant resolutions passed by Shareholders' General Meeting during the Reporting Period, and exercised its functions and powers in strict accordance with the Bank's *Authorisation to Board of Directors by the Shareholders' General Meeting*.

IV. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(I) Members of the Board of Directors

The Bank currently has 16 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	58	August 2018 – date of 2021 Annual General Meeting
Liu Jun	Vice Chairman of the Board of Directors, Executive Director and President	Male	50	August 2020 – the same as above
Li Longcheng	Non-executive Director	Male	58	June 2020 – the same as above
Wang Linping	Non-executive Director	Male	58	January 2021 – the same as above
Chang Baosheng	Non-executive Director	Male	53	January 2021 – the same as above
Liao, Yi Chien David	Non-executive Director	Male	49	May 2021 – the same as above
Chan Siu Chung	Non-executive Director	Male	59	October 2019 – the same as above
Song Hongjun	Non-executive Director	Male	56	August 2019 – the same as above
Chen Junkui	Non-executive Director	Male	47	August 2019 – the same as above
Liu Haoyang	Non-executive Director	Male	49	August 2016 – the same as above
Yeung Chi Wai, Jason	Independent Non-executive Director	Male	67	October 2016 – the same as above
Woo Chin Wan, Raymond	Independent Non-executive Director	Male	67	November 2017 – the same as above
Cai Haoyi	Independent Non-executive Director	Male	67	August 2018 – the same as above
Shi Lei	Independent Non-executive Director	Male	64	December 2019 – the same as above
Zhang Xiangdong	Independent Non-executive Director	Male	64	August 2020 – the same as above
Li Xiaohui	Independent Non-executive Director	Female	54	November 2020 – the same as above

Notes:

1. Term of office of directors begins from the date of appointment qualification approved by the CBIRC.
2. Terms of office of Mr. Ren Deqi and Mr. Liu Jun refer to their terms of office as Executive Directors of the Bank.

CORPORATE GOVERNANCE

Mr. Ren Deqi Chairman of the Board of Directors and Executive Director**Main duties**

Mr. Ren has been Chairman of the Board of Directors of the Bank since January 2020.

Mr. Ren has been Executive Director of the Bank since August 2018.

Educational background and professional qualification

Mr. Ren obtained his Master's degree in Engineering from Tsinghua University in 1988.

Senior Economist

Experience

Mr. Ren served as Vice Chairman of the Board of Directors, Executive Director and President of the Bank. Mr. Ren served as Executive Director and Executive Vice President of Bank of China. During the period, he also served as Non-executive Director of Bank of China Hong Kong (Holdings) Limited and Chief Executive Officer of Shanghai Renminbi Trading Business Headquarter of Bank of China. Mr. Ren served as several positions in China Construction Bank, including General Manager of the Risk Management Department, President of the Hubei Branch, General Manager of the Credit Management Department, General Manager of the Risk Monitoring Department and Deputy General Manager of the Credit Approval Department.

Mr. Liu Jun Vice Chairman of the Board of Directors, Executive Director and President**Main duties**

Mr. Liu has been Vice Chairman of the Board of Directors and Executive Director of the Bank since August 2020.

Mr. Liu has been President of the Bank since July 2020.

Educational background and professional qualification

Mr. Liu obtained his Doctoral degree in Business

Administration from Hong Kong Polytechnic University in 2003.

Senior Economist

Experience

Mr. Liu served as Executive Vice President of China Investment Corporation. Mr. Liu served as Deputy General Manager of China Everbright Group Ltd., Executive Director and Deputy General Manager of China Everbright Group Limited. During the period, he also successively served as Chairman of Sun Life Everbright Life Insurance Company Limited, Vice Chairman of China Everbright Holdings Company Limited., Executive Director and Vice Chairman of China Everbright Limited, Executive Director and Vice Chairman of China Everbright International Limited, and Chairman of China Everbright Industrial (Group) Co., Ltd. Mr. Liu served as Assistant to President and Executive Vice President of China Everbright Bank, during the period he concurrently acted as President of Shanghai Branch of China Everbright Bank and General Manager of the Financial Market Centre of China Everbright Bank.

Mr. Li Longcheng Non-executive Director

Main duties

Mr. Li has been Non-executive Director of the Bank since June 2020.

Mr. Li holds position at Central Huijin Investment Ltd.

Educational background and professional qualification

Mr. Li obtained his Doctoral degree in Management from Northeast Forestry University in 2003.

Experience

Mr. Li served as Director of the Heilongjiang Supervision Bureau of Ministry of Finance, Chief Inspector of the Heilongjiang Supervision & Inspection Office of Ministry of Finance, Chief Inspector of the Liaoning Supervision & Inspection Office of Ministry of Finance, Deputy Inspector of the Heilongjiang Supervision & Inspection Office of Ministry of Finance, and Deputy Inspector of the Zhejiang Supervision & Inspection Office of Ministry of Finance. Mr. Li served as Assistant Commissioner, Division Chief of the First Division and Deputy Division Chief of the General Division of the Heilongjiang Supervision & Inspection Office of Ministry of Finance.

Mr. Wang Linping Non-executive Director

Main duties

Mr. Wang has been Non-executive Director of the Bank since January 2021.

Mr. Wang holds position at Central Huijin Investment Ltd.

Educational background and professional qualification

Mr. Wang obtained his Bachelor's degree in Philosophy from Zhongnan University of Economics and Law in 1986.

Experience

Mr. Wang served as Level-one Inspector of the Retired Cadres Bureau of Ministry of Finance, Chairman of China Finance and Economic Media Group. Mr. Wang served as Minister, Vice Minister and Minister of the Department of Administrative Finance of the Liaison Office of the Central People's Government in Macao Special Administrative Region. Mr. Wang served as Researcher and Deputy Director of Pension Security Division of the Social Security Department of Ministry of Finance, and he served as assistant researcher of the Management Division of the Retirement Funds of Administrative Institutions.

Mr. Chang Baosheng Non-executive Director

Main duties

Mr. Chang has been Non-executive Director of the Bank since January 2021.

Mr. Chang holds position at Central Huijin Investment Ltd.

Educational background and professional qualification

Mr. Chang graduated from Zhongnan University of Economics and Law in 1989.

Experience

Mr. Chang served as Level-two Inspector and Deputy Inspector of the Ningxia Supervision Bureau of Ministry of Finance. Mr. Chang served as Deputy Inspector, Assistant Commissioner, Deputy Director of the Third Business Department, Deputy Director of the Second Business Department and Deputy Director of the General Office of Ningxia Supervision and Inspection Office of Ministry of Finance.

CORPORATE GOVERNANCE

Mr. Liao, Yi Chien David Non-executive Director**Main duties**

Mr. Liao has been Non-executive Director of the Bank since May 2021.

Mr. Liao has been Co-chief Executive Officer of HSBC, a substantial shareholder of the Bank, Executive Director of the HSBC Group and Member of the Group Executive Committee.

Experience

Mr. Liao served as the general manager of HSBC Holdings plc and the Head HSBC Asia Pacific Global Banking, President and Chief Executive Officer of HSBC China, Director of Global Banking and Capital Market of HSBC China, Director of Global Capital Market of HSBC China, and Treasurer of HSBC China. Mr. Liao took positions in the Industrial Bank of Japan (currently Mizuho International Plc).

Educational background and professional qualification

Mr. Liao obtained his honorary bachelor's degree from University of London in 1995.

Mr. Chan Siu Chung Non-executive Director**Main duties**

Mr. Chan has been Non-executive Director of the Bank since October 2019.

Mr. Chan serves as the Head of Capital Market for Greater China Region at HSBC, a substantial shareholder of the Bank.

Experience

Mr. Chan served as the Co-Head of Capital Markets for Asia-Pacific at HSBC, Deputy Head of the Global Markets Asia Pacific and Head of Trading in Hong Kong, Head of Trading in Hong Kong, Head of Hong Kong Dollar Interest Rate and Derivatives Trading, Senior Interest Rate Dealer and Senior Dealer.

Educational background and professional qualification

Mr. Chan obtained his Master's degree in Applied Finance from Macquarie University, Australia in 1994.

Mr. Song Hongjun Non-executive Director**Main duties**

Mr. Song has been Non-executive Director of the Bank since August 2019.

Mr. Song serves as Director of the Securities and Investment Department of the National Council for Social Security Fund, a substantial shareholder of the Bank.

Experience

Mr. Song served as Director and Deputy Director of the Pension Accounting Department of the National Council for Social Security Fund, Deputy Director of Fund Finance Department, Chief of Financial Division of Fund Finance Department, Deputy Chief of Financial Division of Finance and Accounting Department. Mr. Song also served as Deputy Division Chief of the First Financial Division of the Finance Department of the Ministry of Finance.

Educational background and professional qualification

Mr. Song obtained his Master's degree in Public Administration from the joint program between Peking University and Chinese Academy of Governance in 2008.

Mr. Chen Junkui Non-executive Director

Main duties

Mr. Chen has been Non-executive Director of the Bank since August 2019.

Mr. Chen serves as Deputy Director-General of the Financial Management and Supervision (Internal Audit) Department of the State Tobacco Monopoly Administration.

Other duties

Supervisor of China Tobacco Machinery Group Co., Ltd., China Tobacco International Inc. and *China Tobacco Magazine House Co., Ltd.*

Director of Nantong Cellulose Fibers Co., Ltd., Zhuhai Cellulose Fibers Co., Ltd. and Kunming Cellulose Fibers Co., Ltd.

Experience

Mr. Chen served as Director and Deputy Director of the Finance and Asset Department of China Tobacco Machinery Group Co., Ltd.

Educational background and professional qualification

Mr. Chen obtained his Master's degree in Management from Capital University of Economics and Business in 2002.
Senior Accountant

Mr. Liu Haoyang Non-executive Director

Main duties

Mr. Liu has been Non-executive Director of the Bank since August 2016.

Mr. Liu serves as Deputy General Manager of the Capital Operation Department of Capital Airports Holdings Company Limited, a substantial shareholder of the Bank.

Experience

Mr. Liu served as Deputy General Manager of Capital Airport Group Finance Co., Ltd., Chief Financial Officer of Inner Mongolia Airport Group, Deputy General Manager and Assistant to General Manager of the Finance Department of Capital Airports Holdings Company Limited and Assistant to Manager of the Finance Department of Jinfei Civil Aviation Economic Development Centre.

Educational background and professional qualification

Mr. Liu obtained his Master's degree in Management from College of Economics and Management of China Agricultural University in 2001.
Accountant

CORPORATE GOVERNANCE

Mr. Yeung Chi Wai, Jason Independent Non-executive Director**Main duties**

Mr. Yeung has been Independent Non-executive Director of the Bank since October 2016.

Educational background and professional qualification

Mr. Yeung graduated from the Faculty of Law of University of Western Ontario in 1991.

Mr. Yeung obtained his MBA degree from University of Western Ontario in 2001.
Lawyer

Other duties

Director of Supervision and Risk Management of Fung Group (1937) and its Hong Kong listed company. Independent Director of China Telecom Corporation, Chairman of the Choi Chung Hospital and Princess Margaret Governing Committee of Hospital Authority in Hong Kong, Member of the Board of Trustees of the Charitable Foundation of Hospital Authority in Hong Kong and the Member of the Board of Trustees of the Provident Fund Scheme of Hospital Authority in Hong Kong.

Experience

Mr. Yeung served as Executive Vice President of Bank of China (Hong Kong) Limited (in charge of Personal Banking Business), Secretary of the Board of Directors of Bank of China (Hong Kong) Limited and Bank of China Limited, Member of the Convention of Hospital Authority in Hong Kong and took positions in charge of supervision of the market and compliance with laws and regulations in Hong Kong government, Securities & Futures Commission of Hong Kong, law firms and various enterprises.

Mr. Woo Chin Wan, Raymond Independent Non-executive Director**Main duties**

Mr. Woo has been Independent Non-executive Director of the Bank since November 2017.

Educational background and professional qualification

Mr. Woo obtained his MBA degree from York University in Canada in 1982.

Hong Kong and Canadian Certified Public Accountant

Other duties

Independent Non-executive Director of Lenovo Group Limited

Experience

Mr. Woo served as Managing Partner, Partner, Senior Manager, Manager and Senior Accountant of Ernst & Young, during the period he concurrently acted as Managing Partner of Ernst & Young's China business, Director and General Manager in Ernst & Young Hua Ming and member of Ernst & Young's China Management Committee. Mr. Woo took positions in Rongxing Securities Co., Ltd. and served as Lecturer in the Department of Business Administration in the University of Hong Kong. Mr. Woo worked in PwC Canada and PwC Hong Kong.

Mr. Cai Haoyi Independent Non-executive Director

Main duties

Mr. Cai has been Independent Non-executive Director of the Bank since August 2018.

Educational background and professional qualification

Mr. Cai obtained his Doctoral degree in Economics from the Financial Research Institute of the People's Bank of China in 2001.
 Researcher
 Mr. Cai enjoyed special government allowances of the State Council.

Experience

Mr. Cai served as Chairman of the Board of Supervisors in China Everbright Bank and Non-executive Director in Bank of China. Mr. Cai held various positions in PBOC, including Secretary General of the Monetary Policy Committee, Deputy Head of the Research Bureau, Deputy Head of the Financial Research Institute, and Deputy Director, Division Chief and Deputy Division Chief of the Graduate Department of the Financial Research Institute.

Mr. Shi Lei Independent Non-executive Director

Main duties

Mr. Shi has been Independent Non-executive Director of the Bank since December 2019.

Mr. Shi serves as Professor and Doctoral Supervisor of the School of Economics of Fudan University, and Director of the Public Economic Research Centre of Fudan University.

Educational background and professional qualification

Mr. Shi obtained his Doctoral degree from the Institute of Economics at Shanghai Academy of Social Sciences in 1993.
 Mr. Shi enjoyed special government allowances of the State Council.

Experience

Mr. Shi served as Director of the China Centre for Economic Studies of Fudan University, Minister of the Publicity Department of the Communist Party Committee of Fudan University, and Secretary of the Communist Party Committee of the School of Economics of Fudan University and Independent Non-executive Director of Ko Yo Chemical (Group) Limited and Sanxiang Impression Co., Ltd.

CORPORATE GOVERNANCE

Mr. Zhang Xiangdong Independent Non-executive Director**Main duties**

Mr. Zhang has been Independent Non-executive Director of the Bank since August 2020.

Educational background and professional qualification

Mr. Zhang obtained his Master's degree in Law from Renmin University of China in 1990.
Senior Economist

Experience

Mr. Zhang served as Non-executive Director of Bank of China Limited, Non-executive Director and Chairman of the Risk Management Committee of the Board of Directors of China Construction Bank Corporation (during which period Mr. Zhang concurrently served as member of the China International Economic and Trade Arbitration Commission). Mr. Zhang also served as Inspector and Deputy Director General of the General Affairs Department of the State Administration of Foreign Exchange. He served as Executive Vice President of Haikou Branch of the People's Bank of China and Deputy Director General of Hainan Branch of the State Administration of Foreign Exchange concurrently. Mr. Zhang concurrently served as Member of the Issuance Approval Committee of China Securities Regulatory Commission.

Ms. Li Xiaohui Independent Non-executive Director**Main duties**

Ms. Li has been Independent Non-executive Director of the Bank since November 2020.
Ms. Li has been a Professor and Doctoral Supervisor at the School of Accounting, Central University of Finance and Economics.

Educational background and professional qualification

Ms. Li obtained her Doctoral degree in Economics from Central University of Finance and Economics in 2001.
Certified Public Accountant

Other duties

Independent Non-executive Director of Fangda Special Steel Technology Co., Ltd., State Grid Information and Communication Co., Ltd., and BBMG Corporation. External Supervisor of Bank of Beijing Co., Ltd. Member of the Professional Technical Advisory Committee of the Chinese Institute of Certified Public Accountants. Member of the Audit Committee of the Accounting Society of China. Member of the Audit Standards Committee of the China Internal Audit Association.

Experience

Ms. Li worked in the Professional Standards Department of the Chinese Institute of Certified Public Accountants. Ms. Li worked successively in Cangzhou Accounting Firm, Cangshi Accounting Firm and the State-owned Assets Administration under Hebei Province Department of Finance. Ms. Li previously served as Independent Director of Fangda Carbon New Material Co., Ltd., Bank of Beijing Co., Ltd., Camel Group Co., Ltd., Jizhong Energy Resources Co., Ltd., Kailuan Energy Chemical Co., Ltd. and China U-Ton Holdings Limited

(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
Xu Jiming	Chairman of the Board of Supervisors and Shareholder Supervisor	Male	55	October 2021 – date of 2021 Annual General Meeting
Wang Xueqing	Shareholder Supervisor	Male	54	June 2017 – the same as above
Xia Zhihua	External Supervisor	Female	67	June 2016 – the same as above
Li Yao	External Supervisor	Male	51	October 2017 – the same as above
Chen Hanwen	External Supervisor	Male	54	June 2019 – the same as above
Ju Jiandong	External Supervisor	Male	58	June 2020 – the same as above
Guan Xingshe	Employee Supervisor	Male	57	October 2018 – the same as above
Lin Zhihong	Employee Supervisor	Female	53	December 2020 – the same as above
Feng Bing	Employee Supervisor	Female	47	December 2020 – the same as above
Po Ying	Employee Supervisor	Female	50	November 2021 – the same as above

Notes:

1. Term of office of supervisors begins from the date of election at General Meeting and the Employee Representative Meeting. Term of office of re-elected supervisors begins from the date of first election at General Meetings.
2. Mr. Zhang Minsheng resigned from the Bank's Shareholder Supervisor on 18 January 2022.

Mr. Xu Jiming Chairman of the Board of Supervisors and Shareholder Supervisor

Main duties

Mr. Xu has been Chairman of the Board of Supervisors and Shareholder Supervisor of the Bank since October 2021.

Educational background and professional qualification

Mr. Xu obtained his Doctoral degree in EHESS (École des hautes études en sciences sociales) in 1995.
Senior Auditor

Other duties

Standing committee member of the 13th Shanghai Committee of the Chinese People's Political Consultative Conference

Experience

Mr. Xu held various positions in China National Petroleum Corporation, including Member of the Party Leadership Group, Head of the Discipline Inspection and Supervision Group, and Head of the Discipline Inspection Group of the Party Leadership Group. Mr. Xu also held various positions in the National Audit Office, including Director of the General Office, Director of the Department of Administration Institutions Audit, Director of the Department of Foreign Funds Application Audit, Director of the Audit Cadre Training Centre, Director and Deputy Director of the Audit Bureau of Health and Drugs, Deputy Director of the Department of Foreign Funds Application Audit, Assistant to the Special Commissioner of Kunming Resident Office (Division Chief Level), Division Chief of the First Division of the Department of Foreign Funds Application Audit, Division Chief of the Comprehensive Division of the Department of Foreign Funds Application Audit, Deputy Division Auditor of the Second Division of the Department of Foreign Funds Application Audit and a cadre of the Second Division of the Department of Foreign Funds Application Audit.

CORPORATE GOVERNANCE

Mr. Wang Xueqing Shareholder Supervisor**Main duties**

Mr. Wang has been Shareholder Supervisor of the Bank since June 2017.

Mr. Wang serves as Chief Accountant of Daqing Oilfield Co., Ltd. (Daqing Petroleum Administration Bureau), a substantial shareholder of the Bank.

Educational background and professional qualification

Mr. Wang obtained his Master's degree in Accounting from Tianjin University of Finance and Economics in 2002.

Professoriate Senior Accountant

Other duties

Chairman of the Board of Directors of Daqing Petroleum (Hong Kong) Co. Ltd. Chairman of the Board of Directors of Daqing Energy (Hong Kong) Co. Ltd. Director of DPS Indonesia Co. Ltd. Director of China Petroleum Halfaya Co., Ltd. Vice President of the Sixth Council of China Association of Plant Engineering.

Experience

Mr. Wang served as Director of the Finance Department, Director of Financial Assets of the First Department, Director and First Deputy Director of the Accounting Department (Centre) of the Financial Assets Department in Daqing Oilfield Company. Mr. Wang concurrently served as Chairman of the Board of Supervisors of PTINDOSPECENERGY, Director of Qingdao Qingxin Plastic Co., Ltd. and Chairman of the Board of Supervisors of Daqing Oilfield Powerlift Pump Industry Co., Ltd.

Ms. Xia Zhihua External Supervisor**Main duties**

Ms. Xia has been External Supervisor of the Bank since June 2016.

Educational background and professional qualification

Ms. Xia obtained her Master's degree in Economics from Xiamen University in 1984.

International Internal Auditor and Senior Economist

Ms. Xia enjoyed special government allowances of the State Council.

Experience

Ms. Xia served as Chairman of the Board of Supervisors of China Life Insurance Co., Ltd. She was accredited by the State Council to serve as Supervisor, Head of the General Office of the Board of Supervisors and Deputy Head of the General Office of the Board of Supervisors 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. Ms. Xia served as Associate Inspector of the National Treasury Bureau of Ministry of Finance, Deputy Director-General of National Debt Department and the National Debt Financial Department of Ministry of Finance, and Division Chief and Deputy Division Chief of the State Debt Management Department of Ministry of Finance.

Mr. Li Yao External Supervisor

Main duties

Mr. Li has been External Supervisor of the Bank since October 2017.

Mr. Li serves as Professor and Chairman of the Professor Committee of the School of Finance, Shanghai University of Finance and Economics.

Experience

Mr. Li served as Vice President of the School of Finance, Shanghai University of Finance and Economics. During the period, Mr. Li also served as Visiting Professor in the Sino-US Fulbright Scholar Program at Boston College. Mr. Li was appointed as Visiting Professor of CSC Scholarship Youth Cultivation Program in the Centre for Management Buy-Out & Private Equity Research of Nottingham University Business School. Mr. Li served as Vice Professor in the Canada-China Scholars Exchange Programme (CCSEP) of Rotman School of Management at the University of Toronto.

Educational background and professional qualification

Mr. Li obtained his Doctoral degree in Economics from East China Normal University in 1998.

Mr. Chen Hanwen External Supervisor

Main duties

Mr. Chen has been External Supervisor of the Bank since June 2019.

Mr. Chen serves as Professor of Nanjing Audit University.

Other duties

Level-two Professor, Huiyuan Distinguished Professor, Doctoral Supervisor and contact of the Postdoctoral Research Station of University of International Business and Economics. Chair Professor of China Business Executives Academy, Dalian. Co-editor in Chief of China Journal of Accounting Studies (publication of the Accounting Society of China). Member of Editorial Board of *Auditing Research* (publication of the China Audit Society). Member of the Senior Professional Rank Evaluation Committee of the National Audit Office. Member of the Specialised Guidance Committee of the Chinese Institute of Certified Public Accountant. Executive Council Member of the China Audit Society. Independent Non-executive Director of China Shenhua Energy Company Limited, Beijing Tri-Prime Gene Pharmaceutical Co., Ltd., Shenwan Hongyuan Group Co., Ltd., Dalian Wanda Commercial Management Group Co., Ltd. and Xiamen International Bank Co., Ltd..

Experience

Mr. Chen held various positions in Xiamen University, including Vice President of the School of Management, Vice President of the Graduate School, Director of the Accounting Department and Secretary-General of the Academic Committee. Mr. Chen was Independent Non-executive Director of Xiamen Bank Co., Ltd. in the past three years.

Educational background and professional qualification

Mr. Chen obtained his Doctoral degree in Economics from Xiamen University in 1997.

CORPORATE GOVERNANCE

Mr. Ju Jiandong External Supervisor**Main duties**

Mr. Ju has been External Supervisor of the Bank since June 2020.

Mr. Ju is a Unigroup Chair Professor of the PBC School of Finance in Tsinghua University.

Other duties

Distinguished Professor under the Chang Jiang Scholars Programme of the Ministry of Education. Distinguished Professor of the School of International Business Administration of Shanghai University of Finance and Economics. Independent Non-executive Director of COFCO Joycome Foods Limited.

Experience

Mr. Ju worked as Dean and Professor of the School of International Business Administration of Shanghai University of Finance and Economics, Professor at the School of Economics and Management of Tsinghua University, Professor of Economics (tenured) at the University of Oklahoma, Adviser to the World Bank and Resident Scholar in the Research Department of the International Monetary Fund.

Educational background and professional qualification

Mr. Ju obtained his Doctoral degree in Economics from Pennsylvania State University in 1995.

Mr. Guan Xingshe Employee Supervisor**Main duties**

Mr. Guan has been Employee Supervisor of the Bank since October 2018.

Mr. Guan serves as Director of the Office of the Board of Supervisors of the Bank.

Educational background and professional qualification

Mr. Guan obtained his Master's degree in Economics from Xiamen University in 1999.

Senior Auditor

Experience

Mr. Guan held various positions in the Bank, including General Manager of the Department of General Affairs of the Bank, Executive Vice President of the Henan Branch (Zhengzhou) and Senior Credit Executive, Division Chief of the Finance and Accounting Department of the Zhengzhou Branch (During the period, he served a temporary position in the Internal Audit Control Division at the Bank's Head Office) and Deputy Division Chief (in charge of overall work) of the Finance and Accounting Department of the Zhengzhou Branch, Deputy Division Chief of the Internal Audit Control Division (in charge of overall work) and Deputy Division Chief of the Finance and Accounting Department, serving the Bank for 27 years. Mr. Guan served as Deputy Division Chief of the Financial Audit Department of the Zhengzhou Audit Bureau.

Ms. Lin Zhihong Employee Supervisor

Main duties

Ms. Lin has been Employee Supervisor of the Bank since December 2020.

Ms. Lin serves as Director of the Audit and Supervision Bureau of the Bank.

Ms. Lin serves as Non-executive Director of BOCOM International Holdings Company Limited.

Ms. Lin serves as Supervisor of BOCOM Financial Asset Investment Co., Ltd.

Educational background and professional qualification

Ms. Lin obtained her EMBA degree from Shanghai University of Finance and Economics in 2010.

Intermediate Accountant

Experience

Ms. Lin held various positions in the Bank, including General Manager of the Financial Service Centre (Business Department) of the Head Office, General Manager of the Budget and Finance Department (Data and Information Management Centre), General Manager, Deputy General Manager and Senior Budget Manager of the Budget and Finance Department, and Division Chief and Deputy Division Chief of Financial Division of Finance and Accounting Department, serving the Bank for 31 years.

Ms. Feng Bing Employee Supervisor

Main duties

Ms. Feng has been Employee Supervisor of the Bank since December 2020.

Ms. Feng serves as Director of the Office of Labour Union, Executive Vice President of Labour Union and Secretary of Youth League Committee of the Bank, Member of Department of Inspection Commission and President of Labour Union of the Head Office.

Educational background and professional qualification

Ms. Feng obtained her Master's degree in National Economics from University of Shanghai for Science and Technology in 2000.

Senior Economist

Other duties

Executive Director of the Seventh National Council of China Financial Sports Association. Member of the Presidium of the Second National Committee of China Financial Literature and Art Festival Federation.

Experience

Ms. Feng held various positions in the Bank, including Deputy Director of Organisation Department, Deputy General Manager, Director of Enterprise Annuity Office, Senior Manager of Structural Planning, Senior Manager of Performance Management (During the period, she served a temporary position in the Jiaxing Branch of the Bank as Executive Vice President) and Deputy Senior Manager of Performance Management of the Human Resource Department of the Bank's Head Office, and she also served as Deputy Head of Economic Research Office of the Development Research Department of the Bank's Head Office, serving the Bank for 21 years.

CORPORATE GOVERNANCE

Ms. Po Ying Employee Supervisor**Main duties**

Ms. Po has been Employee Supervisor of the Bank since November 2021.

Ms. Po serves as General Manager of the Equity and Investment Management Department of the Bank.

Ms. Po serves as Chairman of the Board of Supervisors of Bank of Communications International Trust Co., Ltd.

Ms. Po serves as Non-executive Director of Bank of Communications Financial Leasing Co., Ltd.

Ms. Po serves as Non-executive Director of BOCOM International Holdings Company Limited.

Ms. Po serves as Non-executive Director of Bank of Communications (Brazil) Co., Ltd.

Experience

Ms. Po served as Deputy General Manager of the Budget and Finance Department (Data and Information Management Centre) of the Bank's Head Office, during the period she concurrently served as Non-executive Director of Bank of Communications International Trust Co., Ltd. Ms. Po held various positions in the Bank, including Executive Vice President of the Suzhou Branch, Senior Manager of Management Accounting, Senior Manager of Management Accounting and Pricing Management, Senior Manager of Management Accounting and Pricing of the Budget and Finance Department of the Bank's Head Office, Deputy Division Chief of the Management Accounting Division of the Finance and Accounting (Budget Finance) Department of the Head Office, Deputy Division Chief of Financial Division of Finance and Accounting Department of the Head Office, Deputy Division Chief and Assistant to Division Chief of the Planning Division of the Nanning Branch, serving the Bank for 26 years.

Educational background and professional qualification

Ms. Po obtained her Master's degree in Economics from Southwestern University of Finance and Economics in 1996.

Senior Accountant

(III) Profile of Senior Management

The Bank currently has 10 senior managers as below:

Name	Position	Gender	Age	Beginning and ending dates of term
Liu Jun	President	Male	50	July 2020 –
Yin Jiuyong	Executive Vice President	Male	54	September 2019 –
Guo Mang	Executive Vice President	Male	59	July 2018 –
Zhou Wanfu	Executive Vice President	Male	56	July 2020 –
Hao Cheng	Executive Vice President	Male	50	March 2021 –
Qian Bin	Executive Vice President	Male	49	July 2021 –
Gu Sheng	Secretary of the Board of Directors	Male	59	April 2018 –
Tu Hong	Chief Business Officer (Interbank and Market Business)	Male	56	September 2018 –
Lin Hua	Chief Risk Officer	Male	53	June 2021 –
Ng Siu On	BoCom-HSBC Strategic Cooperation Consultant	Male	68	March 2013 –

Notes:

1. Term of office of senior management begins from the approval appointment date by the CBIRC.
2. Term of office of Mr. Liu Jun refers to his term of office as President of the Bank.
3. Mr. Wang Feng resigned from the Bank's Chief Business Officer (Retail and Private Business) on 14 January 2022.

Mr. Liu Jun Vice Chairman of the Board of Directors, Executive Director and President

(Please refer to details in "Members of the Board of Directors")

Mr. Yin Jiuyong Executive Vice President

Main duties

Mr. Yin has been Executive Vice President of the Bank since September 2019.

Educational background and professional qualification

Mr. Yin obtained his Doctoral degree in Agriculture from China Agricultural University in 1993.
Senior Economist

Experience

Mr. Yin held various positions in Agricultural Development Bank of China, including Executive Vice President, Director of the General Office, President of the Henan Branch, General Manager and Deputy General Manager of the First Customer Department (During the period, Mr. Yin served a temporary position as Deputy Manager of Business Department of the Baoding Branch and Executive Vice President of the Baoding Branch), Deputy Director of the First Credit Department, Division Chief of the Comprehensive Division, Deputy Division Chief of Comprehensive Division of the First Industrial and Commercial Credit Department, and Deputy Division Chief of Purchase and Sale Division of the Industrial and Commercial Credit Department.

CORPORATE GOVERNANCE

Mr. Guo Mang Executive Vice President**Main duties**

Mr. Guo has been Executive Vice President of the Bank since July 2018.

Educational background and professional qualification

Mr. Guo obtained his Bachelor's degree in Economics from Fudan University in 1987.
Senior Economist

Experience

Mr. Guo held various positions in the Bank, including Chief Business Officer of the Bank, President of the Bank's Beijing Branch and Chief Executive Officer of the Beijing Administrative Department (Group Customer Department), President of the Bank's Shenzhen Branch, President of the Bank's Chongqing Branch, Executive Vice President of the Bank's Shenzhen Branch, General Manager of the Marketing Department, and President of the Hongli Sub-branch, Executive Vice President (in charge of overall work) of Shatoujiao Sub-branch, serving the Bank for 30 years.

Mr. Zhou Wanfu Executive Vice President**Main duties**

Mr. Zhou has been Executive Vice President of the Bank since July 2020.

Educational background and professional qualification

Mr. Zhou obtained his Master's degree in Economics from the Graduate School of the People's Bank of China in 1988.
Mr. Zhou obtained his MBA degree from Nanyang Technological University in Singapore in 2003.

Experience

Mr. Zhou held various positions in Agricultural Bank of China, including Secretary of the Board of Directors, General manager of the Asset and Liability Management Department, General Manager of the Strategic Planning Department, President of Tianjin Training Institute, Executive Vice President of Chongqing Branch, Deputy General Manager of the Planning and Finance Department, Deputy General manager of the Asset and Liability Management Department, Executive Vice President of the Ningbo Branch, Division Chief of the Comprehensive Planning Department and Deputy Division Chief of the Development and Planning Department.

Mr. Hao Cheng Executive Vice President**Main duties**

Mr. Hao has been Executive Vice President of the Bank since March 2021.

Educational background and professional qualification

Mr. Hao obtained his Doctoral degree in Management from Beijing Jiaotong University in 2009.
Senior Engineer

Experience

Mr. Hao held various positions in China Development Bank, including President of the Jilin Branch, Deputy Director of the Personnel Bureau of the Head Office, Executive Vice President of the Tianjin Branch, Division Chief of the Comprehensive Division of the Personnel Bureau of the Head Office, Division Chief of the Policy Division of the Personnel Bureau of the Head Office, Division Chief of the System Personnel Division of the Personnel Bureau of the Head Office, Deputy Division Chief of Policy Division of the Personnel Bureau of the Head Office, Deputy Division Chief of the Second Credit Management Division and the Fourth Credit Management Division of the Credit Management Bureau of the Head Office.

Mr. Qian Bin Executive Vice President

Main duties

Mr. Qian has been Executive Vice President of the Bank since July 2021.

Educational background and professional qualification

Mr. Qian obtained his MBA degree of the cooperative cultivation programme between Fudan University and the University of Hong Kong in 2004.

Senior Engineer

Experience

Mr. Qian held various positions in the Industrial and Commercial Bank of China, including General Manager and Principal of the Internet Finance Department, General Manager of Data Centre (Shanghai), Deputy General Manager of the Private Banking Department, Deputy General Manager of the Information Technology Department, General Manager of the Information Technology Department and Director of the Technology Security Centre, Deputy General Manager of the Information Technology Department and Assistant to General Manager of the Information Technology Department of the Shanghai Branch of the Industrial and Commercial Bank of China.

Mr. Gu Sheng Secretary of the Board of Directors

Main duties

Mr. Gu has been Secretary of the Board of Directors of the Bank since April 2018.

Mr. Gu has concurrently been Chief Executive Officer of Yangtze River Delta Integration Management Department of the Bank since July 2020.

Educational background and professional qualification

Mr. Gu obtained his EMBA degree from Nanjing University in 2006.

Senior Economist

Experience

Mr. Gu held various positions in the Bank, including General Manager of the Human Resource Department of the Head Office, President of the Jiangsu Branch, President of the Suzhou Branch, Executive Vice President of the Nanjing Branch, Executive Vice President of the Hainan Branch (in charge of overall work), Division Chief of Personnel Division of the Personnel and Education Department of the Head Office, President of the Xiaguan Sub-branch of the Nanjing Branch, Executive Vice President of the Xiaguan Sub-branch of the Nanjing Branch, Deputy Division Chief of the Personnel and Education Department and Assistant to the Division Chief of the Personnel and Education Department of the Nanjing Branch, serving the Bank for 35 years.

CORPORATE GOVERNANCE

Mr. Tu Hong Chief Business Officer (Interbank and Market Business)**Main duties**

Mr. Tu has been Chief Business Officer (Interbank and Market Business) since September 2018.

Mr. Tu has been the Chairman of BOCOM Wealth Management Co., Ltd. since June 2019.

Educational background and professional qualification

Mr. Tu obtained his Master's degree in Economics from Fudan University in 1998.

Experience

Mr. Tu held various positions in the Bank, including General Manager of the Financial Institution Department of the Bank's Head Office, during which period he concurrently served as Chief Executive Officer of the Asset Management Business Centre, Chief Executive Officer of the Financial Market Business Centre, Chief Executive Officer of the Financial Market Business Centre/Precious Metal Business Centre, General Manager of the Financial Market Department, General Manager of the New York Branch, Deputy General Manager of the International Business Department of the Bank's Head Office, Executive Vice President of the Guangzhou Branch, Division Chief of the General Administration of Foreign Exchange Business of the Beijing Branch, Deputy Manager of the Foreign Exchange Credit Department and Executive Vice President of the Sanyuan Sub-branch, serving the Bank for 32 years.

Mr. Lin Hua Chief Risk Officer**Main duties**

Mr. Lin has been Chief Risk Officer of the Bank since June 2021.

Mr. Lin has concurrently been General Manager of the Risk Management Department and Director of Internal Control and Crime Prevention Office since September 2021.

Educational background and professional qualification

Mr. Lin obtained his MBA degree from Shanghai University of Finance and Economics in 2004.

Senior Economist

Experience

Mr. Lin held various positions in the Bank, including President of the Jiangsu Branch, President and Executive Vice President (on behalf, performed the duties of the President) of the Jiangxi Branch, Executive Vice President and Senior Credit Executive of the Shanghai Branch, Senior Manager of the Credit Department, Division Chief of the Credit Management Division, Director and Deputy Director (in charge of overall work) of the General Office, Assistant to Manager of the Marketing Department and Assistant to Division Chief of the Credit Division of the Shanghai Branch, serving the Bank for 33 years.

Mr. Ng Siu On BoCom-HSBC Strategic Cooperation Consultant**Main duties**

Mr. Ng has been BoCom-HSBC Strategic Cooperation Consultant since March 2013.

Educational background and professional qualification

Mr. Ng obtained his MBA degree from the Chinese University of Hong Kong in 1984.

Experience

Mr. Ng held various positions in HSBC, including Special Consultant for HSBC's Asia-Pacific Chief Executive Officer on the Greater China business, Director of Corporates of HSBC's Commercial Banking in Hong Kong, Director of the Medium-sized Enterprises Business, Senior Manager of Commercial Banking, Deputy General Manager and Director of the Branches of HSBC's Area Office China, Associate Vice President and President of the Canadian Branch Network of HSBC Bank and Regional Director of the New Territories of HSBC Hong Kong.

(IV) Changes in Directors, Supervisors and Senior Management

1. Newly elected/appointed directors, supervisors and senior management

Name	Position	Change
Wang Linping	Non-executive Director	Elected
Chang Baosheng	Non-executive Director	Elected
Liao, Yi Chien David	Non-executive Director	Elected
Xu Jiming	Chairman of the Board of Supervisors and Shareholder Supervisor	Elected
Po Ying	Employee Supervisor	Elected
Hao Cheng	Executive Vice President	Appointed
Qian Bin	Executive Vice President	Appointed
Lin Hua	Chief Risk Officer	Appointed
Wang Feng	Chief Business Officer (Retail and Private Business)	Appointed

2. Resigned/Retired directors, supervisors and senior management

Name	Ex-position	Change	Beginning and ending dates of term
He Zhaobin	Ex-Non-executive Director	Retired (due to job assignment)	August 2017 – January 2021
Cai Yunge	Ex-Chairman of the Board of Supervisors and Ex-Shareholder Supervisor	Resigned (due to job assignment)	November 2020 – March 2021
Zhang Minsheng	Ex-Shareholder Supervisor	Resigned (due to personal work arrangement)	March 2020 – January 2022
Du Yarong	Ex-Employee Supervisor	Retired (due to job assignment)	August 2010 – May 2021
Wang Feng	Ex-Chief Business Officer (Retail and Private Business)	Retired (due to job change)	August 2021 – January 2022

The current directors, supervisors and senior managers of the Bank and those who left during the Reporting Period have not been punished by the securities regulatory authority in the past three years.

CORPORATE GOVERNANCE

(V) Changes in Information of Directors, Supervisors and Senior Management

Mr. Liao, Yi Chien David, Non-executive Director of the Bank, serves as Co-chief Executive Officer of the HSBC, Executive Director of the HSBC Group and a member of the Group Executive Committee. He no longer served as General Manager of the HSBC Group and Head of HSBC Asia Pacific Global Banking.

Mr. Song Hongjun, Non-executive Director, served as Director of the Securities Investment Department of the National Council for Social Security Fund, and no longer served as Director of the Pension Accounting Department.

Mr. Yeung Chi Wai, Jason, Independent Non-executive Director, served as Chairman of the Choi Chung Hospital and Princess Margaret Governing Committee of Hospital Authority in Hong Kong, Member of the Board of Trustees of the Charitable Foundation of Hospital Authority in Hong Kong, the Member of the Board of Trustees of the Provident Fund Scheme of Hospital Authority in Hong Kong, and no longer served as Member of the Convention of Hospital Authority in Hong Kong.

Mr. Shi Lei, Independent Non-executive Director, no longer served as Independent Non-executive Director of Ko Yo Chemical (Group) Limited and Sanxiang Impression Co., Ltd.

Ms. Li Xiaohui, Independent Non-executive Director, serves as Independent Non-executive Director of BBMG Corporation and External Supervisor of Bank of Beijing Co., Ltd. She no longer served as Independent Non-executive Director of Camel Group Co., Ltd.

Mr. Xu Jiming, Chairman of the Board of Supervisors and Shareholder Supervisor, served as Member of the 13th Shanghai Committee of the Chinese People's Political Consultative Conference on 22 December 2021, and Member of the 13th Shanghai Standing Committee of the Chinese People's Political Consultative Conference on 22 January 2022.

Mr. Li Yao, External Supervisor, serves as Chairman of the Professor Committee of the School of Shanghai University of Finance and Economics.

Mr. Chen Hanwen, External Supervisor of the Bank, serves as Professor of Nanjing Audit University and Independent Non-executive Director of Shenwan Hongyuan Group Co., Ltd.

Ms. Feng Bing, Employee Supervisor, serves as Executive Vice President of Labour Union and Secretary of Youth League Committee of the Bank, President of Labour Union of the Head Office, Executive Director of the Seventh National Council of China Financial Sports Association, and Member of the Presidium of the Second National Committee of China Financial Literature and Art Festival Federation.

(VI) Emoluments and Shareholdings of Directors, Supervisors and Senior Management

1. 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 as at the end of the Reporting Period (share)	Reason for changes
		Emoluments	Other benefits	Total						
Ren Deqi	Chairman of the Board of Directors and Executive Director				No	A share	0	0	0	-
		61.94	21.00	82.93		H share	200,000	100,000	300,000	
Liu Jun	Vice Chairman of the Board of Directors, Executive Director and President				No	A share	0	0	0	-
		61.94	20.61	82.55		H share	0	0	0	
Li Longcheng	Non-executive Director				No	A share	0	0	0	-
		-	-	-		H share	0	0	0	
Wang Linping	Non-executive Director				No	A share	0	0	0	-
		-	-	-		H share	0	0	0	
Chang Baosheng	Non-executive Director				No	A share	0	0	0	-
		-	-	-		H share	0	0	0	
Liao, Yi Chien David	Non-executive Director				No	A share	0	0	0	-
		-	-	-		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	
Yeung Chi Wai, Jason	Independent Non-executive Director				No	A share	0	0	0	-
		31	-	31		H share	0	0	0	
Woo Chin Wan, Raymond	Independent Non-executive Director				No	A share	0	0	0	-
		31	-	31		H share	0	0	0	
Cai Haoyi	Independent Non-executive Director				No	A share	0	0	0	-
		-	-	-		H share	0	0	0	
Shi Lei	Independent Non-executive Director				No	A share	0	0	0	-
		31	-	31		H share	0	0	0	
Zhang Xiangdong	Independent Non-executive Director				No	A share	0	0	0	-
		-	-	-		H share	0	0	0	
Li Xiaohui	Independent Non-executive Director				No	A share	0	0	0	-
		33	-	33		H share	0	0	0	
Xu Jiming	Chairman of the Board of Supervisors and Shareholder Supervisor				No	A share	0	0	0	-
		25.81	8.69	34.49		H share	0	0	0	

CORPORATE GOVERNANCE

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 as at the end of the Reporting Period (share)	Reason for changes
		Emoluments	Other benefits	Total						
Wang Xueqing	Shareholder Supervisor	-	-	-	Yes	A share	0	0	0	-
						H share	0	0	0	-
Xia Zhihua	External Supervisor	-	-	-	No	A share	0	0	0	-
						H share	0	0	0	-
Li Yao	External Supervisor	28.00	-	28.00	No	A share	0	0	0	-
						H share	0	0	0	-
Chen Hanwen	External Supervisor	26.00	-	26.00	No	A share	0	0	0	-
						H share	0	0	0	-
Ju Jiandong	External Supervisor	26.00	-	26.00	No	A share	0	0	0	-
						H share	0	0	0	-
Guan Xingshe	Employee Supervisor	95.60	21.12	116.72	No	A share	0	40,000	40,000	Purchased from secondary market
						H share	0	0	0	-
Lin Zhihong	Employee Supervisor	96.20	21.12	117.32	No	A share	30,000	0	30,000	-
						H share	0	0	0	-
Feng Bing	Employee Supervisor	81.95	21.12	103.06	No	A share	0	0	0	-
						H share	0	0	0	-
Po Ying	Employee Supervisor	7.92	1.82	9.74	No	A share	65,000	0	65,000	-
						H share	0	0	0	-
Yin Jiuyong	Executive Vice President	55.74	20.61	76.36	No	A share	0	0	0	-
						H share	0	0	0	-
Guo Mang	Executive Vice President	55.74	20.61	76.36	No	A share	50,000	0	50,000	-
						H share	0	0	0	-
Zhou Wanfu	Executive Vice President	55.74	20.61	76.36	No	A share	0	0	0	-
						H share	0	0	0	-
Hao Cheng	Executive Vice President	55.74	20.61	76.36	No	A share	0	0	0	-
						H share	0	0	0	-
Qian Bin	Executive Vice President	37.16	14.64	51.80	No	A share	0	0	0	-
						H share	0	0	0	-
Gu Sheng	Secretary of the Board of Directors	100.00	18.23	118.23	No	A share	66,100	0	66,100	-
						H share	21,000	0	21,000	-
Tu Hong	Chief Business Officer (Interbank and Market Business)	100.00	21.53	121.53	No	A share	0	0	0	-
						H share	50,000	0	50,000	-
Lin Hua	Chief Risk Officer	49.98	11.19	61.17	No	A share	107,100	25,000	132,100	Purchased from secondary market
						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)	Reason for changes
		Emoluments	Other benefits	Total						
Ng Siu On	BoCom-HSBC Strategic Cooperation Consultant	-	-	-	Yes	A share H share	0 30,000	0 0	0 30,000	- -
Resigned/Retired Directors, Supervisors and Senior Management										
He Zhaobin	Ex-Non-executive Director	7.30	2.17	9.47	No	A share H share	20,000 0	0 0	20,000 0	- -
Cai Yunge	Ex-Chairman of the Board of Supervisors and Ex-Shareholder Supervisor	10.32	3.40	13.72	No	A share H share	0 0	0 0	0 0	- -
Zhang Minsheng	Shareholder Supervisor	-	-	-	Yes	A share H share	0 0	0 0	0 0	- -
Du Yarong	Ex-Employee Supervisor	41.62	8.40	50.02	No	A share H share	90,000 20,000	10,000 0	100,000 20,000	Purchased from secondary market -
Wang Feng	Ex-Chief Business Officer (Retail and Private Business)	33.32	7.46	40.78	No	A share H share	189,335 140,000	50,000 0	239,335 140,000	Purchased from secondary market -

Notes:

- Ms. Lin Zhihong and Ms. Po Ying respectively purchased 10,000 A shares of the Bank in January 2022.
- In 2021, 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. According to related regulations, the final remuneration of them in 2021 are now subject to confirmation and the rest will be disclosed when confirmed.
- Employee Supervisors of the Bank received remunerations as employees of the Bank, while receiving no remuneration from the Bank as Employee Supervisors.
- 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 14.1098 million.

Additionally, Mr. Chan Siu Chung, Director of the Bank, held 98 H shares of BOCOM International Holdings Company Limited. Save as disclosed above, as at the end of the 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 notified 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 notified to the Bank and the Hong Kong Stock Exchange.

CORPORATE GOVERNANCE

2. Remuneration decision-making process and the deciding factors

The remuneration plan for Directors and Senior Management was drafted by Personnel & Remuneration Committee and was submitted to the Board of Directors for review. Furthermore, the Directors' remuneration was required to be submitted to the Shareholders' General Meeting for review and approval. Supervisors' remuneration plan was 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 was submitted to the Shareholders' General Meeting for final review and approval.

The annual performance-based remuneration for Directors, Supervisors and Senior Management was 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 was strictly determined in accordance with central financial enterprise remuneration measurement specifications for person in charge. For the Bank's senior management who were not managed by the central government but receiving remuneration from the Bank, the remuneration consisted 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 was subject to deferred payment in the next three years, which was supposed to be paid by 1/3 each year.

V. BOARD OF DIRECTORS AND SPECIAL COMMITTEES

The Bank has developed complete and sound procedures for the nomination and election of Directors, which are specified in Articles of Association. The Bank understands and recognises the importance of diversification of members of the Board of Directors, which the Bank views as the vital aspect to improve the effectiveness of corporate governance and to achieve the sustainable development of the Bank. During the process of nominating and appointing members of the Board of Directors, the Bank fully considers the objectives and requirements of 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 ensure that the strategic decision-making of the Board of Directors is scientific in professional and diversified points of views. 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 date of this report, the Board of Directors comprised 16 members, including 2 Executive Directors, namely Mr. Ren Deqi and Mr. Liu Jun, 8 Non-executive Directors, namely Mr. Li Longcheng, Mr. Wang Linping, Mr. Chang Baosheng, Mr. Liao, Yi Chien David, Mr. Chan Siu Chung, Mr. Song Hongjun, Mr. Chen Junkui and Mr. Liu Haoyang, and 6 Independent Non-executive Directors, namely Mr. Yeung Chi Wai, Jason, Mr. Woo Chin Wan, Raymond, Mr. Cai Haoyi, Mr. Shi Lei, Mr. Zhang Xiangdong and Ms. Li Xiaohui. Mr. Ren Deqi and Mr. Liu Jun were appointed as the Chairman and the Vice Chairman of the Board of Directors respectively.

The Bank ensures that all directors adhere to high ethical standards. The Executive Directors, who have extensive professional knowledge and business management experience of banking, are engaged in the operation and management of commercial banks. With years of experience in fiscal, economic, financial, auditing, and business management sectors, the Non-executive Directors have developed in-depth understanding of policies and practical experience in management. As experts and scholars in domestic and overseas economic, financial, auditing and legal fields, the Independent Non-executive Directors are familiar with domestic and overseas regulatory requirements, laws and regulations, corporate governance, operation and management of commercial banks. The number of Independent Non-executive Directors of the Bank accounted for one-third of the total number of Directors, which met the regulations.

Constitution of the Board of Directors

Type of Directors	Executive Director	Non-executive Director	Independent Non-executive Director
	2	8	6
Location	China	Hong Kong	
	12	4	
Age	Below 50	50-60	Over 60
	2	9	5
Gender	Male	Female	
	15	1	
The term of office of the Directors	Over 3 years	Below 3 years	
	5	11	

CORPORATE GOVERNANCE

(II) Responsibilities of the Board of Directors

The Board of Directors, the decision-making institution of the Bank, 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 business plans and investment proposals, developing profit distribution plan, determining the establishment of legal entity, significant equity investments, significant debt investments, significant asset acquisition, significant asset disposals and significant asset written-off within the scope authorised by Shareholders' General Meetings, formulating amending plans for Articles of Association and listening to work reports from the President.

During the Reporting Period, in the face of more complicated external environment, the Board of Directors conscientiously implemented the decisions and arrangements of the Party Central Committee and the State Council. Focusing on the strategic vision of "building the first-tier bank with wealth management characteristics and global competitive capabilities in the world" and strategic targets for "the 14th Five-Year Plan" period, the Bank adhered to the general work keynote of making progress while remaining stability, continuously deepened reform and innovation with four major features formed including "inclusive finance, trade finance, technology finance, and wealth finance" and five professional capabilities to be enhanced, including customer operations, technology support, risk management, cooperative operation and resource allocation. As a result, business indicators maintained the sound trend that progress has been achieved, quality has been improved and stability ensured, financial functions under the "dual circulation" pattern constructed fast, and financial services became more adaptable, competitive and inclusive.

In 2021, the Board of Directors primarily focused on six areas. The first was to focus on the three tasks of financial work, and make new progress in serving the real economy, preventing and controlling financial risks and deepening financial reform. The second was to build the strategic planning system during the 14th Five Year Plan period and focus on the two construction fields of the Bank in Shanghai and digital new bank of communications, and take the lead in realizing innovation. The third was to adhere to the unity of the party's leadership and improving corporate governance, and accelerate the improvement of the modern enterprise system with Chinese characteristics. The fourth was to strengthen capital management, internal control and audit supervision, as well as the management of related party transactions and anti money laundering. The fifth was to strengthen the management of information disclosure and investor relations, consolidate the work of equity management, and ensure the legitimate rights and interests of shareholders. The last was to practice the concept of green development and pay attention to the protection of consumers' rights and interests and social welfare.

During the Reporting Period, in strict accordance with laws, regulations and supervisory rules such as *the Company Law, the Code of Corporate Governance of Listed Companies and the Corporate Governance Standards for Banking and Insurance Institutions* as well as the *Articles of Association* of the Bank, Directors of the Bank faithfully, diligently, conscientiously and prudently fulfilled their duties, conscientiously attended at the Shareholders' General Meeting, meetings of the Board of Directors and Special Committees under the Board of Directors and at other meetings held by the Board of Directors and carefully reviewed various proposals. The Directors made decisions on the strategic management, risk management, internal control, profit distribution, nomination and compensation, major investments, equity financing, bond issuance, related party transactions and other major issues of the Bank, and raised no objection to the resolutions of the Board of Directors. The senior management of the Bank attached great importance to and actively adopted opinions or suggestions proposed by the Directors, regularly formed the *Report on Implementation of Directors' Opinions* and submitted it to the Board of Directors for review and implemented these item by item.

In addition, the Bank's corporate governance functions specified in article D.3.1 of the *Corporate Governance Code* are also performed by the Board of Directors. During the Reporting Period, the work carried out by the Board of Directors in this regard included regular inspection and evaluation of the implementation of the corporate governance system, inspection of the Bank's policies and practices in compliance with legal and regulatory provisions and review of the Bank's compliance with the *Corporate Governance Code* and its disclosure in this section.

CORPORATE GOVERNANCE

(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 the Board's meetings. During the Reporting Period, the Board of Directors of the Bank held seven meetings, including six on-site meetings and one written circular. The meeting reviewed and approved 57 proposals such as Periodical Performance Announcement, Annual Business Plan, Profit Distribution Plan, Fixed Assets Investment Plan, the Outline on Development Plan for the "14th Five-Year Plan" Period (2021-2025), the Issuance of tier-2 Capital Bonds, Flood Relief Donation in Henan and branches establishment in Tibet Autonomous Region. The Special Committees under the Board of Directors held 24 meetings, reviewed and approved 104 relevant proposals and reports. 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:

Attendance at on-site meetings in person/Number of on-site meetings should be attended

	Shareholders' General Meeting	The Board of Directors	Special Committees under the Board of Directors					Social Responsibility (Environmental, Social and Governance, ESG) and Consumer Protection Committee
			Strategy Committee (Inclusive Finance Development Committee)	Audit Committee	Risk Management and Related Party Transaction Control Committee	The Personnel & Remuneration Committee		
Executive Director								
Ren Deqi	3/3	6/6	6/6	-	-	-	-	
Liu Jun	3/3	6/6	6/6	-	-	-	4/4	
Non-executive Director								
Li Longcheng	3/3	6/6	-	5/5	-	5/5	-	
Wang Linping	3/3	6/6	-	-	4/4	-	4/4	
Chang Baosheng	3/3	6/6	6/6	5/5	-	-	-	
Liao, Yi Chien David	2/2	3/3	-	-	-	2/2	-	
Chan Siu Chung	0/3	6/6	-	-	-	-	4/4	
Song Hongjun	3/3	5/6	6/6	-	4/4	-	-	
Chen Junkui	0/3	5/6	6/6	5/5	-	-	-	
Liu Haoyang	2/3	6/6	-	-	4/4	-	4/4	
Independent Non-executive Director								
Yeung Chi Wai, Jason	2/3	6/6	6/6	5/5	-	-	-	
Woo Chin Wan, Raymond	2/3	6/6	-	5/5	-	5/5	-	
Cai Haoyi	3/3	6/6	-	-	4/4	5/5	-	
Shi Lei	1/3	5/6	-	-	4/4	5/5	-	
Zhang Xiangdong	3/3	6/6	-	5/5	4/4	-	-	
Li Xiaohui	2/3	6/6	-	5/5	4/4	-	-	

The meeting of the Board of Directors is as follows:

Session	Date	Proposal	Resolution	Website Designated for Publishing Resolution
The 17th Meeting of the 9th Board of Directors	27 January 2021	5 proposals including the 2021 Business Plan of the Bank of Communication Co., Ltd.	Pass	The official website of the Bank The SSE website The website of the Hong Kong Stock Exchange
The 18th Meeting of the 9th Board of Directors	26 March 2021	16 proposals including the 2020 Work Report of Board of Directors of the Bank of Communication Co., Ltd.	Pass	The same as above
The 19th Meeting of the 9th Board of Directors	29 April 2021	8 proposals including the 2021 First Quarter Performance Report of the Bank of Communication Co., Ltd.	Pass	The same as above
The 20th Meeting of the 9th Board of Directors	28 June 2021	4 proposals including the Appointment of Mr. Qian Bin as Executive Vice President of Bank of Communications Co., Ltd.	Pass	The same as above
The 21st Meeting of the 9th Board of Directors	24-25 July 2021	Proposal on Submitting to the Board of Directors for Review and Approval of Flood Relief in Henan	Pass	The same as above
The 22nd Meeting of the 9th Board of Directors	27 August 2021	14 proposals including the 2021 Interim Report and Performance Announcement of Bank of Communications Co., Ltd	Pass	The same as above
The 23rd Meeting of the 9th Board of Directors	29 October 2021	9 proposals including the Third Quarter Report and Performance Announcement of Bank of Communications Co., Ltd	Pass	The same as above

(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 (ESG) and Consumer Protection Committee. Including: the Strategy Committee and Inclusive Finance Development Committee implemented “one institution, two titles”. The Risk Management and Related Party Transaction Control Committee assumed the responsibilities of the US Risk Management Committee. And the Personnel & Remuneration Committee performed the functions both nomination and remuneration.

CORPORATE GOVERNANCE

As at the date of performance disclosure, Special Committees under the Board of Directors were as follows:

Board of Directors/ Special Committees under the Board of Directors	Strategy Committee (Inclusive Finance Development Committee)	Audit Committee	Risk Management and Related Party Transaction Control Committee	Personnel & Remuneration Committee	Social Responsibility (ESG) and Consumer Protection Committee
Ren Deqi	Chairman				
Liu Jun	Member				Chairman
Li Longcheng		Member		Member	
Wang Linping			Member		Member
Chang Baosheng	Member	Member			
Chan Siu Chung					Member
Liao, Yi Chien David				Member	
Song Hongjun	Member		Member		
Chen Junkui	Member	Member			
Liu Haoyang			Member		Member
Yeung Chi Wai, Jason	Member	Member			
Woo Chin Wan, Raymond		Member		Member	
Cai Haoyi			Member	Chairman	
Shi Lei			Member	Member	
Zhang Xiangdong		Member	Chairman		
Li Xiaohui		Chairman	Member		

During the Reporting Period, the performance results of each committee of Board of Directors were as below:

1. Strategy Committee (Inclusive Finance Development Committee). The Strategy Committee is primarily responsible for formulating the operations and management objectives as well as long-term development plans, regularly analysing and evaluating the results of the capital management, conducting research and making recommendations on major equity investment plans. The committee supervises and inspects the implementation of the annual business plans, examines and assesses the implementation of corporate governance system. Furthermore, it formulates and reviews the strategic plans for the development of inclusive financial business, operating plan, and also evaluates the achievements of inclusive finance business. During the Reporting Period, the Committee held 6 meetings on 27 January, 25 March, 28 April, 28 June, 26 August and 28 October respectively, reviewed and approved 22 proposals, and presented professional recommendations to the Board of Directors. Among them:

Three recommendations were made about the *2021 Business Plan*, which were: Firstly, the Bank should make good use of market opportunities and its own characteristics, especially in inclusive finance, trade finance, technology finance and wealth finance to enhance the ability to create value. Secondly, the Bank should conduct benchmarking with the market and peers of the industry, achieve key breakthroughs in customer experience, business development, risk control, and operational efficiency to make up for the shortcomings in development and strengthen the capacity for high-quality development. Thirdly, the Committee should carry out the supervision and evaluation to the implementation of the annual business plan to ensure that the established business plan of the Board of Directors is successfully achieved.

Two recommendations were made to the *2020 Assessment Report on Authorised Operation at Corporate Governance Level*. Firstly, the Bank should continue to make good communications with major shareholders under the principle of releasing operating vitality and improving decision-making efficiency, and seek for greater autonomy in credit asset write-off, asset acquisition and other aspects, so as to better meet the needs of operational management. Secondly, in the increasingly complicated economic and financial environment, the Bank should further improve the authorised management of financial derivatives business in accordance with its actual situation, to prevent and mitigate financial risks.

Three recommendations were made concerning the *Report on 2020 Development and 2021 Work Plans of Inclusive Finance Business*. Firstly, the Bank should continue to strengthen the construction of capacities for developing inclusive finance business, and through digital transformation, increase support for technological innovation and chain finance, to fully achieve regulatory tasks including “Two Increases and Two Controls” for small and micro enterprises and maintain the financing interest rate at a reasonable level. Secondly, the Bank should actively develop the advantages of “inclusive finance” business. In addition to credit products, the Bank should further enrich the supply of financial products in social areas and areas concerning people’s livelihood, so as to improve the sense of fulfilment of market entities and the people through inclusive finance. Thirdly, the Bank should enhance its risk control capability for inclusive finance business, accelerate the establishment of a digital risk control system, and ensure that the asset quality remains at a reasonable level.

Four recommendations were proposed regarding the *Proposal Concerning Outline on Development Plan for the “14th Five-Year Plan” Period (2021-2025)*. Firstly, the Bank should maintain strategic focus, and forge a new orientation and comparative advantages in the new development pattern by implementing the “One-Four-Five” Strategy. The Bank should achieve reasonable growth in quantity and steady improvement in quality. Secondly, the Bank should make great efforts to carry out the strategic publicity of the “14th Five-Year Plan”. The Bank should turn the ardent expectations on all employees for the high-quality development in the future into the conscious actions of each line, each unit and each employee for implementing the “14th Five-Year Plan” and stimulate the sense of responsibility and innovation enthusiasm through target decomposition, responsibility consolidation, learning and training and other means. Thirdly, the Strategy Committee and the Board of Directors should strengthen strategic management, taking into account the changes in internal and external environment and the actual reform and development of the Bank, regularly conduct dynamic assessments on the effectiveness and existing problems in implementing the plan, and make the annual operational plan consistent with the planning targets, so as to ensure the achievement of all targets and tasks set out in the plan. Fourthly, based on the “14th Five-Year Plan”, strategic sub-plans such as risk management and FinTech should be formulated and submitted to the Board of Directors for approval before implementation.

Three recommendations were made about the *Development Plan on FinTech for the “14th Five-Year Plan” Period (2021-2025)*. Firstly, the Bank should reinforce the implementation of the plan, and consolidate the prioritised infrastructures such as data governance, basic platforms, talent teams and resources guarantee, thus improving the capability in digital operation. Secondly, the Bank should accelerate the in-depth integration of FinTech with its business products, take advantage of FinTech to drive value creation, and continuously improve customer experience and market competitiveness. Thirdly, the Board of Directors and the Strategy Committee should strengthen the supervision and assessment of the implementation of the FinTech plan, and push all key projects and specific tasks of the plan to be carried out successively.

CORPORATE GOVERNANCE

Three recommendations were made about the *Data Governance Plan for the “14th Five-Year Plan” Period (2021-2025)*. Firstly, centred on the construction of “New Digital BoCom”, the Bank should explore and make good use of data value, and form an advanced productivity based on the organic integration of “data + algorithm + scenario”, so as to provide a driving force for its high-quality development. Secondly, the Bank should make good data security management, and establish a sound, unified data quality rule base. The Bank should connect the chain of internal and external data, deepen the integration of bank data with external public data, as well as bank financial services with government affairs services, thus facilitating intelligent operational management. Thirdly, the Committee should strengthen regular supervision and assessment of the implementation of the data governance plan to ensure that the targets and key tasks set out in the plan are achieved as scheduled.

2. Audit Committee. The Audit Committee is mainly responsible for proposing the appointments, change or removal of the Bank’s auditors, monitoring internal audit system and the implementation, acting as the communication channel between internal and external auditors, reviewing financial information and disclosure, examining the accounting policies, financial position and financial reporting procedures and monitoring the implementation of internal controls. During the Reporting Period, the Committee held 5 meetings on 24 March, 28 April, 26 August, 13-14 October and 28 October respectively, reviewed and approved 26 proposals. When performing duties, the Committee strictly complied with the listing rules and accounting standards to express opinions on the authenticity, completeness and accuracy of the Bank’s financial information, further enhanced the effectiveness of the Bank’s internal control system, strengthened the management and supervision on external audit institutions, and presented professional recommendations to the Board of Directors. Among them:

Three recommendations were made about the *2020 Annual Report and Performance Announcement*. Firstly, the Bank should reinforce the forward-looking research and judgement on the economic and financial situation, particularly have a profound understanding of the major decisions and plans of the State on building a new development pattern, and realise that its key performance indicators outperform the market by serving the real economy with better quality and higher efficiency. Secondly, with both its non-performing loan ratio and the balance of non-performing loans increasing in 2020, the Bank was recommended to make continuous efforts in asset quality management and control, actively pay attention to the changes in the industry and geographical distribution of non-performing loans, and enhance its capability to control digital risk, to give further play to the role of internal audit in improving asset quality. Thirdly, in light of the rapid growth in its financial investment business in 2020, the Bank was recommended to follow up the development and changes of the capital market in a timely manner, and attach importance to the parameter setting and adjustment of various business management models, to ensure the stable development of its businesses.

Two recommendations were made about the *Performance Report for the First Quarter of 2021*. Firstly, regarding the four major business features of inclusive finance, trade finance, technology finance and wealth finance in the “14th Five-Year Plan”, the Bank further refined business strategies and supporting risk control measures, to better guide the development of its major businesses during the “14th Five-Year Plan” period and enhance its market competitiveness. Secondly, the Bank should carry out the analysis and comparison of the core performance indicators such as interest margin and asset quality with major peers, to continuously optimise the asset and liability structure, strengthen pricing management and consolidate the foundation of asset quality.

Three recommendations were made about the *2021 Interim Report and Performance Announcement*. Firstly, the Bank should reinforce the research and judgement on the macroeconomic and financial situation at home and abroad and the evolution of COVID-19 pandemic, and based on the good performance in the first half of the year, take effective steps to carry out operational management work of the second half of the year, so as to achieve a good start of the “14th Five-Year Plan”. Secondly, in the first half the year, the increasing growth rate of the Bank’s newly-opened accounts indicated its good capability for market expansion. In the next step, the Bank should continuously explore the potential needs of existing customer groups with FinTech as the driving force, and provide value-added services, so as to improve business value. Thirdly, the Bank should intensify the risk management and control of branches with high non-performing loan ratio, as well as fund consignment and wealth management business, and focus the financial resources on enhancing risk mitigation to improve the asset quality.

Three recommendations were made about the *Report on Audit and Supervision Work in the First Half of 2021*. Firstly, from the strategic perspective of implementing the “14th Five-Year Plan” development plan and improving the effectiveness of corporate governance, the Bank should firmly carry out various audit and supervision, timely track changes of regulatory policies, and remind potential risks in operational management. Secondly, the Bank should lay emphasis on providing value-added services. The Bank should not only identify risk cases, but also summarise best practice cases and make them available to business departments and employees for reflection and reference. Thirdly, the Bank should follow up the issues identified in the regulatory circular of the CBIRC, and further promote rectification and the construction of long-term mechanism.

Four recommendations were made about the *Third Quarter Report and Performance Announcement of 2021*. Firstly, the Bank should reinforce the research and judgement on the economic and financial situation at home and abroad and regulatory policies, and especially pay attention to the impact and changes in the interest rate market arising from the tightening of US monetary policy, so as to further adjust and optimise its asset and liability structure and consolidate the steady improvement of interest margin. Secondly, the Bank should strengthen the binding force and enforceability of business targets, highlight peer benchmarking, and make overall arrangements for the fourth quarter based on the good performance achieved in the first three quarters, so as to fully complete the annual operational plan issued by the Board of Directors and strive for better performance. Thirdly, the Bank should continue to make good performance in credit card business and asset quality control of branches with high non-performing loan ratio, and concentrate resources to carry out write-off work. Fourthly, the Bank should attach great importance to problems identified in internal and external audit related to business lines, improve rectification plans and implement rectification work, and strictly adhere to the bottom line of compliance operations.

3. Risk Management and Related Party Transaction Control Committee. The Committee is primarily responsible for monitoring and evaluating the risk management and controls of the Bank in areas of credit, market, operations, compliance, crime prevention, money laundering and terrorism financing, periodically assessing the risks, management status and risk tolerance level, supervising and evaluating the risk management of America-related operations, reviewing significant related party transactions, asset disposals, asset pledges or external guarantees; approving policies and procedures of money laundering risk management, reviewing anti-money laundering reports regularly, keeping abreast of major money laundering risk events and their resolutions, and evaluating the status of anti-money laundering risk management. During the Reporting Period, the Committee held 4 meetings on 25 March, 28 April, 26 August and 28 October respectively, reviewed and approved 25 proposals, and presented professional recommendations to the Board of Directors. Among them:

CORPORATE GOVERNANCE

Three recommendations were made about the *Assessment Report of Comprehensive Risk Management for 2020*. Firstly, based on the forward-looking research and judgement on the economic and financial situation and its reform and development, the Bank should scientifically formulate a new round of comprehensive risk management plans, and clarify the guiding ideology and priorities of risk management in the next five years. Secondly, the Bank should implement the three-year plan for the disposal of high-risk assets, and strengthen the responsibility for asset quality control of the front, middle and back offices by improving the mechanism, so as to prevent any systemic risk. Thirdly, the Bank should give full play to the role of FinTech in enhancing its risk management capability, and strengthen the risk quantification system and the construction of talent teams to adapt new development pattern.

Regarding the *2021 Risk Preference and Risk Policies*, the Bank intensified the evaluation and supervision of the implementation process in accordance with changes in the economic and financial situation at home and abroad as well as the requirements of regulatory authorities, and made relevant plans to ensure that all risk tolerance and limit indicators are controlled within the target value.

Four recommendations were made about the *Assessment Report of Comprehensive Risk Management for the First Quarter of 2021*. Firstly, the Bank should continue to reinforce the research and judgement on the economic and financial situation at home and abroad, and insist on taking risk management and control as an important task in all aspects of work. The Bank should focus on keeping a close eye on the impact of the current overseas Pandemic on the business of its overseas institutions. Secondly, in accordance with the important strategic plan to carbon peak and carbon neutrality made by the State, the Bank should make forward-looking research on the profound impact of industrial policies and layout, and seize business development opportunities. Thirdly, the Bank should continue to follow the requirements of “accurate classification, adequate provision, profit consolidation, and disposal acceleration”, and win the tough battle of asset quality in three years. At the same time, the Bank should enhance the analysis and research on the industry and regional distribution of new non-performing loans, and consolidate the foundation of asset quality. Fourthly, the Bank should implement the regulatory requirements of the CBIRC, and transform the rectification of notified problems by regulators into the internal driving force for improving its governance and operation capacity. In addition, the Bank should improve the quality and efficiency of rectification by improving the rectification mechanism and strengthening responsibilities at all levels.

Among them, four recommendations were made about the *Assessment Report of Comprehensive Risk Management for the First Half of 2021*, which were: Firstly, the Bank should reinforce research and judgement on risk situation at home and abroad, carry out all-round investigations on all risk aspects, and improve the ability to dispose potential risks & emergencies and the ability to manage corporate governance and consolidated statements. Secondly, the Bank should put emphasis on the digital transformation of risk management, integrate risk management with FinTech, and strengthen the ability of risk data governance, risk categorised management and risk monitoring and measurement, so as to take every chance for business development. Thirdly, the Bank should keep a close eye on asset structure and asset quality, invest more in key areas including the Yangtze River Delta and Pearl River Delta, and make overall arrangements for development and safety to improve asset quality. Fourthly, the Bank should actively cope with repayment of due debts by local governments to keep risks under control.

Three recommendations were made about the *Risk Management Plan for the “14th Five-Year Plan” Period (2021-2025)*, which were: Firstly, the Bank should strengthen mechanism innovation in a timely manner to give prominence to the key points. Moreover, the Bank should work out details to implement the Risk Management Plan for the “14th Five-Year Plan” Period, set goals based on schedule, subdivide the goals for provision coverage ratio and non-performing loan ratio (especially new non-performing loan ratio) and follow up the implementation in time. Secondly, the Bank should put more efforts in the construction of risk management talent teams, cultivate professionals specialised in digital risk control and management, strengthen the compliance culture, especially regarding cross risk management, and enhance professional skills, laying a solid foundation against risks. Thirdly, the Bank should establish a sound mechanism to guarantee the implementation of risk management plan, make necessary adjustments and optimisations of the plan according to the situation changes, regulatory requirements and BoCom’s reform and development needs, and report to the Board of Directors in a timely manner.

Among them, four recommendations were made about the *Assessment Report of Comprehensive Risk Management for Three Quarters of 2021*, which were: Firstly, the Bank should reinforce forward-looking research and judgement on macro policies and economic and financial situation at home and abroad, and pay attention to the impacts on BoCom caused by changes on US Quantitative Easing (QE) Policy and QE quit, and changes on domestic renminbi exchange rate. Secondly, the Bank should focus on debt risk of certain local governments, customer risk of groups with high leverage, real estate risk and manufacturing risk, conduct stress test and risk investigation. Thirdly, the Bank should clarify main responsibilities for asset quality control and strictly check the new loans, historical loan control and disposal of non-performing loans, focusing on the fact that new non-performing loans exceed non-performing loans disposed. Fourthly, the Bank should put emphasis on digital transformation of risk management in the “14th Five-Year Plan” Period, and improve the intelligent level of comprehensive risk management through optimising the risk measurement and monitoring system and well managing database of comprehensive risk management.

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 operating results, the scale of assets and the structure of shareholding, approving and amending the policies on diversification of members of the Board of Directors, making recommendations to the Board of Directors on formulating the selection procedures and assessment criteria for the Bank’s directors and senior management personnel, reviewing the basic systems and policies of remuneration management and putting forward suggestions on the salary distribution plan of directors and senior managers and then submitting it to the Board of Directors for deliberation. The Personnel & Remuneration Committee performed the functions both as a Nomination Committee and a Remuneration Committee.

The Personnel & Remuneration Committee’s nomination procedures for the directors and senior management of the Bank are as follows: Firstly, understand the Bank’s demands for directors and senior management in time. Secondly, extensively search for candidates of directors and senior management. Thirdly, determine the initial candidates and obtain their agreements. Fourthly, convene the meetings of the Personnel & Remuneration Committee to conduct examinations for the qualification of the initial candidates. Fifthly, propose to the Board of Directors about the election of new directors and the appointment of new senior management. Sixthly, implement other following duties based on decisions and feedbacks of the Board of Directors.

CORPORATE GOVERNANCE

During the Reporting Period, the Committee held 5 meetings on 27 January, 24 March, 28 April, 28 June and 26 August respectively, reviewed and approved 17 proposals, and presented professional recommendations to the Board of Directors.

5. Social Responsibility (ESG) and Consumer Protection Committee. The Committee is primarily responsible for formulating the Bank's social responsibility strategies and policies, reviewing the achievements of the social responsibility targets and submitting the Annual Social Responsibility Report to the Board of Directors; researching and assessing the measures of the ESG performance and promoting ESG information disclosure; reviewing the strategies, policies and goals on protecting the consumers' rights; studying key issues and significant policies on consumer's rights protection, approving external donations; reviewing credit policies concerning environmental and sustainable development. During the Reporting Period, the Committee held 4 meetings on 27 January, 25 March, 24-25 July and 26 August respectively and reviewed and approved 14 proposals, and presented professional recommendations to the Board of Directors.

Two recommendations were made about *Report on Implementation of the 'Measures of the People's Bank of China for the Protection of Rights and Interests of Financial Consumers'*, which were: Firstly, the Bank should, according to the above Measures, set up sound management systems in a timely manner and especially establish standards for the control over whole consumer protection process, information disclosure and financial marketing and advertising. Secondly, centring on the objective of "improving service quality and customer experience", the Bank should enhance the sci-tech ability to serve the whole business chain, and promote the remoulding of business process and innovation of business mode, to better satisfy the demands of the general public for convenient financial products.

Two recommendations were made about *2020 External Donation Summary and 2021 External Donation Plan*, which were: Firstly, the Bank should consolidate the connection between achievements of poverty alleviation and rural revitalisation, and continue to gather donating resources for rural revitalisation and other related programmes. Secondly, the Bank should enhance process control over all links including initiation, approval, implementation and evaluation of a donating project in strict accordance with the Administrative Measures for External Donation, clarify responsibilities and ensure donation as regulated.

Two recommendations were made about the *2020 Report on Green Finance*, which were: Firstly, the Bank should continue the battle against pollution, and vigorously develop green finance to assist the state in reduction of pollution and carbon emissions for synergy effects and realisation of "carbon peak and carbon neutrality" goal. Secondly, the Bank should develop innovative green financial product system, learn from advanced international industrial experience, launch innovative green financial products including carbon finance, climate bonds and blue bonds, and issue green financial bonds at the right time.

Three recommendations were made about the *2020 Report on Protection of Consumers' Rights and Interests*, which were: Firstly, the Bank should optimise its mechanisms on protection of consumers' rights and interests according to regulatory requirements, strictly manage the processes of key fields such as improvement of sales activity traceable system and adequate information disclosure of financial products & services, and strengthen the implementation as required. Secondly, the Bank should keep in mind that the purpose of consumer protection is to improve customer experience, optimise the customer experience mechanism regarding three aspects, namely market evaluation, customer evaluation and employee evaluation, and highlight efficiency and value creation. 3) The Bank should focus on reducing complaints in key fields through internal integration of processes and optimisation of mechanisms, and improvement of the external dispute mediation mechanism.

Three recommendations were made about *Report on Protection of Consumers' Rights and Interests for First Half of 2021*, which were: Firstly, the Bank should seriously carry out the *Measures for Supervising and Evaluating the Protection of Consumers' Rights and Interests of Banking and Insurance Institutions*, make specific steps scientifically based on 5 basic factors of "system establishment", "mechanism and operation", "operation and service", "education and publicity" and "dispute resolution" and 1 adjusting factor of "supervision and inspection". Moreover, such steps should be included in the whole process management and implemented accordingly. Secondly, the Bank should insist on the people-oriented development concept and strengthen publicity and education to improve consumers' financial literacy and risk awareness. Thirdly, the Bank should develop systematic and standardised mechanisms for implementation, evaluation and supervision, to reduce complaints about credit card business and improve customer experience.

During the Reporting Period, the Directors of the Bank did not raise objections to the proposals of the Board of Directors and the Special Committees of the Board of Directors.

(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 and overseas regulatory regulations. The independence of the 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. 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 director devoted to the work of the Bank was in compliance with the requirements of the *Articles of Association* and the *Working Practice of Independent Directors of the Bank*. 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. The independent non-executive directors actively voiced their comments or suggestions in the Board's meetings. 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 effectively through various channels including on-site research and discussion sessions.

CORPORATE GOVERNANCE

Details about the fulfilment of duty of independent non-executive directors of the Bank during the Reporting Period were disclosed in the *Work Report of the Independent Non-executive Directors for 2021* published on the website of the SSE and the website of the Hong Kong Stock Exchange.

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

The Bank constantly emphasised improving the capabilities of the directors and organised the directors to attend diversified training sessions through all kinds of channels and means. In line with the economic and financial situations and the Bank's core businesses, the Bank organised the directors to conduct researches, prepare and submit several high-quality research reports to the Board of Directors and senior management for review. During the Reporting Period, major trainings and research projects participated by directors included:

Major trainings:

1. Training on information disclosure and insider information control at the 59th joint member seminar about enhanced continuing professional development of Hong Kong Chartered Governance Institute (Directors participating in the Report Period: Li Longcheng, Wang Linping, Chang Baosheng)
2. Training on policy interpretation of the *Corporate Governance Standards for Banking and Insurance Institutions and Measures for Performance Evaluation on Directors and Supervisors of Banking and Insurance Institutions (Provisional)* of China Banking Association (Directors participating in the Report Period: Ren Deqi, Liu Jun, Li Longcheng, Wang Linping, Chang Baosheng, Liao, Yi Chien David, Chan Siu Chung, Song Hongjun, Chen Junkui, Liu Haoyang, Yeung Chi Wai, Jason, Woo Chin Wan, Raymond, Cai Haoyi, Shi Lei, Zhang Xiangdong, Li Xiaohui)
3. 2021 independent director training of Shanghai Stock Exchange (Directors participating in the Report Period: Yeung Chi Wai, Jason, Woo Chin Wan, Raymond, Cai Haoyi, Shi Lei, Zhang Xiangdong, Li Xiaohui)
4. BoCom specialised business training – Analysis of anti-money laundering supervision situation and introduction of new regulations (Directors participating in the Report Period: Ren Deqi, Liu Jun, Li Longcheng, Wang Linping, Chang Baosheng, Liao, Yi Chien David, Chan Siu Chung, Song Hongjun, Chen Junkui, Liu Haoyang, Yeung Chi Wai, Jason, Woo Chin Wan, Raymond, Cai Haoyi, Shi Lei, Zhang Xiangdong and Li Xiaohui)

Major research projects:

1. Conducted research on Jiangsu Provincial Branch, Suzhou Branch, Guangdong Provincial Branch, Shenzhen Branch and Hainan Provincial Branch with the theme of current situation and existing problems for authorisation scheme of the Bank, opportunities and challenges brought by FinTech and discussion on the optimisation of business performance evaluation.
2. Conducted research on subsidiaries including Bank of Communications International Trust and BoCom Leasing with the theme of implementation of the Bank's "14th Five-Year" development plan, business operation of subsidiaries and synergy development with branches.
3. Conducted research on Hubei Provincial Branch, Hunan Provincial Branch, Chongqing Branch, Sichuan Provincial Branch, Shaanxi Provincial Branch and Jiangxi Provincial Branch with the theme of implementation of the Bank's "14th Five-Year" development plan, key regional development strategy and business development, risk management and remuneration appraisal of branches.

(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 2021, the directors ensured that appropriate accounting policies were adopted and consistently applied, and they also 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.

(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, so as to effectively manage the risks of its external guarantee business.

VI. 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' General Meeting. In accordance with the requirements of laws and regulations and the responsibilities of the Board of Supervisors include strategic and operational supervision, capital and financial supervision, internal controls and compliance supervision, risk supervision, information disclosure supervision and performance supervision, of which strategic and operational supervision serves as a guide while supervisions on capital and finance, internal controls and compliance and risk serve as the foundation. Information disclosure supervision plays an important role in corporate governance, while performance supervision comprehensively reflects the results of all the above-mentioned supervisions. The above 6 aspects of supervision can be achieved by means of holding and attending various important meetings, conducting routine supervision, dynamic supervision, special supervision, supervision and coordination committee, and organising supervision research.

CORPORATE GOVERNANCE

During the Reporting Period, there were 11 members on the Board of Supervisors, including 3 shareholder supervisors, 4 external supervisors and 4 employee supervisors. The Board of Supervisors consisted of three Special Committees. There were five members in the Due Diligence Supervising Committee with Chairman of the Board of Supervisors being the chief, 3 external supervisors and 1 employee supervisor being the ordinary members. They were responsible for supervising the performance of the Board of Directors, the Board of Supervisors, Senior Management and its members, conducting overall evaluation and reporting to the Board of Supervisors. The Nominating Committee consisted of 5 members including the external supervisor being the chief, 1 shareholder supervisor, 1 external supervisor and 2 employee supervisors being the ordinary members. They were responsible for drafting the procedures and standards for the selection of supervisors, conducting preliminary examination of the qualifications of supervisor candidates and drafting remuneration plans of supervisors. They were also responsible for supervising the selection procedures of directors and senior management and supervising the Bank's performance appraisal system and remuneration management system. The Supervising Committee for Finance and Internal Controls consisted of 7 members, including the external supervisor being the chief, 1 shareholder supervisor, 3 external supervisors and 2 employee supervisors being the ordinary members. They were responsible for supervising capital and financial management, risk management and internal controls and compliance management of the Bank. Please refer to the section of "Corporate Governance" for the changes of the members of the Board of Supervisors and their biographical details.

During the Reporting Period, based on 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 scientific and efficient supervision duties objectively and impartially. All the supervisors faithfully and diligently fulfilled their duties, fully exercised the 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 was as follows:

Supervisors	Position	Attendance at meetings in person	Attendance in person percentage (%)
Xu Jiming	Chairman of the Board of Supervisors and Shareholder Supervisor	1/1	100
Zhang Minsheng	Shareholder Supervisor	4/4	100
Wang Xueqing	Shareholder Supervisor	3/4	75
Xia Zhihua	External Supervisor	4/4	100
Li Yao	External Supervisor	4/4	100
Chen Hanwen	External Supervisor	3/4	75
Ju Jiandong	External Supervisor	4/4	100
Guan Xingshe	Employee Supervisor	4/4	100
Lin Zhihong	Employee Supervisor	4/4	100
Feng Bing	Employee Supervisor	4/4	100
Po Ying	Employee Supervisor	0/0	/
Supervisors resigned			
Cai Yunge	Chairman of the Board of Supervisors and Shareholder Supervisor	0/0	/
Du Yarong	Employee Supervisor	2/2	100
Average attendance in person percentage			95.45

VII. SENIOR MANAGEMENT

The Bank's senior management comprised president, executive vice president, 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 President, as the ultimate responsible officer, reports to the Board of Directors, while all functional departments, branches, offices and other senior management report to President. 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 management of the Bank and report to the Board of Directors, implementation of the resolutions of the Shareholders' General Meetings and meetings of the Board of Directors, preparation and implementation of annual business plan and investment plan after the approval of the meetings of the Board of Directors and Shareholders' General Meeting, preparation of annual financial budget plans, financial plans and profit distribution plans, drafting the proposal for setting up internal management department, basic management policies and specific regulations of the Bank.

During the Reporting Period, senior management of the Bank 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 the 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 2021.

VIII. HUMAN RESOURCE MANAGEMENT

(I) Basic Information of Employees

As at the end of the Reporting Period, the Group had a total of 90,238 employees, of whom 84,113 employees were based in domestic banking institutions and 2,577 were local employees in overseas branches (sub-branches). The number of employees of the Bank's subsidiaries was 3,548, excluding staff dispatched from the Head Office and branches. The number of retired employees that the Bank had the obligation to bear the cost to was 2,466. Among the employees of the Group, 45.28% were male and 54.72% were female.

For employees in domestic banking institutions, 28,902 employees held professional and technical qualifications, of which 579 employees held senior professional and technical qualifications, accounting for 0.69%. 15,490 employees held intermediate professional and technical qualifications, accounting for 18.42%. 12,833 employees held junior professional and technical qualifications, accounting for 15.26%. The number of employees with master's degree and above was 12,303, accounting for 14.63%. The number of employees with bachelor's degree was 59,324, accounting for 70.53%. The number of employees with associate's degree and below was 12,486, which accounted for 14.84%.

CORPORATE GOVERNANCE

Structure of position categories of domestic employees

Category of position	Number of employees	Proportion (%)
Sales Development	29,362	34.91
Financial Operation	23,979	28.51
Operating and Management	7,694	9.15
Service Assurance	6,258	7.44
Risk Compliance	5,504	6.54
FinTech	4,074	4.84
Audit and Supervision	1,387	1.65
Others	5,855	6.96
Total	84,113	100.00

Note: FinTech headcount includes the personnel of FinTech Department and various personnel from different business departments empowering the business with science and technology.

Distribution of assets, entities and employees by region as at the end of the Reporting Period

	Assets		Entities		Employees	
	Amount (in millions of RMB)	Proportion (%)	Number of entities	Proportion (%)	Number of employees	Proportion (%)
Yangtze River Delta	2,881,066	24.70	711	24.04	25,307	29.19
Pearl River Delta	1,059,386	9.08	320	10.82	9,138	10.54
Bohai Rim Economic Zone	1,711,386	14.67	485	16.40	13,330	15.38
Central China	1,277,003	10.95	545	18.42	13,620	15.71
Western China	881,918	7.56	479	16.19	10,776	12.43
North Eastern China	409,288	3.51	348	11.77	8,534	9.85
Overseas	1,095,657	9.39	69	2.33	2,577	2.97
Head Office	4,459,033	38.22	1	0.03	3,408	3.93
Eliminated and unallocated assets	(2,108,980)	(18.08)	-	-	-	-
Total	11,665,757	100.00	2,958	100.00	86,690	100.00

Note: The number of employees in the Head Office excluded the employees in the Pacific Credit Card Centre, the financial service centres/business department and the staff dispatched from the Head Office.

(II) Employees' Remuneration Policy

In response to the reform and development requirements, the Bank improved the performance appraisal and remuneration system whereby "salary is determined by post and bonus granted upon performance". The Bank adhered to the consistency of value creation with fairness, optimised the allocation of remuneration resources, guided and maximised value creation of operating units, and improved capabilities of pursuing high-quality development. Besides, the Bank insisted on responsibility orientation, grass-root orientation and performance orientation, and focused on positive incentives. The Bank implemented the requirements of risk management and control, and continued to improve the deferred payment system for the performance based incentives of the employees in key positions for the purpose of stable operation and sustainable development. In addition to basic social pension and insurance, the Bank cared about the welfare of staff and implemented the supplementary benefits such as annuity. Please refer to Note 14. Staff costs and benefits in the Notes to the Consolidated Financial Statements for details of staff costs and benefits of the Bank for this Reporting Period.

(III) Training Management

During the Reporting Period, the Bank continuously held various training classes for cadres and staff, including 1 special training session for leaders in charge of directly affiliated institutions, 1 training session for deputy management cadres of departments of the Head Office, 1 training session for young and middle-aged cadres, 1 orientation training session for senior managers, and 4 centralised training sessions for FinTech management trainees, and carried out special trainings on digital transformation and digital leadership for management cadres at all levels. The Bank paid great attention to professional trainings and held various seminars on corporate businesses, FinTech businesses, international businesses, inclusive finance business, credit granting businesses and interbank businesses. In addition, the Bank conducted various trainings including enhancement trainings for account managers to improve their business operating abilities in corporate businesses, retail businesses, inclusive finance business and interbank businesses, risk compliance and anti-money laundering training, green finance training as well as rural revitalisation training, to strengthen the professional competence of employees.

The Bank paid great attention to professional ethics training and anti-corruption warning education for employees, and continuously strengthened the anti-corruption awareness of cadres and employees. During the Reporting Period, the Bank educated cadres and employees to take lessons from corruption, resist corruption and guard against degeneration by printing special case study materials, holding warning education conferences, and playing warning education films.

As for means of training, in view of the impact of COVID-19 pandemic, the Bank switched to online training via its own platform e-Campus, xuexi.cn APP, HUAWEI Video and Tencent Meeting. During the Reporting Period, the Bank organised training for nearly 1.08 million cadre and staff, including face-to-face training for over 0.15 million people and online training for over 0.92 million people.

(IV) Talent Training and Reserve

During the Reporting Period, the Bank strengthened the top-level design, coordination, overall promotion and implementation of the Bank's talent-related work and talent team construction, and strived to build a financial talent team with strong political awareness, good working styles, proficiency in businesses and reasonable structure. The Bank formulated the *Administrative Measures for Grading of Experts in Bank of Communications (2021)* to broaden the career development channels for employees, and invigorate talents to do businesses, resulting in the selection and employment of over 300 experts during the year. The Bank would introduce and make good use of FinTech talents in all aspects, implement the dual management model for FinTech talents, and promote the working mechanism of dispatching FinTech talents such as business analysts and data analysts to business departments, boosting exchanges and cooperation, as well as integration between businesses and technology. The Bank actively kept aligned with national and local talent programmes, creating a favourable atmosphere of respecting knowledge and talents. During the year, 59 talents were recommended and submitted to the management talent pool of China banking industry, 1 talent was listed as overseas financial talents of Shanghai, 1 talent was listed as leading financial talents of Shanghai, and 5 talents were listed as young financial talents of Shanghai.

CORPORATE GOVERNANCE

IX. INTERNAL CONTROLS

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

The objective of the internal controls of the Bank is to ensure the faithful implementation of the relevant laws, regulations and rules of the State, the realisation of the development strategies and operational objectives, the effectiveness of risk management, and the truthfulness, accuracy, completeness and timeliness of the business records, accounting information, financial information and other management information of the Bank.

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. Internal control system aims to manage rather than eliminate the risk of failing to achieve the business targets, and it can only make reasonable rather than absolute assurance over items with no material misrepresentation or loss. The Board of Supervisors supervises the establishment and implementation of internal controls by the Board of Directors and senior management. Senior management is responsible for organising 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 Comprehensive Risk Management and Internal Controls Committee to take charge of coordinating and promoting the internal controls systems construction, reviewing the basic policies of internal controls, organising and implementing significant events of internal controls.

(II) Statement of Effectiveness of Internal Controls

With the goal of "realising information-based, streamlined, and systematic management", the Group built an internal control system compatible with its business scope, organisational structure, business scale and risk profile. During the Reporting Period, the Group promoted the optimisation and construction of internal control system and further improved the internal control organisational structure and segregation of duties. The Bank established a classification mechanism for internal control measures so as to make clear management responsibilities. The Bank formulated or revised internal control systems such as risk assessment of new products and new businesses, incompatible positions (responsibilities), business outsourcing and business continuity management, continuously improved the problem rectification mechanism and strengthened internal control measures and guarantee. The digital level of internal control management was effectively improved. The Bank developed "digital internal control" system, striving to realise the intellectualisation of internal control monitoring, systematisation of internal control management and digitisation of internal control information, and improved the accuracy of problem identification and the effectiveness of problem solving. Special work such as the "Year of Construction of Internal Control and Compliance management" was carried out in an orderly manner, self-inspection and self-correction were carried out and repeated problems were intensively rectified strictly in accordance with the regulatory requirements, so as to continuously improve the level of internal control. The construction of internal control culture continued to deepen, and the activities of "President talking about internal control and compliance" and "Internal control and compliance theme day" were carried out in operating units at all levels, vigorously advocating the concept of "Internal control and compliance creating value" from top to bottom.

With a focus on its internal controls objectives, the Bank established a stringent internal controls system for financial reporting. During the Reporting Period, the Board of Directors ensured the effectiveness of the risk management and internal control systems of the Bank and its subsidiaries on many important aspects including financial monitoring, operation monitoring and compliance monitoring. Besides, the Board of Directors ensured the adequacy of resources, staff qualifications and experiences as well as the adequacy of training courses staff attended and related budgets to achieve the Group's accounting, internal audit and financial reporting function.

(III) Organisation Structure and Main Duties of Audit Supervision

The Bank's audit work was led by the Board of Directors, who assumed the ultimate responsibility for the independence and effectiveness of the internal audit. According to the size and complexity of the Bank's businesses, the Board of Directors provided the followings: sufficient and stable internal auditors, sufficient audit funds included in the financial budget, support for the informatisation of the audit work, and necessary guarantees for independence and objectivity of the internal audit. The Board of Directors set up an Audit Committee to monitor, assess and evaluate the internal audit work on an ongoing basis, review important systems and reports such as the Internal Audit Charter, approve the annual audit plan, and receive the report on relevant audit results. The Bank set up a 3-level audit supervision system of Head Office Audit Supervision Bureau, regional Sub-bureaus of Audit Supervision and Audit Departments of provincial and directly-managed branches, carrying out a vertical and unified management. The Bank's Audit Departments consistently promoted full-spectrum audit, insisted on risk-oriented audit, reviewed and urged the improvement of the Bank's business operation, risk management, internal control and compliance, and corporate governance results, and promoted the steady development of the Bank and the achievement of the Board of Director's strategic goals.

(IV) Management and Control over Subsidiaries

In line with the strategic plan of the "14th Five-Year Plan", the Bank strengthened its coordination with its subsidiaries, and enhanced the Group's comprehensive service capability across industries, borders and markets. The Bank promoted subsidiaries to improve the governance structure and procedures including "Shareholders' Meeting, Board of Directors, Board of Supervisors and Senior Management", strengthened the management of subsidiaries' equity, and ensured subsidiaries' independent decision-making on operations. The Bank incorporated subsidiaries into the Group's consolidation management system and comprehensive risk management and internal control system. Under the Group's overall policy framework, each subsidiary formulated its own risk appetite and limits in light of the local regulatory requirements and its own business operations, established a risk governance structure with robust organisational structure and well-defined responsibilities, and improved specific risk management policies, systems and implementation rules.

CORPORATE GOVERNANCE

(V) 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.

In 2021, the Bank continued to improve the comprehensiveness and effectiveness of internal control assessment. The internal control assessment was jointly carried out by the business department and the internal audit department organised by the internal control management functional department. The assessment was carried out on the headquarters of the Bank, domestic and foreign branches and subsidiaries in dimensions including various business lines, audit, and problem rectification. The assessment effectively promoted the joint management of the “three lines of defence”, timely identified and rectified internal control deficiencies, and consolidated the foundation of high-quality development. The Board of Directors conducted an annual assessment on the effectiveness of internal controls of the Bank as at 31 December 2021 (as the base date of the assessment report 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 and adequate 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 material weakness or significant deficiencies were identified in the internal controls of non-financial reporting. 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. Comprehensive Risk Management and Internal Controls Committee of the Bank heard periodical reports on the results of rectification for the internal controls problems identified in either internal or external review processes and pushed forward the implementation of the rectification of the relevant problems.

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.

The Bank engaged PricewaterhouseCoopers Zhong Tian LLP to perform audit procedures on its internal control. The Bank’s conclusion on the effectiveness of internal controls for the purpose of financial reporting is consistent with Audit opinion on internal controls. And the disclosure of material deficiency of internal controls, which is not for the purpose of financial reporting, is consistent with the disclosure of the Bank’s internal audit assessment report.

For details on the Group’s assessment report on internal controls and auditor’s report on internal controls, please refer to the announcements of the Bank published on the website of the SSE, the website of HKEx News of Hong Kong Stock Exchange and the Bank’s website.

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

The Bank strictly complied with the regulatory requirements and BoCom's policies, such as 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*, attended the information disclosure training, clarified internal control points of information disclosure in aspects of information reporting, preparing and review, improved position responsibilities, implemented accountabilities for errors and prevented the material disclosure error. During the Reporting Period, there was no material mistake in information disclosure of the Annual Report of the Bank.

XI. MANAGEMENT OF INSIDE INFORMATION

The Bank strictly adhered to the *Securities Law and 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. Unless the relevant information falls within the scope of the safe harbour provision referred by the Guidelines on Insider Information Disclosure of the Hong Kong Securities and Futures Commission, the Bank will disclose such inside information to the public as soon as reasonably practicable. 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.

XII. 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 Securities Transactions by Directors of Listed Issuers* contained in Appendix X of the Hong Kong Listing Rules. Also, 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.

XIII. CHAIRMAN AND PRESIDENT

According to the *Articles of Association* of the Bank, the functions of Chairman and President of the Bank should be segregated. During the Reporting Period, the Chairman of the Bank is Mr. Ren Deqi and the President of the Bank is Mr. Liu Jun.

CORPORATE GOVERNANCE

XIV. APPOINTMENT OF AUDITORS

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 2020 Shareholders' General Meeting of the Bank approved resolution in relation to the appointment of auditors for the year of 2021. PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership) 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 (Special General Partnership) and PricewaterhouseCoopers provided audit services for the Bank for 8 consecutive years.

In 2021, 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 RMB76.694 million, which included financial statement audit fees of RMB67.944 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 related to the issuance of bonds, capital verification and assurance. The Bank paid fees of approximately RMB6.52 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.

On October 29, 2021, the Board of Directors of the Bank reviewed and approved the *Proposal on the Appointment of Accounting Firms in 2022* and agreed to appoint KPMG Huazhen LLP (Special General Partnership) and KPMG as the Bank's accounting firms for 2022, of which KPMG Huazhen LLP (Special General Partnership) is responsible for the Bank's financial statement audit work, internal control audit work and related professional services prepared in accordance with the Chinese Accounting Standards. KPMG is responsible for the Bank's preparation in accordance with International Financial Reporting Standards financial statement auditing and related professional services. The appointment still needs to be submitted to the Bank's 2021 Annual General Meeting for consideration.

XV. 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.

XVI. INVESTOR RELATIONS

The Bank adhered to the concept of maximising the value for investors and was committed to constantly diversifying the channels and forms of communication with investors, value promotion to investors and value recognition by investors, so as to create value for investors. The Bank attached great importance to protecting the legitimate rights and interests of investors, carried out information disclosure in strict compliance with regulations, strived to build and maintain benign and harmonious investor relations, and continued to consolidate the Bank's good image as an honest, open and responsible large-scale state-owned listed bank.

(I) Deepen Communication and Exchange with the Capital Market through Diversified Communication Channels.

Under the regular Pandemic prevention and control in 2021, the Bank adhered to the principle of “going global” and “bringing in” and maintained close interaction with the market through online and offline channels. During the Reporting Period, the Bank held 4 periodical performance announcements and presented the annual performance announcement via Internet live video for the first time. About 500 analysts, journalists and thousands of small and medium investors took part in the periodical performance announcements. The Bank's senior management took the lead to carry out domestic roadshow and conducted in-depth communications with 30 institutional investors. Each day, the investor relation team carried out 33 on-site and online surveys of investors and analysts, attended 4 investment strategy conferences and communicated with nearly 400 investors and analysts at home and from abroad. The Bank stayed in communication with small and medium investors through online platforms such as SSE e-Interaction Platform, online receiving day, investor hotline and investor mailbox. The Bank was recognised by the market for its achievements in investor relations management, and was awarded the 4th New Fortune Best IR Hong Kong Listed Company (A+H Share).

(II) Strictly Adhere to Legal Compliance and Actively Conduct Information Disclosure.

To comply with the principle of “True, Accurate, Complete, Timely and Fair” to carry out statutory information disclosure, a total of 150 regular reports and extraordinary announcements were issued during the year. Based on market demands, the Bank conducted benchmarking with major peers of the industry, optimised the disclosure of financial and business information in regular reports, strengthened customer development, FinTech, digital transformation and featured businesses of inclusive finance, trade finance, technology finance and wealth finance to improve the effectiveness of information delivery. It was rated as a Class A company for information disclosure by the SSE for eight consecutive years.

CORPORATE GOVERNANCE

(III) Safeguard the Rights and Interests of Investors and Strive to Create Value for Shareholders.

The Bank maintained a stable dividend policy. During the Reporting Period, upon approval by the Shareholders' General Meeting, a cash dividend of RMB0.317 (tax inclusive) was distributed to each ordinary share, totalling RMB23.541 billion, accounting for 31.86% of the net profit distributable to shareholders of the Bank. The dividends of domestic preference shares distributed by the Bank were RMB1.755 billion. During the Reporting Period, the Bank regularly convened three Shareholders' General Meetings, using 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. Strictly abiding by the "Shareholders' Communication Policy" of the Hong Kong Stock Exchange, the Bank listened to the opinions and suggestions from shareholders through investor mailbox, investor hotline, SSE e-Interaction Platform and other channels, and made announcement to publicly collect concerns from investors before releasing annual and semi-annual performance, so as to strengthen communication with shareholders and ensure their right to know.

XVII. ADHERENCE TO THE CORPORATE GOVERNANCE CODE

The Board of Directors of the Bank confirmed that, during the Reporting Period ended 31 December 2021, the Bank had complied with the principles and code provisions contained in the Corporate Governance Code all the time, and complied with the majority of the recommended best practices.

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 2021.

I. PRINCIPAL ACTIVITIES

The Group is principally engaged in the provision of banking and related financial services. Please refer to the section of “Management Discussion and Analysis” for a review of the Group’s business during the Reporting Period. 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

- (I) Please refer to the Consolidated Income Statement for the operating performance of the Group during the Reporting Period.
- (II) Please refer to Note 37. Other reserves and retained earnings to the Consolidated Financial Statements for the details of the Group’s undistributed profits as at the end of the Reporting Period.
- (III) The formulation, implementation or adjustment of the cash dividend policy

The Bank’s *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 attributable to shareholders of the Bank.

During the Reporting Period, the Bank distributed a cash dividend of RMB0.317 (tax inclusive) per share to ordinary share holders, which amounted to a total of RMB23.541 billion, accounting for 31.86% of the net profit attributable to ordinary shareholders of the Bank. The profit distribution policy is in compliance with the *Articles of Association* as well as the resolutions of Shareholders’ General Meeting. The plan, to which independent consent was expressed by 6 independent directors, is clear in terms of the standard and ratio of dividend distribution with adequate decision-making procedures and mechanism, which fully protects the legitimate rights and interests of medium and small investors, enabling them to fully express their opinions and demands. In March 2022, the Board of Directors of the Bank deliberated and approved the distribution of a cash dividend of RMB0.355 (tax inclusive) per share to ordinary shareholders, which amounted to RMB26.363 billion, accounting for 32.16% of the net profit attributable to ordinary shareholders of the Bank.

Please refer to the section of “Changes in Shares and Shareholders” for the result of preference share dividend distributions.

REPORT OF THE BOARD OF DIRECTORS

IV. CAPITAL RESERVE

Please refer to 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 RMB51,935.2 thousand¹⁰.

VI. FIXED ASSETS

Please refer to Note 26. Property and equipment 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 public information and knowledge of the directors.

VIII. DIRECTORS' AND SUPERVISORS' SERVICE CONTRACT

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

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

Other than the information 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 "Corporate Governance", 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".

¹⁰ Including personal donations of employees

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. PRE-EMPTIVE RIGHTS, SHARE OPTION ARRANGEMENTS, AND ISSUANCE OF BONDS

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. Please refer to "IV Issuance, Listing, Trading and Redemption of Securities" set out in the section of "Changes in Shares and Shareholders" for the issuance of bonds by the Bank during the Reporting Period.

XV. 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.

XVI. 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 sum of the Group's interest income and other operating income.

XVII. CONNECTED TRANSACTIONS

During the Reporting Period, the Bank strictly followed the regulations of the CBIRC, the CSRC and the listing rules of Shanghai and Hong Kong, implemented standardised management on related party transactions, adhered to commercial principles, and conducted related party transactions on conditions not superior to similar transactions with non-related parties. During the Reporting Period, there were no unfair related party transactions and related party transactions that need to be submitted to the Board of Directors and the General Meeting of Shareholders for deliberation or need to be disclosed in time.

(I) Related party transactions under the CBIRC standards

According to the *Measures for Administration of Related Party Transactions between Commercial Banks and Insiders and Shareholders* issued by the CBIRC, the Bank's on- and off-balance sheet net credit amount to all related parties was 26.327 billion under the CBIRC standards, accounting for 2.6160% of the Bank's net capital. Bank of Communications (Hong Kong) Limited had the largest net credit, with the on- and off-balance sheet net credit amount of 9.129 billion, accounting for 0.9071% of the Bank's net capital. Among the groups of affiliated legal persons, the State Grid Corporation of China had the largest net credit, with the on- and off-balance sheet net credit amount of 56.048 billion, accounting for 5.5693% of the Bank's net capital. All the above balances are in compliance with the CBIRC's requirements on credit proportion. During the Reporting Period, no unsecured loans to related parties were noted.

REPORT OF THE BOARD OF DIRECTORS

The transactions with affiliated legal persons or unincorporated organisations mainly included the on-balance sheet businesses such as various loans (including trade financing), securities investment and special purpose vehicle (SPV) investment, as well as the off-balance sheet businesses such as letter of guarantee, letter of credit and bank acceptance notes. The counterparties included HSBC Holdings plc, HSBC Bank (China) Company Limited, the Hong Kong and Shanghai Banking Corporation Limited, China National Petroleum Corporation, China Tobacco Guangxi Industrial Co., Ltd. and China Tobacco Sichuan Industrial Co., Ltd. etc. At the end of the Reporting Period, the Bank's on- and off-balance sheet net credit amount to the affiliated legal persons or unincorporated organisations was 25.423 billion.

The transactions with related natural persons mainly included loans and credit card overdrafts. At the end of the Reporting Period, the balance of loans was 491 million, and the overdraft limit of credit cards for related natural persons (including the credit undrawn) was 413 million.

(II) Related party transactions under the standards of the CSRC and the SSE

According to the CSRC's *Preparation Rules for Information Disclosure by Companies Offering Securities to the Public No. 26 – Special Provisions on Information Disclosure by Commercial Banks* and the *Standards Concerning the Contents and Formats of Information Disclosure by Companies Offering Securities to the Public No. 2 – Contents and Formats of Annual Reports (2021 Revision)*, the total on- and off-balance sheet credit granted to all related parties by the Bank under the standards of the CSRC and SSE at the end of the Reporting Period was 3.940 billion.

The transactions with affiliated legal persons or unincorporated organisations mainly included the on-balance sheet businesses such as loans (including trade financing) and securities investment, as well as the off-balance sheet businesses such as risk participation and guarantee. The counterparties included the Hong Kong and Shanghai Banking Corporation Limited, Xiamen International Bank Co., Ltd., BBMG Corporation and Holitech Technology Co., Ltd.. At the end of the Reporting Period, the Bank's credit balance to affiliated legal persons or unincorporated organisations was 3.922 billion.

The transactions between the Bank and related natural persons mainly included loans and credit card overdrafts. At the end of the Reporting Period, the balance of loans was 6.4845 million, and the overdraft limit of credit cards for related natural persons (including the credit undrawn) was 10.7542 million.

(III) Continuing connected transactions under the standards of Hong Kong Stock Exchange

According to the Hong Kong Listing Rules, HSBC is a substantial shareholder of the Bank, and therefore, HSBC together with its subsidiaries and associates is the connected person of the Bank. The Group is 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, and the transactions of securities, money market, foreign currency, other financial assets, swaps and options. To regulate the continuing transactions mentioned above, the Bank renewed the Agreement with HSBC on 29 May 2020 for another three years – from 1 June 2020 to 31 May 2023. The terms and conditions of the Agreement are not substantially different from those of the *Interbank Transactions Master Agreement* renewed on 28 April 2017.

The parties agreed that each intended transaction under the Agreement shall be carried out in accordance with interbank market practices and normal commercial terms: if there are 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 is no fixed price or rate, reference will be made to the prevailing market prices for open market transactions. For other types of transactions (e.g. over-the-counter transaction), it shall be determined with reference to the prices or rates (if applicable) the parties would quote to each other or to the independent counterparties with equivalent credit worthiness with respect to the particular type of transaction concerned as well as the risk management policies of both parties with respect to the transactions concerned.

The annual caps for the continuing connected transactions under the Agreement in 2021 are: 1. the annual caps for realised gains and losses and unrealised gains and losses (depending on the situation) are all RMB11.623 billion; and 2. The aggregate cap for fair value of the foreign currency transactions, other financial assets transactions and swap and option transactions (regardless whether recorded as assets or liabilities) is RMB17.400 billion. During the Reporting Period, the continuing connected transactions under the Agreement were: 1. Realised gains, realised losses, unrealised gains and unrealised losses (depending on the situation) were RMB4.377 billion, RMB3.114 billion, RMB1.277 billion and RMB0.136 billion respectively; 2. The fair value of the foreign currency transactions, other financial assets transactions and swap and option transactions (regardless whether recorded as assets or liabilities) was RMB3.285 billion.

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 reporting, annual review, announcement and independent shareholders' approval.

Upon detailed review of the continuing connected transactions in 2021, all of the independent non-executive directors of the Bank considered that the continuing connected transactions were: 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.

The auditors had issued a letter to the Board of Directors in respect of the continuing connected transactions in 2021 confirming the following: 1. Such transactions were approved by the Board of Directors. 2. Such transactions were in accordance with the pricing policies of the Bank. 3. Such transactions were conducted in accordance with the terms of the Agreement. 4. The actual transaction amount of the non-exempt continuing connected transactions in 2021 did not exceed their respective caps.

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.

REPORT OF THE BOARD OF DIRECTORS

Save as disclosed above, no related party transaction or continuing related party transaction set out in Note 47. Related party transactions to the Consolidated Financial Statements that constitutes the connected transaction or continuing connected transaction required 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.

(IV) Please refer to Note 47. Related Party Transactions in the Notes to the Consolidated Financial Statements for related party transactions prepared in accordance with the accounting standards.

XVIII. 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.

XIX. ENVIRONMENT POLICIES AND PERFORMANCE

Please refer to the section of "Environmental and Social Responsibility" in this report for the details.

XX. COMPLIANCE WITH LAWS AND REGULATIONS

The Group needs to comply with various laws and regulation, mainly including *Company Law of the People's Republic of China*, *Commercial Bank Law of the People's Republic of China*, *Civil Code of the People's Republic of China*, domestic and overseas securities laws and exchange regulations, and other regulations and legal documents.

The Group ensures its adhering to the laws, regulations and legal documents that have significant impacts on the business through internal control, compliance management, employee training and other measures. The Group will notify related employees and operating teams in an appropriate manner 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.

XXI. RELATIONSHIP WITH EMPLOYEES, SUPPLIERS AND CUSTOMERS

The Group is devoted to maintaining the long-term sustainable development, continuously creating value for employees and customers and keeping good relationship with suppliers. The Group clearly understands that employees are valuable assets. For details regarding the training management of employees, talent cultivation and reserve and remuneration policy, please refer to "Human Resource Management" set out in the section of "Corporate Governance" 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 is devoted 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.

XXII. LIST OF DIRECTORS

Please refer to “Members of the Board of Directors” in the section of “Corporate Governance” 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 the Board of Directors.

By order of the Board of Directors

Chairman

Ren Deqi

25 March 2022

REPORT OF THE BOARD OF SUPERVISORS

During the Reporting Period, the Board of Supervisors aimed at protecting the legitimate rights of the commercial bank, shareholders, employees, creditors and other stakeholders, based on the regulations of the *Corporate Governance Standards for Banking and Insurance Institutions*, the *Guidelines on the Duties of the Board of Supervisors of Commercial Banks* and the *Articles of Association* of the Bank. The Board of Supervisors fulfills its supervision duties compliantly and efficiently.

I. MAIN RESPONSIBILITIES OF THE BOARD OF SUPERVISORS

- (I) The Board of Supervisors operates effectively to ensure compliant and efficient supervision.
1. Hold and attend the meetings in compliance with the laws and regulations. The Board of Supervisors held 4 meetings throughout the year, and discussed 23 resolutions and 8 reports, covering significant statutory matters. Three Special Committees under the Board of Supervisors held 9 meetings, discussed 31 resolutions and conducted in-depth study in related fields. The Board of Supervisors actively attended Shareholders' General Meetings, presented at significant meetings held by the Board of Directors and senior management, and followed up on major operation decision-making and deployments in time.
 2. Optimise the composition of the Board of Supervisors and its Special Committees. Work related to changes of Chairman of the Board of Supervisors, shareholder supervisors and employee supervisors was carried out in compliance with the relevant laws to ensure that the composition of the Board of Supervisors met the regulatory requirements. Supervisors were urged to take part in the supervising research of the Board of Supervisors to enhance the effectiveness of supervision. The composition of the Special Committees under the Board of Supervisors was optimised, and people with professional education background and diversified work experience were valued to provide support to the supervision of the Board of Supervisors.
 3. Innovate measures of work. By combining dots, lines and spheres, an innovative "matrix" model of supervision was developed to implement more comprehensive, in-depth and systematic supervision on hotspots and pain points concerning the Bank's operation and management. The Board of Supervisors leveraged various supervision approaches to combine supervision inquiry with special supervision, meeting supervision with dynamic supervision, and supervision with research to fully understand all supervision matters.
- (II) The Board of Supervisors strengthens supervision in key areas in terms of supervision duties.
1. Deepen the strategic supervision. The Board of Supervisors closely followed the implementation of the CPC Central Committee's major decisions and plans across the Bank, emphasised and supported the development of key areas and key industries, promoted the implementation of the policies on "carbon peak, carbon neutrality" and rural revitalisation, and boosted the development of pension finance. Focusing on the implementation of strategies across the Bank, the Board of Supervisors conducted analysis on the quality and efficiency of the business development in Yangtze River Delta region, oversaw the digital transformation across the Bank and followed up on data governance. The Board of Supervisors intensified supervision on key businesses and institutions, analysed the high-quality development of corporate, retail, and interbank businesses, and paid attention to the operation and management of overseas institutions such as branches (sub-branches) in Hong Kong and sub-branches in Brazil, as well as subsidiaries like BOCOM International Trust.

2. Promote capital and financial supervision. The Board of Supervisors followed up the trend of changes in capital adequacy ratio and paid attention to the use of advanced means of capital measurement. With the focus on the formulation and implementation of cost policies, the Board of Supervisors analysed the effectiveness of performance assessment and evaluated the quality and efficiency of asset and liability management. The Board of Supervisors also kept a watchful eye on the operation and management performance reflected by financial indicators, and conducted comprehensive analysis on the Bank's customer service capability based on the Bank's revenue and business structure.
3. Intensify supervision on comprehensive risk management. The Board of Supervisors followed up the Bank's management of significant risks such as credit risk, market risk, liquidity risk, operational risk, and reputation risk, analysed the use of risk monitoring and measurement tools in forward-looking risk management and assessed the effectiveness of resolution and disposal of high-risk assets. With special analysis on risk arising from credit card business, the Board of Supervisors carried out in-depth research on the exposure, causes and impacts of risks arising from credit card business in recent years. The Board of Supervisors also paid attention to the risks of real estate industry, government financing platform customers, loans subject to payment holiday, overseas banks and subsidiaries.
4. Improve supervision on internal control and compliance. In respect of the vulnerable parts identified in the supervision and inspection by the regulators, the Board of Supervisors continuously followed up the implementation of regulatory opinions and promoted rectification across the Bank. The Board of Supervisors enhanced peer benchmarking, optimised the Bank's criteria for evaluating deficiencies of internal controls, and improved the internal control assessment process. The Board of Supervisors paid close attention to the compliance and anti-money laundering management across the Bank, and followed up the compliance of key areas such as consolidation management, consumer information protection, related party transaction management and information disclosure.
5. Conduct performance supervision and evaluation. The Board of Supervisors revised and improved performance evaluation system and established performance evaluation information reporting mechanism, seeking to build an accurate evaluation system. The Board of Supervisors constantly followed up the performance of senior management and the Board of Directors and presented relevant suggestions in the performance evaluation comments at the end of the year. The Board of Supervisors conducted performance evaluation for 2021, and completed the performance evaluation for the Board of Directors and senior management and self-evaluation on the Board of Supervisors, including the performance evaluation on 16 directors, 9 senior management and 9 supervisors. According to three-level evaluation system of "competent", "basically competent" and "incompetent", they were all evaluated as "competent".

REPORT OF THE BOARD OF SUPERVISORS

(III) The Board of Supervisors constantly enhance systematical mechanism to improve the quality and efficiency of supervision.

1. Continuously standardise the operation of the Board of Supervisors. The Board of Supervisors reviewed the system of supervision duties and clarified major supervision duties to ensure the full coverage and effective implementation of supervisory activities. The Board of Supervisors built a supervision promotion system, scientifically formulated the annual focus and plan of supervision, clarified targets, timing and manners of supervision, so as to implement the supervision in an orderly manner. The Board of Supervisors improved the supervisory systems and revised the related systems to enhance the accuracy, practicality and applicability of such systems.
2. Strengthen transmission, sharing and feedback of supervision information. The Board of Supervisors obtained various supervision information on a timely manner by opening the system and reviewing the report, and also strengthened information exchange and communication with various supervision and management departments to promote a comprehensive and timely grasp of important information throughout the Bank. Supervision opinions were timely offered to the Board of Directors and senior management to draw the Bank' attention to the operation and management in key areas.
3. Enhance the self development. The Board of Supervisors visited the branches in the Yangtze River Delta region to conduct supervision research to get a systematic understanding of the operation and management in key areas, which enriched the subjects and forms of trainings and research. Special trainings on anti-money laundering, corporate governance standards and measures for performance evaluation on directors and supervisors were also held to improve the level of professionalism. The Board of Supervisors also optimised its manners for learning and communication by strengthening communication with the boards of supervisors of its peers and subsidiaries to learn from their advanced experience.

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) Authenticity of the Periodic Reports

The periodic reports truly and fairly presented the financial position and financial performance of the Bank. PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers respectively issued unqualified auditor's report on the Bank's financial statements for the year of 2021 and the Board of Supervisors has no objection to the report.

(III) Profit distribution

The Board of Directors believed that the approval procedures for the *2021 Profit Distribution Plan of the Bank of Communication Co., Ltd.* were in compliance with laws, regulations and Articles of Association of the Bank, and the distribution plan was in line with the actual situation of the Bank and the need of sustainable and stable development, and there was no intentional damage to the interests of investors.

(IV) Use of Proceeds Raised

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

(V) Acquisition and Disposal of Assets

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.

(VI) 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.

(VII) Implementation of Information Disclosure

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

(VIII) Related Proposals

The Board of Supervisors considered that the Board of Directors 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 2021 of the Bank*.

The Bank vigorously performed its social responsibility. The Board of Supervisors had no objection to the *Corporate Social Responsibility (ESG) Report for 2021 of the Bank*.

普惠e贷

智能秒批
更简单



普惠金融 | 普惠e贷



审批更快

手机申请, 审批结果快知道



用款更灵

线上提款, 随借随还随经营



额度更高

在线测额, 最高可达1000万



担保更活

灵活组合, 信用、抵押等多种选择随心搭

广告



扫一扫立即申请

客服热线: 95559 www.bankcomm.com

始于1908 · 您的财富管理银行

 **交通銀行**
BANK OF COMMUNICATIONS

ENVIRONMENTAL AND SOCIAL RESPONSIBILITIES

With the mission of “creating shared value”, the Bank integrated the concepts of social responsibility and sustainable development into business development, regularly communicated with major stakeholders such as shareholders, customers, environment and the community through multiple channels, and worked together with them to maximise the comprehensive value of social benefit, environmental benefit and economic benefit.

In 2021, by actively participating in practices in perspectives of corporate governance, green finance, green operation, inclusive finance, rural revitalisation, human capital development and community building, the Bank constantly improved its activities in governance and duty fulfilment and enhanced ESG risk management. For further information on the fulfilment of social responsibilities by the Bank, please refer to the *2021 Corporate Social Responsibility (ESG) Report of Bank of Communications Co., Ltd.* on the SSE Website and the website of HKEx News of Hong Kong Stock Exchange.

I. ENVIRONMENTAL PROTECTION

(I) Green Finance

The Social Responsibility (ESG) and Consumer Protection Committee was responsible of reviewing policies and mechanisms related to environmental and sustainable development, and guiding and supervising senior management to support fields related to energy-efficient, eco-friendly, low-carbon and circular economy, which were in compliance with the national policy guidance, clear in management and control standards, compliant and feasible in business models with relatively strong technical skills and market advantages.

During the Reporting Period, the Bank established the Green Finance Development Committee to make decisions and deployments on major policies and significant matters concerning the green finance development of the Group. The Bank constantly improved its green finance policies. By issuing policies such as *Green Finance Policy of Bank of Communications Co., Ltd.*, *Opinions on Accelerating Green Credit Business Development (2021)* and *Opinions on the Implementation of ‘Green Finance Evaluation Scheme for Banking Institutions’ Formulated by the People’s Bank of China*, the Bank further advanced the management of green finance and improved its management of climate and environmental risks.

- Green credit: During the Reporting Period, green credit maintained its rapid growth. At the end of the Reporting Period, calculated with the specific standards of PBOC for green loans (A3327), the Bank’s balance of green loans was 476.763 billion, which increased by 31.37% over the end of the previous year, of which the balance of clean energy loans was 87.612 billion, representing an increase of 90.58% over the end of the previous year. In the third and fourth quarters of 2021, with the support of the PBOC carbon-reduction supporting tool, a total of 3.662 billion of carbon-reduction loans were issued to 96 projects, resulting in a carbon reduction amount equivalent to 658.3 thousand tons of carbon dioxide.
- Green bonds: During the Reporting Period, the Bank accumulatively underwrote 9 green and sustainable development-themed bonds, with a total issuance amount of 14.3 billion, including the underwriting of the 5.0 billion Panda Bond of the BRICS New Development Bank, which was linked to “the United Nation Sustainable Development Goals”.

ENVIRONMENTAL AND SOCIAL RESPONSIBILITIES

- Explore Carbon inclusive business: During the Reporting Period, with the issuance of the *Notice on Conducting Carbon Inclusive Green Finance Business Marketing for Small and Micro Enterprises*, the Bank carried out financing business pledged with carbon assets. The Bank completed its first financing transaction pledged with carbon allowance in the Yangtze River Delta region, and successively provided pledge financing services based on national CEA in cities like Qiangdao, Chongqing and Nanchang. Meanwhile, the Bank coordinated with multiple parties and settled the first insurance financing business pledged with carbon emission allowance plus guarantee.

(II) Climate Change

The Bank actively took measures to identify and cope with financial risk arising from climate change, and clearly integrated climate and environmental risks into its comprehensive risk management system to serve the national strategy of “carbon peak and carbon neutrality”. The Bank strengthened the top-level design, and deemed the enhancement of climate and environmental risk management as an important part of the Bank’s medium and long-term plan. Meanwhile, the Bank established a “carbon peak and carbon neutrality” work team within the framework of the Green Finance Development Committee, and improved its green finance development risk management system. By issuing policies such as the *Opinions on Preventing and Mitigating Significant Financial Risks*, the Bank definitely curbed the aimless development of projects with “high energy consumption and high emission”. The Bank also carried out risk detection and climate risk sensitivity stress test for high carbon emission industry customers, which provided effective support for making decisions on climate and environmental risk management. In September 2021, the Bank officially became a supporting institution of the Task Force on Climate-Related Financial Disclosures (TCFD).

(III) Green Service

With the active application of digital technology tools, the Bank developed various online financial service channels to provide green, low-carbon, high-quality and convenient financial services. During the Reporting Period, the channel diversion rate of the Bank’s electronic banking services was 97.90%.

	2021	2020	2019
Channel diversion rate of electronic banking services (%)	97.90	98.04	97.67

(IV) Green Operation

The Bank adopted green procurement to comprehensively identify and control the environmental and social risks related to suppliers. Also, the Bank advocated green office. With multiple measures such as management enhancement, technology upgrading and equipment modification, the Bank cut down resource consumption, improve energy use efficiency and reduce the emission of harmful environmental pollutants. During the Reporting Period, the Bank had no environmental violation.

	2021	2020	2019
Headquarters carbon emission (ton CO ₂ e)	97,527.63	83,242.71	79,606.73
Headquarters energy consumption, equivalent to standard coal (ton)	36,055	31,027	/

II SOCIAL RESPONSIBILITY

(I) Consumer Right Protection Service

During the Reporting Period, the Bank practically protected the legitimate rights and interests of consumers. The Bank revised and issued the *Measures for Handling Complaints of Bank of Communications (2021)* and the *Measures for the Emergency Management of Major Consumer Right Protection Incidents and Major Complaint Incidents of Bank of Communications (2021)* to improve its systems and enhance its management of all procedures concerning complaints. The Bank formulated and issued the *Detailed Rules for Financial Dispute Resolution of Bank of Communications (Trail)(2021)* to improve its dispute resolution mechanism and procedures. Focusing on major groups such as the elderly and teenagers, the Bank held a special Q&A campaign concerning mobile banking consumer right protection for consumers. Through interaction with users, the Bank made financial knowledge promotion and education much more accessible.

During the Reporting Period, the Bank processed 162 thousand complaints from financial consumers, which decreased by 28.63% from 2020. All the complaints were properly handled. According to the notice on consumer complaints in the banking industry in 2021 released by the CBIRC, 15,145 complaints against the Bank were received by the CBIRC and its designated institutions, which made the Bank ranking 12th among 18 large national banks and joint-stock banks, improving by 4 ranks compared with 2020. On average, the Bank received 5,170.7 complaints from every thousand business outlets and 847.6 complaints from every 10 million customers, ranking 10th and 13th among 18 large national banks and joint-stock banks respectively. The complaints from financial customers mainly involved businesses related to credit cards, debit cards and loans and were filed from areas like Shanghai, Guangdong Province, Jiangsu Province and Shandong Province. In 2021, the Bank was engaged in resolution of 2,258 financial disputes in total, of which 1,280 dispute resolutions were at Shanghai Financial Consumer Dispute Resolution Centre, ranking 1st in cases submitted, and 869 dispute resolutions were at Shanghai Banking Industry Disputes Resolution Centre.

During the Reporting Period, the Bank was awarded A+ in the People's Bank of China Consumer Protection Rating in 2020. The Bank was awarded the "Outstanding Bank for Event Organisation" by the Consumer Right Protection Bureau of CBIRC both in the '3•15' Education Awareness Week and the financial joint education campaign.

(II) Charitable Donations

The Bank fully supported public services such as rural revitalisation, flood relief, aid to the disabled and students, and donated more than 51.9352 million during the Reporting Period, consistently building the responsible corporate image.

(III) Services for Inclusive Small and Micro Enterprises

Please refer to the section of "Business Review".

ENVIRONMENTAL AND SOCIAL RESPONSIBILITIES

III. RURAL REVITALISATION

(I) Financial Support for Rural Revitalisation

During the Reporting Period, relying on the advantage of full business license and the strength of FinTech, the Bank established “BoCom Yinongtong”, a comprehensive financial service system integrated with multiple services such as policy advisory, credit financing, wealth management, payment and settlement. The Bank also launched the online financing service of “Xingnong e-Loan” under this brand. Based on digital innovation, three product lines comprising standardisation, scene customisation and industrial chain were developed to meet the needs of different customer segments.

During the Reporting Period, the Bank signed strategic cooperation agreements with the Ministry of Agriculture and Rural Affairs and the National Rural Revitalisation Administration, to take the initiative in the credit express activities for new agricultural business entities, the innovation pilots of financial support for agriculture and FinTech-empowered rural revitalisation, to further its devotion in financial support for agriculture and service innovation. The Bank’s “Innovation Pilot Project for Credit System Construction of New Agricultural Business entities in Xinhua, Jiangsu Province” was shortlisted in the Ministry of Agriculture and Rural Affairs’ list of innovation pilots of financial support for agriculture. As one of the selected 4 banks, the Bank will make full use of digital technologies to build rural revitalisation information database to alleviate the financing problems once faced by new agricultural business entities due to information asymmetry in order to support future innovative service models. As at the end of the Reporting Period, the full balance of agriculture-related loans increased by 14.13% over the end of the previous year to 654.461 billion, representing a net growth of 81.003 billion.

(II) Paired Assistance

The Bank earnestly implemented General Secretary Xi Jinping’s important instructions and spirits as well as the CPC Central Committee and the State Council’s strategic deployment on fully promoting rural revitalisation, gave full play to financial expertise and continued to provide paired assistance to Tianzhu County in Gansu Province, Litang County in Sichuan Province (a state-level key county for rural revitalisation) and Hunyuan County in Shanxi Province. Based on the “Four-step” assistance plan of alleviation, preservation, development and advancement, with all key indicators achieving positive growth over the previous year, the Bank continued to help areas lifted from poverty consolidate and expand the achievements of poverty alleviation and effectively connected with rural revitalisation.

In the strict compliance with the requirements of “abstaining from shirking responsibilities, repealing policies, ceasing assistance, and neglecting regulation” after poverty alleviation, the Bank maintained its stable assistance policy and strength, firmly protected the achievements of poverty alleviation and prevented the occurrence of large-scale relapse into poverty. During the Reporting Period, the Bank donated funds of 25.00 million to the three counties under paired assistance, which kept increasing for six consecutive years. The Bank introduced supporting funds of 8.105 million with a year-on-year growth of 6.57%, which has been increasing for four consecutive years. During the year, the Bank accumulatively purchased agricultural products amounting to 8,226.7 thousand and assisted in selling products amounting to 20,273.3 thousand, with year-on-year growth of 7.76% and 9.12% respectively, and the numbers have been increasing for four consecutive years.

By integrating financial resources with the featured industries of paired assistance regions, the Bank managed to teach them to develop. Given the characteristics of mushroom industry of Tianzhu County in Gansu Province, the Bank donated pro bono “Seed” capital for the incubation of mushroom industrial park, and launched the “Mushroom Loans” product to grant credit online to mushroom farmers and cooperatives based solely on their credits. Taking credit granting entities’ employment of households susceptible to poverty as an important reference into the consideration of loan interest rate discount, the Bank guided the planting enterprises to encourage more households lifted out from poverty to find jobs nearby.

I. Financial Services for Rural Revitalisation	(In 100 million of RMB)
Agriculture-related loan	6,544.61
Net increase from the end of the previous year	810.03
Growth rate	14.13%
II.Amount of Investment in Paired Assistance Counties	(in 10 thousand of RMB)
1.Investment in pro bono supporting funds	2,500
Growth rate	0.4%
2.Introduction of pro bono supporting funds	810.5
Growth rate	6.57%
3.Number of grass-roots cadres, rural revitalisation leaders and professionals trained	3,075
Growth rate	21.3%
4.Purchase of agricultural products from paired assistance regions	822.67
Growth rate	7.76%
5.Sales of agricultural products from paired assistance regions	2,027.33
Growth rate	9.12%
6.Number of assisting projects or enterprises introduced	4
7.Amount of investments introduced	2,300

Note: The “paired assistance” in the table refers to the assistance work conducted by the Bank in areas of Tianzhu County in Gansu Province, Hunyuan County in Shanxi Province and Litang County in Sichuan Province.

In 2022, the Bank will adhere to the principle of “preventing the return to poverty, focusing on connection and promoting revitalisation”. In addition, the Bank will raise spirits to take action, clarify the plan and monitor implementation. The Bank will maintain its assistance policy and strength, continue to consolidate and expand the key achievements in poverty alleviation based on the “Three Guarantees”, focus on rural revitalisation construction and rural governance, effectively improve the rural living environment, further strengthen scientific and technological empowerment, promote its support to the development of characteristic industries with customised financial products in areas lifted from poverty.

SIGNIFICANT EVENTS

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. 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 approximately 4.096 billion.

II. COMMITMENT

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 Ministry of Finance transferred 1,970,269,383 A shares of the Bank in December 2019, representing 10% of the Bank's shares to the SSF as a whole. The SSF should fulfil its lock-up period obligations of over 3 years from the date of the transfer. During the Reporting Period, the SSF fulfilled the above commitments

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, any transferring to the judiciary authorities for criminal responsibilities, any investigation or 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 being suspected of serious violations of discipline and law or job-related crimes, being detained by the discipline inspection and supervision organ, being unable to perform duties and being taken administrative supervision measures by the CSRC or disciplinary sanctions by the stock exchange.

IV. INTEGRITY

During the Reporting Period, neither did the Group refuse to execute any court orders nor fail to settle any significant due debts involving litigation.

V. RELATED PARTY TRANSACTIONS

During the Reporting Period, all transactions between the Group and its related parties were the monetary transactions conducted in the ordinary course of business. No significant related party transaction occurred during the Reporting Period.

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 sub-contract 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.

VII. THE BOARD OF DIRECTORS' STATEMENT ON CHANGES IN ACCOUNTING POLICIES, ACCOUNTING ESTIMATES OR ACCOUNTING METHODS

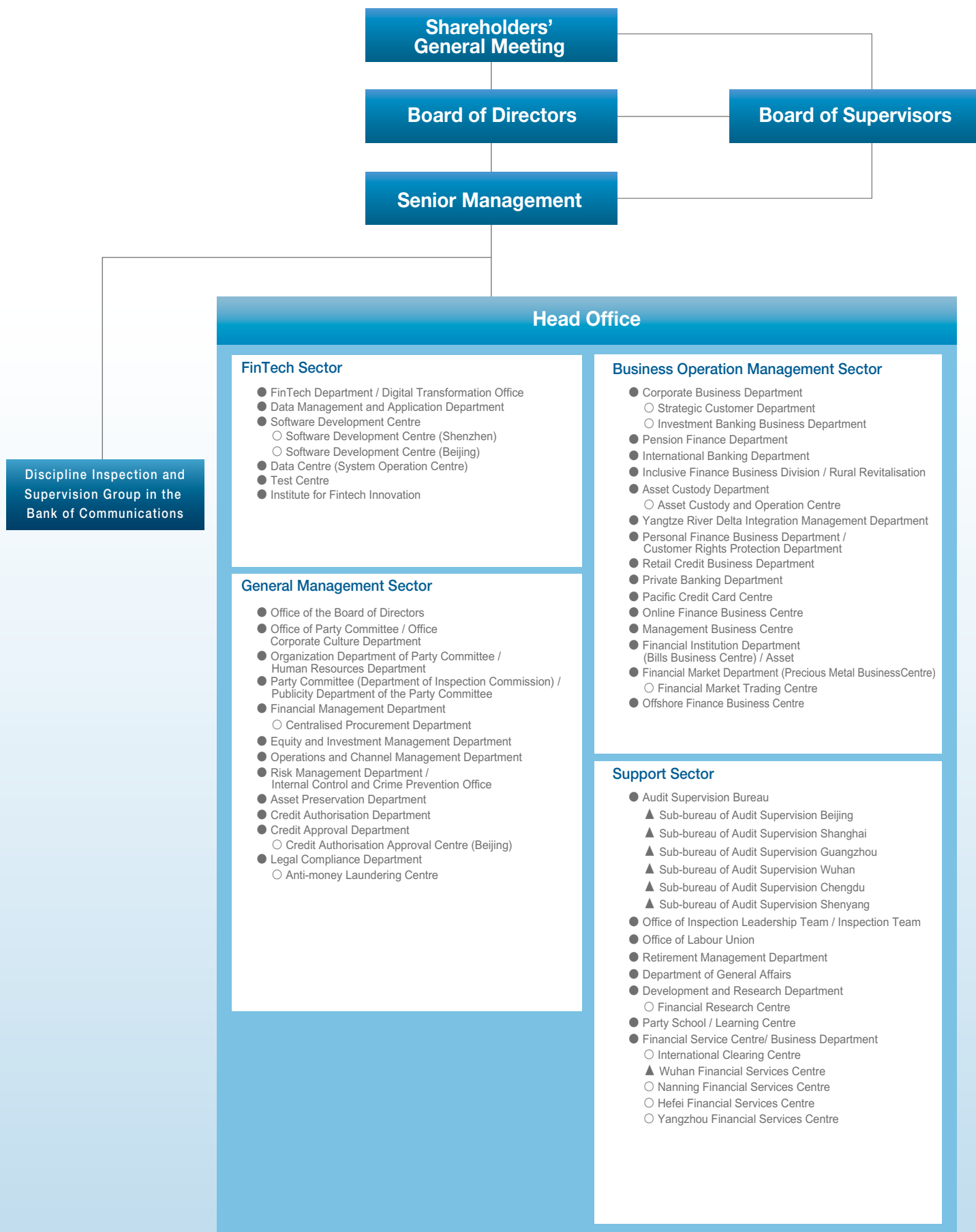
Please refer to Note 2. Summary of significant accounting policies to the Consolidated Financial Statements for major changes in accounting policies during the Reporting Period.

VIII. OTHER SIGNIFICANT EVENTS

- (I) At the First Extraordinary General Meeting in 2021, the Bank approved to issue no more than RMB140.0 billion (or the equivalent amount denominated in foreign currencies) tier-2 capital bonds with write-down features. In July 2021, the Bank was allowed to publicly issue no more than RMB60.0 billion tier-2 capital bonds in the National Interbank Bond Market. In September 2021 and February 2022, the Bank issued 30.0 billion tier-2 capital bonds in the National Interbank Bond Market respectively. Please refer to the announcements issued by the Bank on 24 March 2021, 27 July 2021, 27 September 2021 and 25 February 2022 for more details.
- (II) The Bank contributed 7.5 billion to the establishment of the National Green Development Fund Co., Ltd., which was approved by relevant regulatory authority. Please refer to the announcement issued by the Bank on 30 April 2021 for more details.
- (III) The Bank issued a 41.5 billion undated capital bond in the National Interbank Bond Market. Please refer to the announcement issued by the Bank on 10 June 2021 for more details.
- (IV) The Bank proposed to make additional capital contribution of 5.0 billion to its wholly-owned subsidiary, BOCOM Financial Asset Investment Co., Ltd. Please refer to the announcements issued by the Bank on 28 June 2021 and 24 January 2022 for more details.
- (V) The Bank intended to change the accounting firm because the accounting firm originally employed by the Bank reached the longest continuous employment period after completing the service items approved by the Bank's 2020 Shareholders' General Meeting. Please refer to the announcement issued by the Bank on 29 October 2021 for more details.

The above announcements were published on the website of Shanghai Stock Exchange (www.sse.com.cn) and the HKEx News website of Hong Kong Stock Exchange (www.hkexnews.hk).

ORGANISATION CHART AND LIST OF INSTITUTIONS



Note: ● The primary unit of the Head Office ▲ The deputy departmental level institution of the primary unit

○ The departmental level institution of the primary unit

Domestic Branches

37 provincial branches directly managed by the head office

211 branches managed by provinces

2,889 business 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) S.A. / Luxemburg 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

Johannesburg Branch

Major Holdings Companies

Bank of Communications Financial Leasing Co., Ltd.

Bank of Communications Schroder Fund Management Co., Ltd.

Bank of Communications International Trust Co., Ltd.

BOCOM Financial Asset Investment Co., Ltd.

BOCOM MSIG Life Insurance Company Limited

BOCOM International Holdings Company Limited

BOCOM Wealth Management Co., Ltd.

China BOCOM Insurance Co., Ltd.

Rural Banks

Dayi BoCom Xingmin Rural Bank

Zhejiang Anji BoCom Rural Bank

Xinjiang Shihezi BoCom Rural Bank

QingDao Laoshan BoCom Rural Bank

ORGANISATION CHART AND LIST OF INSTITUTIONS

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

Region	Name	Address
Yangtze River Delta	Shanghai Branch	No. 200 Jiangxi Middle Road, Huangpu District, Shanghai
	Jiangsu Provincial Branch	No. 218 Lushan Road, Jianye District, Nanjing City, Jiangsu Province
	Suzhou Branch	No. 28 Suhui Road, Suzhou Industrial Park, Suzhou City, Jiangsu Province
	Wuxi Branch	No. 8 Second Jinrong Street, Binhu District, Wuxi City, Jiangsu Province
	Zhejiang Provincial Branch	No. 1-39 Juyuan Road, Jianggan District, Hangzhou City, Zhejiang Province
	Ningbo Branch	No. 455 Haiyan North Road, Yinzhou District, Ningbo City, Zhejiang Province
	Anhui Provincial Branch	Intersection of Huizhou Avenue and Jialingjiang Road, Baohe District, Hefei City, Anhui Province
Pearl River Delta	Fujian Provincial Branch	No. 116 Hudong Road, Gulou District, Fuzhou City, Fujian Province
	Xiamen Branch	No. 9 Hubin Middle Road, Siming District, Xiamen City, Fujian Province
	Guangdong Provincial Branch	No. 11 Xiancun Road, Tianhe District, Guangzhou City, Guangdong Province
	Shenzhen Branch	No. 3018 Shennan Middle Road, Futian District, Shenzhen City, Guangdong Province
Bohai Rim Economic Zone	Beijing Branch	No. 22 Jinrong Street, Xicheng District, Beijing
	Tianjin Branch	No. 7 Youyi Road, Hexi District, Tianjin City
	Hebei Provincial Branch	No. 26 Ziqiang Road, Qiaoxi District, Shijiazhuang City, Hebei Province
	Shandong Provincial Branch	No. 98 Gongqingtuan Road, Shizhong District, Jinan City, Shandong Province
	Qingdao Branch	No. 6 Zhongshan Road, Shinan District, Qingdao City, Shandong Province
Central China	Shanxi Provincial Branch	No. 5 Qingnian Road, Yingze District, Taiyuan City, Shanxi Province
	Jiangxi Provincial Branch	No. 199 Huizhan Road, Honggutan New District, Nanchang City, Jiangxi Province
	Henan Provincial Branch	No. 11 Zhenghua Road, Jinshui District, Zhengzhou City, Henan Province
	Hubei Provincial Branch	No. 847 Jianshe Avenue, Jiangnan District, Wuhan City, Hubei Province
	Hunan Provincial Branch	No. 447 Wuyi Avenue, Furong District, Changsha City, Hunan Province
	Guangxi Zhuang Autonomous Region Branch	No. 228 Renmin East Road, Xingning District, Nanning City, Guangxi Zhuang Autonomous Region
	Hainan Provincial Branch	No. 45 Guomao Avenue, Longhua District, Haikou City, Hainan Province

ORGANISATION CHART AND LIST OF INSTITUTIONS

Region	Name	Address
Western China	Inner Mongolia Autonomous Region Branch	No. 18 Xinhua East Street, Saihan District, Hohhot, Inner Mongolia Autonomous Region
	Chongqing Branch	No. 3 Jiangbei City West Street, Jiangbei District, Chongqing City
	Sichuan Provincial Branch	No. 211 West Yulong Street, Qingyang District, Chengdu City, Sichuan Province
	Guizhou Provincial Branch	East Third Tower, Financial City, Guanshanhu District, Guiyang City, Guizhou Province
	Yunnan Provincial Branch	No. 397 Baita Road, Panlong District, Kunming City, Yunnan Province
	Shaanxi Provincial Branch	No. 88 Xixin Street, Xincheng District, Xi'an City, Shaanxi Province
	Gansu Provincial Branch	No. 129 Qingyang Road, Chengguan District, Lanzhou City, Gansu Province
	Ningxia Hui Autonomous Region Branch	No. 64 Ning'an Street, Jinfeng District, Yinchuan City, Ningxia Hui Autonomous Region
	Xinjiang Uygur Autonomous Region Branch	No. 16 Dongfeng Road, Tianshan District, Urumqi, Xinjiang Uygur Autonomous Region
	Qinghai Provincial Branch	No. 67 Wusi West Road, Chengxi District, Xining City, Qinghai Province
North Eastern China	Liaoning Provincial Branch	No. 258-1 Shifu Road, Shenhe District, Shenyang City, Liaoning Province
	Dalian Branch	No. 6 Zhongshan Square, Zhongshan District, Dalian City, Liaoning Province
	Jilin Provincial Branch	No. 3535 Renmin Street, Chaoyang District, Changchun City, Jilin Province
	Heilongjiang Provincial Branch	No. 428 Youyi Road, Daoli District, Harbin City, Heilongjiang Province

Note: For the address and contact information of the business outlets of the Bank, please visit the Bank's official website (www.bankcomm.com) and click on "Branch Inquiry" for relevant information.

LIST OF OVERSEAS BANKING INSTITUTIONS

Name	Address
Hong Kong Branch/Bank of Communications (Hong Kong) Limited	Unit B B/F & G/F, Unit C G/F, 1 – 3/F, 16/F Room 01 & 18/F, Wheelock House, 20 Pedder Street, Central, Hong Kong
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.
Tokyo Branch	SANYO Group Building, 1-3-5 Nihombashi, Chuo-ku, Tokyo, Japan
Singapore Branch	50 Raffles Place #18-01 Singapore Land Tower, Singapore 048623
Seoul Branch	6th DouZone Tower. #29, Eulji-ro, Jung-Gu, Seoul, 04523, Korea
Frankfurt Branch	Neue Mainzer Strasse 75, 60311 Frankfurt am Main, Germany
Macau Branch	16th Floor, AIA Tower, No. 251A-301, Avenida Commercial De Macau

ORGANISATION CHART AND LIST OF INSTITUTIONS

Name	Address
Ho Chi Minh City Branch	17th floor, Vincom Centre, 72 Le Thanh Ton, Dist.1, HCMC, VN
Sydney Branch	Level 23, 60 Martin Place, Sydney NSW2000, Australia
Brisbane Branch	Level 35, 71 Eagle Street, Brisbane QLD4000, Australia
Melbourne Branch	Level 34 Rialto South Tower, 525 Collins Street, Melbourne VIC, 3000, Australia
Taipei Branch	A Wing, 29th Floor, No. 7, Section 5, Xinyi Road, Taipei (101 Tower), Taiwan
London Branch	4th Floor, 1 Bartholomew Lane, London EC2N 2AX UK
Luxemburg Branch/Bank of Communications (Luxembourg) Co., Ltd.	7 Rue de la Chapelle, L-1325 Luxembourg, Luxembourg
Bank of Communications (Luxembourg) S.A. Paris Branch	90, Avenue des Champs-Elysees, 75008, Paris, France
Bank of Communications (Luxembourg) S.A. Rome Branch	3rd floor, Piazza Barberini 52, Rome. 00187, Italy
Bank of Communications (Brazil) Co., Ltd.	Av Barão de Tefé, 34-20th, Rio de Janeiro, Brazil, 20220-460
Prague Branch	7th floor, RUSTONKA R2, Rohanske nabrezi 693/10, Prague 8, 186 00, Czech Republic
Johannesburg Branch	140 West St, Sandown, Sandton, 2196, Johannesburg, South Africa
Toronto Representative Office	Suite 2460, 22 Adelaide Street West, Toronto, ON M5H 4E3, Canada

LIST OF MAJOR SUBSIDIARIES

Name	Address
Bank of Communications Schroder Fund Management Co., Ltd.	No. 8 Century Avenue, Pudong New District, Shanghai
Bank of Communications International Trust Co., Ltd.	No. 847 Jianshe Avenue, Wuhan
Bank of Communications Financial Leasing Co., Ltd.	No. 333 Lujiazui Ring Road, Pudong New District, Shanghai
BOCOM MSIG Life Insurance Company Limited	No. 333 Lujiazui Ring Road, Pudong New District, Shanghai
BOCOM International Holdings Company Limited	No. 68 Des Voeux Road Central, Central, Hong Kong
China BoCom Insurance Co., Ltd.	No. 8 Cotton Tree Drive, Central, Hong Kong
BoCom Financial Asset Investment Co., Ltd.	No. 333 Lujiazui Ring Road, Pudong New District, Shanghai
BoCom Wealth Management Co., Ltd.	8-9/F, No. 333 Lujiazui Ring Road, Pudong New District, Shanghai
Dayi BoCom Xingmin Rural Bank Co., Ltd.	No. 168-170 Central Fumin Road, Dayi County, Chengdu City, Sichuan Province
Zhejiang Anji BoCom Rural Bank Co., Ltd.	Tower 1, Changshuo Square, Changshuo Street, Anji County, Huzhou City, Zhejiang Province
Xinjiang Shihezi BoCom Rural Bank Co., Ltd.	No. 127 Dongyi Road, Shihezi, Xinjiang Uygur Autonomous Region
Qingdao Laoshan BoCom Rural Bank Co., Ltd.	Room 101, Building 1, No. 156 Shenzhen Road, Laoshan District, Qingdao, Shandong

APPENDIX – INDEPENDENT AUDITOR’S REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

Contents

Financial Statements:

Independent auditor’s report	162
Consolidated Statement of Profit or Loss and Other Comprehensive Income	170
Consolidated Statement of Financial Position	172
Consolidated Statement of Changes in Equity	173
Consolidated Statement of Cash Flows	175

Notes to the Consolidated Financial Statements: 177

1	General
2	Summary of significant accounting policies
3	Financial risk management
4	Net interest income
5	Fee and commission income
6	Fee and commission expense
7	Net gains arising from trading activities
8	Insurance business income
9	Other operating income
10	Credit impairment losses
11	Other assets impairment losses
12	Insurance business expense
13	Other operating expenses
14	Staff costs and benefits
15	Emoluments of directors, supervisors and senior management
16	Income tax
17	Basic and diluted earnings per share
18	Cash and balances with central banks
19	Due from and placements with banks and other financial institutions
20	Financial investments at fair value through profit or loss
21	Derivative financial instruments
22	Loans and advances to customers
23	Financial investments
24	Principal subsidiaries
25	Investments in associates and joint ventures

26	Property and equipment
27	Deferred income tax
28	Other assets
29	Due to and placements from banks and other financial institutions
30	Financial liabilities at fair value through profit or loss
31	Due to customers
32	Certificates of deposit issued
33	Debt securities issued
34	Other liabilities
35	Share capital and capital surplus
36	Other equity instruments
37	Other reserves and retained earnings
38	Dividends
39	Non-controlling interests
40	Credit related commitments and financial guarantees, other commitments and contingent liabilities
41	Collaterals
42	Other comprehensive income
43	Notes to consolidated statement of cash flows
44	Consolidated structured entities
45	Unconsolidated structured entities
46	Transfers of financial assets
47	Related party transactions
48	Segmental analysis
49	Financial statements of the bank
50	Comparative figures
51	Non-adjusting events after reporting period

Unaudited supplementary financial information: 312

1	Currency concentrations
2	International claims
3	Overdue and restructured assets
4	Segmental information of loans
5	Loans and advances to customers

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Bank of Communications Co., Ltd.

(Incorporated in the People's Republic of China with limited liability)

OPINION

What we have audited

The consolidated financial statements of Bank of Communications Co., Ltd. (the "Bank") and its subsidiaries (the "Group") set out on pages 170 to 311, which comprise:

- the consolidated statement of financial position as at 31 December 2021;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

KEY AUDIT MATTERS *(Continued)*

Key audit matters identified in our audit are summarised as follows:

1. Expected credit impairment allowance of loans and advances to customers, financial investments at amortised cost, credit related commitments and financial guarantees
2. Consolidation assessment of structured entities
3. Valuation of financial assets measured at fair value classified as level 3

Key Audit Matter

How our audit addressed the Key Audit Matter

Expected credit impairment allowance of loans and advances to customers, financial investments at amortised cost, credit related commitments and financial guarantees

Refer to Notes 2.3, 2.29(a), 3.1.1(a), 3.1.1(b), 3.1.1(c), 3.1.1(d), 3.1.2, 3.1.3.1, 22.3, 23, 34 and 40 to the Group's consolidated financial statements.

As at 31 December 2021, the Group's gross loans and advances to customers amounted to RMB6,574,385 million, and an expected credit loss ("ECL") allowance of RMB162,184 million was recognised in the Group's consolidated statement of financial position; the gross amount of financial investments at amortised cost was RMB2,205,995 million and an ECL allowance of RMB2,958 million was recognised; the exposure of credit related commitments and financial guarantees was RMB1,906,425 million, for which a provision of RMB9,242 million was recognised.

The ECL on loans and advances to customers, financial investments at amortised cost and credit related commitments and financial guarantees recognised in the Group's consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2021 amounted to RMB65,371 million.

We understood, evaluated and tested the internal controls relating to ECL for loans and advances to customers, financial investments at amortised cost and credit related commitments and financial guarantees, primarily comprising:

- (1) Governance over ECL models, including the selection, approval and application of the accounting policies and ECL modelling methodology; and the internal controls relating to the ongoing monitoring and optimization of the models;
- (2) Internal controls relating to significant management judgments and assumptions, including the assessment and approval of portfolio segmentation, model selections, parameters estimation, the judgement of significant increase in credit risk, or of defaults or credit-impaired, forward-looking and management overlay adjustments;
- (3) Internal controls over the accuracy and completeness of key inputs used by the models;
- (4) Internal controls relating to estimation of future cash flows and calculations of present values of such cash flows for loans and advances to customers and financial investments at amortised cost using DCF to calculate loss allowances;
- (5) Internal controls over the information systems for ECL measurement.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

KEY AUDIT MATTERS *(Continued)*

Key Audit Matter

How our audit addressed the Key Audit Matter

Expected credit impairment allowance of loans and advances to customers, financial investments at amortised cost, credit related commitments and financial guarantees (Continued)

The Group assesses whether or not loans and advances to customers, financial investments at amortised cost and credit related commitments and financial guarantees have a significant increase in credit risk, or a default was incurred, and applies a three-stage impairment model and discounted cash flow model ("DCF") to calculate their ECL. For loans and advances to customers, financial investments at amortised cost and credit related commitments and financial guarantees using the three-stage impairment model, the management assesses loss allowance using the risk parameter modelling approach that incorporates key parameters, including probability of default, loss given default and exposure at default. For loans and advances to customers and financial investments at amortised cost using DCF to calculate ECL, the management assesses loss allowance by estimating the cash flows from the business.

The models of ECL involves significant management judgments and assumptions, primarily including:

- (1) Segmentation of business operations sharing similar credit risk characteristics, selection of appropriate models and determination of relevant key measurement parameters;

The substantive procedures we performed primarily comprised:

Based on the risk profile of the asset portfolio, we evaluated the reasonableness of the portfolio segmentation. By comparing with regulatory guidance and industry practice, we assessed the reasonableness of modelling methodologies for ECL measurement of different portfolios. We examined the calculation for the model measurement on selected samples, to test whether or not the models reflect the modelling methodologies documented by management. We also performed back-testing of the actual defaults against expected defaults generated from the model as at the end of previous year on sample basis to assess the reasonableness of the model.

We examined key data inputs to the ECL models on selected samples, including historical data and data at the measurement date, to assess their accuracy and completeness.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

KEY AUDIT MATTERS *(Continued)*

Key Audit Matter

How our audit addressed the Key Audit Matter

Expected credit impairment allowance of loans and advances to customers, financial investments at amortised cost, credit related commitments and financial guarantees (Continued)

- (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; and
- (5) The estimated future cash flows for loans and advances to customers and financial investments at amortised cost for which DCF model was used to calculate ECL.

The Group established governance processes and controls for the measurement of ECL.

For measuring ECL, the Group adopted complex models, employed numerous parameters and data inputs, and applied significant management judgments and assumptions. In addition, the loans and advances to customers, financial investments at amortised cost, exposures of credit related commitments and financial guarantees and the related ECL allowance and provision involve significant amounts. In view of these reasons, we identified this as a key audit matter.

We selected samples, in consideration of the financial information and non-financial information of the borrowers, relevant external evidence and other factors, to assess the appropriateness of the management's criteria of significant increase in credit risk, defaults and credit-impaired loans.

For forward-looking measurements, we applied statistical methods to assess management's selection of economic indicators and their analysis of co-relations with credit risk portfolios. We further tested the reasonableness of the prediction of economic indicators by comparing with available external expert estimates. In addition, we performed sensitivity test of economic indicators and weightings of economic scenarios.

For loans and advances to customers and financial investments at amortised cost that DCF model used to calculate ECL, we examined, on a sample basis, forecasted future cash flows prepared by the Group based on financial information of borrowers and guarantors, latest collateral valuations and other available information together with discount rates in supporting the computation of ECL.

Based on our procedures performed, we considered that the models, key parameters, significant judgements and assumptions adopted in the ECL measurement together with the measurement results were considered acceptable.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

KEY AUDIT MATTERS *(Continued)***Key Audit Matter****How our audit addressed the Key Audit Matter****Consolidation assessment of structured entities**

Refer to Notes 2.2, 2.29(d), 44 and 45 to the Group's consolidated financial statements.

The Group has managed or invested in a number of structured entities. As at 31 December 2021, the carrying amount of unconsolidated structured entities invested by the Group amounted to RMB245,245 million. In addition, as at 31 December 2021, the balances of the non-principal guaranteed wealth management products, funds, trust and asset management plans and others originated and managed by the Group amounted to RMB1,426,253 million, RMB547,188 million, and RMB721,946 million respectively.

The management performed assessment on each of the three elements of control (power to direct relevant activities of structured entities, exposure to variable returns and the Group's ability to use its power to affect its variable returns from the structured entities) in determining whether structured entities managed or invested in by the Group should be consolidated or not. In performing the assessment, significant judgment was involved to determine the role of the Group in the arrangement as either a principal or an agent. If the Group acts as a principal, the structured entities should be consolidated.

We focused on this area because the amount of the Group's structured entities was significant and the consolidation assessment of these structured entities involved significant judgments.

We understood, evaluated and validated the design and operating effectiveness of relevant controls over management's assessment of consolidation of structured entities.

In addition, we selected samples of the structured entities that the Group invested in or managed, and performed the following procedures on the management's assessment of consolidation of structured entities:

- (1) Analysed the transaction structures, inspected related contract terms, and evaluated whether the Group had the power to direct the relevant activities of these structured entities;
- (2) Inspected contract terms related to the Group's variable returns from these selected structured entities, including management fee, expected investment returns and returns from liquidity support, and agreed these information to the corresponding inputs used in the management's assessment;
- (3) Recalculated the magnitude and variability of the variable returns to the Group from these structured entities based on contract terms;
- (4) Assessed the Group's role in these structured entities as a principal or an agent through analysis of the scope of its decision-making authority over the structured entities, the remuneration to which the Group was entitled for its management services provided to the structured entities, its exposure to variability of returns from other interests that it held in them, and the rights held by other parties, and compared our assessment results with the management's assessment outcomes.

Based on the work undertaken above, we found the overall consolidation assessment of structured entities performed by the management acceptable.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

KEY AUDIT MATTERS *(Continued)*

Key Audit Matter

How our audit addressed the Key Audit Matter

Valuation of financial assets measured at fair value classified as level 3

Refer to Notes 2.3, 2.29(b) and 3.4 to the Group's consolidated financial statements.

Convertible bonds, unlisted equities, unlisted funds, certain trusts and asset management plans, equity derivatives and certain loans and advances to customers held by the Group, whose fair value are determined based on certain unobservable inputs, were classified by the Group as level 3 in fair value measurement. The management determines the fair value of these financial assets using a variety of techniques. The valuation methods mainly include discounted cash flow and comparable values, involving various unobservable inputs such as cash flow, risk-adjusted discount rate, price to book value ratio, price to earning ratio and liquidity discounts, etc.

As at 31 December 2021, financial assets measured at fair value classified as level 3 amounted to RMB78,951 million.

Financial assets measured at fair value classified as level 3 involve significant amounts, and unobservable inputs adopted by the Group involve significant judgement. In view of these, valuation of these financial assets is identified as a key audit matter.

We understood, evaluated and validated the internal controls established by management over valuation on financial assets measured at fair valued classified as level 3, mainly comprising:

- (1) Internal controls relating to selection, approval and application of valuation methods;
- (2) Internal controls relating to the determination of the valuation inputs.

The substantive procedures we performed, primarily included:

- (1) Assessed on sample basis the appropriateness of valuation methods adopted in the valuation of level 3 financial assets based on industry practice;
- (2) Leveraging our internal valuation specialists, evaluated the appropriateness and accuracy of various unobservable inputs involved in measuring financial assets measured at fair value classified as level 3, such as cash flow, risk-adjusted discount rate, price to book value ratio, price to earning ratio and liquidity discounts on sample basis;
- (3) Tested the mathematical accuracy of the calculation of fair value of financial assets measured at fair value classified as level 3 on sample basis.

Based on the work undertaken above, we found that the overall valuation of financial assets measured at fair value classified as level 3 performed by the management was acceptable.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

OTHER INFORMATION

The directors of the Bank are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Bank are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Ling Tung Man, Tom.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 25 March 2022

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(All amounts expressed in millions of RMB unless otherwise stated)

	Note	Year ended 31 December	
		2021	2020
Interest income		377,646	369,101
Interest expense		(215,953)	(215,765)
Net interest income	4	161,693	153,336
Fee and commission income	5	52,285	49,298
Fee and commission expense	6	(4,712)	(4,212)
Net fee and commission income		47,573	45,086
Net gains arising from trading activities	7	23,344	13,844
Net gains arising from financial investments		1,311	1,177
<i>Including: Net gains on derecognition of financial assets measured at amortised cost</i>		46	27
Share of profits of associates and joint ventures		277	222
Insurance business income	8	16,515	15,170
Other operating income	9	19,035	17,889
Net operating income		269,748	246,724
Credit impairment losses	10	(66,371)	(62,059)
Other assets impairment losses	11	(2,320)	(484)
Insurance business expense	12	(17,054)	(15,729)
Other operating expenses	13	(90,044)	(82,027)
Profit before tax		93,959	86,425
Income tax	16	(5,020)	(6,855)
Net profit for the year		88,939	79,570

CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(Continued)

(All amounts expressed in millions of RMB unless otherwise stated)

	Notes	Year ended 31 December	
		2021	2020
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			
<i>Amount recognised in equity</i>		459	19
<i>Amount reclassified to profit or loss</i>		(428)	(183)
Debt investments at fair value through other comprehensive income			
<i>Amount recognised in equity</i>		2,796	(920)
<i>Amount reclassified to profit or loss</i>		(442)	(825)
Effective portion of gains or losses on hedging instruments in cash flow hedges			
<i>Amount recognised in equity</i>		891	(1,362)
<i>Amount reclassified to profit or loss</i>		(463)	815
Translation difference on foreign operations		(3,450)	(4,776)
Others		14	(8)
Subtotal		(623)	(7,240)
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		(1,555)	(1,204)
Actuarial losses on pension benefits		55	(132)
Changes in fair value attributable to changes in the credit risk of financial liability designated at fair value through profit or loss		(36)	7
Others		2	20
Subtotal		(1,534)	(1,309)
Other comprehensive income, net of tax	42	(2,157)	(8,549)
Total comprehensive income for the year		86,782	71,021
Net profit attributable to:			
Shareholders of the Bank		87,581	78,274
Non-controlling interests		1,358	1,296
		88,939	79,570
Total comprehensive income attributable to:			
Shareholders of the Bank		85,696	69,960
Non-controlling interests		1,086	1,061
		86,782	71,021
Basic and diluted earnings per share for profit attributable to the shareholders of the Bank (in RMB yuan)	17	1.10	0.99

The accompanying notes form a part of these consolidated financial statements.

CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(All amounts expressed in millions of RMB unless otherwise stated)

	Notes	As at 31 December 2021	As at 31 December 2020
ASSETS			
Cash and balances with central banks	18	734,728	817,561
Due from and placements with banks and other financial institutions	19	632,708	571,130
Derivative financial assets	21	39,220	54,212
Loans and advances to customers	22	6,412,201	5,720,568
Financial investments at fair value through profit or loss	20	638,483	482,588
Financial investments at amortised cost	23	2,203,037	2,019,529
Financial investments at fair value through other comprehensive income	23	681,729	735,220
Investments in associates and joint ventures	25	5,779	4,681
Property and equipment	26	171,194	169,471
Deferred income tax assets	27	32,061	27,991
Other assets	28	114,617	94,665
Total assets		11,665,757	10,697,616
LIABILITIES			
Due to and placements from banks and other financial institutions	29	1,947,768	1,787,491
Financial liabilities at fair value through profit or loss	30	50,048	29,279
Derivative financial liabilities	21	36,074	55,942
Due to customers	31	7,039,777	6,607,330
Certificates of deposits issued	32	892,020	634,297
Current income tax liabilities		4,725	3,786
Deferred income tax liabilities	27	1,889	1,286
Debt securities issued	33	503,525	497,755
Other liabilities	34	212,695	201,822
Total liabilities		10,688,521	9,818,988
EQUITY			
Share capital	35	74,263	74,263
Other equity instruments	36	174,790	133,292
<i>Including: Preference shares</i>		<i>44,952</i>	<i>44,952</i>
<i>Perpetual bonds</i>		<i>129,838</i>	<i>88,340</i>
Capital surplus	35	111,428	111,428
Other reserves		346,092	333,176
Retained earnings		258,074	214,448
Equity attributable to shareholders of the Bank		964,647	866,607
Equity attributable to non-controlling interests of ordinary shares		9,424	8,763
Equity attributable to non-controlling interests of other equity instruments	39	3,165	3,258
Non-controlling interests		12,589	12,021
Total equity		977,236	878,628
Total equity and liabilities		11,665,757	10,697,616

The consolidated financial statements were approved and authorised for issuance by the Board of Directors on 25 March 2022 and signed on its behalf by:

Chairman and Executive Director: Ren Deqi

Vice Chairman, Executive Director and President: Liu Jun

The accompanying notes form a part of these consolidated financial statements.

CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(All amounts expressed in millions of RMB unless otherwise stated)

	Other equity instruments										Other reserves			Non-controlling interests			Total	
	Share capital	Preference Shares	Perpetual bonds	Capital surplus	Statutory reserve	Discretionary reserve	Statutory general reserve	Revaluation reserve for financial assets at fair value through other comprehensive income	Revaluation reserve for the changes in credit risk of the financial liabilities designated at fair value through profit or loss	Effective portion of gains or losses on hedging instruments in cash flow hedges	Translation reserve on foreign operations	Actuarial changes reserve	Others	Retained earnings	Attributable to the Bank shareholders	Attributable to non-controlling interests of ordinary shares		Attributable to non-controlling interests of other equity instruments
	Note 35	Note 36	Note 36	Note 35	Note 37	Note 37	Note 37	Note 37	Note 37	Note 37	Note 37	Note 37	Note 37	Note 37	Note 38	Note 38	Note 38	
As at 1 January 2021	74,263	44,952	88,340	111,428	72,431	139,930	123,163	466	12	(532)	(3,517)	(142)	1,375	214,448	866,607	8,763	3,258	878,628
Net profit for the year	-	-	-	-	-	-	-	-	-	-	-	-	-	87,581	87,581	1,236	122	88,939
Other comprehensive income	-	-	-	-	-	-	-	1,019	(36)	428	(3,367)	55	16	-	(1,865)	(179)	(89)	(2,157)
Total comprehensive income	-	-	-	-	-	-	-	1,019	(36)	428	(3,367)	55	16	87,581	85,696	1,057	29	86,782
Capital contribution by other equity instruments holders	-	-	41,498	-	-	-	-	-	-	-	-	-	-	-	41,498	-	-	41,498
Dividends paid to ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-	-	(23,541)	(23,541)	(896)	-	(23,937)
Dividends paid to preference shares	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,755)	(1,755)	-	-	(1,755)
Interest paid to perpetual bond holders	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,858)	(3,858)	-	-	(3,858)
Interest paid to non-cumulative subordinated additional tier-1 capital securities holders	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfer to reserves	-	-	-	-	7,636	92	7,117	-	-	-	-	-	-	(14,745)	-	-	-	(122)
Transferred from other comprehensive income	-	-	-	-	-	-	-	56	-	-	-	-	-	(56)	-	-	-	-
As at 31 December 2021	74,263	44,952	129,938	111,428	79,967	140,022	130,280	1,531	(24)	(104)	(6,884)	(87)	1,391	258,074	964,647	9,424	3,165	977,236

CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

(All amounts expressed in millions of RMB unless otherwise stated)

	Other reserves										Non-controlling interests			Total				
	Share capital Note 35	Preference Shares Note 36	Perpetual bonds Note 36	Capital surplus Note 35	Statutory reserve Note 37	Discretionary reserve Note 37	Statutory general reserve Note 37	Revaluation reserve for financial assets at fair value through other comprehensive income Note 37	Revaluation reserve for the changes in credit risk of the financial liabilities designated at fair value through profit or loss Note 37	Effective portion of gains or losses on hedging instruments in cash flow hedges Note 37	Transition reserve on foreign operations Note 37, 38	Others	Retained earnings Note 37, 38		Attributable to the shareholders of the Bank Note 38	Attributable to non-controlling interests of ordinary shares Note 38	Attributable to non-controlling interests of other equity instruments Note 38	
As at 1 January 2020	74,263	69,876	39,994	113,663	64,897	139,853	117,567	3,421	5	15	1,999	(10)	1,863	177,141	793,247	7,665	-	800,912
Net profit for the year	-	-	-	-	-	-	-	-	-	-	-	-	-	78,274	78,274	1,291	65	79,570
Other comprehensive income	-	-	-	-	-	-	-	(2,939)	7	(647)	(4,716)	(132)	12	-	(8,314)	(35)	(200)	(8,549)
Total comprehensive income	-	-	-	-	-	-	-	(2,939)	7	(647)	(4,716)	(132)	12	78,274	69,960	1,196	(135)	71,021
Capital contribution by other equity instruments holders	-	(14,924)	48,346	(2,201)	-	-	-	-	-	-	-	-	-	-	31,221	-	3,468	34,679
Dividends paid to ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-	-	(23,393)	(23,393)	(132)	-	(23,525)
Dividends paid to preference shares	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,714)	(2,714)	-	-	(2,714)
Interest paid to perpetual bond holders	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,680)	(1,680)	-	-	(1,680)
Interest paid to non-cumulative subordinated additional tier-1 capital securities holders	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(65)
Transfer to reserves	-	-	-	-	7,634	77	5,596	-	-	-	-	-	-	(13,207)	-	-	-	-
Transferred from other comprehensive income	-	-	-	-	-	-	-	(27)	-	-	-	-	-	27	(34)	-	-	-
Others	-	-	-	(34)	-	-	-	-	-	-	-	-	-	-	34	-	-	-
As at 31 December 2020	74,263	44,952	89,340	111,428	72,461	139,930	123,163	456	12	(632)	(6,517)	(142)	1,375	214,448	866,607	8,763	3,238	876,628

The accompanying notes form a part of these consolidated financial statements.

CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CONSOLIDATED STATEMENT OF CASH FLOWS

(All amounts expressed in millions of RMB unless otherwise stated)

	Notes	Year ended 31 December	
		2021	2020
Cash flows from operating activities:			
Profit before tax:		93,959	86,425
Adjustments for:			
Provision for impairment losses		66,371	62,059
Provision for other assets impairment losses		2,320	484
Provision for insurance contracts reserve		15,518	15,495
Depreciation and amortisation		14,839	14,776
(Reversal)/provision for outstanding litigation and unsettled obligation		(199)	32
Net gains on the disposal of property, equipment and other assets		(454)	(166)
Interest income from financial investments		(88,262)	(90,683)
Accreted interests on impaired financial assets		(1,251)	(1,369)
Fair value gains		(1,474)	(5,951)
Share of profit of associates and joint ventures		(277)	(222)
Net gains arising from financial investments		(1,311)	(1,177)
Interest expense on debt securities issued		16,341	14,566
Operating cash flows before movements in operating assets and liabilities		116,120	94,269
Net decrease in balances with central banks		14,515	29,357
Net (increase)/decrease in due from and placements with banks and other financial institutions		(106,359)	127,404
Net increase in financial assets at fair value through profit or loss		(128,020)	(83,695)
Net increase in loans and advances to customers		(776,234)	(597,926)
Net (increase)/decrease in other assets		(22,218)	7,907
Net increase/(decrease) in due to and placements from banks and other financial institutions		161,477	(113,503)
Net increase in financial liabilities at fair value through profit or loss		2,317	8,899
Net increase in due to customers and certificates of deposits issued		674,635	669,890
Net increase in other liabilities		26,622	19,878
Net increase/(decrease) in value-added tax and surcharge payable		1,431	(328)
Income tax paid		939	(12,754)
Net cash flows (used in)/generated from operating activities		(34,775)	149,398

CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

(All amounts expressed in millions of RMB unless otherwise stated)

	Notes	Year ended 31 December	
		2021	2020
Cash flows from investing activities:			
Cash payments for financial investments		(896,387)	(838,096)
Cash received on disposal or redemption of financial investments		750,323	671,877
Dividends received		2,936	1,562
Interest received from financial investments		86,558	89,464
Cash payments for acquisition of intangible assets and other assets		(2,467)	(2,735)
Cash received on disposal of intangible assets and other assets		507	372
Cash payments for purchase and construction of property and equipment		(20,480)	(21,414)
Cash received on disposal of property and equipment		3,462	4,379
Net cash flows used in investing activities		(75,548)	(94,591)
Cash flows from financing activities:			
Cash received from issuing other equity instruments		41,498	51,804
Cash received on debt securities issued		96,121	177,486
Repayment of principals and interests of lease liabilities		(2,413)	(2,415)
Cash payments for distribution of dividends		(88,834)	(27,785)
Repayment of principals of debt securities issued		(15,350)	(80,476)
Cash payments for interest on debt securities		–	(13,050)
Cash payments for redemption of other equity instruments		(29,152)	(17,125)
Dividends and others paid to non-controlling interests		(564)	(162)
Net cash flows generated from financing activities		1,306	88,277
Effect of exchange rate changes on cash and cash equivalents		(3,795)	(3,699)
Net (decrease)/increase in cash and cash equivalents		(112,812)	139,385
Cash and cash equivalents at the beginning of the year		307,120	167,735
Cash and cash equivalents at the end of the year	43	194,308	307,120
Net cash flows from operating activities include:			
Interest received		291,450	285,937
Interest paid		(185,593)	(205,169)

The accompanying notes form a part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

1 GENERAL

Bank of Communications Co., Ltd. (the “Bank”) is a national state-owned joint-stock commercial bank headquartered in Shanghai, which was reorganised on 1 April 1987 upon the approval of Notice Guo Fa (1986) No. 81 issued by the State Council of the PRC and Notice Yin Fa (1987) No. 40 issued by the People’s Bank of China (the “PBOC”).

The Bank possesses the *Finance Permit* No. B0005H131000001 issued by the China Banking and Insurance Regulatory Commission (the “CBIRC”) of the PRC and a Business License for Enterprise Legal Person with the registration number of 9131000010000595XD. The Bank has a registered capital of RMB74.263 billion, whose legal representative is Ren Deqi.

The Bank’s A Shares are listed on the SSE and H Shares are listed on the Hong Kong Stock Exchange, with the stock codes of 601328 and 03328 respectively. The stock code of domestic preference shares listed on the SSE is 360021.

As at 31 December 2021, the Bank operates 248 branches in Mainland China and 23 branches, subsidiary banks and representative offices overseas. The Bank manages domestic branches and sub-branches by province upon the 3-level general structure of Head Office—provincial (directly managed) branches—provincially managed branches (sub-branches).

The main business scope of the Bank includes: absorbing public deposits; issuing short-term, medium-term and long-term loans; handling domestic and foreign settlements; handling bill acceptance and discounting; issuing financial bonds; agency issuance, agency redemption, and underwriting government bonds; buying and selling government bonds and financial bonds; engaging in interbank lending; buying and selling foreign exchange; engaging in bank card business; providing letter of credit services and guarantees; agent collection and payment services; providing safe deposit box services; other businesses approved by various regulatory agencies or institutions (as stated on the approval documents); operating foreign exchange settlement, foreign exchange sales and business approved by the relevant regulatory agencies where overseas institutions are located.

The principal activities of the Bank and its subsidiaries (hereinafter referred to as the “Group”) include corporate and personal banking services, interbank and financial market business, financial leasing, fund management, wealth management, trustees, insurance, overseas securities, debt-to-equity swap and other related financial services.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to the periods presented unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all the applicable International Financial Reporting Standards (“IFRSs”) and disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and the Hong Kong Companies Ordinance (Cap.622). The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments and investment property which are measured at fair value.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 2.29.

2.1.1 New and amended standards adopted by the Group

The Group has adopted the following new and amendments to the International Financial Reporting Standards (“IFRSs”):

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16
Amendments to IFRS 16

Interest Rate Benchmark Reform —Phase 2
COVID-19-related Rent Concessions

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The IASB has issued amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (“Interest Rate Benchmark Reform—Phase 2”). The amendments are effective for annual periods beginning on or after 1 January 2021, with early application permitted.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

2.1.1 New and amended standards adopted by the Group (Continued)*Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (Continued)*

The amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount when accounting for changes in the basis for determining the contractual cash flows of financial instruments (that is, financial instruments classified as amortised cost and debt instruments at FVOCI), lease receivables and lease liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of IFRS 9 to measure and recognise hedge ineffectiveness.

The amendment provides a provisional exemption. When a company expects reasonably that the alternative benchmark interest rate will meet the separately identifiable requirements within 24 months from the date when it is designated as a non-contractually clear risk component, it shall be deemed to meet the separately identifiable requirements. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy.

Amendments to IFRS 16

The International Accounting Standards Board (IASB) has published 'Covid-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16)' that extends, by one year, the May 2020 amendment that provides lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification, and the changes in Covid-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16) amend IFRS 16 to:

- permit a lessee to apply the practical expedient regarding COVID-19-related rent concessions to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022 (rather than only payments originally due on or before 30 June 2021);
- require a lessee applying the amendment to do so for annual reporting periods beginning on or after 1 April 2021;
- require a lessee applying the amendment to do so retrospectively, recognising the cumulative effect of initially applying the amendment as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of the annual reporting period in which the lessee first applies the amendment; and
- specify that, in the reporting period in which a lessee first applies the amendment, a lessee is not required to disclose the information required by paragraph 28(f) of IAS 8.

The adoption of these standards and amendments does not have a material effect on the Group's consolidated financial information.

2.1.2 Standards and amendments issued but not yet effective

		Effective for annual period commencing on or after
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	The amendments were originally intended to be effective for annual periods beginning on or after 1 January 2016. The effective date has now been deferred/removed.
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use	1 January 2022
Amendments to IFRS 3	Reference to the Conceptual Framework	1 January 2022
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41	Annual Improvements to IFRS Standards 2018– 2020	1 January 2022
IFRS 17 and its amendments	Insurance Contracts	1 January 2023
Amendments to IAS 8	Accounting Estimates	1 January 2023
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies	1 January 2023
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

2.1.2 Standards and amendments issued but not yet effective (Continued)

Amendments to IFRS 10 and IAS 28

The amendments address an inconsistency between IFRS 10 and IAS 28 in the sale or contribution of assets between an investor and its associate or joint venture.

A full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary.

Amendments to IAS 16

The amendment to IAS 16 Property, Plant and Equipment (PP&E) prohibits an entity from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment.

Entities must disclose separately the amounts of proceeds and costs relating to items produced that are not an output of the entity's ordinary activities.

Amendments to IFRS 3

The amendments to IFRS 3, 'Business combinations', referred to the 2018 Conceptual Framework for Financial Reporting, are in order to determine what constitutes an asset or a liability in a business combination. In addition, the amendments add a new exception in IFRS 3 for liabilities and contingent liabilities. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37, 'Provisions, Contingent Liabilities and Contingent Assets', or IFRIC 21, 'Levies', rather than the 2018 Conceptual Framework. The amendments also clarify that the acquirer should not recognise contingent assets, as defined in IAS 37, at the acquisition date.

Amendments to IAS 37

The amendment clarifies the meaning of 'costs to fulfil a contract' and explains that the direct cost of fulfilling a contract comprises:

- The incremental costs of fulfilling that contract (for example, direct labour and materials); and
- An allocation of other costs that relate directly to fulfilling contracts (for example, an allocation of the depreciation charge for an item of PP&E used to fulfil the contract).

The amendment also clarifies that, before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract.

Annual Improvements to IFRS Standards 2018 – 2020 Cycle

The Annual Improvements to IFRSs 2018 – 2020 Cycle include a number of amendments to various IFRSs:

- IFRS 9 Financial Instruments – clarifies which fees should be included in the 10% test for derecognition of financial liabilities.
- IFRS 16 Leases – amendment of its illustrative example to remove the illustration of payments from the lessor relating to leasehold improvements, to remove any confusion about the treatment of lease incentives.
- IFRS 1 First – time Adoption of International Financial Reporting Standards – allows entities that have measured their assets and liabilities at carrying amounts recorded in their parent's books to also measure any cumulative translation differences using the amounts reported by the parent. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption.
- IAS 41 Agriculture – removal of the requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.2 Standards and amendments issued but not yet effective *(Continued)*

IFRS 17 and its amendments

IFRS 17 Insurance Contracts was issued in May 2017 as replacement for IFRS 4. It requires a current measurement model where estimates are re-measured in each reporting period. Contracts are measured using the building blocks of discounted probability weighted cash flows, an explicit risk adjustment, and a contractual service margin (“CSM”) representing the unearned profit of the contract which is recognised as revenue over the coverage period.

The standard allows a choice between recognising changes in discount rates either in the statement of profit or loss or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9.

An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.

There is a modification of the general measurement model called the “variable fee approach” for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach, the entity’s share of the fair value changes of the underlying items is included in the CSM. The results of insurers using this model are therefore likely to be less volatile than under the general model.

The IASB issued the amendments to IFRS 17 Insurance contracts, on 25 June 2020, together with an amendment to IFRS 4, so that eligible insurers can still apply IFRS 9 alongside IFRS 17. This concluded the IASB’s targeted amendments to IFRS 17 which aimed to ease implementation of the standard by reducing implementation costs and making it easier for entities to explain, to investors and others, the results from applying IFRS 17. The amendments to IFRS 17 include:

- Effective date

The effective date of IFRS 17 (incorporating the amendments) has been deferred by two years to annual reporting periods beginning on or after 1 January 2023; and the fixed expiry date of the temporary exemption from applying IFRS 9 in IFRS 4 has also been deferred to annual reporting periods beginning on or after 1 January 2023.

- Expected recovery of insurance acquisition cash flows

An entity is required to allocate part of the acquisition costs to related expected contract renewals, and to recognise those costs as an asset until the entity recognises the contract renewals. Entities are required to assess the recoverability of the asset at each reporting date, and to provide specific information about the asset in the notes to the financial statements.

- Contractual service margin attributable to investment services

Coverage units should be identified, considering the quantity of benefits and expected period of both insurance coverage and investment services, for contracts under the variable fee approach and for other contracts with an ‘investment-return service’ under the general model. Costs related to investment activities should be included as cash flows within the boundary of an insurance contract, to the extent that the entity performs such activities to enhance benefits from insurance coverage for the policyholder.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

2.1.2 Standards and amendments issued but not yet effective (Continued)

IFRS 17 and its amendments (Continued)

- Reinsurance contracts held – recovery of losses

When an entity recognises a loss on initial recognition of an onerous group of underlying insurance contracts, or on addition of onerous underlying contracts to a group, an entity should adjust the contractual service margin of a related group of reinsurance contracts held and recognise a gain on the reinsurance contracts held. The amount of the loss recovered from a reinsurance contract held is determined by multiplying the loss recognised on underlying insurance contracts and the percentage of claims on underlying insurance contracts that the entity expects to recover from the reinsurance contract held. This requirement would apply only when the reinsurance contract held is recognised before or at the same time as the loss is recognised on the underlying insurance contracts.

- Other amendments to IFRS 17 include:
 - Scope exclusions for some credit card (or similar) contracts, and some loan contracts;
 - Presentation of insurance contract assets and liabilities in the statement of financial position in portfolios instead of groups;
 - Applicability of the risk mitigation option when mitigating financial risks using reinsurance contracts held and non-derivative financial instruments at fair value through profit or loss;
 - An accounting policy choice to change the estimates made in previous interim financial statements when applying IFRS 17;
 - Inclusion of income tax payments and receipts that are specifically chargeable to the policyholder under the terms of an insurance contract in the fulfilment cash flows;
 - Selected transition reliefs and other minor amendments.

The Group is assessing the impact on the Group's operating results and financial position of adopting IFRS 17.

Amendments to IAS 8

The changes to IAS 8 focus entirely on accounting estimates and clarify the following:

- The definition of a change in accounting estimates is replaced with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty".
- Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty.
- The Board clarifies that a change in accounting estimate that results from new information or new developments is not the correction of an error. In addition, the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors.
- A change in an accounting estimate may affect only the current period's profit or loss, or the profit or loss of both the current period and future periods. The effect of the change relating to the current period is recognised as income or expense in the current period. The effect, if any, on future periods is recognised as income or expense in those future periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.2 Standards and amendments issued but not yet effective *(Continued)*

Amendments to IAS 1 and IFRS Practice Statement 2

Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) amends IAS 1 in the following ways:

- An entity is now required to disclose its material accounting policy information instead of its significant accounting policies;
- Several paragraphs are added to explain how an entity can identify material accounting policy information and to give examples of when accounting policy information is likely to be material;
- The amendments clarify that accounting policy information may be material because of its nature, even if the related amounts are immaterial;
- The amendments clarify that accounting policy information is material if users of an entity's financial statements would need it to understand other material information in the financial statements; and
- The amendments clarify that if an entity discloses immaterial accounting policy information, such information shall not obscure material accounting policy information.

Amendments to IAS 12

The main change in Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12) is an exemption from the initial recognition exemption provided in IAS 12.15(b) and IAS 12.24. Accordingly, the initial recognition exemption does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition. This is also explained in the newly inserted paragraph IAS 12.22A.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023. Early adoption is permitted.

An entity applies the amendments to transactions that occur on or after the beginning of the earliest comparative period presented. It also, at the beginning of the earliest comparative period presented, recognises deferred tax for all temporary differences related to leases and decommissioning obligations and recognises the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at that date.

Except for the above-mentioned impact of IFRS 17 and its amendments, the adoption of the above new standards and amendments issued but not yet effective is not expected to have a material effect on the Group's consolidated financial information.

2.2 Consolidation

2.2.1 Subsidiary undertakings

The consolidated financial statements incorporate the financial statements of the Bank and entities (including structured entities) controlled by the Bank and its subsidiaries. Control is achieved when the Bank:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation *(Continued)*

2.2.1 Subsidiary undertakings *(Continued)*

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are not consolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred in a business combinations is measured at fair value, which is calculated as the sum of the acquisition date fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition related costs are recognised in the consolidated income statement as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interests in the acquiree at the non-controlling interests' proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the identifiable net assets of the acquiree in the case of a bargain purchase, the difference is recognised in profit or loss.

All intra-Group transactions, balances, income and expenses are eliminated in full on consolidation. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

2.2.2 Transactions with non-controlling interests

For acquisition of additional interests in subsidiaries from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiaries is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

loses control of a subsidiary due to the disposal of a portion of an equity investment, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive are reclassified to profit or loss and retained earning.

2.2.3 Structured entities

Structured entities are entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entities, for example when any voting rights relate to administrative tasks only, and key activities are directed by contractual agreement. Structured entities often have restricted activities and a narrow and well-defined objective. Examples of structured entities include investment funds, trusts, securitisation vehicles and asset backed financings. Involvement with consolidated and unconsolidated structured entities is disclosed in Note 44 and 45.

2.2.4 Investment in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is an arrangement whereby the Group and other parties contractually agree to share control of the arrangement through a separate entity, and have rights to the net assets of the arrangement based on legal form, contract terms, and other facts and circumstances. Joint control is the contractually agreed sharing of control over an activity, and exists only when the decisions relating to the activity require the unanimous consent of the Group and other parties sharing the control.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation *(Continued)*

2.2.4 Investment in associates and joint ventures *(Continued)*

The results of an associate or a joint venture are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or a joint venture equals or exceeds its interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate or joint venture.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate or a joint venture recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, is recognised immediately in profit or loss.

At the end of reporting period, the Group assesses whether there is an indication of possible impairment with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested as a single asset for impairment in accordance with IAS 36 "Impairment of assets" by comparing its recoverable amount (the higher of value in use and fair value less costs of sale) with its carrying amount, any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its associate or joint venture, profits and losses resulting from the transactions with the associate or joint venture are recognised only to the extent of interests in the associate or joint venture that are not related to the Group.

2.2.5 Goodwill

Goodwill represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets. Goodwill is not amortised. Goodwill arising from a business combination is allocated to each cash-generating unit ("CGU") or group of CGUs, that is expected to benefit from the synergies of the combination. The Group performs an impairment test on goodwill at least once a year.

On disposal of the related CGU or group of CGUs, any attributable amount of goodwill net of allowances for impairment losses, if any, is included in the calculation of the profit or loss on disposal.

2.3 Financial instruments

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset.

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss for the period. Immediately after initial recognition, an expected credit loss allowance is recognised for financial assets measured at amortised cost and debt investments measured at fair value through other comprehensive income, which results in an accounting loss being recognised in profit or loss for the period when an asset is newly originated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Financial instruments (Continued)

Initial recognition and measurement (Continued)

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognises the difference as follows:

- (a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.
- (b) In all other cases, the difference is deferred, and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

The method of determining fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction at the measurement date. For financial instruments with active markets, the Group uses quotations from active markets to determine their fair value, and for financial instruments where there is no active market, the Group uses valuation techniques to determine its fair value. Valuation techniques include references to prices used in recent market transactions by parties familiar with the situation and voluntary transactions, the current fair value of other financial instruments with reference to the same substantially, the discounted cash flow method and the option pricing model.

Measurement methods

Amortised cost and effective interest rate

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired ("POCI") financial assets – assets that are credit-impaired at initial recognition – the Group calculates the credit-adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

When the Group revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

2.3.1 Financial assets

Classification and subsequent measurement

The Group has classified its financial assets in the following measurement categories:

- Fair value through profit or loss (FVPL);
- Fair value through other comprehensive income (FVOCI); or
- Amortised cost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Financial instruments *(Continued)*

2.3.1 Financial assets *(Continued)*

Classification and subsequent measurement (Continued)

The classification requirements for debt and equity instruments are described below:

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

Classification and subsequent measurement of debt instruments depend on:

- (i) The Group's business model for managing the asset; and
- (ii) The cash flow characteristics of the asset.

Based on these factors, the Group classifies its debt instruments into one of the following three measurement categories:

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured from these financial assets. According to the business category, these financial assets are presented as 'Cash and balances with central banks', 'Due from banks and other financial institutions', 'Loans and advances to customers' and 'Financial investments at amortised cost' respectively. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

Fair value through other comprehensive income (FVOCI): Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. According to the business category, respectively, these financial assets are presented as 'Loans to customers' and 'Debt investments at fair value through other comprehensive income'. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and recognised in 'Net gains arising from financial investments'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

Fair value through profit or loss: Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on the debt investment, which is measured at fair value through profit or loss and is not part of a hedging relationship, is recognised in profit or loss and presented as 'Net gains arising from trading activities'.

Business model: the business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPL. Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Financial instruments (Continued)

2.3.1 Financial assets (Continued)

Classification and subsequent measurement (Continued)

Debt instruments (Continued)

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

When, and only when, the Group changes the business model for managing its financial assets, shall it reclassify all affected financial assets, and apply the reclassification prospectively from the reclassification date. The Group does not restate any previously recognised gains, losses (including impairment gains or losses) or interest. Reclassification date is the first day of the first reporting period following the change in business model that results in the Group reclassifying financial assets.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Group subsequently measures all equity investments at fair value through profit or loss, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income, listed as 'Financial investments at FVPL'. The Group's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to sell. When this election is used, fair value gains or losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as 'Net gains arising from financial investments' when the Group's right to receive payments is established.

Gains or losses on equity investments at FVPL are recognised as 'Net gains arising from trading activities'.

Impairment

On a forward-looking basis, the Group assesses the expected credit losses ('ECL') of debt instrument assets at amortised cost and FVOCI, exposures arising from credit related commitments and financial guarantees. The Group recognises a loss allowance accordingly at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Regarding these judgment and estimates, please refer to note 3.1.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Financial instruments *(Continued)*

2.3.1 Financial assets *(Continued)*

Classification and subsequent measurement (Continued)

Write-off

The book value of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. A write-off constitutes a derecognition event. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

Modification of loans

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms. The Group does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Group derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Financial instruments (Continued)

2.3.1 Financial assets (Continued)

Derecognition other than on a modification

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Group transfers substantially all the risks and rewards of ownership, or (ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control.

The Group enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if the Group:

- (i) Has no obligation to make payments unless it collects equivalent amounts from the assets;
- (ii) Is prohibited from selling or pledging the assets; and
- (iii) Has an obligation to remit any cash it collects from the assets without material delay.

Collateral (shares and bonds) furnished by the Group under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitisation transactions in which the Group retains a subordinated residual interest.

When the contractual rights to receive the cash flows from the assets have been transferred, and the Group neither transfers nor retains substantially all the risks and rewards of ownership, and the Group has retained control of the transferred assets, the Group applies continuing involvement approach. Under this approach, the Group continues to recognise the transferred asset to the extent of its continuing involvement and recognise the associated liability, to reflect the rights and obligations retained by the Group. The net carrying amount of the transferred asset and associated liability is: (a) the amortised cost of the rights and obligations retained by the Group, if the transferred asset is measured at amortised cost; or (b) equal to the fair value of the rights and obligations retained by the Group when measured on a stand-alone basis, if the transferred asset is measured at fair value.

Asset securitisation

As part of its operational activities, the Group securitises financial assets, generally through the sale of these assets to structured entities which then issue securities to investors. The Group holds part or all of the subordinated tranche notes, which are not transferrable before both the principals and interests of the senior tranche notes are repaid. The Group serves as the asset management supplier, providing services including loan collection for the investment pool, keeping accounting records related to the investment pool and issuing reports as the service agency. The assets under securitisation are used to repay the principals and interests of the senior tranche notes first after deducting related taxation and expenses, and the remaining assets under securitisation are repaid to the Group and subordinated tranche notes investors. The Group derecognises the transferred assets in full or in part based on the extent of the risks and rewards retained over.

The Group evaluates the extent to which it transfers the risks and rewards of ownership of the financial assets to the other party and determines whether it retains control while applying the accounting policy in respect of asset securitisation.

- (1) The financial asset is derecognised when the Group transfers substantially all the risks and rewards of ownership of the financial asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Financial instruments *(Continued)*

2.3.1 Financial assets *(Continued)*

Asset securitisation (Continued)

- (2) The financial asset continues to be recognised when the Group retains substantially all the risks and rewards of ownership of the financial asset.
- (3) When the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset and does not retain control it derecognises the financial asset and recognises separately as assets or liabilities any rights and obligations created or retained in the transfer.
- (4) When the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset and retains control, it continues to recognise the financial asset to the extent of its continuing involvement in the financial asset. The Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

2.3.2 Financial liabilities

Classification and subsequent measurement

In both the current and prior period, financial liabilities are classified as liabilities measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains or losses attributable to changes in the credit risk of the liability are also presented in profit or loss;
- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition or when the continuing involvement approach applies. When the transfer of financial asset did not qualify for derecognition, a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Group recognises any expense incurred on the financial liability; when continuing involvement approach applies, see note 2.3.1; and
- Credit related commitments and financial guarantees (refer to Note 2.26)

Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Financial instruments (Continued)

2.3.2 Financial liabilities (Continued)

Derecognition (Continued)

The exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is more than 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

A financial instrument is an equity instrument if, and only if, both conditions (i) and (ii) below are met:

- (i) The financial instrument includes no contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; and
- (ii) If the financial instrument will or may be settled in the Group's own equity instruments, it is a non-derivative instrument that includes no contractual obligations for the Group to deliver a variable number of its own equity instruments; or a derivative that will be settled only by the Group exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

Equity instruments issued by the Group are recorded at the fair value of proceeds received, net of direct issuance expenses.

2.3.3 Derivative financial instruments and hedge accounting

Derivatives are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the hybrid (combined) instrument vary in a way similar to a stand-alone derivative. If the hybrid contract contains a host that is a financial asset, then the Group assesses the entire contract as described in the financial assets section above for classification and measurement purposes. Otherwise, the embedded derivatives are treated as separate derivatives when:

- (i) The economic characteristics and risks are not closely related to those of the host contract;
- (ii) A separate instrument with the same terms would meet the definition of a derivative; and
- (iii) The hybrid contract is not measured at fair value through profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Financial instruments *(Continued)*

2.3.3 Derivative financial instruments and hedge accounting *(Continued)*

These embedded derivatives are separately accounted for at fair value, with changes in fair value recognised in the statement of profit or loss unless the Group chooses to designate the hybrid contracts at fair value through profit or loss.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated and qualifies as a hedging instrument, and if so, the nature of the item being hedged. For derivatives not designated or qualified as hedging instruments, including those intended to provide effective economic hedges of specific interest rate and foreign exchange risks, but do not qualify for hedge accounting, changes in the fair value of these derivatives are recognised in “Net trading gains” in the income statement.

The Group documents, at the inception of the hedge, the relationship between hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment of hedging effectiveness both at hedge inception and on an ongoing basis, that is, the extent to which changes in the fair value or cash flow of the hedge instrument can offset the changes in fair values or cash flows of hedged items resulting from the hedge risk.

The hedging relationship should meet all of the following hedge effectiveness requirements:

- (i) There is an economic relationship between the hedged item and the hedging instrument. That means the hedging instrument and hedged item have values that generally move in the opposite direction because of the same risk, which is the hedged risk.
- (ii) The effect of credit risk does not dominate the value changes that result from that economic relationship; and
- (iii) The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of the hedged item. However, that designation shall not reflect an imbalance between the weightings of the hedged item and the hedging instrument that would create hedge ineffectiveness that could result in an accounting outcome that would be inconsistent with the purpose of hedge accounting.

Possible sources of ineffectiveness are as follows:

- (i) Increase or decrease in the amounts of hedged items or hedging instruments;
- (ii) Significant changes in counterparties' credit risk.

The Group discontinues hedge accounting prospectively when the hedging instrument expires or is sold, terminated or exercised (the replacement or rollover of a hedging instrument into another hedging instrument does not constitute an expiration or termination), or the hedging relationship ceases to meet the risk management objective, or to meet other qualifying criteria for hedging accounting.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship so that it meets the qualifying criteria again.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Financial instruments (Continued)

2.3.3 Derivative financial instruments and hedge accounting (Continued)

(a) Fair value hedge

Fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or a component of any such item, that is attributable to a particular risk and could affect profit or loss.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the statement of profit or loss, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss no later than when the hedged item ceases to be adjusted for hedging gains and losses over the period to maturity and recorded as net interest income.

(b) Cash flow hedge

Cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with all, or a component of, a recognised asset or liability or a highly probable forecast transaction, and could affect profit or loss.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the statement of profit or loss.

Amounts accumulated in equity are recycled to the statement of profit or loss in the periods when the hedged item affects profit or loss. They are recorded in the income or expense lines in which the revenue or expense associated with the related hedged item is reported.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised in the periods when the hedged item affects profit or loss. When a forecast transaction is no longer expected to occur (for example, the recognised hedged asset is disposed of), the cumulative gain or loss previously recognised in other comprehensive income is immediately reclassified to the statement of profit or loss.

(c) Impact of the Interbank Offered Rate Reform (hereinafter referred to as the "IBOR reform") on hedge accounting

In view of the potential impact of IBOR reform on financial reporting, targeted exemptions are provided for financial instruments eligible for hedge accounting until the IBOR reform is completed. The major changes are as follows:

- The specific requirements for hedge accounting have been modified so that the Group, when applying such hedge accounting requirements, can assume that the benchmark rate used in the measurement of the hedged cash flows and the cash flows from the hedging instruments will not be affected by the changes due to the IBOR reform;
- When performing forward-looking tests, the Group assumes that the benchmark applicable to the cash flows of the hedged item, hedging instrument or the hedged risk will not change along with the IBOR reform;
- Provided that the Group reasonably expects ibor to be separately identifiable within 24 months since the first designation, even if it is not separately identifiable at the date when it is designated, the Group shall designate it as a non-contractually clear risk component of hedged items or of the hedged risk.
- The nominal amount of the hedging instruments to which the above provisions apply and any significant assumptions or judgments made pursuant to the above provisions shall be disclosed. The Group's impact by the IBOR reform and its management during the transition period shall also be disclosed qualitatively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Financial instruments *(Continued)*

2.3.4 Offsetting financial assets and financial liabilities

When the Group has a currently enforceable legal right to offset recognised financial assets and financial liabilities, and intends either to settle on a net basis or to realise the financial asset and settle the financial liability at the same time, the financial assets and liabilities are offset with the net amount presented in the consolidated statement of financial position. Otherwise, financial assets and financial liabilities are presented separately. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

2.4 Interest income and expense

The “Interest income” and “Interest expense” in the Group’s income statement are the interest income and expense calculated by using the effective interest method on debt investment at amortised cost, debt investment at fair value through other comprehensive income and financial liabilities at amortised cost, etc.

For those purchased or originated credit-impaired financial assets, the Group calculates the interest income by applying the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition. For those financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets, the Group calculates the interest income by applying the effective interest rate to the amortised cost of the financial asset in subsequent reporting periods.

2.5 Fee and commission income

Fee and commission income is recognised when the Group fulfills its performance obligation, either over time or at a point in time when a customer obtains control of the service.

For the performance obligations satisfied at a point in time, the Group recognises revenue when control is passed to the customer at a certain point in time. For the performance obligations satisfied over time, the Group recognises revenue according to the progress toward satisfaction of the obligation over the time.

2.6 Dividend income

Dividends are recognised when the right to receive the dividends is established.

2.7 Assets transferred under repurchase agreements

(a) Financial assets sold under repurchase agreements

Financial assets sold subject to agreements with a commitment to repurchase at a specific future date at a fixed or determinable price are not derecognised in the statement of financial position. The proceeds from selling such assets are presented under “due to banks and other financial institutions” in the statement of financial position. The difference between the selling price and repurchasing price is recognised as interest expense during the term of the agreement using the effective interest method.

(b) Financial assets purchased under repurchase agreements

Financial assets that have been purchased under agreements with a commitment to resell at a specific future date are not recognised in the statement of financial position. The cost of purchasing such assets is presented under “due from banks and other financial institutions” in the statement of financial position. The difference between the purchasing price and reselling price is recognised as interest income during the term of the agreement using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Precious metals

Precious metals that are not related to the Group's trading activities are initially measured at acquisition cost and subsequently measured at the lower of cost and net realisable value. Precious metals that are related to the Group's trading activities are initially and subsequently recognised at fair value, with changes in fair value arising from re-measurement recognised directly in profit or loss in the period in which they arise.

2.9 Property and equipment

The Group's property and equipment mainly comprise buildings, construction in progress, equipment, transportation equipment and property improvement.

The assets purchased or constructed are initially measured at acquisition cost.

Subsequent expenditures incurred for the property and equipment are included in the cost of the property and equipment if it is probable that economic benefits associated with the asset will flow to the Group and the subsequent expenditures can be measured reliably. Meanwhile the carrying amount of the replaced part is derecognised. Other subsequent expenditures are recognised in profit or loss in the period in which they are incurred.

Depreciation is calculated on a straight-line basis to write down the cost of such assets to their residual values over their estimated useful lives. The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each financial reporting date.

Buildings comprise primarily office premises. The estimated useful lives, depreciation rate and estimated residual value rate of buildings, equipment, transportation equipment and property improvement are as follows:

Type of assets	Estimated useful lives	Estimated residual value rate	Depreciation rate
Buildings	25 years – 50 years	3%	1.94% – 3.88%
Equipment	3 years – 11 years	3%	8.82% – 32.33%
Transportation equipment (excluding equipment under operating leases)	4 years – 8 years	3%	12.13% – 24.25%
Property improvement	Over the economic useful lives		

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Construction in progress is measured at its actual costs. The actual costs include various construction expenditures during the construction period and other relevant costs. Construction in progress is not depreciated. Construction in progress is transferred to a property and equipment when it is ready for intended use.

Equipment under operating leases where the Group is the lessor is aircraft or vessel. The estimated useful lives and depreciation rate of the aircraft or vessel are determined considering their conditions and the estimated residual values are determined by external appraiser using historical data on an item-by-item basis. The estimated useful lives range from 5 to 25 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.10 Foreclosed assets

Foreclosed financial assets are initially recognised at fair value, and foreclosed non-financial assets are initially recognised at cost. At the end of each reporting period, foreclosed non-financial assets are measured at the lower of the carrying amount and the net realisable value. When the net realisable value is lower than the carrying amount, an impairment allowance is recognised.

When a foreclosed asset is disposed, the difference between the disposal proceeds and the carrying amount is recognised in profit or loss.

The Group disposes of foreclosed assets through various means. In principle, foreclosed assets should not be transferred for own use, but, in the event that they are needed for the Group's own business or management purposes, they are transferred at their net carrying amounts and managed as newly acquired property and equipment.

When a foreclosed asset needs to be transferred for own use, it is transferred at its carrying amount including the impairment allowance at the transition day.

Foreclosed assets of the Group mainly include buildings and land use rights.

2.11 Land use rights

Land use rights are classified as other assets and amortised using the straight-line method over the lease term.

2.12 Intangible assets

An intangible asset is measured initially at cost. When an intangible asset with a finite useful life is available for use, its original cost is amortised over its estimated useful life using the straight-line method. An intangible asset with an indefinite useful life is not amortised.

For an intangible asset with a finite useful life, the Group reviews the useful life and amortisation method at the end of each reporting period, and makes adjustments when necessary.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

2.13 Investment property

Investment property is a property held to earn rentals or for capital appreciation or both and initially measured at cost.

As there is an active property market in the location in which the Group's investment property is situated, and the Group can obtain the market price and other relevant information regarding the same or similar type of property from the property market so as to reasonably estimate the fair value of the investment property; therefore, the Group uses the fair value model for subsequent measurement of the investment property, with changes in the fair value included in profit or loss for the period in which they arise.

When an investment property is sold, transferred, retired or damaged, the Group recognises the amount of any proceeds on disposal net of the carrying amount and related taxes in profit or loss for the period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.14 Impairment of assets

The Group determines the impairment of assets, other than the impairment of deferred tax assets and financial assets, with the following methods:

The Group assesses at the balance sheet date whether there is any indication that assets may be impaired. If any indication that an asset may be impaired exists, the Group estimates the recoverable amount of the asset.

If there is any indication that an asset may be impaired and it is not possible to estimate the recoverable amount of an individual asset, the Group determines the recoverable amount based on the CGU to which the asset belongs.

CGU is the smallest identifiable group of assets, and the cash inflows generated by a CGU are largely independent from other assets or groups of assets.

The recoverable amount of an asset (or CGU, group of CGUs) is the higher of its fair value less costs to sell and the present value of the expected future cash flows. The Group considers all relevant factors in estimating the present value of future cash flows, such as the expected future cash flows, the useful life and the discount rate.

(a) Testing CGU with goodwill for impairment

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to the CGU or group of CGUs that is expected to benefit from the synergies of the combination.

A CGU or group of CGUs to which goodwill has been allocated is tested for impairment by the Group at least annually, or whenever there is an indication that the CGU or group of CGUs are impaired, by comparing the carrying amount of the CGU or group of CGUs, including the goodwill, with the recoverable amount of the CGU or group of CGUs. The recoverable amount of the CGU or group of CGUs are the estimated future cash flows, which are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the CGU or group of CGUs with allocated goodwill.

At the time of impairment testing of a CGU or group of CGUs to which goodwill has been allocated, there may be an indication of an impairment of an asset within the CGU containing the goodwill. Under such circumstances, the Group tests the asset for impairment first, and recognises any impairment loss for that asset before testing for impairment on the CGU or group of CGUs containing the goodwill. Similarly, there may be an indication of an impairment of a CGU within a group of CGUs containing the goodwill. Under such circumstances, the Group tests the CGU for impairment first, and recognises any impairment loss for that CGU, before testing for impairment the group of CGUs to which the goodwill is allocated.

(b) Impairment loss

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is recognised as an impairment loss and charged to the profit or loss.

For a CGU or a group of CGUs, the amount of impairment loss firstly reduces the carrying amount of any goodwill allocated to the CGU or group of CGUs, and then reduces the carrying amount of other assets (other than goodwill) within the CGU or group of CGUs, pro rata on the basis of the carrying amount of each asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.14 Impairment of assets *(Continued)*

(c) Reversing an impairment loss

If, in a subsequent period, the amount of impairment loss of the non-financial asset except for goodwill decreases and the decrease can be linked objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the profit or loss. A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior periods.

An impairment loss in respect of goodwill is not reversed.

2.15 Leases

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset for a period of time, the Group assesses whether, throughout the period of use, the customer has both of the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset.

(a) The Group as Lessee

The Group recognises the right-of-use asset on the start date of the lease term and recognises the lease liability at the present value of the remaining lease payments. The lease payments include fixed payments and payments to be made when it is reasonably determined to exercise purchase option or terminate lease option. Variable rent determined based on a certain proportion of sales is not included in the lease payments and is recognised in profit or loss when incurred.

The Group's right-of-use assets include leased properties, venues, parking lots, advertising spaces, vehicles and equipment etc. The right-of-use asset is initially measured at cost, which includes the initial measurement of the lease liability, the lease payments already paid on or before the lease start date, the initial direct costs etc., and deducts any lease incentives received. The leased asset is depreciated on a straight-line basis over its remaining useful life if the Group could reasonably determine to obtain the ownership at the expiration of the lease term; if it is unsure whether the ownership of the leased asset can be obtained at the expiration of the lease term, the right-of-use asset is depreciated over the shorter of its remaining useful life and the lease term on a straight-line basis. When the recoverable value is lower than the book value of the right-of-use asset, the Group reduces the book value to the recoverable value.

For short-term leases with a lease term shorter than 12 months and leases of asset with low value when it is new, the Group recognises relevant rental expenses on a straight-line basis in profit or loss or in the related asset costs in each lease period rather than recognising the right-of-use assets or lease liabilities.

The Group accounts for a modification to a finance lease as a separate lease if both: (a) the modification increases the scope of the lease by adding the right to use one or more underlying assets; and (b) the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, in the case where the COVID-19 directly caused contract changes, a simplified method is adopted; otherwise, at the effective date of the lease modification, the Group remeasures the lease term and the lease liability by discounting the revised lease payments using a revised discount rate. The Group decreases the carrying amount of the right-of-use asset for lease modifications that decrease the scope or term of the lease, and recognised the gain or loss relating to the partial or full termination of the lease in profit or loss. The Group makes a corresponding adjustment to the right-of-use asset for all other lease modifications.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.15 Leases (Continued)

(a) The Group as Lessee (Continued)

For rent concessions that are directly related to COVID-19 and applicable only before 30 June 2022, the Group uses an expedient, with the undiscounted concessions recognised in profit or loss and lease liabilities adjusted accordingly when original payments are exempted upon agreement.

(b) The Group as Lessor Operating Lease

When the Group leases out its own buildings and properties, equipment and transportation vehicles, the rental income arising from operating leases is recognised on a straight-line basis over the lease term. Variable rent gained by the Group is recognised in rental income when incurred.

Finance Lease

As lessor of the finance lease, the Group recognises the finance lease receivables for the finance lease on the commencement date of the lease period and derecognises the related assets. Finance lease receivables are recognised at the net lease investment to “Loans and advances to customers” for the initial measurement. The net lease investment is the sum of the unsecured residual value and the present value of the lease payments unreceived at the commencement date of the lease period discounted at the interest rate implicit in lease.

Finance lease receivables are derecognised when the contractual rights of receiving cash from the finance lease receivables have expired or have been transferred and all substantial risks and rewards regarding the lease have been transferred.

During the lease period, the lessor applies the fixed periodic interest rate to calculate the interest income for each period. Contingent rentals are recognised in profit or loss when incurred.

2.16 Cash and cash equivalents

Cash and cash equivalents are short-term and highly liquid assets, which are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value. Cash and cash equivalents include cash and assets with maturities of three months or less from the date of purchase under balances with central banks, due from banks and other financial institutions.

2.17 Provisions

Provisions are recognised when the Group has a present obligation related to a contingency, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account factors pertaining to a contingency such as the risks, uncertainties and time value of money. Where the effect of the time value of money is material, the amount of the provision is determined by discounting the related future cash outflows.

Where all or some of the expenditure required to settle a provision is expected to be reimbursed by a third party, the reimbursement is recognised as a separate asset only when it is virtually certain that reimbursement will be received, and the amount of reimbursement recognised does not exceed the carrying amount of the provision.

2.18 Income taxes

Income tax represents the sum of the tax currently payable and deferred tax.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.18 Income taxes *(Continued)*

(a) Current income tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

(b) Deferred income tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income, in which case the current and deferred tax are also recognised in other comprehensive income.

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.19 Share capital

(a) Share capital

Share capital comprises ordinary shares issued.

(b) Share issue costs

External costs directly attributable to the issuance of new shares are shown in equity as a deduction from the proceeds.

2.20 Dividend distribution

(a) Dividends on ordinary shares

Dividends on ordinary shares are recognised in the period in which they are declared and approved by the Bank's shareholders.

(b) Dividends on preference shares

Preference share dividend distribution is recognised as a liability in the Group's and the Bank's financial statements in the period in which the dividends are approved by the Board of Directors of the Bank.

(c) Distribution on perpetual bonds

Perpetual bond interest distribution is recognised as a liability in the Group's and the Bank's financial statements in the period in which the interest distribution approved by the Board of Directors of the Bank.

2.21 Acceptances

Acceptances comprise the Group's commitments on payment for bills that are issued to customers. Acceptances are accounted for as credit related commitments and financial guarantees and are disclosed as contingent liabilities and commitments.

2.22 Staff costs and benefits

(a) Staff costs

Staff costs include salaries, bonuses, allowance and subsidies, staff welfare, medical insurance, employment injury insurance, maternity insurance, housing funds, labor union fees as well as staff education expenses and housing allowance. During the reporting period in which employees have rendered services, the Group recognises the staff costs payable as a liability with a corresponding charge to profit or loss or the cost of assets where appropriate.

The Group participates in the employee social security systems established by the government, including medical insurance, housing funds and other social securities, in accordance with relevant requirements. Related expenses are recognised in profit or loss when incurred.

(b) Post-employment benefits

The Group divides post-employment benefit plans into defined contribution plans and defined benefit plans. Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into a separate fund and will have no obligation to pay further contributions. Defined benefit plans are post-employment benefit plans other than defined contribution plans. During the reporting period, post-employment benefits for the employees of the Group mainly include payment to basic retirement insurance, unemployment insurance, annuity plan and supplementary retirement benefits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.22 Staff costs and benefits *(Continued)*

(b) Post-employment benefits *(Continued)*

Basic retirement insurance

Employees of the Group have joined basic retirement insurance arranged by local ministry of labour and social security. The Group makes monthly contributions to the retirement insurance according to the base and proportion set by local government. When employees retire, local ministry of labour and social security is responsible for the payment of the basic pension to the retired employees. Such basic retirement insurance is a defined contribution plan. During the reporting period in which employees have rendered services, the Group recognises the amounts payable as a liability with a corresponding charge to profit or loss or the cost of assets where appropriate.

Annuity plan

Employees of domestic branches who retire at or after 1 January 2009 participate in the annuity plan established by the Group. The Group contributes a certain portion of employees' gross salaries to the annuity plan. Such annuity plan is a defined benefit plan. Related expenses are recognised in profit or loss when incurred.

Supplementary retirement benefits

The Group pays supplementary retirement benefits to employees of domestic branches who retired at or before 31 December 2008. Such supplementary retirement benefits are defined benefit plans. The Group accrues a liability based on actuarial techniques and recognises all actuarial gains or losses in other comprehensive income. Such actuarial gains or losses will not be reversed to profit or loss subsequently. Past service costs are recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability and recognised in profit or loss when incurred.

(c) Early retirement expenses

The Group pays the welfare benefits for employees, who have not yet reached the statutory retirement age limit and are approved by the Group to voluntarily retire from their employment, from the early retirement date to the statutory retirement age limit. These welfare benefits are recognised in profit or loss based on the discounted cash flow calculation over the implementation period. The Group reviews present value of the welfare benefits on each reporting date, with any changes recognised in profit or loss.

2.23 Foreign currency translation

Renminbi ("RMB") is the currency of the primary economic environment in which the Bank and the Group's domestic subsidiaries operate. Therefore, the Bank and the Group's domestic subsidiaries choose RMB as their functional currency. The Bank and the Group's foreign subsidiaries choose their respective functional currencies on the basis of the primary economic environment in which they operate. The Group adopts RMB to prepare its consolidated financial statements.

In preparing the financial statements of each individual Group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.23 Foreign currency translation *(Continued)*

At the reporting date, foreign currency monetary items are translated into functional currency using the spot exchange rates at the reporting date. Exchange differences arising from the differences between the spot exchange rates prevailing at the reporting date and those on initial recognition or at the previous reporting date are recognised in profit or loss for the period, except that (1) exchange differences related to hedging instruments for the purpose of hedging against foreign exchange risks are accounted for using hedge accounting; (2) exchange differences arising from non-monetary items at fair value through other comprehensive income (such as shares) denominated in foreign currencies and changes in the carrying amounts (other than the amortised cost) of monetary items at fair value through other comprehensive income are recognised as other comprehensive income; and (3) exchange differences arising on a foreign currency monetary item that forms part of the Bank's net investment in a foreign operation.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the spot exchange rates at the date of the transactions or a rate that approximates the spot exchange rates of the date of the transaction. Exchange differences arising, if any, are recognised in other comprehensive income.

On disposal of the Group's entire interest in a foreign operation, or upon a loss of control over a foreign operation due to disposal of certain interest in it or other reasons, the Group transfers the accumulated exchange differences arising on translation of financial statements of this foreign operation and foreign currency monetary items that form part of the net investment in such foreign operation attributable to the owners' equity of the Group and presented under shareholder's equity in the statement of financial position, to profit or loss in the period in which the disposal occurs.

In case of a disposal or other reason that does not result in the Group losing control over a foreign operation, the proportionate share of accumulated exchange differences arising on translation of financial statements are re-attributed to non-controlling interests and are not recognised in profit and loss. For partial disposals of equity interests in foreign operations which are associates and joint ventures, the proportionate share of the accumulated exchange differences arising on translation of financial statements of foreign operations is reclassified to profit or loss.

2.24 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably. Contingent liabilities are disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable and can be reliably estimated, it will then be recognised as a provision.

2.25 Insurance contracts

(a) Insurance contracts classification and division

Insurance contracts are those contracts under which the Group has undertaken significant insurance risk, relative to an insured event or occurrence. The Group issues primarily life insurance contracts, which insure events associated with mortality over a long duration. The Group also issues non-life insurance contracts, which cover short-term casualty and health insurance risk. When necessary, the Group enters into reinsurance contracts to transfer insurance risks to a reinsurer. A significant insurance risk test is performed at inception of the insurance contracts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.25 Insurance contracts *(Continued)*

(a) Insurance contracts classification and division *(Continued)*

Under the contract the insurer signed with the policyholder, the insurer may undertake insurance risk or other risks, or both insurance risk and other risks.

Where the Group undertakes both the insurance risk and other risks, and the insurance risk and other risks can be distinguished and separately measured, the insurance risk shall be separately accounted for as insurance contracts while the other risks shall be accounted for as either investment contracts or service contracts. Where the insurance risk and other risks cannot be distinguished from each other, or can be distinguished but cannot be separately measured, significant insurance risk test shall be performed at the contract's initial recognition date. If the insurance risk is significant, the contract is classified as an insurance contract; otherwise, it is classified as an investment contract or service contract.

(b) Insurance income recognition

Insurance premium income is recognised when all of the following criteria are met:

- (i) The insurance contract is issued, and related insurance risk is undertaken by the Group;
- (ii) The related economic benefits are likely to flow to the Group; and
- (iii) Related income can be reliably measured.

Premiums from long-term life insurance contracts are recognised as revenue when due from policyholders. Premiums related to short-term non-life insurance contracts are recognised when received at the inception of the policy, as unearned insurance premiums in the consolidated statement of financial position, and are amortised on a straight-line basis into the consolidated income statement over the term of the policy. When the Group has transferred insurance risk through reinsurance contracts, the Group calculates the amount of premium ceded and the reinsurers' share of expenses and recognises them through the consolidated income statement in accordance with the terms of the reinsurance contracts.

(c) Insurance contract reserves

Insurance contract liabilities are measured based on a reasonable estimate of the amount of payments that the Group will be required to make to fulfil its obligations under the insurance contracts, which represents the difference between expected future cash outflows and inflows related to such contracts. A reasonable estimate of expected future net cash flows is determined based on information currently available as at the end of the reporting period. The Group has considered the impact of time value in the liability calculation for long-term life insurance.

The Group performs liability adequacy tests based on information currently available, as at the reporting date. Additional insurance contract liabilities should be recorded if any deficiency exists.

2.26 Credit related commitments and financial guarantees

Financial guarantees are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument.

Financial guarantees are initially recognised at fair value on the date the guarantee was given. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial amount, less amortisation of guarantee fees, and the best estimate of the expected credit loss provision required to settle the guarantee. Any increase in the liability relating to guarantees is taken to the consolidated statement of profit and loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.26 Credit related commitments and financial guarantees *(Continued)*

The impairment allowance of loan commitments provided by the Group is measured by ECL. The Group has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

For credit related commitments and financial guarantees, the loss allowance is recognised as a provision. However, for contracts that include both a loan and an undrawn commitment and the Group can not separately identify the ECL on the undrawn commitment component from those on the loan component, the ECL on the undrawn commitment are recognised together with the loss allowance for the loan. To the extent that the combined ECL exceed the gross carrying amount of the loan, the ECL are recognised as a provision.

2.27 Fiduciary activities

In activities where the Group acts in a fiduciary capacity such as trustee, custodian or agent, the assets and income arising from the transaction together with the related undertakings to return the assets to customers are excluded from the Group's consolidated financial statements.

The Group conducts entrusted lending for the third-party lenders. The Group grants loans to borrowers, as trustee, according to the instruction of the third-party lenders who fund these loans. The Group is responsible for the arrangement and collection of the entrusted loans and receives a commission for the services rendered. As the Group does not assume the risks and rewards of the entrusted loans and does not provide funding for the corresponding entrusted funds, the entrusted loans are not recognised as assets and liabilities of the Group.

2.28 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the person or Group that allocates resources to and assesses the performance of the operating segments of an entity. The Group has determined the Board of Directors and the senior management team represented by the governor as its chief operating decision maker.

An operating segment is a component of the Group with all of the following conditions are satisfied: (1) that component can earn revenues and incur expenses from ordinary activities; (2) the component's operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and (3) discrete financial information for the component is available to the Group. If two or more operating segments have similar economic characteristics, and certain conditions are satisfied, they may be aggregated into a single operating segment. Intra-segment income and expenses are eliminated. Income and expenses directly associated with each segment are considered in determining segment performance.

The Group has the following segments: Yangtze River Delta, Pearl River Delta, Bohai Rim Economic Zone, Central China, Western China, Northeastern China, Overseas and Head Office.

2.29 Critical accounting estimates and judgments in applying accounting policies

The preparation of financial statements in conformity with IFRSs and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and of the Hong Kong Companies Ordinance require the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.29 Critical accounting estimates and judgments in applying accounting policies *(Continued)*

(a) Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost, debt investment measured at fair value through other comprehensive income and credit related commitments and financial guarantees, is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (e.g. the likelihood of customers defaulting and the resulting losses). Note 3.1 specifies the parameters, assumptions and estimation techniques used in the measurement of expected credit loss and also discloses the sensitivity of expected credit losses to changes in these factors.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Segmentation of business operations sharing similar credit risk characteristics, selection of appropriate models and determination of relevant key measurement parameters;
- Criteria for determining whether or not there was a significant increase in credit risk, or a default or impairment loss was incurred;
- Economic indicators for forward-looking measurement, and the application of economic scenarios and weightings;
- Management overlay adjustments due to significant uncertain factors not covered in the models; and
- The estimated future cash flows for loans and advances to customers and financial investments at amortised cost for which DCF model was used to calculate ECL.

Detailed information about the judgements and estimates made by the Group in the above areas is set out in Note 3.1.

(b) Fair value of financial instruments

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. These valuation techniques include the use of recent arm's length transactions, observable prices for similar instruments, discounted cash flow analysis using risk-adjusted interest rates, and commonly used market pricing models. To the extent practical, models use observable data such as interest rate yield curves, foreign currency rates and implied option volatilities, however areas such as credit risk (both own and counterparty's), volatilities and correlations require management to make estimates. Where market observable inputs are not available, they are estimated using assumptions that are calibrated as closely as possible to market observable data. Changes in assumptions about these factors could affect reported fair value of financial instruments.

The Group assesses assumptions and estimates used in valuation techniques including review of valuation model assumptions and characteristics, changes to model assumptions, the quality of market data, whether markets are active or inactive, other fair value adjustments not specifically captured by models and consistency of application of techniques between reporting periods as part of its normal review and approval processes. Valuation techniques are validated and periodically reviewed and, where appropriate, have been updated to reflect market conditions at the financial reporting date.

Detailed information about the judgements and estimates made by the Group in the above areas is set out in Note 3.4.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.29 Critical accounting estimates and judgments in applying accounting policies *(Continued)*

(c) Income taxes

The Group is subject to income tax various jurisdictions; principally, in Mainland China and Hong Kong Special Administrative Region of the PRC. There are certain transactions and activities for which the ultimate tax determination is uncertain during the ordinary course of business. The Group has made estimates for application of tax legislation and items of uncertainty taking into account existing tax legislation and past practice. Where the final tax outcome of these matters is different from the amounts that were initially estimated, such differences will impact the current income tax and deferred income tax in the period during which such a determination is made.

(d) Consolidation of structured entities

Where the Group acts as asset manager of or investor in structured entities, the Group makes significant judgement on whether the Group controls and should consolidate these structured entities. When performing this assessment, the Group assesses the Group's contractual rights and obligations in light of the transaction structures, and evaluates the Group's power over the structured entities, performs analysis and tests on the variable returns from the structured entities, including but not limited to commission income and asset management fees earned as the asset manager, the retention of residual income, and, if any, the liquidity and other support provided to the structured entities. The Group also assesses whether it acts as a principal or an agent through analysis of the scope of its decision-making authority over the structured entities, the remuneration to which it is entitled for asset management services, the Group's exposure to variability of returns from its other interests in the structured entities, and the rights held by other parties in the structured entities.

(e) Derecognition of financial assets

In judging whether the transaction in which a loan transfer through packaging and asset securitisation is consistent with the termination confirmation of a financial asset, the Group needs to assess whether the Group meets the criteria for the transfer of financial assets and whether almost all risks and rewards in the ownership of the loan are transferred. If there is neither a transfer nor a retention of almost all the risks and rewards on the ownership of the transferred loan, the Group will further assess whether control over the transferred loan has been retained. In assessing and judging, the Group has taken into account a wide range of factors, such as whether trading arrangements are accompanied by repurchase clauses. The Group sets situational assumptions and uses the future cash flow discount model for risk and compensation transfer testing. The Group derecognised the loan only if the loan has been transferred and almost all risks and benefits in ownership have been transferred to another subject. If the Group retains almost all the risks and rewards associated with the ownership of the transferred loan, it shall continue to confirm the loan and at the same time recognise the proceeds received as a financial liability. If the Group has neither transferred nor retained almost all of the risks and rewards in the ownership of the loan and has not waived its control over the loan, the financial assets concerned are recognised to the extent that the loan continues to be involved and the relevant liability is recognised accordingly.

(f) Impairment of non-financial assets

Non-financial assets are periodically reviewed for impairment and where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and the present value of the asset's expected future cash flow.

Fair value is usually based on market prices, and the management obtains it from professional appraisal agencies. Disposal costs include legal fees and taxes related to the asset disposal. When estimating the present value of the expected future cash flow of fixed assets leased out by the subsidiary, the management takes the rents agreed in the leasing contracts and the asset value at the end of the lease term as the basis of estimation and uses appropriate discount rates to determine the present value of future cash flows. Since the outbreak of the pandemic influenced the liquidity of some lessees, the Group considers various scenarios of these lessees under the circumstances of the pandemic and makes estimations of future cash flows under different scenarios. The asset value at the end of the lease term is obtained from professional appraisal agencies. Due to the uncertainty over the development and prevention of the pandemic, there remains uncertainty over the future cash flows and pre-tax discount rates of the rents in the calculation of the present value of future cash flow.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT

Overview

The Group's activities expose it to a variety of financial risks and those activities involve analysis, evaluation, acceptance and management of a certain degree of risks or a portfolio of risks. The Group's aim is to achieve an appropriate balance between risks and returns and minimise potential adverse effects on the Group's financial performance. The main types of financial risks are credit risk, liquidity risk, market risk, operational risk, etc.

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, monitor the risks and to control the risk limits through reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets and products and the latest best practice.

Risk management framework

The Board of Directors sets out risk management strategies, overall risk preference and risk tolerance level. The senior management establishes risk management policies and procedures according to the strategies set by the Board of Directors. The Risk Management Department/Internal Control and Crime Prevention Office at Head Office serves as the chief department for the Group's risk management and leads the overall risk management duties, of which the crucial ones would be further designated to specific leading departments. The risk management division in each operation department at Head Office, in each domestic and overseas branch and in each subsidiary undertakes specific risk management function. Internal Audit Department is responsible for independent review of risk management and control environment.

3.1 Credit risk

Credit risk is the risk of loss that a borrower or counterparty fails to or is unwilling to meet its obligations. Credit risk arises principally from loans and advances to customers, financial investments, derivative instruments and due from and placements with banks and other financial institutions. There is also credit risk in off-balance sheet items such as loan commitments, financial guarantees, acceptances and letters of credit. Credit risk is a major risk to which the Bank is exposed. Therefore, the Group manages and controls the overall credit risk, integrated into the comprehensive risk management, in a prudent manner, and reports regularly to the Senior Management and the Board of Directors of the Group.

3.1.1 Credit risk management

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

(a) Loans and advances to customers and off-balance sheet commitments

As for corporate loans, the Group's relationship managers are responsible for receiving application files submitted by the applicants, conducting pre-loan investigation, assessing the credit risk, and raising the proposed rating. The Group adopts the hierarchical approval system at the branch and Head Office level based on the credit approval authority. Credit line is determined by taking into account the credit record, financial position, collaterals and guarantees of the applicant, overall credit risk of the credit portfolio, macroeconomic regulation and control policies and relevant laws and regulations. The Group keeps a close eye on the economic and financial trend and credit risk profile in the industry, provides more guidance on credit investment, formulate guidance for different industries, strengthens daily risk pre-warning, monitoring and specific risk investigation, identify customers under major risks and material potential risk points, enhances the refinement of post-loan management and centers on customer credit risk management to carry out post-loan management. The independent loan granting centre shall review the compliance, completeness and effectiveness of relevant credit files before loan granting according to the applications for drawdown of credit line. The Group's relationship managers are primarily responsible for post-loan management. The Group adopts a series of tools and approaches, such as risk filtering, list management, risk warning and risk investigation, in daily risk monitoring of corporate loans. The Group manages non-performing loans mainly through (1) collection; (2) restructuring; (3) disposal of collaterals or recourse to the guarantors; (4) litigation or arbitration; (5) disposal.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.1 Credit risk management *(Continued)*

(a) Loans and advances to customers and off-balance sheet commitments (Continued)

For retail credit assets, the Group manages the overall risk profile of retail credit business through on-site review and adoption of reporting system on material matters, strengthens daily risk monitoring and pre-warning through optimising management system, standardises operation process of retail credit business through formulating manuals for personal loans and small-enterprise loans, identifies and reveals material potential risks on a timely manner through strengthening risk monitoring and early-warning, and understands and forecasts the quality trends so as to adopt targeted risk control measures in advance by using stress testing and quality migration analysis. In addition, the Group continues to carry out fast response mechanism to address emergencies properly and maintains a list to manage those key risk projects through risk monitoring, guidance, collection and mitigation.

The Group adopts categorised management for retail credit assets on the basis of overdue ageing and guarantee type. With regard to retail credit customers with overdue loans, different approaches are adopted to collect such loans based on their overdue days.

Credit Card Centre of the Group is in charge of the operation and management of credit card business. Credit Card Centre of the Group adopts various supervisory and preventive measures. It reinforces data cross-validation to enhance risk prevention in the approval process, reduces risk exposure to high risk customers through subsequent credit investigation and enters into the intervention process earlier than scheduled, effectively improves collection result through reasonable allocation of available resources, and optimises data analytic system to further enhance the management of credit card business.

(b) Treasury business

For treasury business (including debt investments), the Group chooses banks and other financial institutions prudently and balances the credit risk and return rate of investments. By making reference to internal and external credit rating information, the Group approves credits of different levels and uses an appropriate credit limit management system to review and adjust credit lines, aiming to manage the credit risk exposed to the treasury business.

For debt securities, internal and external ratings (such as Standard and Poor's) are used by the Group when available for managing the credit risk exposed to debt securities and bills. The investment in those debts and bills is to have better credit quality assets while maintaining readily available liquidity resource. The bond issuers involved with the Group are subject to the credit granting review and approval of the Head Office and credit limits are placed on such issuers.

Debt investments other than debt securities include investments in fund trust schemes, asset management plans and wealth management products set up by banking financial institutions. Fund trust schemes and asset management plans, the funds of which ultimately go to trust loans, are mainly managed and operated by third-party trustees and asset managers. The Group implements a rating system for accepting trust companies, securities companies and fund companies, sets credit limits for repurchase parties of trust beneficiary right, ultimate borrowers of targeted asset management plans, and issuers of inter-bank wealth management products, and carries out follow-up risk management on a regular basis.

As for derivative instruments, the Group maintains strict limits on net open derivative investment positions (i.e., the difference between long and short contracts), by both amount and maturity. At any time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e., assets where their fair value is positive), which, in relation to derivative instruments, is only a fraction of the contract's notional amount used to express the amount outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market fluctuations. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except when the Group requires margin deposits from counterparties. The management has set limits of these contracts according to counterparty, and regularly monitor and control the actual credit risk when the Group concludes foreign exchange and interest rate contracts with other financial institutions and clients.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.1 Credit risk management *(Continued)*

(b) Treasury business *(Continued)*

The Group manages the credit quality of due from and placements with banks and other financial institutions, and balances arising from transactions for precious metals, by considering the size, financial position, the internal and external credit rating of the banks and other financial institutions. The Head Office monitors and reviews the credit risk of due from and placements with banks and other financial institutions by counterparties regularly. Limits are placed on different counterparties.

(c) Credit-related commitments

Credit risk exposures to financial guarantees are the same as that of loans. However, commercial letters of credit are usually pledged by the relevant shipped goods, and therefore are subject to lower risk compared with direct loans. Credit-related commitments are included in the management of overall credit line granted to the applicant. For customers with transactions beyond the credit limit or infrequent transactions, the applicant shall be requested to provide relevant margin deposits in order to reduce credit risk exposures.

(d) Credit risk quality

In accordance with the *Guideline for Loan Credit Risk Classification* issued by the CBIRC, the Group measures and manages the quality of corporate and personal loans and advances by classifying loans into the following five categories: normal, special-mention, substandard, doubtful and loss, of which substandard, doubtful and loss loans are regarded as non-performing loans.

The five categories of loan classification into which the Group classifies its loans and advances to customers are set out below:

Normal:	Borrowers can honour the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.
Special-mention:	Borrowers are able to service their loans currently, although repayment may be adversely affected by specific factors.
Substandard:	Borrowers' ability to service their loans is in question and they cannot rely entirely on normal operating revenues to repay principal and interest. Losses may ensue even when collaterals or guarantees are invoked.
Doubtful:	Borrowers cannot repay principal and interest in full and significant losses will need to be recognised even when collaterals or guarantees are invoked.
Loss:	Only a small portion or none of the principal and interest can be recovered after taking all possible measures and exhausting all legal remedies.

3.1.2 Expected credit loss ("ECL")

The Group measures the ECL of financial instruments at amortised cost or debt investments at fair value through other comprehensive income("FVOCI"). The Group divides them into 3 stages by assessing whether there has been a significant increase in credit risk since initial recognition to recognise ECL.

The Group measures the ECL of a financial instrument in a way that reflects:

- (1) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- (2) the time value of money;
- (3) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.2 Expected credit loss (“ECL”) *(Continued)*

Stage classification

The Group divides them into 3 stages. Stage 1 is “financial assets without significant increase in credit risk since initial recognition”, at which the Group only needs to measure ECL in the next 12 months. Stage 2 is “financial assets with significant increase in credit risk” and stage 3 is “credit-impaired financial assets”, at both of which the Group needs to measure lifetime ECL.

Definition of credit-impaired and default

The criteria adopted by the Group to determine whether a credit impairment occurs under IFRS 9 is consistent with the internal credit risk management objectives for relevant financial instrument, in addition to consideration of quantitative and qualitative indicators.

In general, the Group considers a financial instrument to be credit-impaired or otherwise in default when one or more of the following criteria have been met:

- (1) Principal (including advances, applies to below) or interest of the asset is more than 90 days past due;
- (2) The issuer or obligor is in significant financial difficulty, or has already become insolvent;
- (3) It is becoming probable that the obligor will enter bankruptcy;
- (4) An active market for that financial asset has disappeared because of financial difficulties of issuers;
- (5) Other objective evidence indicating impairment of the financial asset.

A significant increase in credit risk

The Group assesses quarterly whether the credit risk on a financial instrument has increased significantly since initial recognition. In determining the stage classification of a financial asset, the Group considers all reasonable and supportable information which reflects whether there have been significant changes in credit risk, including that which is forward-looking. Based on an individual financial instrument or a portfolio of financial instruments with similar credit risk characteristics, the Group compares risk of default occurring at reporting date as with initial recognition, in order to determine possible changes in risk of default occurring during the expected life of the financial instrument. The Group considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following criteria have been met:

- (1) Principal or interest of the instrument is more than 30 days past due;
- (2) Credit rating of obligor changes significantly. Credit rating is based on both internal and external rating results, and the criteria are as follow: (a) a significant increase in credit risk is determined when internal and external rating during the reporting period is below the Group’s credit acceptance standards; (b) The non-retail assets’ internal ratings are downgraded by 3 ranks or above upon initial recognition;
- (3) Significant adverse issues have negative impacts on obligator’s repayment ability;
- (4) Other circumstances of significant increase in credit risk. For example, appearance of other risk alarm indicators which imply growing potential risk and could cause losses of financial assets to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.2 Expected credit loss (“ECL”) *(Continued)*

Definition of credit-impaired and default (Continued)

A significant increase in credit risk *(Continued)*

The financial assets are moveable between stages. For instance, financial instruments originally classified at stage 1 should be downgraded to stage 2 if events occur such as a significant increase in credit risk. Financial instruments at stage 2 could be upgraded to stage 1 if credit risk decreases and the criteria for the determination of “a significant increase in credit risk” are no longer met.

After the outbreak of the pandemic of COVID-19, the Group strictly followed the regulatory policies and requirements and prudently evaluates the repayment ability of the clients who apply for payment holiday. On the premise that the subsequent risks will not be enlarged and subsequent settlement will not be affected, the Group provided relief measures to those clients meeting specific criteria by extending the maturity and so on. The Group has assessed whether the relief measures would cause a significant increase in credit risks and has adjusted the stage classification as appropriate.

Description of parameters, assumptions and estimation techniques

The Group recognises a loss allowance to different financial instruments at an amount equal to 12-month or lifetime expected credit loss based on whether there has been a significant increase in credit risk and whether the financial instrument is credit-impaired. ECL is the result of discounted product of the weighted average of “probability of default (PD)”, “loss given default (LGD)”, “exposure at default (EAD)” under the three scenarios, which are defined as follows:

Probability of default (PD) is the probability of default occurring of a client and its assets in a given period of time in the future.

Exposure at default (EAD) represents the total amount of on-balance sheet and off-balance sheet exposure at the time of default by debtor, reflecting the total amount of possible losses likely to be incurred. In general, this includes the utilised credit limit, interest receivable, the anticipated usage of unused credit facilities as well as the related expenses to be incurred.

Loss given default (LGD) represents the percentage of amount of loss to be incurred in the event of default to the total risk exposure. It typically varies by nature of debtor, type and seniority of claim and the availability of collaterals or other credit risk mitigation.

Definition of default has been consistently applied to model establishment of probability of default (PD), exposure at default (EAD), loss given default (LGD) in ECL calculation throughout the Group.

Estimation of ECL: the impairment models

The impairment models adopt a top down approach. Through grouping, the models cover the risk exposures of financial institutions, corporates and retailers. The Group has established a macro-economic forecast model driven by the year-on-year Gross Domestic Product (GDP) growth rate to forecast values of macro-economic indicators in multiple categories, including national accounts, price index, foreign trades, fixed asset investments, currency and interest rates, under three scenarios, namely “Basic Scenario”, “Optimistic Scenario” and “Pessimistic Scenario”. The forecasts, after evaluation and confirmation by economic experts and senior management of the Bank, are used in asset impairment model. The macro scenario settings and the rationality of the weightings are reviewed and adjusted quarterly, based on changes in the internal and external economic environment.

In 2021, The Group forecasts the 2022 year-on-year growth rate of GDP to be 5.0% in the Basic Scenario, 7.0% in the Optimistic Scenario and 4.3% in the Pessimistic Scenario. The Group fully considered the macroeconomic forecast for 2022 when evaluating the forecast information used in the impairment models, and made prudential adjustments to the macro scenario settings.

Where impairment models could not be established due to lack of data support, the Group endeavoured to select appropriate methods in order to make prospective estimation. The Group made prospective adjustments to impairment calculation of overseas branches and subsidiaries regularly based on macro-forecast data from authoritative institutions (such as IMF and the World Bank). For asset portfolios not covered by impairment models, expected loss rate was set by referring to that of similar asset portfolios with impairment models available.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Credit risk (Continued)

3.1.2 Expected credit loss (“ECL”) (Continued)

Description of parameters, assumptions and estimation techniques (Continued)

Grouping of instruments with similar credit risk characteristics

To calculate the relevance between ECL allowance and macro-economic indicators, a grouping of exposure is performed for assets with similar credit risk characteristics. In performing this grouping, the Group has obtained sufficient information to ensure the data reliability for statistical purposes. Where sufficient information is not available internally, the Group has leveraged supplementary data from both internal and external environments to help establish impairment model. Non-retail assets of the Group are mainly grouped according to industries, while retail assets are mainly grouped based on product types, repayment methods and so on.

Sensitivity analysis

As at the balance sheet date, the basic scenario weighting is higher than the non-basic scenario weighting. The probability-weighted impairment allowance under three scenarios is higher than the basic scenario impairment allowance by the following amounts:

	As at 31 December 2021	As at 31 December 2020
Corporate loans	(167)	337
Personal loans	203	96
Debt investments at amortised cost and fair value through other comprehensive income	1	10

If the optimistic scenario weighting increases by 10%, and the basic scenario weighting decreases by 10%, the impairment allowance of loans and advances will decrease by RMB813 million (31 December 2020: RMB484 million), and the impairment allowance of debt investments at amortised cost and fair value through other comprehensive income will decrease by RMB6 million (31 December 2020: RMB6 million). If the Pessimistic scenario weighting increases by 10%, and the Basic scenario weighting decreases by 10%, the impairment allowance of loans and advances will increase by RMB849 million (31 December 2020: RMB1,402 million), and the impairment allowance of debt investments at amortised cost and fair value through other comprehensive income will increase by RMB7 million (31 December 2020: RMB23 million).

3.1.3 Maximum exposure to credit risk

3.1.3.1 Maximum exposure to credit risk – financial instruments included in impairment assessment

The Group categorises asset risk characteristics based on the quality of the assets, differentiating financial instruments that are likely to incur expected credit losses as “Low risk”, “Medium risk”, “High risk” and “Impaired”. “Low risk” refers to counterparty with strong repayment ability, low probability of impairment in the future, and minor effect of adverse external factors. “Medium risk” refers to counterparty with certain repayment ability, but business, finance, and economic conditions that are continuously unstable and worsening will potentially cause its repayment ability to descend. “High risk” refers to counterparty with adverse factors that are likely to impact its repayment ability significantly or with high probability of impairment in the future. And “Impaired” refers to the assets met the Group’s definition of credit-impaired.

The table below analyses exposure to credit risk of financial instruments included in expected credit losses assessment. The balance of financial instruments below is the maximum exposure to credit risk of these instruments in the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Credit risk (Continued)

3.1.3 Maximum exposure to credit risk (Continued)

3.1.3.1 Maximum exposure to credit risk – financial instruments included in impairment assessment (Continued)

As at 31 December 2021	Low risk	Medium risk	High risk	Impaired	Domestic branches	Overseas and subsidiaries	Group total	Allowance for impairment losses	Group carrying amount
On-balance sheet item									
Cash and balances with central banks (Stage 1)	667,440	-	-	-	667,440	53,990	721,430	-	721,430
Loans and advances to customers (Corporate)									
- at amortised cost	2,066,574	1,376,123	73,821	69,992	3,586,510	504,061	4,090,571	(121,252)	3,969,319
Stage 1	2,064,723	1,291,448	8,132	-	3,364,303	479,277	3,843,580	(37,786)	3,805,794
Stage 2	1,851	84,675	65,689	-	152,215	17,158	169,373	(34,382)	134,991
Stage 3	-	-	-	69,992	69,992	7,626	77,618	(49,084)	28,534
- at FVOCI	137,735	39,981	4,466	10	182,192	2,514	184,706	-	184,706
Stage 1	137,735	38,773	2,003	-	178,511	2,514	181,025	-	181,025
Stage 2	-	1,208	2,463	-	3,671	-	3,671	-	3,671
Stage 3	-	-	-	10	10	-	10	-	10
Loans and advances to customers (Personal)									
- at amortised cost	1,555,659	613,486	44,146	18,932	2,232,223	52,873	2,285,096	(38,837)	2,246,259
Stage 1	1,555,409	612,762	33,941	-	2,202,112	52,329	2,254,441	(19,617)	2,234,824
Stage 2	250	724	10,205	-	11,179	308	11,487	(4,510)	6,977
Stage 3	-	-	-	18,932	18,932	236	19,168	(14,710)	4,458
Due from and placements with banks and other financial institutions									
Stage 1	411,544	419	-	-	411,963	223,051	635,014	(2,306)	632,708
Stage 2	411,544	419	-	-	411,963	219,552	631,515	(2,304)	629,211
Stage 3	-	-	-	-	-	3,499	3,499	(2)	3,497
Financial investments at amortised cost									
Stage 1	2,097,849	26,999	-	1,088	2,125,936	80,059	2,205,995	(2,958)	2,203,037
Stage 2	2,097,849	23,277	-	-	2,121,126	77,343	2,198,469	(1,695)	2,196,774
Stage 3	-	3,722	-	-	3,722	515	4,237	(371)	3,866
Stage 3	-	-	-	1,088	1,088	2,201	3,289	(892)	2,397
Debt investments at FVOCI									
Stage 1	247,469	3,497	-	-	250,966	414,501	665,467	-	665,467
Stage 2	247,469	3,497	-	-	250,966	410,700	661,666	-	661,666
Stage 3	-	-	-	-	-	3,772	3,772	-	3,772
Stage 3	-	-	-	-	-	29	29	-	29
Other financial assets at amortised cost									
Stage 1	40,235	10,683	144	2,901	53,963	14,148	68,111	(3,460)	64,651
Stage 2	40,060	10,475	-	-	50,535	14,106	64,641	(182)	64,459
Stage 3	54	95	38	-	187	-	187	(119)	68
Stage 3	121	113	106	2,901	3,241	42	3,283	(3,159)	124
On-balance sheet total	7,224,505	2,071,188	122,577	92,923	9,511,193	1,345,197	10,856,390	(168,813)	10,687,577
Credit related commitments and financial guarantees									
Stage 1	1,470,719	379,185	3,058	-	1,852,962	45,815	1,898,777	(8,736)	1,890,041
Stage 2	-	2,943	3,973	-	6,916	732	7,648	(506)	7,142
Off-balance sheet total	1,470,719	382,128	7,031	-	1,859,878	46,547	1,906,425	(9,242)	1,897,183
Total	8,695,224	2,453,316	129,608	92,923	11,371,071	1,391,744	12,762,815	(178,055)	12,584,760

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Credit risk (Continued)

3.1.3 Maximum exposure to credit risk (Continued)

3.1.3.1 Maximum exposure to credit risk – financial instruments included in impairment assessment (Continued)

As at 31 December 2020	Low risk	Medium risk	High risk	Impaired	Domestic branches	Overseas and subsidiaries	Group total	Allowance for impairment losses	Group carrying amount
On-balance sheet item									
Cash and balances with central banks (Stage 1)	731,772	-	-	-	731,772	70,436	802,208	-	802,208
Loans and advances to customers (Corporate)									
- at amortised cost	1,862,280	1,155,378	70,714	72,874	3,161,246	495,804	3,657,050	(104,425)	3,552,625
Stage 1	1,860,944	1,077,691	5,140	-	2,943,775	475,755	3,419,530	(27,418)	3,392,112
Stage 2	1,336	77,687	65,574	-	144,597	14,093	158,690	(29,034)	129,656
Stage 3	-	-	-	72,874	72,874	5,956	78,830	(47,973)	30,857
- at FVOCI	94,543	106,440	9,335	95	210,413	79	210,492	-	210,492
Stage 1	94,542	105,458	3,627	-	203,627	79	203,706	-	203,706
Stage 2	1	982	5,708	-	6,691	-	6,691	-	6,691
Stage 3	-	-	-	95	95	-	95	-	95
Loans and advances to customers (Personal)									
- at amortised cost	1,341,584	542,393	31,885	18,610	1,934,472	46,410	1,980,882	(34,849)	1,946,033
Stage 1	1,341,429	541,708	24,607	-	1,907,744	46,020	1,953,764	(16,008)	1,937,756
Stage 2	155	685	7,278	-	8,118	227	8,345	(3,836)	4,509
Stage 3	-	-	-	18,610	18,610	163	18,773	(15,005)	3,768
Due from and placements with banks and other financial institutions (Stage 1)									
	370,162	259	-	-	370,421	201,957	572,378	(1,248)	571,130
Financial investments at amortised cost									
Stage 1	1,936,199	26,277	793	465	1,963,734	58,845	2,022,579	(3,050)	2,019,529
Stage 2	1,936,199	20,930	-	-	1,957,129	56,207	2,013,336	(1,844)	2,011,492
Stage 3	-	5,347	793	-	6,140	2,309	8,449	(682)	7,767
Stage 3	-	-	-	465	465	329	794	(524)	270
Debt investments at FVOCI									
Stage 1	291,786	2,515	-	-	294,301	429,572	723,873	-	723,873
Stage 2	291,786	2,515	-	-	294,301	429,222	723,523	-	723,523
Stage 2	-	-	-	-	-	278	278	-	278
Stage 3	-	-	-	-	-	72	72	-	72
Other financial assets at amortised cost									
Stage 1	14,624	8,560	127	3,842	27,153	13,908	41,061	(4,088)	36,973
Stage 1	14,455	8,353	-	-	22,808	13,838	36,646	(166)	36,480
Stage 2	45	83	28	10	166	-	166	(115)	51
Stage 3	124	124	99	3,832	4,179	70	4,249	(3,807)	442
On-balance sheet total	6,642,950	1,841,822	112,854	95,886	8,693,512	1,317,011	10,010,523	(147,660)	9,862,863
Credit related commitments and financial guarantees									
Stage 1	1,283,391	319,352	2,499	-	1,605,242	61,620	1,666,862	(6,858)	1,660,004
Stage 2	-	4,422	5,031	-	9,453	397	9,850	(3,642)	6,208
Off-balance sheet total	1,283,391	323,774	7,530	-	1,614,695	62,017	1,676,712	(10,500)	1,666,212
Total	7,926,341	2,165,596	120,384	95,886	10,308,207	1,379,028	11,687,235	(158,160)	11,529,075

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.3 Maximum exposure to credit risk *(Continued)*

3.1.3.2 Maximum exposure to credit risk – financial instruments not included in impairment assessment

The analysis of credit risk exposure of those financial assets which are not included in the impairment assessment are as follows:

	Maximum exposure to credit risk	
	31 December 2021	31 December 2020
Financial assets at fair value through profit or loss		
Derivative financial instruments	39,220	54,212
Loans and advances to customers	27	–
Debt securities	247,934	153,034
Fund investments and other asset management products	305,176	252,098
Precious metal contracts	21,924	19,975
Total	614,281	479,319

3.1.3.3 Collaterals and other credit enhancements

The Group manages, limits and controls concentrations of credit risk wherever they are identified, in particular, to individual counterparty, groups, industry segments and geographical regions.

The Group optimises its credit risk structure by placing limits in relation to one borrower, or group of borrowers. Such risks are monitored by the Group on a regular basis and subject to annual or more frequent review, whenever necessary.

The exposure to any single borrower including banks and brokers is further restricted by sub-limits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. The Group monitors the actual credit risk exposure and credit limits on a daily basis.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet principal and interest repayment obligations. The Group will change their lending limits when appropriate based on the analysis.

Some other specific control and risk mitigation measures are outlined below.

(a) Collaterals

The Group employs a range of policies and practices to mitigate credit risk. The most common practice is to accept collaterals or pledges. The Group implements guidelines on the acceptability of specific classes of collaterals and pledges. The principal types of collaterals and pledges for loans and advances to customers are:

- Residential properties;
- Business assets such as premises, inventory and receivables;
- Financial instruments such as debt securities and stocks.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Credit risk (Continued)

3.1.3 Maximum exposure to credit risk (Continued)

(a) Collaterals (Continued)

The value of collaterals at the time of loan origination is subject to loan-to-value ratio limits based on collateral types. The principal types of collaterals for corporate loans and personal loans are as follows:

Collaterals	Maximum loan-to-value ratio
Cash deposits with the Group	90%
PRC treasury bonds	90%
Financial institution bonds	90%
Publicly traded stocks	60%
Rights to collect fees or right of management	65%
Properties	70%
Land use rights	70%
Vehicles	50%

Long-term loans and advances to corporate and personal customers are generally secured, while revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss the Group will seek additional collaterals and pledges from the counterparties as soon as impairment indicators are noted for the personal loans and advances.

For loans guaranteed by a third-party guarantor, the Group will assess the financial condition, credit history and ability to meet obligations of the guarantor.

Collaterals and pledges held as security for financial assets other than loans and advances to customers are determined by the nature of the instrument. Debt securities, PRC treasury bonds and the PBOC bills are generally unsecured, with the exception of asset-backed securities, which are secured by portfolios of financial instruments.

The Group closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Group will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held
As at 31 December 2021				
Credit-impaired assets				
Loans and advances to customers				
Loans and advances to customers at amortised cost	96,786	(63,794)	32,992	46,184
Loans and advances to customers at fair value through other comprehensive income	10	–	10	10
Financial investments				
Financial investments at amortised cost	3,289	(892)	2,397	4,876
Debt investments at fair value through other comprehensive income	29	–	29	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Continued)**3.1 Credit risk** (Continued)**3.1.3 Maximum exposure to credit risk** (Continued)**(a) Collaterals** (Continued)

	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held
As at 31 December 2020				
Credit-impaired assets				
Loans and advances to customers				
Loans and advances to customers at amortised cost	97,603	(62,978)	34,625	46,264
Loans and advances to customers at fair value through other comprehensive income	95	–	95	95
Financial investments				
Financial investments at amortised cost	794	(524)	270	2
Debt investments at fair value through other comprehensive income	72	–	72	–

(b) Master netting arrangements

The Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of assets and liabilities in the statement of financial position, as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Group's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as each transaction subject to the arrangement affects credit risk.

3.1.4 Derivative instruments

The Group undertakes its transactions in foreign exchange, commodity, interest rate and other derivative contracts with other financial institutions and customers. The management has established limits for these contracts based on counterparties, industry sectors and countries. Actual credit risk exposures are regularly monitored and controlled by the management.

Credit risk-weighted amounts

	As at 31 December 2021	As at 31 December 2020
Counterparty credit risk-weighted amount	53,789	50,052

The credit risk-weighted amounts are the amounts calculated with reference to the guidelines issued by the CBIRC and are dependent on, amongst other factors, the creditworthiness of the counterparty and the maturity of each type of contract.

The credit risk-weighted amounts stated above have not taken the effects of netting arrangements into account.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Credit risk (Continued)

3.1.5 Foreclosed assets

	As at 31 December 2021	As at 31 December 2020
Buildings	1,424	1,085
Land use rights	8	10
Others	5	14
Gross	1,437	1,109
Less: Impairment allowances	(407)	(142)
Net	1,030	967

Foreclosed assets are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness. The Group does not generally occupy foreclosed assets for its own business use. Foreclosed assets are classified as other assets in the statement of financial position.

3.1.6 Concentration risk analysis for financial assets with credit risk exposure

The Group mainly manages concentration risk for loans and advances to customers by industry sectors and also manages concentration risk for financial assets by geographical sectors.

Concentration risk for geographical sectors

	Mainland China	Hong Kong	Others	Total
As at 31 December 2021				
Financial assets				
Balances with central banks	670,925	28,814	21,387	721,126
Due from and placements with banks and other financial institutions	463,774	68,572	100,362	632,708
Derivative financial assets	26,989	9,284	2,947	39,220
Financial investments at FVPL	511,854	6,511	56,669	575,034
Loans and advances to customers	6,065,792	206,433	139,976	6,412,201
Debt investments at FVOCI	394,613	58,562	212,292	665,467
Financial investments at amortised cost	2,161,046	6,621	35,370	2,203,037
Other financial assets	52,737	11,201	3,567	67,505
	10,347,730	395,998	572,570	11,316,298
Off-balance sheet exposures				
Guarantees, acceptances and letters of credit	917,943	6,458	12,073	936,474
Loan commitments and other credit related commitments	943,804	23,598	2,549	969,951
	1,861,747	30,056	14,622	1,906,425

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Credit risk (Continued)

3.1.6 Concentration risk analysis for financial assets with credit risk exposure (Continued)

Concentration risk for geographical sectors (Continued)

	Mainland China	Hong Kong	Others	Total
As at 31 December 2020				
Financial assets				
Balances with central banks	733,895	33,431	34,562	801,888
Due from and placements with banks and other financial institutions	365,731	113,071	92,328	571,130
Derivative financial assets	42,150	9,617	2,445	54,212
Financial investments at FVPL	375,565	7,813	41,729	425,107
Loans and advances to customers	5,362,745	194,300	163,523	5,720,568
Debt investments at FVOCI	373,966	120,315	229,592	723,873
Financial investments at amortised cost	1,967,344	6,195	45,990	2,019,529
Other financial assets	28,229	15,436	2,772	46,437
	9,249,625	500,178	612,941	10,362,744
Off-balance sheet exposures				
Guarantees, acceptances and letters of credit	796,707	9,979	9,151	815,837
Loan commitments and other credit related commitments	825,973	25,552	9,350	860,875
	1,622,680	35,531	18,501	1,676,712

(a) Geographical risk concentration for loans and advances to customers

	As at 31 December 2021		As at 31 December 2020	
		%		%
Yangtze River Delta	1,780,637	27.14	1,556,325	26.61
Pearl River Delta	857,521	13.07	711,150	12.16
Bohai Rim Economic Zone	965,957	14.72	838,415	14.34
Central China	1,092,985	16.66	960,512	16.42
Western China	774,445	11.80	681,997	11.66
North Eastern China	247,023	3.77	232,864	3.98
Overseas	348,948	5.32	359,368	6.14
Head Office	492,884	7.52	507,793	8.69
Gross amount of loans and advances to customers	6,560,400	100.00	5,848,424	100.00

Note: The definitions of geographical operating segments are set out in Note 48.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Credit risk (Continued)

3.1.6 Concentration risk analysis for financial assets with credit risk exposure (Continued)

(b) Industry analysis for loans and advances to customers

	As at 31 December 2021		As at 31 December 2020	
		%		%
Corporate loans				
Mining	120,216	1.83	125,367	2.14
Manufacturing	732,565	11.16	658,203	11.25
– Petroleum and chemical	126,354	1.93	118,387	2.02
– Electronics	168,825	2.57	130,836	2.24
– Steel	40,781	0.62	41,680	0.71
– Machinery	102,338	1.56	100,571	1.72
– Textile and clothing	26,817	0.41	27,057	0.46
– Other manufacturing	267,450	4.07	239,672	4.10
Production and supply of power, heat, gas and water	268,772	4.10	221,313	3.78
Construction	157,729	2.40	135,732	2.32
Transportation, storage and postal service	763,419	11.64	708,649	12.12
Information transmission, software and IT services	60,718	0.93	41,148	0.70
Wholesale and retail	215,554	3.29	204,856	3.50
Accommodation and catering	34,133	0.52	34,886	0.60
Finance	132,633	2.02	118,702	2.03
Real estate	419,820	6.40	348,185	5.95
Leasing and commercial services	650,742	9.92	577,500	9.87
Water conservancy, environmental and other public services	382,201	5.83	334,399	5.72
Education, science, culture and public health	122,196	1.86	112,961	1.93
Others	77,884	1.19	85,570	1.48
Discounted bills	136,722	2.08	160,071	2.74
Total corporate loans	4,275,304	65.17	3,867,542	66.13
Personal loans				
Mortgages	1,489,517	22.70	1,293,773	22.12
Credit cards	492,580	7.51	464,110	7.94
Others	302,999	4.62	222,999	3.81
Total personal loans	2,285,096	34.83	1,980,882	33.87
Gross amount of loans and advances before impairment allowances	6,560,400	100.00	5,848,424	100.00

Note: The classification of industries is consistent with the latest national standards for industry classification (Industrial classification for national economic activities (GB/T 4754-2017) issued by SAC and AQSIQ in 2017).

The industry risk concentration analysis for loans and advances to customers is based on the type of industry of the borrowers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk

3.2.1 Overview

Market risk is risk of loss on the Group's on balance sheet and off balance sheet businesses, which is originated from the unfavourable changes and fluctuations in interest rates, foreign exchange rates, commodity price and equity product price. Market risk consists of interest rate risk, foreign exchange rate risk, equity product price risk and commodity price risk. The market risk of the Group mainly comprises interest rate risk and foreign exchange rate risk.

The Group established an integrated market risk management system, formed a market risk management structure with the separation of front and middle-end platforms and specified the responsibilities, the division of labor and the reporting route of the Board of Directors, Board of Supervisors, Senior Management, Special Committees and other relevant departments to ensure the compliance and effectiveness of market risk management.

In accordance with the requirements of the CBIRC, the Group's financial instrument positions are divided into trading book and banking book. The trading book consists of financial instruments held either for trading intent or economic hedging against risks of the trading book. The banking book consists of all financial instruments other than those included in trading book. The Group recognises, measures, monitors and controls the market risks in trading book and banking book according to their nature and characteristics.

With regard to the exchange rate risk and the interest rate risk of trading book, the Group established an effective limit management system by implementing Net Position, Risk Sensitivity, Value at Risk ("VaR") and other indicators. Meanwhile, with regard to the interest risk of banking book, net interest income simulation and gap analysis are the major tools used by the Group to monitor the interest risk of its overall businesses. In addition, through adequate repricing management and structure adjustment of assets and liabilities, the Group strives to maximise its rate of return while keeping its risks under control.

The Group has continuously improved the management system of market risk. The Group conducted stress tests on historical scenarios and hypothetical scenarios in the consideration of the Group's major market risk factors. The Group has realised daily automatic collection of trading data and market data in the system. The Group conducted the management of risk capital and VaR quota, and formulated the quota allocation plans.

The Group also applies sensitivity analysis to assess and measure the market risk of trading book and banking book. Sensitivity analysis indicates the impact on the relevant market risk assuming that only a single variable changes. As any risk variable rarely changes isolatedly, and the correlation between variables will have a significant effect on the final impact amount of the change of a risk variable, the results of sensitivity analysis can only provide limited market risk information.

The major measurement techniques used to measure and control market risk are outlined below:

3.2.2 VaR

VaR refers to the maximum loss that an investment portfolio may incur at a given confidence level and holding period caused by the changes in market price factors such as interest rates and exchange rates etc. The Group adopted the historical simulation method to calculate daily VaR (99% confidence interval, the holding period of one day).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Continued)

3.2 Market risk (Continued)

3.2.2 VaR (Continued)

A summary of VaR by risk type including foreign exchange rate risk and interest rate risk of the trading book of the Group's portfolios is as follows:

Items	Year ended 31 December 2021			
	31 December 2021	Average	Maximum	Minimum
VaR	261	381	746	256
Including: Interest rate risk	269	306	453	197
Foreign exchange risk	133	209	743	100

Items	Year ended 31 December 2020			
	31 December 2020	Average	Maximum	Minimum
VaR	594	501	617	423
Including: Interest rate risk	268	296	472	127
Foreign exchange risk	464	485	555	417

3.2.3 Sensitivity analysis

Interest rate sensitivity analysis

The table below illustrates the impact on net profit of the Group for the following year based on the structure of financial assets and liabilities as at the date of statement of financial position, resulting from a parallel upward or downward shift of 100 basis points in related yield curves.

	Changes in net profit	
	As at 31 December 2021	As at 31 December 2020
+100 basis points parallel shift in yield curves	10,562	13,551
- 100 basis points parallel shift in yield curves	(10,562)	(13,551)

The table below illustrates the impact on other comprehensive income of the Group for the following year based on the structure of financial assets and liabilities as at the date of statement of financial position, resulting from a parallel upward or downward shift of 100 basis points in related yield curves.

	Changes in other comprehensive income	
	As at 31 December 2021	As at 31 December 2020
+100 basis points parallel shift in yield curves	(12,995)	(11,882)
- 100 basis points parallel shift in yield curves	14,012	12,363

The above-mentioned impact on other comprehensive income arises from the changes in the fair value of fixed-interest-rate bonds at fair value through other comprehensive income, and loans and advances to customers at fair value through other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Continued)

3.2 Market risk (Continued)

3.2.3 Sensitivity analysis (Continued)

Interest rate sensitivity analysis (Continued)

The results of the interest rate sensitivity analysis set out in the table above are illustrative only and are based on simplified scenarios. The figures represent the projected impact to the net profit and other comprehensive income caused by the projected movement of current interest risk structure yield curves. This effect, however, does not take into account actions that would be taken by the Group to mitigate the impact of interest rate changes. The projections above also assume that interest rates of all maturities excluding demand deposits move by the same amount and, therefore, do not reflect the potential impact on net profit due to changes in certain rates while others remain unchanged. The projections are based on other simplified assumptions as well, including that all positions are to be held to maturity. There will be changes to the projection if positions are not held to maturity but it is not expected that the changes would be material.

The Group believes the assumption does not represent the Group's policy on use of funds and interest rate risk management. As a result, the above impact may differ from the actual situation.

Foreign exchange sensitivity analysis

The table below illustrates the impact of a concurrent appreciation or depreciation of RMB spot and forward rates against HKD and USD by 5% on the Group's net profit:

	Changes in net profit	
	As at 31 December 2021	As at 31 December 2020
5% appreciation of RMB	(1,803)	(1,662)
5% depreciation of RMB	1,803	1,662

The table below illustrates the impact of a concurrent appreciation or depreciation of RMB spot and forward rates against HKD and USD by 5% on the Group's other comprehensive income:

	Changes in other comprehensive income	
	As at 31 December 2021	As at 31 December 2020
5% appreciation of RMB	(1,403)	(1,397)
5% depreciation of RMB	1,403	1,397

The impact on net profit arises from the influences of RMB exchange rate fluctuation on the net position of monetary assets (excluding other book value other than amortised cost of monetary assets at fair value through other comprehensive income) and liabilities denominated in foreign currencies, the net position of non-monetary financial assets (excluding non-monetary items denominated in foreign currencies measured at fair value through other comprehensive income) and liabilities denominated in foreign currencies measured at fair value, and the fair value of currency derivatives denominated in RMB.

The impact on other comprehensive income arises from the influences of RMB exchange rate fluctuation on the differences on translation of foreign currency financial statements of foreign operators, the overseas investment portion of monetary assets denominated in foreign currencies, other book value other than amortised cost of the non-monetary items denominated in foreign currencies measured at fair value through other comprehensive income (such as stock) and monetary items at fair value through other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.3 Sensitivity analysis *(Continued)*

Foreign exchange sensitivity analysis (Continued)

The above impact on net profit is based on the assumption that the sensitive position of the Group's year-end exchange rate and currency derivatives denominated in RMB remain unchanged around the year. While in practice, the Group will, based on its judgement on the trend of exchange rate, actively adjust the foreign currency position and use appropriate derivative instruments to mitigate the impact of the foreign currency risk. Therefore, the above impact might differ from the actual situation.

3.2.4 Interest rate risk

The Group's interest rate risk mainly arises from interest rate repricing and maturity mismatching of assets and liabilities, and the fluctuation of market interest rates, as well as from the adjustments in the interest rate policies made by the People's Bank of China (the "PBOC"). On 20 July 2013, the PBOC cancelled the lower limit of benchmark interest rates of loans dominated in RMB, allowing financial institutions to determine the loan interest rates independently based on commercial principles. The PBOC cancelled the upper limit of the benchmark interest rates for deposits on 24 October 2015 and established RMB Loan Prime Rate (LPR) as a new pricing benchmark of new loans in 2019. The Group conducts most of its domestic deposit businesses at benchmark interest rates for deposits and conducts most of its domestic loan businesses at LPR published by the PBOC.

The Group pays high attention to the transition of interest rate benchmark and has established a task force to speed up the launch and implementation of this LIBOR reform project. At the current stage, the progress of this reform is basically on schedule. According to the overall timetable of the LIBOR reform, libors in sterling, euro, Swiss franc and Japanese yen, as well as one week and 2-month libors in US dollars, have exited the market on 1 January 2022. The business scale of the Group's contracts in reference to LIBOR with the above currencies and maturities is relatively small, ready for orderly transition according to repricing periods of each business, and the impact of the methods of benchmark transition on interest rate risk is generally under control, which has a relatively limited substantial impact on the operations.

The Group has initially established a relatively complete interest rate risk monitoring system. By using the gap analysis system, the Group regularly monitors the repricing maturity gap of interest rate-sensitive assets and liabilities throughout the Group, takes the initiative to adjust the proportion of interest-bearing assets at floating interest rates and fixed interest rates, and adjusts the repricing term structure of interest rate and manages interest rate risk by applying appropriate derivatives such as interest rate swaps based on allocation strategy of assets and liabilities. Consequently, the Group is less vulnerable to interest rate risk.

During the reporting period, the Group closely monitored the interest rate trend for RMB and foreign currencies, conducted specific management of risk limits, and strengthened comprehensive operations and limit monitoring. In addition, the Group, by rationally adjusting the loan repricing strategies, reinforced the specific management of price negotiation to maximise its rate of return while keeping its risks under control.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Continued)

3.2 Market risk (Continued)

3.2.4 Interest rate risk (Continued)

At the date of statement of financial position, the Group's assets and liabilities categorised by the repricing date or maturity date (whichever is earlier) are as follows:

	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Non-interest bearing	Total
As at 31 December 2021							
Assets							
Cash and balances with central banks	714,689	–	–	–	–	20,039	734,728
Due from and placements with banks and other financial institutions	274,884	105,476	212,107	28,423	7,950	3,868	632,708
Derivative financial assets	–	–	–	–	–	39,220	39,220
Financial investments at FVPL	32,659	52,942	90,657	35,428	45,306	381,491	638,483
Loans and advances to customers	1,752,819	740,873	2,904,431	442,783	259,155	312,140	6,412,201
Financial investments at FVOCI	49,415	109,842	91,364	227,236	181,312	22,560	681,729
Financial investments at amortised cost	18,908	35,803	262,899	1,009,017	846,114	30,296	2,203,037
Other assets	458	–	–	–	–	323,193	323,651
Total assets	2,843,832	1,044,936	3,561,458	1,742,887	1,339,837	1,132,807	11,665,757
Liabilities							
Due to and placements from banks and other financial institutions	(1,167,169)	(261,570)	(486,143)	(20,848)	(2,889)	(9,149)	(1,947,768)
Financial liabilities at FVPL	(24,954)	(1,995)	(10,196)	(1,266)	–	(11,637)	(50,048)
Derivative financial liabilities	–	–	–	–	–	(36,074)	(36,074)
Due to customers	(3,787,796)	(534,784)	(1,020,946)	(1,607,059)	(39)	(89,153)	(7,039,777)
Other liabilities	(125,188)	(183,613)	(722,988)	(224,408)	(216,154)	(142,503)	(1,614,854)
Total liabilities	(5,105,107)	(981,962)	(2,240,273)	(1,853,581)	(219,082)	(288,516)	(10,688,521)
Total interest sensitivity gap	(2,261,275)	62,974	1,321,185	(110,694)	1,120,755	844,291	977,236

	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Non-interest bearing	Total
As at 31 December 2020							
Assets							
Cash and balances with central banks	795,102	–	–	–	–	22,459	817,561
Due from and placements with banks and other financial institutions	291,121	97,782	162,611	13,718	2,792	3,106	571,130
Derivative financial assets	–	–	–	–	–	54,212	54,212
Financial investments at FVPL	22,761	21,369	34,378	31,955	51,251	320,874	482,588
Loans and advances to customers	1,661,920	749,592	2,420,672	334,404	260,828	293,152	5,720,568
Financial investments at FVOCI	82,187	134,536	83,786	237,760	179,006	17,945	735,220
Financial investments at amortised cost	41,734	49,906	258,697	962,447	678,347	28,398	2,019,529
Other assets	466	–	–	–	–	296,342	296,808
Total assets	2,895,291	1,053,185	2,960,144	1,580,284	1,172,224	1,036,488	10,697,616
Liabilities							
Due to and placements from banks and other financial institutions	(913,880)	(265,073)	(537,732)	(47,277)	(13,181)	(10,348)	(1,787,491)
Financial liabilities at FVPL	(6,291)	(8,254)	(7,384)	(134)	–	(7,216)	(29,279)
Derivative financial liabilities	–	–	–	–	–	(55,942)	(55,942)
Due to customers	(3,515,457)	(552,070)	(924,291)	(1,529,725)	(2)	(85,785)	(6,607,330)
Other liabilities	(90,687)	(214,973)	(366,449)	(329,911)	(192,715)	(144,211)	(1,338,946)
Total liabilities	(4,526,315)	(1,040,370)	(1,835,856)	(1,907,047)	(205,898)	(303,502)	(9,818,988)
Total interest sensitivity gap	(1,631,024)	12,815	1,124,288	(326,763)	966,326	732,986	878,628

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Continued)

3.2 Market risk (Continued)

3.2.5 Foreign exchange risk

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

As at 31 December 2021, the exchange rates for US dollar and HK dollar are 1 US dollar to RMB6.3757 (31 December 2020: RMB6.5249) and 1 HK dollar to RMB0.8176 (31 December 2020: RMB0.8416), respectively.

Carrying amounts of the Group's total assets and liabilities categorised by the original currency as at the date of statement of financial position are as follows:

	RMB	USD (RMB Equivalent)	HKD (RMB Equivalent)	Others (RMB Equivalent)	Total
As at 31 December 2021					
Assets					
Cash and balances with central banks	659,377	32,034	30,113	13,204	734,728
Due from and placements with banks and other financial institutions	316,755	276,807	19,944	19,202	632,708
Derivative financial assets	32,268	5,982	482	488	39,220
Financial investments at FVPL	539,513	79,414	727	18,829	638,483
Loans and advances to customers	5,882,592	294,495	164,923	70,191	6,412,201
Financial investments at FVOCI	309,518	283,663	37,699	50,849	681,729
Financial investments at amortised cost	2,169,831	29,760	812	2,634	2,203,037
Other assets	173,258	137,483	7,292	5,618	323,651
Total assets	10,083,112	1,139,638	261,992	181,015	11,665,757
Liabilities					
Due to and placements from banks and other financial institutions	(1,496,464)	(389,507)	(22,857)	(38,940)	(1,947,768)
Financial liabilities at FVPL	(34,217)	(3,196)	(41)	(12,594)	(50,048)
Derivative financial liabilities	(27,910)	(7,021)	(614)	(529)	(36,074)
Due to customers	(6,341,729)	(387,816)	(262,148)	(48,084)	(7,039,777)
Other liabilities	(1,392,157)	(176,573)	(20,418)	(25,706)	(1,614,854)
Total liabilities	(9,292,477)	(964,113)	(306,078)	(125,853)	(10,688,521)
Net position	790,635	175,525	(44,086)	55,162	977,236
Credit related commitments and financial guarantees	1,721,510	137,769	19,797	27,349	1,906,425

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Continued)

3.2 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 2020					
Assets					
Cash and balances with central banks	729,631	31,298	35,151	21,481	817,561
Due from and placements with banks and other financial institutions	218,074	319,227	16,750	17,079	571,130
Derivative financial assets	46,761	4,082	2,669	700	54,212
Financial investments at FVPL	407,126	41,616	2,484	31,362	482,588
Loans and advances to customers	5,248,201	240,514	149,366	82,487	5,720,568
Financial investments at FVOCI	329,481	305,772	49,133	50,834	735,220
Financial investments at amortised cost	2,000,225	15,357	50	3,897	2,019,529
Other assets	153,647	130,805	8,453	3,903	296,808
Total assets	9,133,146	1,088,671	264,056	211,743	10,697,616
Liabilities					
Due to and placements from banks and other financial institutions	(1,421,873)	(299,201)	(7,899)	(58,518)	(1,787,491)
Financial liabilities at FVPL	(7,703)	(1,251)	(6,419)	(13,906)	(29,279)
Derivative financial liabilities	(41,556)	(10,217)	(2,360)	(1,809)	(55,942)
Due to customers	(5,894,179)	(378,083)	(301,781)	(33,287)	(6,607,330)
Other liabilities	(1,101,641)	(188,070)	(23,211)	(26,024)	(1,338,946)
Total liabilities	(8,466,952)	(876,822)	(341,670)	(133,544)	(9,818,988)
Net position	666,194	211,849	(77,614)	78,199	878,628
Credit related commitments and financial guarantees	1,534,447	106,293	20,787	15,185	1,676,712

3.2.6 Other price risk

The Group is exposed to other price risk arising from financial assets such as equity investments and derivatives linked to commodity price. The equity investments arise from the proprietary trading of the Group's subsidiaries which hold the qualification of securities dealing and brokerage as well. As for the proprietary trading exposure, the Group enforces strict management of the risk exposure limit and the balance is insignificant to the Group's financial assets. The Group considers the exposure to the other price risk to be insignificant.

3.3 Liquidity risk

3.3.1 Overview

Liquidity risk is the risk that occurs when the Group cannot obtain sufficient funds in time and at a reasonable cost to repay debts when they are due, fulfill other payment obligations, or meet other funding needs in the normal course of business. The Group's liquidity risk mainly comes from depositors' early or centralised withdrawals, borrowers' deferred repayment of loans, the amount of assets and liabilities and maturity mismatches.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Liquidity risk (Continued)

3.3.2 Liquidity risk management process

The Group implements centralised management of liquidity risk and, on the basis of forecasting liquidity requirements, formulates corresponding liquidity management plans and actively manages the liquidity of the Bank. The specific measures mainly include:

- Pay close attention to changes in the macroeconomic situation, central bank monetary policy, capital market dynamics, etc.
- Enhance weighting of core deposits as a percentage of liabilities, so as to improve the stability of liabilities;
- Monitor and manage liquidity position bank-wide by implementing a series of indicators and restrictions;
- Liquidity position management and cash utilisation functions are centralised by the Head offices;
- Maintain an appropriate level of central bank reserves, overnight inter-bank transactions, highly liquid debt investment, actively involve in capital management through open market, monetary market and bond market in order to ensure optimal financing capability at market places;
- Minimise liquidity risk by proper management of asset maturity structures and multi-level liquidity portfolios.

3.3.3 Non-derivative financial instruments cash flows

The table below presents the structural analysis by contracted maturities on non-derivative financial assets and liabilities of the Group at the balance sheet date. The amount of financial assets and liabilities for each period is the amount of undiscounted cash flows. The Group's expected cash flows on these financial instruments may vary significantly from the following analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance although they have been classified as repayable on demand in the following tables.

	Overdue	Undated	On Demand	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
As at 31 December 2021									
Liabilities									
Due to and placements from banks and other financial institutions	-	-	(816,423)	(339,984)	(249,157)	(500,344)	(47,994)	(8,049)	(1,961,951)
Financial liabilities at FVPL	-	-	(11,631)	(24,958)	(1,999)	(10,248)	(1,287)	-	(50,123)
Due to customers	-	-	(2,917,674)	(896,297)	(548,993)	(1,062,886)	(1,719,819)	(40)	(7,145,709)
Certificates of deposit issued	-	-	-	(102,215)	(159,431)	(627,356)	(15,167)	(29)	(904,198)
Debt securities issued	-	-	-	(8,495)	(12,810)	(125,943)	(243,207)	(177,668)	(568,123)
Other financial liabilities	-	-	(47,545)	(157)	(719)	(1,547)	(27,187)	(64,710)	(141,865)
Total liabilities (contractual maturity dates)	-	-	(3,793,273)	(1,372,106)	(973,109)	(2,328,324)	(2,054,661)	(250,496)	(10,771,969)
Assets									
Cash and balances with central banks	-	630,776	103,648	-	304	-	-	-	734,728
Due from and placements with banks and other financial institutions	-	-	88,993	171,571	89,939	229,521	47,273	11,908	639,205
Financial investments at FVPL	-	376,060	2,697	25,865	47,830	96,235	53,221	56,240	658,148
Loans and advances to customers	50,266	-	-	526,302	331,408	1,600,584	1,962,475	4,708,281	9,179,316
Financial investments at FVOCI	29	16,262	-	17,767	57,326	129,941	327,239	205,699	754,263
Financial investments at amortised cost	2,397	-	-	18,705	41,124	328,799	1,216,983	983,448	2,591,456
Other financial assets	4,198	-	63,307	-	-	-	-	-	67,505
Assets held for managing liquidity risk (contractual maturity dates)	56,890	1,023,098	258,645	760,210	567,931	2,385,080	3,607,191	5,965,576	14,624,621
Net position	56,890	1,023,098	(3,534,628)	(611,896)	(405,178)	56,756	1,552,530	5,715,080	3,852,652

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Liquidity risk (Continued)

3.3.3 Non-derivative financial instruments cash flows (Continued)

	Overdue	Undated	On Demand	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
As at 31 December 2020									
Liabilities									
Due to and placements from banks and other financial institutions	-	-	(664,483)	(249,435)	(272,305)	(555,383)	(51,554)	(13,537)	(1,806,697)
Financial liabilities at FVPL	-	-	(7,107)	(6,323)	(7,692)	(8,131)	(137)	-	(29,390)
Due to customers	-	-	(2,826,645)	(720,090)	(564,855)	(961,376)	(1,633,891)	(2)	(6,706,859)
Certificates of deposit issued	-	-	-	(88,752)	(209,113)	(315,930)	(27,036)	(42)	(640,873)
Debt securities issued	-	-	-	(2,459)	(7,700)	(65,629)	(327,846)	(165,290)	(568,924)
Other financial liabilities	-	-	(50,017)	(173)	(783)	(1,675)	(20,363)	(55,710)	(128,721)
Total liabilities (contractual maturity dates)	-	-	(3,548,252)	(1,067,232)	(1,062,448)	(1,908,124)	(2,060,827)	(234,581)	(9,881,464)
Assets									
Cash and balances with central banks	-	641,025	176,216	-	320	-	-	-	817,561
Due from and placements with banks and other financial institutions	-	-	111,953	175,013	92,064	158,106	39,227	7,165	583,528
Financial investments at FVPL	314	316,982	2,100	9,963	13,373	39,918	49,113	65,737	497,500
Loans and advances to customers	44,408	-	-	503,713	357,214	1,451,002	1,677,966	4,134,699	8,169,002
Financial investments at FVOCI	72	11,347	-	29,004	47,520	136,836	368,919	204,359	798,057
Financial investments at amortised cost	270	-	-	41,759	52,029	315,772	1,148,818	799,669	2,358,317
Other financial assets	4,432	-	42,005	-	-	-	-	-	46,437
Assets held for managing liquidity risk (contractual maturity dates)	49,496	969,354	332,274	759,452	562,520	2,101,634	3,284,043	5,211,629	13,270,402
Net position	49,496	969,354	(3,215,978)	(307,780)	(499,928)	193,510	1,223,216	4,977,048	3,388,938

Assets available to repay all of the liabilities and fulfill loan commitments include cash, balances with central banks, due from and placements with banks and other financial institutions, financial investment at fair value through profit or loss, etc. In the normal course of business, a majority of matured deposits will not be withdrawn immediately on the maturity date but will continue to be kept by the Group. In addition, financial investments at fair value through other comprehensive income can also be disposed of when necessary to obtain funds for repayment of matured debts.

3.3.4 Derivative financial instruments cash flows

The Group's derivative financial instruments are either settled on a net basis or a gross basis.

(a) Derivative settled on a net basis

The Group's derivative financial instruments that will be settled on a net basis include foreign exchange contracts, commodity contracts, interest rate contracts and others.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Liquidity risk (Continued)

3.3.4 Derivative financial instruments cash flows (Continued)

(a) Derivative settled on a net basis (Continued)

The table below analyses the undiscounted cash flows of the Group's derivative financial instruments which will be settled on a net basis and are classified based on the remaining contractual period from the balance sheet date to maturity date.

	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
As at 31 December 2021						
Assets						
Derivative financial instruments						
– Foreign exchange and commodity contracts	10	1	23	–	–	34
– Interest rate contracts and others	416	823	2,880	7,044	647	11,810
Total	426	824	2,903	7,044	647	11,844
Liabilities						
Derivative financial instruments						
– Foreign exchange and commodity contracts	–	(34)	(27)	–	–	(61)
– Interest rate contracts and others	(408)	(900)	(3,096)	(6,989)	(381)	(11,774)
Total	(408)	(934)	(3,123)	(6,989)	(381)	(11,835)

	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
As at 31 December 2020						
Assets						
Derivative financial instruments						
– Foreign exchange and commodity contracts	3	2	54	–	–	59
– Interest rate contracts and others	215	590	2,730	5,990	247	9,772
Total	218	592	2,784	5,990	247	9,831
Liabilities						
Derivative financial instruments						
– Foreign exchange and commodity contracts	(44)	(51)	(29)	–	–	(124)
– Interest rate contracts and others	(291)	(751)	(3,825)	(10,349)	(1,173)	(16,389)
Total	(335)	(802)	(3,854)	(10,349)	(1,173)	(16,513)

(b) Derivative settled on a gross basis

The Group's derivative financial instruments that will be settled on a gross basis mainly include foreign exchange and commodity derivatives. The table below analyses the undiscounted cash flows of the Group's derivative financial instruments which will be settled on a gross basis and are classified based on the remaining contractual period from the balance sheet date to maturity date.

	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
As at 31 December 2021						
Derivative financial instruments settled on a gross basis						
– Cash outflow	(1,094,721)	(879,191)	(1,402,398)	(109,071)	(15,480)	(3,500,861)
– Cash inflow	1,095,392	879,647	1,404,576	111,697	14,918	3,506,230
Total	671	456	2,178	2,626	(562)	5,369

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Liquidity risk (Continued)

3.3.4 Derivative financial instruments cash flows (Continued)

(b) Derivative settled on a gross basis (Continued)

	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
As at 31 December 2020						
Derivative financial instruments settled on						
a gross basis						
– Cash outflow	(775,033)	(567,895)	(979,175)	(86,979)	(5,464)	(2,414,546)
– Cash inflow	776,108	567,520	981,843	88,209	7,732	2,421,412
Total	1,075	(375)	2,668	1,230	2,268	6,866

3.3.5 Maturity analysis

The table below analyses the Group's assets and liabilities into relevant maturity groupings based on the remaining period at the end of reporting date to the contractual maturity date.

	On demand	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Overdue	Undated	Total
As at 31 December 2021									
Assets									
Cash and balances with central banks	103,648	-	304	-	-	-	-	630,776	734,728
Due from and placements with banks and other financial institutions	88,993	171,428	89,547	225,329	45,687	11,724	-	-	632,708
Derivative financial assets	-	6,099	7,172	13,032	11,052	1,865	-	-	39,220
Financial investments at FVPL	2,697	25,684	47,293	92,313	43,656	50,780	-	376,060	638,483
Loans and advances to customers	-	504,850	289,612	1,435,771	1,309,429	2,837,626	34,913	-	6,412,201
Financial investments at FVOCI	-	17,504	56,506	120,183	289,879	181,366	29	16,262	681,729
Financial investments at amortised cost	-	18,227	37,752	284,065	1,014,207	846,389	2,397	-	2,203,037
Other assets	93,428	150	18	505	35,656	2,509	4,198	187,187	323,651
Total assets	288,766	743,942	528,204	2,171,198	2,749,566	3,932,259	41,537	1,210,285	11,665,757
Liabilities									
Due to and placements from banks and other financial institutions	(816,423)	(339,771)	(247,890)	(491,785)	(44,522)	(7,377)	-	-	(1,947,768)
Financial liabilities at FVPL	(11,631)	(24,954)	(1,995)	(10,202)	(1,266)	-	-	-	(50,048)
Derivative financial liabilities	-	(5,493)	(6,739)	(11,698)	(10,266)	(1,878)	-	-	(36,074)
Due to customers	(2,917,672)	(892,406)	(544,620)	(1,043,211)	(1,641,829)	(39)	-	-	(7,039,777)
Other liabilities	(59,181)	(113,511)	(198,029)	(739,771)	(285,206)	(219,156)	-	-	(1,614,854)
Total liabilities	(3,804,907)	(1,376,135)	(999,273)	(2,296,667)	(1,983,089)	(228,450)	-	-	(10,688,521)
Net amount on liquidity gap	(3,516,141)	(632,193)	(471,069)	(125,469)	766,477	3,703,809	41,537	1,210,285	977,236

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Liquidity risk (Continued)

3.3.5 Maturity analysis (Continued)

	On demand	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Overdue	Undated	Total
As at 31 December 2020									
Assets									
Cash and balances with central banks	176,216	–	320	–	–	–	–	641,025	817,561
Due from and placements with banks and other financial institutions	111,953	174,623	91,078	153,121	33,242	7,113	–	–	571,130
Derivative financial assets	–	9,718	11,570	22,283	9,068	1,573	–	–	54,212
Financial investments at FVPL	2,100	9,722	12,857	37,651	44,167	58,795	314	316,982	482,588
Loans and advances to customers	–	484,371	319,698	1,305,770	1,103,053	2,476,035	31,641	–	5,720,568
Financial investments at FVOCI	–	28,930	46,507	126,501	339,517	182,346	72	11,347	735,220
Financial investments at amortised cost	–	41,210	49,086	278,043	972,565	678,355	270	–	2,019,529
Other assets	61,973	286	19	15,410	16,448	4,047	4,432	194,193	296,808
Total assets	352,242	748,860	531,135	1,938,779	2,518,060	3,408,264	36,729	1,163,547	10,697,616
Liabilities									
Due to and placements from banks and other financial institutions	(664,483)	(247,467)	(268,704)	(544,824)	(48,745)	(13,268)	–	–	(1,787,491)
Financial liabilities at FVPL	(7,107)	(6,291)	(7,636)	(8,111)	(134)	–	–	–	(29,279)
Derivative financial liabilities	–	(8,357)	(10,798)	(20,858)	(12,210)	(3,719)	–	–	(55,942)
Due to customers	(2,826,643)	(716,981)	(560,281)	(942,581)	(1,560,842)	(2)	–	–	(6,607,330)
Other liabilities	(68,467)	(94,306)	(235,723)	(374,652)	(367,189)	(198,609)	–	–	(1,338,946)
Total liabilities	(3,566,700)	(1,073,402)	(1,083,142)	(1,891,026)	(1,989,120)	(215,598)	–	–	(9,818,988)
Net amount on liquidity gap	(3,214,458)	(324,542)	(552,007)	47,753	528,940	3,192,666	36,729	1,163,547	878,628

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 2021				
Loan commitments and other credit related commitments	924,244	30,785	14,922	969,951
Guarantees, acceptances and letters of credit	796,027	138,818	1,629	936,474
Total	1,720,271	169,603	16,551	1,906,425
As at 31 December 2020				
Loan commitments and other credit related commitments	813,687	26,668	20,520	860,875
Guarantees, acceptances and letters of credit	682,540	126,206	7,091	815,837
Total	1,496,227	152,874	27,611	1,676,712

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.4 Fair value of financial assets and liabilities

(a) Determination of fair value and valuation techniques

Certain financial assets and liabilities of the Group are measured at fair value or with fair value disclosed for financial reporting purposes. The fair value has been determined using appropriate valuation techniques and inputs for fair value measurements. The appropriateness of the valuation techniques and the inputs to the fair value measurements are reviewed by the Board of Directors periodically.

Fair value measurements are categorised into level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- (1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- (2) Level 2 inputs are inputs, other than quoted prices included within level 1, that are observable for the asset or liability, either directly or indirectly; and
- (3) Level 3 inputs are unobservable inputs for the asset or liability.

The fair value of financial instruments with unadjusted quoted prices for identical instruments in active markets is determined by the open market quotations. These instruments are classified as level 1.

The Group uses valuation techniques to determine the fair value of financial instruments when an open market quotation in active markets is not obtainable.

If the key parameters used in valuation techniques for financial instruments are substantially observable and obtainable from active open market, the instruments are classified as level 2. The second hierarchy of financial instruments held by the Group mainly includes derivatives, debt securities, certificates of deposit without quotations from active market, loans and advances to customers carried at FVOCI, precious metals, debt securities issued and restricted shares. The fair value of RMB denominated bonds is mainly valued based on the yield curves of the bonds from China Central Depository & Clearing Co., Ltd., while the fair value of the foreign currency denominated bonds is determined based on the valuation results published by Bloomberg. The fair value of foreign currency forwards, swaps, interest rate swaps, foreign currency options is estimated by the discounted cash flow method and Black-Scholes model; the fair value of precious metal contract is mainly determined in accordance with the closing prices of the Shanghai Gold Exchange or the settlement prices of the Shanghai Futures Exchange. The main parameters used in discounted cash flow model include recent market prices, the relevant yield curve, exchange rates and counterparty's credit spread. Main parameters used in Black-Scholes model include the relevant yield curve, exchange rate, level of volatilities and counterparty's credit spread, etc. All parameters used in valuation techniques are substantially observable and obtainable from active open market.

For loans and advances to customers at fair value through other comprehensive income, trust and asset management plan at fair value through profit or loss, the fair value is determined based on discounted cash flow model using unobservable discount rates that reflect credit risk. These financial instruments are classified as level 3.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.4 Fair value of financial assets and liabilities *(Continued)*

(a) Determination of fair value and valuation techniques (Continued)

For convertible bonds, unlisted equities, unlisted funds and equity derivatives held by the Group, the fair value of these financial instruments are determined with reference to certain unobservable inputs, and therefore the instruments have been classified by the Group as level 3. The management determines the fair value of these financial instruments using a variety of techniques, including using valuation models that incorporate and take into account unobservable inputs such as Discount for Lack of Marketability (DLOM). The Group has established internal control procedures to monitor the Group's exposure to such financial instruments.

(b) Financial instruments not measured at fair value

The table below summarises the carrying amount and fair value of those financial assets and liabilities that are not presented at fair value as at the date of statement of financial position. Financial assets and liabilities with carrying amount approximate to fair value, such as cash and balances with central banks, due from and placements with banks and other financial institutions, loans and advances to customers at amortised cost, due to and placements from banks and other financial institutions, and due to customers, are not included in the table below.

	As at 31 December 2021		As at 31 December 2020	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Financial investments at amortised cost	2,203,037	2,234,814	2,019,529	2,031,222
Financial liabilities				
Debt securities issued	(491,372)	(496,082)	(484,382)	(485,175)

Fair value hierarchy of financial instruments not measured at fair value

As at 31 December 2021	Level 1	Level 2	Level 3	Total
Financial assets				
Financial investments at amortised cost	7,757	2,138,742	88,315	2,234,814
Financial liabilities				
Debt securities issued	–	(496,082)	–	(496,082)
As at 31 December 2020				
Financial assets				
Financial investments at amortised cost	2,530	1,920,866	107,826	2,031,222
Financial liabilities				
Debt securities issued	–	(485,175)	–	(485,175)

The carrying amounts and fair values of other financial assets and liabilities (including loans and advances to customers at amortised cost, due from and placements with banks and other financial institutions, due to and placements from banks and other financial institutions) are approximately the same, because the interest rates of most of these assets and liabilities are adjusted following the changes in interest rates determined by the PBOC, other regulatory bodies or market.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Continued)

3.4 Fair value of financial assets and liabilities (Continued)

(c) Financial assets and financial liabilities measured at fair value on a recurring basis

The financial assets and liabilities measured at fair value on a recurring basis by the three levels are analysed below:

As at 31 December 2021	Level 1	Level 2	Level 3	Total
At fair value through profit or loss				
Debt securities				
– Governments and central banks	2,719	96,360	–	99,079
– Public sector entities	–	1,302	–	1,302
– Banks and other financial institutions	7,272	93,464	162	100,898
– Corporate entities	3,317	40,347	2,991	46,655
Fund investments and other asset management products	685	287,847	16,644	305,176
Equity securities and others	7,826	5,081	50,542	63,449
Precious metal contracts	–	21,924	–	21,924
Derivative financial instruments				
– Foreign exchange and commodity contracts	–	27,196	–	27,196
– Interest rate contracts and others	–	10,987	1,037	12,024
Loans and advances to customers	–	27	–	27
	21,819	584,535	71,376	677,730
At fair value through other comprehensive income				
Debt Investments at FVOCI				
– Governments and central banks	50,353	254,012	–	304,365
– Public sector entities	1,422	3,148	–	4,570
– Banks and other financial institutions	114,620	139,981	–	254,601
– Corporate entities	72,810	28,825	296	101,931
Investments in equity instruments designated at FVOCI	7,357	1,636	7,269	16,262
Loans and advances to customers at FVOCI	–	184,696	10	184,706
	246,562	612,298	7,575	866,435
Total assets	268,381	1,196,833	78,951	1,544,165
Financial liabilities at FVPL				
– Certificates of deposits issued	–	(1,400)	–	(1,400)
– Financial liabilities related to precious metal contracts	–	(15,247)	–	(15,247)
– Short position of securities held for trading	–	(134)	–	(134)
– Notes issued	–	(1,385)	–	(1,385)
– Others	–	(31,882)	–	(31,882)
Derivative financial instruments				
– Foreign exchange and commodity contracts	–	(24,898)	–	(24,898)
– Interest rate contracts and others	–	(11,176)	–	(11,176)
Debt securities issued	–	(12,153)	–	(12,153)
Total liabilities	–	(98,275)	–	(98,275)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Continued)

3.4 Fair value of financial assets and liabilities (Continued)

(c) Financial assets and financial liabilities measured at fair value on a recurring basis (Continued)

As at 31 December 2020	Level 1	Level 2	Level 3	Total
At fair value through profit or loss				
Debt securities				
– Governments and central banks	3,191	3,343	–	6,534
– Public sector entities	–	1,585	–	1,585
– Banks and other financial institutions	7,673	91,904	94	99,671
– Corporate entities	2,312	39,642	3,290	45,244
Fund investments and other asset management products	370	238,963	12,765	252,098
Equity securities and others	6,270	3,233	47,978	57,481
Precious metal contracts	–	19,975	–	19,975
Derivative financial instruments				
– Foreign exchange and commodity contracts	–	44,435	–	44,435
– Interest rate contracts and others	–	8,880	897	9,777
	19,816	451,960	65,024	536,800
At fair value through other comprehensive income				
Debt Investments at FVOCI				
– Governments and central banks	72,209	268,514	–	340,723
– Public sector entities	1,273	2,103	–	3,376
– Banks and other financial institutions	123,223	181,467	–	304,690
– Corporate entities	49,033	25,687	364	75,084
Investments in equity instruments designated at FVOCI	1,798	1,842	7,707	11,347
Loans and advances to customers at FVOCI	–	210,397	95	210,492
	247,536	690,010	8,166	945,712
Total assets	267,352	1,141,970	73,190	1,482,512
Financial liabilities at FVPL				
– Certificates of deposits issued	–	(7,868)	–	(7,868)
– Financial liabilities related to precious metal contracts	–	(16,104)	–	(16,104)
– Notes issued	–	(417)	–	(417)
– Others	–	(4,890)	–	(4,890)
Derivative financial instruments				
– Foreign exchange and commodity contracts	–	(40,914)	–	(40,914)
– Interest rate contracts and others	–	(15,028)	–	(15,028)
Debt securities issued	–	(13,373)	–	(13,373)
Total liabilities	–	(98,594)	–	(98,594)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)***3.4 Fair value of financial assets and liabilities** *(Continued)**Reconciliation of Level 3 items*

	Financial assets at FVPL	Financial assets at FVOCI
Balance at 1 January 2021	65,024	8,166
Total gains or losses		
– Net gains/(losses) arising from trading activities	4,951	48
– Other comprehensive income	–	(1,233)
Additions	10,723	975
Disposals and settlement	(9,286)	(381)
Transfer to other levels	(36)	–
Balance at 31 December 2021	71,376	7,575
Total gains/(losses) generated by financial assets and liabilities held by the Group as at 31 December 2021		
– Realised gains	1,998	46
– Unrealised losses	2,000	(1,231)
	Financial assets at FVPL	Financial assets at FVOCI
Balance at 1 January 2020	63,696	7,520
Total gains or losses		
– Net gains/(losses) arising from trading activities	1,291	(40)
– Other comprehensive income	–	(1,696)
Additions	11,587	2,932
Disposals and settlement	(11,550)	(550)
Balance at 31 December 2020	65,024	8,166
Total gains/(losses) generated by financial assets and liabilities held by the Group as at 31 December 2020		
– Realised gains	2,218	2
– Unrealised losses	(975)	(1,738)

These financial instruments with fair values determined based on unobservable inputs are primarily convertible bonds, unlisted equities, unlisted funds, part of the trust and asset management plan, equity derivatives and part of loans and advances to customers. The fair value of these financial instruments is determined primarily using discounted cash flow method and market comparison method. These valuation methods involve inputs from various unobservable assumptions such as cash flow, risk-adjusted discount rate, price to book value ratio, price to earnings ratio and liquidity discounts.

3.5 Offsetting financial assets and financial liabilities

Certain financial assets and financial liabilities of the Group are subject to enforceable master netting arrangements or similar agreements. The agreement between the Group and the counterparty generally allows for net settlement of the relevant financial assets and financial liabilities when both elect to settle on a net basis. In the absence of such a mutual consent, financial assets and financial liabilities will be settled on a gross basis. However, each party to the master netting arrangements or similar agreements will have the option to settle all such amounts on a net basis in the event of default of the other party. These financial assets and financial liabilities of the Group are not offset in accordance with IFRSs.

As at 31 December 2021, the amount of the financial assets and financial liabilities subject to enforceable master netting arrangements or similar agreements is not material to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.6 Capital management

The “capital” in capital management is a broader concept than “shareholders’ equity” on the statement of financial position. The Group’s objectives in capital management are:

- To comply with the capital requirements set by the regulators of the markets where the Group operates;
- To ensure the Group’s ability to maintain a stable operation so as to continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

The Group management adopts administrative measures issued by the CBIRC, which was developed based on guideline issued by the Basel Committee, in monitoring its capital adequacy ratio and the usage of regulatory capital on a quarterly basis. The quarterly monitored information is then submitted to CBIRC.

The *Administrative Measures for the Capital of Commercial Banks (Provisional)* specified the regulatory requirements for minimum capital, capital conservation buffer, additional capital surcharge for systemically important banks, countercyclical buffer and Pillar II capital as follows:

- Minimum regulatory requirements for core tier-1 capital adequacy ratio, tier-1 capital adequacy ratio and capital adequacy ratio are 5%, 6% and 8%, respectively;
- Capital conservation buffer requires additional 2.5% on core tier-1 capital adequacy ratio;
- Additional capital surcharge for systemically important banks requires additional 0.75% on core tier-1 capital adequacy ratio;
- Should the regulators require countercyclical buffer under particular circumstances or regulators impose additional Pillar II capital requirements for specific banks, these requirements shall be met within the specified time limits.

The Group’s capital as monitored by its Planning and Finance Department consists of the following:

- Core tier-1 capital, including ordinary shares, eligible portion of capital surplus, statutory reserve, statutory general reserve, retained earnings, eligible portion of non-controlling interests and translation reserve on foreign operations;
- Additional tier-1 capital, including Additional tier-1 capital instruments issued and related premium and eligible portion of non-controlling interests;
- Tier-2 capital, including tier-2 capital instruments issued and related premium, excess loan loss provisions and eligible portion of non-controlling interests.

The Group’s deductible items from core tier-1 capital include: Goodwill, other intangible assets (except land use rights), investments in core tier-1 capital of financial institutions with controlling interests but outside the scope of regulatory consolidation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Continued)

3.6 Capital management (Continued)

In April 2014, the CBIRC officially approved the implementation of the advanced approach of capital management adopted by the Group. In this approach, the Group elected to use elementary internal rating based (“IRB”) approach for corporate risk exposure, IRB approach for retail risk exposure, internal model approach for market risk and standardised approach for operational risk exposure which is compliant with regulatory requirements. For risk exposures not covered by the advanced approaches, the corresponding portion shall be calculated by adopting non-advanced approaches. The capital ratios calculated based on *Administrative Measures for the Capital of Commercial Banks (Provisional)* are as follows:

Item	As at 31 December 2021	As at 31 December 2020
Core tier-1 capital adequacy ratio (%)	10.62	10.87
Tier-1 capital adequacy ratio (%)	13.01	12.88
Capital adequacy ratio (%)	15.45	15.25
Core tier-1 capital	789,887	732,863
Core tier-1 capital deductions	(6,010)	(5,252)
Net core tier-1 capital	783,877	727,611
Additional tier-1 capital	176,348	134,610
Net tier-1 capital	960,225	862,221
Tier-2 capital	179,732	159,025
Net capital	1,139,957	1,021,246
Risk-weighted assets	7,379,912	6,695,462

4 NET INTEREST INCOME

	Year ended 31 December	
	2021	2020
Interest income		
Loans and advances to customers	266,419	251,468
Financial investments	88,262	90,683
Due from and placements with banks and other financial institutions	12,266	16,180
Balances with central banks	10,699	10,770
	377,646	369,101
Interest expense		
Due to customers	(140,982)	(139,142)
Due to and placements from banks and other financial institutions	(38,581)	(46,653)
Certificates of deposit issued	(20,049)	(15,404)
Debt securities issued	(16,341)	(14,566)
	(215,953)	(215,765)
Net interest income	161,693	153,336
Including:		
Interest income on impaired financial assets	1,251	1,369

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

5 FEE AND COMMISSION INCOME

	Year ended 31 December	
	2021	2020
Bank cards	20,136	20,107
Wealth management business	11,775	9,856
Custody and other fiduciary business	7,484	7,033
Agency services	5,664	4,200
Investment banking	3,120	3,706
Guarantee and commitment	2,527	2,617
Settlement services	1,296	1,531
Others	283	248
	52,285	49,298

	Year ended 31 December	
	2021	2020
Fee income, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading or designated at FVPL	1,576	1,342
Fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers	3,758	3,458

6 FEE AND COMMISSION EXPENSE

	Year ended 31 December	
	2021	2020
Bank card business	2,560	2,473
Settlement and agency services	1,744	1,321
Others	408	418
	4,712	4,212

	Year ended 31 December	
	2021	2020
Fee expense, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading or designated at FVPL	-	-

7 NET GAINS ARISING FROM TRADING ACTIVITIES

	Year ended 31 December	
	2021	2020
Financial instruments at FVPL	20,621	14,277
Foreign exchange	2,539	1,100
Interest rate instruments and others	184	(1,533)
	23,344	13,844

Net gains or losses on foreign exchange include trading gains or losses and fair value changes of derivative instruments such as spot and forward contracts, currency swaps, cross currency interest rate swaps, currency options and the translation of foreign currency monetary assets and liabilities into RMB.

Net gains or losses on interest rate instruments and others include trading gains or losses and fair value changes of interest rate swaps, interest rate options, commodity and other derivatives.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

7 NET GAINS ARISING FROM TRADING ACTIVITIES *(Continued)*

Net gains arising from trading activities for the year ended 31 December 2021 included a gain of RMB227 million (for the year ended 31 December 2020: a loss of RMB184 million) in relation to changes in the fair value of financial liabilities designated at fair value through profit or loss.

8 INSURANCE BUSINESS INCOME

	Year ended 31 December	
	2021	2020
Premiums earned	17,141	15,731
Less: Premiums ceded	(626)	(561)
	16,515	15,170

9 OTHER OPERATING INCOME

	Year ended 31 December	
	2021	2020
Leasing income	13,843	13,436
Income from sales of precious metal merchandise	2,020	1,848
Revaluation of investment properties	183	180
Net gain on the disposal of fixed and foreclosed assets	454	166
Other miscellaneous income	2,535	2,259
	19,035	17,889

Other miscellaneous income mainly includes income arising from miscellaneous banking services provided to the Group's customers.

10 CREDIT IMPAIRMENT LOSSES

	Year ended 31 December	
	2021	2020
Due from and placements with banks and other financial institutions	1,085	225
Loans and advances to customers at amortised cost	63,339	55,303
Loans and advances to customers at FVOCI	158	(12)
Credit related commitments and financial guarantees	1,998	4,874
Financial investments at amortised cost	(124)	(129)
Debt investments at FVOCI	(87)	316
Others	2	1,482
	66,371	62,059

11 OTHER ASSETS IMPAIRMENT LOSSES

	Year ended 31 December	
	2021	2020
Impairment losses on operating lease assets	1,981	485
Impairment losses on precious metal	55	–
Impairment losses on foreclosed assets	284	(1)
	2,320	484

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

12 INSURANCE BUSINESS EXPENSE

	Year ended 31 December	
	2021	2020
Change in insurance reserves	15,643	13,282
Less: Change in insurance reserves recovered from reinsurers	958	(401)
Surrenders	1,084	2,288
Others	(631)	560
	17,054	15,729

13 OTHER OPERATING EXPENSES

	Year ended 31 December	
	2021	2020
Staff costs and benefits (Note 14)	36,825	32,749
General operating and administrative expenses	29,621	25,367
Depreciation and amortisation	8,099	7,888
Costs of operating lease business	9,108	9,518
Tax and surcharges	3,001	2,823
(Reversal)/provision for outstanding litigations	(199)	32
Others	3,589	3,650
	90,044	82,027

Since the presentation of “Staff costs and benefits” and “General operating and administrative expenses” has been changed, we have restated the comparative information of the year before

14 STAFF COSTS AND BENEFITS

	Year ended 31 December	
	2021	2020
Salaries, bonuses, allowances and subsidies	25,383	22,920
Post-employment benefit (a)	4,093	3,062
Other social security and benefit costs	7,349	6,767
	36,825	32,749

(a) Post-employment benefit

Defined contribution plans

The Group participates in various defined contribution retirement benefit plans organised by municipal and provincial governments in Mainland China, under which it is required to make monthly contributions to these plans at rates ranging from 10% to 27% of the employees' basic salary for the year. The Group's contributions to these pension plans are charged to profit or loss and other comprehensive income in the year to which they relate.

Employees who retire at or after 1 January 2009 can voluntarily participate in an Annuity Plan. The Bank contributes to the Annuity Plan based on certain percentage of the employees' gross salary which is recognised in profit or loss as incurred.

As at 31 December 2021, there are no forfeited contributions under the Group's retirement benefit plans which can be used to deduct contributions payable for future years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

14 STAFF COSTS AND BENEFITS (Continued)

(a) Post-employment benefit (Continued)

Defined contribution plans (Continued)

The amount recognised in profit or loss is as follows:

	Year ended 31 December	
	2021	2020
Expenses incurred for retirement benefit plans and unemployment insurance	2,494	1,577
Expenses incurred for annuity plan	1,575	1,468
Total	4,069	3,045

The amount payable at the end of the year is as follows:

	As at	As at
	31 December 2021	31 December 2020
Expenses incurred for retirement benefit plans and unemployment insurance	105	69
Expenses incurred for annuity plan	50	73
Total	155	142

Defined benefit plans

The Group pays supplementary retirement benefits to employees in Mainland China, who retired at or before 31 December 2008. The Group's obligations in respect of supplementary retirement benefits are calculated by estimating the amount of future benefits that the Group is committed to pay to the employees after their retirement using actuarial techniques. Such benefits, which are estimated by using key parameters such as inflation rate and mortality ratio, are discounted to their present values. The discount rate is the yield on government bonds at the end of reporting date, the maturity dates of which approximate to the terms of the Group's obligations. Actuarial gains or losses and changes in actuarial assumptions are recognised in other comprehensive income, and amendments to pension plan are recognised in profit or loss in the period of a plan amendment. The amounts recognised in the statement of financial position represent the present value of unfunded obligations.

The Group's retirement benefit obligations in locations other than Mainland China are immaterial and are made in accordance with the relevant local policies and regulations.

	As at	As at
	31 December 2021	31 December 2020
Statement of financial position		
– Obligations for pension benefits	385	467

Amounts recognised in comprehensive income in respect of the supplementary retirement benefits are as follows:

	Year ended 31 December	
	2021	2020
Components of defined benefit costs recognised in profit or loss	24	17
Components of defined benefit costs recognised in other comprehensive income	(55)	132
Total	(31)	149

Past service cost and interest expense are recognised in other operating expenses in the income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

14 STAFF COSTS AND BENEFITS (Continued)

(a) Post-employment benefit (Continued)

Defined benefit plans (Continued)

Movements in the unfunded obligations over the year are as follows:

	Year ended 31 December	
	2021	2020
Present value of unfunded obligations at the beginning of the year	467	399
Retirement benefits paid during the year	(51)	(81)
Interest expense	21	14
Past service cost	3	3
Net actuarial losses recognised in the current year	(55)	132
Present value of unfunded obligations at the end of the year	385	467

The average duration of the supplementary retirement benefits plan at 31 December 2021 is 12.31 years (31 December 2020: 13.20 years).

The Group expects to make a contribution of RMB39 million (2020: RMB40 million) to the defined benefit plan during the next financial year.

The supplementary retirement benefits plan exposes the Group to actuarial risks such as interest risk, longevity risk and inflation risk. A decrease in the government bond yield will increase the present value of unfunded obligations. The present value of unfunded obligations is calculated by reference to the best estimate of the mortality of plan participants. An increase in the life expectancy of the plan participants will increase the plan's liability. The present value of unfunded obligations is also measured by future payment standards, which are determined by inflation rate. Hence, an increase in inflation rate will increase the present value of the unfunded obligations.

The principal actuarial assumptions regarding interest risk and inflation risk used by the Group are discount rate and inflation rate, which were 3.07% (31 December 2020: 3.51%) and 0.81% (31 December 2020: 2.87%) respectively as at 31 December 2021. In the meantime, assumptions regarding future mortality rate are set based on published statistics by the CBIRC. As at 31 December 2021, an average longevity of a pensioner after retirement at age 60 for male is 23.13 years (31 December 2020: 23.13 years) while a pensioner after retirement at age 55 for female is 33.13 years (31 December 2020: 33.13 years).

Significant actuarial assumptions for the determination of the unfunded obligation are discount rate, inflation rate and mortality. The sensitivity analysis below is based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

- (1) If the discount rate is 100 basis points higher (lower), the defined benefit obligation would decrease by RMB35 million (increase by RMB40 million).
- (2) If the expected inflation rate increases (decreases) by 1%, the defined benefit obligation would increase by RMB39 million (decrease by RMB35 million).
- (3) If the life expectancy increases (decreases) by one year for men and women, the defined benefit obligation would increase by RMB29 million (decrease by RMB30 million).

The sensitivity analysis above may not be representative of the actual change in the unfunded obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

In presenting the above sensitivity analysis, the present value at the end of the reporting period of the unfunded obligation has been calculated in the same method as that applied in calculating the unfunded obligation liability recognised in the statement of financial position.

There was no change in the methods and assumptions used in preparing the sensitivity analysis in prior years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

15 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(a) Directors', supervisors' and senior management's emoluments before taxation

(in thousands of RMB) Name	Year ended 31 December 2021			Total
	Emoluments	Remuneration	Other benefits	
Executive directors				
Mr. Ren, Deqi	–	619	210	829
Mr. Liu, Jun	–	619	206	825
Non-executive directors				
Mr. Chan Siu Chung	–	–	–	–
Mr. Song, Hongjun	–	–	–	–
Mr. Chen, Junkui	–	–	–	–
Mr. Liu, Haoyang	–	–	–	–
Mr. Li, Longcheng	–	–	–	–
Independent non-executive directors				
Jason Yeung Chi Wai	310	–	–	310
Raymond Woo Chin Wan	310	–	–	310
Mr. Cai, Haoyi	–	–	–	–
Mr. Shi, Lei	310	–	–	310
Mr. Zhang, Xiangdong	–	–	–	–
Ms. Li, Xiaohui	330	–	–	330
Supervisors				
Mr. Zhang, Minsheng	–	–	–	–
Mr. Wang, Xueqing	–	–	–	–
Ms. Xia, Zhihua	–	–	–	–
Mr. Li, Yao	–	280	–	280
Mr. Chen, Hanwen	–	260	–	260
Mr. Ju, Jiandong	–	260	–	260
Mr. Guan, Xingshe	–	956	211	1,167
Ms. Lin, Zhihong	–	962	211	1,173
Ms. Po, Ying	–	79	18	97
Mr. Xu, Jiming	–	258	87	345
Ms. Feng, Bing	–	819	211	1,030
Total	1,260	5,112	1,154	7,526

(in thousands of RMB) Name	Year ended 31 December 2021			Total
	Emoluments	Remuneration	Other benefits	
Former directors and supervisors				
Mr. Du, Yarong	–	416	84	500
Mr. Cai, Yunge	–	103	34	137
Mr. He, Zhaobin	–	73	22	95
Total	–	592	140	732

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

15 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(Continued)*

(a) Directors', supervisors' and senior management's emoluments before taxation *(Continued)*

(in thousands of RMB) Name	Year ended 31 December 2020			Total
	Emoluments	Remuneration	Other benefits	
Executive directors				
Mr. Ren, Deqi	–	783	161	944
Mr. Liu, Jun	–	457	93	550
Non-executive directors				
Mr. He, Zhaobin	–	866	161	1,027
Mr. Chan Siu Chung	–	–	–	–
Mr. Song, Hongjun	–	–	–	–
Mr. Chen, Junkui	–	–	–	–
Mr. Liu, Haoyang	–	–	–	–
Mr. Li, Longcheng	–	–	–	–
Mr. Wang, Linping	–	–	–	–
Mr. Chang, Baosheng	–	–	–	–
Independent non-executive directors				
Jason Yeung Chi Wai	310	–	–	310
Raymond Woo Chin Wan	310	–	–	310
Mr. Cai, Haoyi	–	–	–	–
Mr. Shi, Lei	310	–	–	310
Mr. Zhang, Xiangdong	–	–	–	–
Ms. Li, Xiaohui	39	–	–	39
Supervisors				
Mr. Cai, Yunge	–	155	41	196
Mr. Zhang, Minsheng	–	–	–	–
Mr. Wang, Xueqing	–	–	–	–
Ms. Xia, Zhihua	–	–	–	–
Mr. Li, Yao	–	270	–	270
Mr. Chen, Hanwen	–	260	–	260
Mr. Ju, Jiandong	–	130	–	130
Mr. Du, Yarong	–	946	167	1,113
Mr. Guan, Xingshe	–	905	167	1,072
Ms. Lin, Zhihong	–	–	–	–
Ms. Feng, Bing	–	–	–	–
Total	969	4,772	790	6,531

(in thousands of RMB) Name	Year ended 31 December 2020			Total
	Emoluments	Remuneration	Other benefits	
Former directors and supervisors				
Mr. Hou, Weidong	–	235	52	287
Mr. Wang, Taiyin	–	444	75	519
Mr. Song, Guobin	–	574	101	675
Ms. Li, Jian	–	211	–	211
Mr. Liu, Li	–	291	–	291
Ms. Tang, Xinyu	–	–	–	–
Ms. Chen, Qing	–	569	91	660
Mr. Wang, Xuewu	–	921	167	1,088
Total	–	3,245	486	3,731

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

15 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

(a) Directors', supervisors' and senior management's emoluments before taxation (Continued)

- (1) The total compensation package for directors and supervisors for the year ended 31 December 2021 has not yet been finalised in accordance with regulations of the PRC relevant authorities. The amount of the compensation not provided for is not expected to have significant impact to the Group's financial statements for the year ended 31 December 2021. The final compensation will be disclosed in a separate announcement when determined. The final total compensation for the year ended 31 December 2020 was disclosed in the Information on the Second Extraordinary General Meeting of Shareholders in 2021 issued on 10 September 2021.
- (2) Employee supervisors Mr. Du Yarong, Mr. Guan Xingshe, Ms. Lin Zhihong and Ms. Feng Bing received compensation according to their positions as employees of the Bank and did not receive additional compensation as employee supervisors.
- (3) During 2021 and 2020, there was no arrangement under which a director or a supervisor waived or agreed to waive any remuneration.
- (4) Other benefits include social insurance, housing allowances, enterprise annuity paid by the Bank.
- (5) Mr. Wang Linping and Mr. Chang Baosheng begin to assume office on the 8 January 2021.

(b) Five highest paid individuals

The five highest paid individuals in the Group for the related years are as follows:

	Year ended 31 December	
	2021	2020
Salary	15	14
Discretionary bonuses	13	15
Employer's contribution to pension scheme and other benefits	2	2
Total	30	31

Emoluments of the above five highest paid individuals in the Group are within the following bands:

	Number of individuals As at 31 December	
	2021	2020
HKD4,500,001 – 5,000,000	1	2
HKD5,000,001 – 5,500,000	3	2
HKD5,500,001 – 6,000,000	–	–
HKD6,000,001 – 6,500,000	–	–
HKD6,500,001 – 7,000,000	–	–
HKD7,000,001 – 7,500,000	–	–
HKD7,500,001 – 8,000,000	–	–
HKD8,000,001 – 8,500,000	–	–
HKD8,500,001 – 9,000,000	–	–
HKD9,000,001 – 9,500,000	–	–
HKD9,500,001 – 10,000,000	–	–
HKD10,000,001 – 10,500,000	1	–
HKD10,500,001 – 11,000,000	–	–
HKD11,000,001 – 11,500,000	–	1
Total	5	5

During 2021 and 2020, no emolument was paid by the Group to any of the directors, supervisors and the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

16 INCOME TAX

	Year ended 31 December	
	2021	2020
Current income tax		
– Mainland China enterprise income tax	7,522	8,247
– Hong Kong profits tax	608	630
– Income tax arising in Macao, Taiwan and other countries or regions	753	577
Subtotal	8,883	9,454
Deferred income tax (Note 27)	(3,863)	(2,599)
Total	5,020	6,855

The provision for enterprise income tax in Mainland China is calculated based on the statutory rate of 25% (2020: 25%) of the assessable income of the Bank and each of the subsidiary established in Mainland China. Taxation arising in other jurisdictions (including Hong Kong) is calculated at the rates prevailing in the relevant jurisdictions, the shortfall arising from the difference between tax paid by overseas branches and the accrued tax under the regulation of Mainland China shall be compensated by the head office.

The actual taxation on the Group differs from the theoretical amount calculated using the Group's profit before tax at the tax rate of 25% (2020: 25%). The major reconciliation items are as follows:

	Year ended 31 December	
	2021	2020
Profit before tax	93,959	86,425
Tax calculated at statutory rate of 25%	23,490	21,606
Effects of different tax rates prevailing in Hong Kong, Macao, Taiwan and other countries or regions	(207)	(152)
Effects of non-deductible expenses (1)	2,445	3,644
Effects of non-taxable income (2)	(19,663)	(17,393)
Others	(934)	(420)
Adjustments for income tax filing of prior years	(111)	(430)
Income tax	5,020	6,855

- (1) Non-deductible expenses primarily represent non-deductible write-offs.
- (2) Non-taxable income primarily represents interest income from PRC treasury bonds and municipal government bonds and fund investment income gained in Mainland China.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

17 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit attributable to shareholders of the Bank by the weighted average number of ordinary shares in issue during the period.

	Year ended 31 December	
	2021	2020
Net profit attributable to shareholders of the Bank	87,581	78,274
Less: Dividends paid to preference shareholders	(1,755)	(2,714)
Interest paid to perpetual bond holders	(3,858)	(1,680)
Net profit attributable to ordinary shareholders of the Bank	81,968	73,880
Weighted average number of ordinary shares in issue (expressed in millions) at the end of the year	74,263	74,263
Basic and diluted earnings per share (expressed in RMB per share)	1.10	0.99

For the purpose of calculating basic earnings per share, a cash dividend of RMB1,755 million on non-cumulative preference shares declared for the period was deducted from the amounts attributable to shareholders of the Bank. The conversion feature of preference shares may lead to the possible existence of contingently issuable ordinary shares. The triggering events of conversion did not occur for the year ended 31 December 2021, and therefore the conversion feature of preference shares has no effect on the calculation of the basic and diluted earnings per share.

For the calculation of basic earnings per share, distributions on non-cumulative perpetual bonds declared for the period was deducted from the amounts attributable to shareholders of the Bank. The Bank has declared an interest of RMB3,858 million on perpetual bonds during the year ended 31 December 2021.

18 CASH AND BALANCES WITH CENTRAL BANKS

	As at 31 December 2021	As at 31 December 2020
Cash	13,298	15,353
Mandatory reserve deposits	624,340	634,239
Excess reserve deposits	90,350	160,863
Fiscal deposits and others	6,436	6,786
Accrued interest	304	320
	734,728	817,561

The Group places mandatory reserves with the PBOC and several other central banks of overseas countries and regions. Such mandatory reserves are not available for use by the Group in its day-to-day operations.

The Bank's domestic mandatory deposit reserve rates as at the balance sheet date are as follows:

	As at 31 December 2021	As at 31 December 2020
	%	%
Domestic mandatory reserve rate for deposits denominated in RMB	10.00	11.00
Domestic mandatory reserve rate for deposits denominated in foreign currencies	9.00	5.00

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

18 CASH AND BALANCES WITH CENTRAL BANKS *(Continued)*

Reserve rate for deposits denominated in RMB of the Group's subsidiaries in Mainland China is subject to relevant regulations of the PBOC.

Mandatory reserve rate for deposits with central banks of overseas countries and regions is subject to regulations of local regulatory bodies.

Excess reserve deposits with central banks are mainly used for capital settlement, financial institution transfer, etc.

19 DUE FROM AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 December 2021	As at 31 December 2020
Due from banks and other financial institutions		
– Banks and other financial institutions operating in Mainland China	83,372	90,965
– Banks and other financial institutions operating outside Mainland China	36,422	68,274
Accrued interest	298	196
Less: Allowance for impairment losses	(202)	(265)
Financial assets purchased under repurchase agreements		
Securities		
– Governments	15,410	6,332
– Policy banks	13,040	3,657
– Financial institutions	31,498	27,905
– Corporates	16	–
Bills	13,512	3,670
Accrued interest	33	26
Less: Allowance for impairment losses	(141)	(34)
Placements with and loans to banks		
– Banks operating in Mainland China	111,677	113,890
– Banks operating outside Mainland China	77,490	95,886
Placements with and loans to other financial institutions		
– Placements with and loans to other financial institutions in Mainland China	194,502	118,172
– Placements with and loans to other financial institutions outside Mainland China	54,176	40,515
Accrued interest	3,568	2,890
Less: Allowance for impairment losses	(1,963)	(949)
	632,708	571,130

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

20 FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December 2021	As at 31 December 2020
Government bonds		
– Listed in Hong Kong	1,246	2,370
– Listed outside Hong Kong (a)	97,132	3,043
– Unlisted	701	1,121
Other debt securities		
– Listed in Hong Kong	42,371	23,853
– Listed outside Hong Kong (a)	90,909	109,422
– Unlisted – corporate entities	3,002	4,445
– Unlisted – banks	12,573	8,780
Equity securities and others		
– Listed in Hong Kong	1,823	1,419
– Listed outside Hong Kong	11,493	7,956
– Unlisted	50,133	48,106
Fund investments and other asset management products		
– Listed in Hong Kong	42	–
– Listed outside Hong Kong	663	474
– Unlisted	304,471	251,624
Precious metal contracts	21,924	19,975
Total	638,483	482,588

(a) Debt securities traded in the China domestic inter-bank bond market are included in “Listed outside Hong Kong”.

Debt securities at fair value through profit or loss are analysed by issuer as follows:

	As at 31 December 2021	As at 31 December 2020
– Banks and other financial institutions	100,898	99,671
– Corporate entities	46,655	45,244
– Governments and central banks	99,079	6,534
– Public sector entities	1,302	1,585
	247,934	153,034

The financial investments at fair value through profit or loss include financial assets held for trading and financial assets that cannot pass the Solely Payments of Principal and Interest Test (“SPPI test”).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

21 DERIVATIVE FINANCIAL INSTRUMENTS

The following derivative financial instruments are utilised by the Group for trading or hedging purposes:

Currency and commodity forwards are contracts between two parties to buy or sell certain currencies or commodities at a specified future date at a predetermined price. The party agreeing to buy the underlying currency or commodities in the future assumes a long position, and the party agreeing to sell the currency or commodities in the future assumes a short position. The price agreed upon is called the delivery price, which is equal to the forward price at the time the contract is entered into.

Currency, commodity and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies, commodities or interest rates (i.e. fixed-for-floating swaps) or a combination of these (i.e. cross-currency interest rate swaps). The Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

Currency, commodity and interest rate options are contractual agreements under which the seller (writer) grants the buyer (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) on or before a set date or during a set period, a specific amount of a currency or commodity at a predetermined price or to receive an interest payment based on a variable interest rate and pay at a fixed interest rate or vice versa. The seller receives a premium from the buyer in consideration for assuming foreign exchange, interest rate risk or commodity price fluctuations. Options may be either exchange-traded or negotiated between the Group and a customer (over the counter market).

The notional amounts of certain types of financial instruments provide a reference of the amounts recognised in the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative financial instruments may become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates, foreign exchange rates or commodity price relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The fair values of derivative financial instruments held are set out in the following tables.

As at 31 December 2021	Contractual/ Notional Amount	Fair values	
		Assets	Liabilities
Foreign exchange and commodity contracts	3,501,041	27,195	(24,899)
Interest rate contracts and others	3,626,588	12,025	(11,175)
Total amount of derivative financial instruments recognised	7,127,629	39,220	(36,074)

As at 31 December 2020	Contractual/ Notional Amount	Fair values	
		Assets	Liabilities
Foreign exchange and commodity contracts	2,435,423	44,435	(40,914)
Interest rate contracts and others	3,101,818	9,777	(15,028)
Total amount of derivative financial instruments recognised	5,537,241	54,212	(55,942)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

21 DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

The tables above provide a breakdown of the contractual or notional amounts and the fair values of the Group's derivative financial instruments outstanding at year end. These instruments, comprising foreign exchange, interest rate and commodity derivatives allow the Group and its customers to transfer, mitigate or reduce their foreign exchange, interest rate and commodity price fluctuation risks.

The Group undertakes its transactions in foreign exchange, interest rates and commodity contracts with other financial institutions and customers. Management has established limits for these contracts based on counterparty types, industry sectors and countries. Related risks are regularly monitored and controlled by management.

Notional amounts of derivative financial instruments by original currency:

	As at 31 December 2021	As at 31 December 2020
RMB	4,686,806	3,772,066
USD	1,981,299	1,387,805
HKD	231,035	247,659
Others	228,489	129,711
Total	7,127,629	5,537,241

Hedge accounting

The above derivative financial instruments including those designated as hedging instruments by the Group are as follows:

As at 31 December 2021	Contractual/ Notional Amount	Fair values	
		Assets	Liabilities
Derivative financial instruments designated as hedging instruments in fair value hedges	141,731	1,871	(1,274)
Derivative financial instruments designated as hedging instruments in cash flow hedges	71,805	519	(973)
Total	213,536	2,390	(2,247)

As at 31 December 2020	Contractual/ Notional Amount	Fair values	
		Assets	Liabilities
Derivative financial instruments designated as hedging instruments in fair value hedges	139,555	184	(4,689)
Derivative financial instruments designated as hedging instruments in cash flow hedges	58,382	268	(1,901)
Total	197,937	452	(6,590)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

21 DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

Hedge accounting (Continued)

(a) Fair value hedge

The Group uses interest rate swaps to hedge against changes in fair value arising from changes in interest rates. Some purchased interest rate swap contracts are designated as hedging instruments, whose terms are identical with those of the corresponding hedged items regarding interest rate, maturity and currency. The Group uses regression analysis to evaluate the effectiveness of hedging. With the support of testing results, the Group's management considers the hedging relationship to be highly effective. The hedged items include due from and placements with banks and other financial institutions, debt investments at FVOCI, due to and placements from banks and other financial institutions, loans and advances to customers and certificates of deposits issued.

The following table shows the profit or loss effects of the fair value hedges:

	Year ended 31 December	
	2021	2020
Net gains/(losses) from fair value hedges:		
Hedging instruments	4,405	(4,314)
Hedged items attributable to the hedged risk	(4,386)	4,462
Total	19	148

(b) Cash flow hedge

The Group uses foreign exchange contracts to hedge against exposures to cash flow variability primarily resulting from foreign exchange risks, and uses interest rate swaps to hedge against exposures to cash flow variability primarily resulting from interest rate risks. The hedged items include debt investments at FVOCI, due from and placements with banks and other financial institutions, debt securities issued, loans and advances to customers, due to and placements from banks and other financial institutions and certificates of deposits issued. The Group mainly uses regression analysis to evaluate the effectiveness of hedging. With the supporting of testing results, the Group's management considers the hedging relationship to be highly effective.

For the year ended 31 December 2021, the Group recognised a profit of RMB1,133 million (31 December 2020: a loss of RMB1,761 million) from effective portion of cash flow hedge in other comprehensive income. The Group reclassifies a loss of RMB617 million from other comprehensive income to profit or loss (31 December 2020: a profit of RMB1,085 million). Gains or losses arising from ineffective portion of cash flow hedge were immaterial. There were no transactions for which cash flow hedge accounting had to be ceased as a result of the highly probable cash flows no longer being expected to occur.

22 LOANS AND ADVANCES TO CUSTOMERS

22.1 Loans and advances to customers

	As at 31 December 2021	As at 31 December 2020
Loans and advances to customers		
– Carried at amortised cost	6,375,667	5,637,932
– Carried at FVOCI	184,706	210,492
– Carried at FVPL	27	–
Less: Allowance for impairment losses	(160,089)	(139,274)
	–	–
Accrued interest	13,985	12,980
Less: Allowance for impairment losses of accrued interest	(2,095)	(1,562)
	6,412,201	5,720,568

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

22 LOANS AND ADVANCES TO CUSTOMERS (Continued)

22.2 Loans and advances to customers analysed by security type

	As at 31 December 2021	As at 31 December 2020
Unsecured loans	2,085,835	1,812,785
Guaranteed loans	1,056,138	990,248
Collateralised and other secured loans	3,418,427	3,045,391
<i>Including: Loans secured by collateral Pledged loans</i>	<i>2,488,276</i>	<i>2,191,847</i>
	<i>930,151</i>	<i>853,544</i>
Total	6,560,400	5,848,424

22.3 Movements of gross carrying amount and ECL allowance

Movements of gross carrying amount – Corporate loan at amortised cost:

	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2021	3,419,530	158,690	78,830	3,657,050
Addition, net	563,949	(76,364)	(13,664)	473,921
Written-offs and disposals	-	-	(32,518)	(32,518)
Transfers:	(132,463)	87,398	45,065	-
<i>Transfer between Stage 1 and Stage 2, net</i>	<i>(111,830)</i>	<i>111,830</i>	<i>-</i>	<i>-</i>
<i>Transfer between Stage 1 and Stage 3, net</i>	<i>(20,633)</i>	<i>-</i>	<i>20,633</i>	<i>-</i>
<i>Transfer between Stage 2 and Stage 3, net</i>	<i>-</i>	<i>(24,432)</i>	<i>24,432</i>	<i>-</i>
Exchange differences	(7,436)	(351)	(95)	(7,882)
As at 31 December 2021	3,843,580	169,373	77,618	4,090,571
	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2020	3,114,979	139,701	59,416	3,314,096
Addition, net	466,884	(70,303)	(11,437)	385,144
Written-offs and disposals	-	-	(33,214)	(33,214)
Transfers:	(153,797)	89,415	64,382	-
<i>Transfer between Stage 1 and Stage 2, net</i>	<i>(131,542)</i>	<i>131,542</i>	<i>-</i>	<i>-</i>
<i>Transfer between Stage 1 and Stage 3, net</i>	<i>(22,255)</i>	<i>-</i>	<i>22,255</i>	<i>-</i>
<i>Transfer between Stage 2 and Stage 3, net</i>	<i>-</i>	<i>(42,127)</i>	<i>42,127</i>	<i>-</i>
Exchange differences	(8,536)	(123)	(317)	(8,976)
As at 31 December 2020	3,419,530	158,690	78,830	3,657,050

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

22 LOANS AND ADVANCES TO CUSTOMERS (Continued)

22.3 Movements of gross carrying amount and ECL allowance (Continued)

Movements of ECL allowance – Corporate loan at amortised cost:

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2021	27,418	29,034	47,973	104,425
Addition/(Reversal), net	7,072	(12,343)	(3,338)	(8,609)
Written-offs and disposals	-	-	(32,518)	(32,518)
Transfers:	(823)	(6,046)	6,869	-
<i>Transfer between Stage 1 and Stage 2, net</i>	(708)	708	-	-
<i>Transfer between Stage 1 and Stage 3, net</i>	(115)	-	115	-
<i>Transfer between Stage 2 and Stage 3, net</i>	-	(6,754)	6,754	-
Remeasurement	4,198	23,500	26,739	54,437
Exchange and other differences	(79)	237	3,359	3,517
As at 31 December 2021	37,786	34,382	49,084	121,252

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2020	23,125	39,960	42,085	105,170
Addition/(Reversal), net	2,477	(7,358)	(7,717)	(12,598)
Written-offs and disposals	-	-	(33,214)	(33,214)
Transfers:	(838)	(15,668)	16,506	-
<i>Transfer between Stage 1 and Stage 2, net</i>	(762)	762	-	-
<i>Transfer between Stage 1 and Stage 3, net</i>	(76)	-	76	-
<i>Transfer between Stage 2 and Stage 3, net</i>	-	(16,430)	16,430	-
Remeasurement	2,805	11,452	28,208	42,465
Exchange and other differences	(151)	648	2,105	2,602
As at 31 December 2020	27,418	29,034	47,973	104,425

Movements of principal gross carrying amount – Personal loan at amortised cost:

	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2021	1,953,764	8,345	18,773	1,980,882
Addition, net	323,943	(1,673)	(2,411)	319,859
Written-offs and disposals	-	-	(14,633)	(14,633)
Transfers:	(22,259)	4,814	17,445	-
<i>Transfer between Stage 1 and Stage 2, net</i>	(8,772)	8,772	-	-
<i>Transfer between Stage 1 and Stage 3, net</i>	(13,487)	-	13,487	-
<i>Transfer between Stage 2 and Stage 3, net</i>	-	(3,958)	3,958	-
Exchange differences	(1,007)	1	(6)	(1,012)
As at 31 December 2021	2,254,441	11,487	19,168	2,285,096

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

22 LOANS AND ADVANCES TO CUSTOMERS (Continued)

22.3 Movements of gross carrying amount and ECL allowance (Continued)

	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2020	1,727,106	9,085	18,574	1,754,765
Addition, net	254,353	(2,056)	(2,943)	249,354
Written-offs and disposals	-	-	(20,580)	(20,580)
Transfers:	(25,057)	1,328	23,729	-
<i>Transfer between Stage 1 and Stage 2, net</i>	(6,125)	6,125	-	-
<i>Transfer between Stage 1 and Stage 3, net</i>	(18,932)	-	18,932	-
<i>Transfer between Stage 2 and Stage 3, net</i>	-	(4,797)	4,797	-
Exchange differences	(2,638)	(12)	(7)	(2,657)
As at 31 December 2020	1,953,764	8,345	18,773	1,980,882

Movements of ECL allowance – Personal loan at amortised cost:

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2021	16,008	3,836	15,005	34,849
Addition/(Reversal), net	1,854	(93)	(1,379)	382
Written-offs and disposals	-	-	(14,633)	(14,633)
Transfers:	290	(1,410)	1,120	-
<i>Transfer between Stage 1 and Stage 2, net</i>	566	(566)	-	-
<i>Transfer between Stage 1 and Stage 3, net</i>	(276)	-	276	-
<i>Transfer between Stage 2 and Stage 3, net</i>	-	(844)	844	-
Remeasurement	1,469	2,179	12,929	16,577
Exchange and other differences	(4)	(2)	1,668	1,662
As at 31 December 2021	19,617	4,510	14,710	38,837

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2020	8,394	3,193	15,962	27,549
Addition/(Reversal), net	2,001	(100)	(1,102)	799
Written-offs and disposals	-	-	(20,580)	(20,580)
Transfers:	270	(1,078)	808	-
<i>Transfer between Stage 1 and Stage 2, net</i>	378	(378)	-	-
<i>Transfer between Stage 1 and Stage 3, net</i>	(108)	-	108	-
<i>Transfer between Stage 2 and Stage 3, net</i>	-	(700)	700	-
Remeasurement	5,349	1,823	18,443	25,615
Exchange and other differences	(6)	(2)	1,474	1,466
As at 31 December 2020	16,008	3,836	15,005	34,849

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

22 LOANS AND ADVANCES TO CUSTOMERS (Continued)

22.3 Movements of gross carrying amount and ECL allowance (Continued)

Movements of gross carrying amount – Loans and advances to customers at fair value through other comprehensive income

	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2021	203,706	6,691	95	210,492
Addition, net	(22,530)	(3,020)	303	(25,247)
Written-offs and disposals	-	-	(368)	(368)
Transfers:	(1)	-	1	-
<i>Transfer between Stage 1 and Stage 2, net</i>	-	-	-	-
<i>Transfer between Stage 1 and Stage 3, net</i>	(1)	-	1	-
<i>Transfer between Stage 2 and Stage 3, net</i>	-	-	-	-
Changes in the fair value	(150)	-	(21)	(171)
As at 31 December 2021	181,025	3,671	10	184,706
	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2020	228,957	6,404	53	235,414
Addition, net	(18,373)	(6,209)	(134)	(24,716)
Written-offs and disposals	-	-	(34)	(34)
Transfers:	(6,833)	6,603	230	-
<i>Transfer between Stage 1 and Stage 2, net</i>	(6,763)	6,763	-	-
<i>Transfer between Stage 1 and Stage 3, net</i>	(70)	-	70	-
<i>Transfer between Stage 2 and Stage 3, net</i>	-	(160)	160	-
Changes in the fair value	(45)	(107)	(20)	(172)
As at 31 December 2020	203,706	6,691	95	210,492

Movements of ECL allowance – Loans and advances to customers at fair value through other comprehensive income:

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2021	878	47	362	1,287
Addition/(Reversal), net	34	(47)	(2)	(15)
Written-offs and disposals	-	-	(368)	(368)
Transfers:	(84)	64	20	-
<i>Transfer between Stage 1 and Stage 2, net</i>	(64)	64	-	-
<i>Transfer between Stage 1 and Stage 3, net</i>	(20)	-	20	-
<i>Transfer between Stage 2 and Stage 3, net</i>	-	-	-	-
Remeasurement	109	(16)	80	173
Exchange and other differences	-	-	(4)	(4)
As at 31 December 2021	937	48	88	1,073

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

22 LOANS AND ADVANCES TO CUSTOMERS (Continued)

22.3 Movements of gross carrying amount and ECL allowance (Continued)

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2020	839	205	289	1,333
Addition/(Reversal), net	(10)	(121)	(32)	(163)
Written-offs and disposals	-	-	(34)	(34)
Transfers:	(114)	(42)	156	-
<i>Transfer between Stage 1 and Stage 2, net</i>	(75)	75	-	-
<i>Transfer between Stage 1 and Stage 3, net</i>	(39)	-	39	-
<i>Transfer between Stage 2 and Stage 3, net</i>	-	(117)	117	-
Remeasurement	163	5	(17)	151
As at 31 December 2020	878	47	362	1,287

22.4 Overdue loans analysed by security type

	As at 31 December 2021				Total
	Overdue within three months	Overdue between three months and one year	Overdue between one year and three years	Overdue over three years	
Unsecured loans	10,351	10,096	5,215	1,035	26,697
Guaranteed loans	3,315	7,693	6,853	2,364	20,225
Collateralised and other secured loans	9,498	11,644	15,096	4,002	40,240
<i>Including: Loans secured by collateral</i>	7,729	8,925	12,324	3,419	32,397
<i>Pledged loans</i>	1,769	2,719	2,772	583	7,843
Total	23,164	29,433	27,164	7,401	87,162

	As at 31 December 2020				Total
	Overdue within three months	Overdue between three months and one year	Overdue between one year and three years	Overdue over three years	
Unsecured loans	8,850	13,686	694	217	23,447
Guaranteed loans	5,867	8,904	12,222	1,415	28,408
Collateralised and other secured loans	10,763	11,555	13,000	3,030	38,348
<i>Including: Loans secured by collateral</i>	8,640	9,825	10,661	2,856	31,982
<i>Pledged loans</i>	2,123	1,730	2,339	174	6,366
Total	25,480	34,145	25,916	4,662	90,203

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

23 FINANCIAL INVESTMENTS

	As at 31 December 2021	As at 31 December 2020
Financial investments at amortised cost		
– Listed in Hong Kong	13,474	7,743
– Listed outside Hong Kong	2,044,176	1,864,919
– Unlisted	120,387	121,740
Accrued interest	27,958	28,177
Less: Allowance for impairment losses	(2,958)	(3,050)
Total	2,203,037	2,019,529
Financial investments at FVOCI		
Debt investments at FVOCI		
– Listed in Hong Kong	168,690	161,286
– Listed outside Hong Kong	417,119	435,675
– Unlisted	73,382	120,306
Accrued interest	6,276	6,606
Subtotal	665,467	723,873
Equity investments at FVOCI		
– Listed in Hong Kong	3,238	158
– Listed outside Hong Kong	5,755	3,473
– Unlisted	7,269	7,716
Subtotal	16,262	11,347
Total	681,729	735,220

The Group designates part of non-trading equity investments as financial investments measured at FVOCI.

For the year ended 31 December 2021, the Group's cash dividends received from equity investments at FVOCI was RMB615 million (for the year ended 31 December 2020: RMB49 million).

Debt securities analysed by issuer are as follows:

	As at 31 December 2021	As at 31 December 2020
Bond investments at amortised cost		
– Governments and central banks	1,922,479	1,710,428
– Banks and other financial institutions	117,156	148,404
– Corporate entities	47,035	29,983
– Public sector entities	21,201	21,979
Total	2,107,871	1,910,794
Debt investments at FVOCI		
– Governments and central banks	304,365	340,723
– Banks and other financial institutions	254,601	304,690
– Corporate entities	101,931	75,084
– Public sector entities	4,570	3,376
Total	665,467	723,873

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

23 FINANCIAL INVESTMENTS (Continued)

The movements in the gross carrying amount of financial investments at amortised cost are summarised as follows:

	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2021	2,013,336	8,449	794	2,022,579
New financial assets originated or purchased	529,086	1,219	2,481	532,786
Financial assets derecognised during the year	(344,577)	(1,844)	(2,025)	(348,446)
Transfers:	1,550	(3,575)	2,025	-
<i>Transfer between Stage 1 and Stage 2, net</i>	1,550	(1,550)	-	-
<i>Transfer between Stage 1 and Stage 3, net</i>	-	-	-	-
<i>Transfer between Stage 2 and Stage 3, net</i>	-	(2,025)	2,025	-
Changes in accrual interest	(222)	(12)	14	(220)
Exchange differences	(704)	-	-	(704)
As at 31 December 2021	2,198,469	4,237	3,289	2,205,995
	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2020	1,930,072	1,497	1,383	1,932,952
New financial assets originated or purchased	408,635	-	-	408,635
Financial assets derecognised during the year	(317,005)	(5)	(615)	(317,625)
Transfers:	(6,956)	6,956	-	-
<i>Transfer between Stage 1 and Stage 2, net</i>	(6,956)	6,956	-	-
<i>Transfer between Stage 1 and Stage 3, net</i>	-	-	-	-
<i>Transfer between Stage 2 and Stage 3, net</i>	-	-	-	-
Changes in accrual interest	(414)	1	26	(387)
Exchange differences	(996)	-	-	(996)
As at 31 December 2020	2,013,336	8,449	794	2,022,579

The movements in the gross carrying amount of debt investments at FVOCI are summarised as follows:

	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2021	723,523	278	72	723,873
New financial assets originated or purchased	362,679	-	-	362,679
Financial assets derecognised during the year	(411,717)	(553)	(39)	(412,309)
Transfers:	(4,006)	4,006	-	-
<i>Transfer between Stage 1 and Stage 2, net</i>	(4,006)	4,006	-	-
<i>Transfer between Stage 1 and Stage 3, net</i>	-	-	-	-
<i>Transfer between Stage 2 and Stage 3, net</i>	-	-	-	-
Changes in accrual interest	(368)	41	(4)	(331)
Exchange differences	(6,694)	-	-	(6,694)
Changes in fair value	(1,751)	-	-	(1,751)
As at 31 December 2021	661,666	3,772	29	665,467

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

23 FINANCIAL INVESTMENTS (Continued)

	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2020	660,711	–	–	660,711
New financial assets originated or purchased	429,354	–	–	429,354
Financial assets derecognised during the year	(356,820)	–	–	(356,820)
Transfers:	(350)	278	72	–
<i>Transfer between Stage 1 and Stage 2, net</i>	(278)	278	–	–
<i>Transfer between Stage 1 and Stage 3, net</i>	(72)	–	72	–
<i>Transfer between Stage 2 and Stage 3, net</i>	–	–	–	–
Changes in accrual interest	147	–	–	147
Exchange differences	(10,513)	–	–	(10,513)
Changes in fair value	994	–	–	994
As at 31 December 2020	723,523	278	72	723,873

The movements in allowance for impairment losses of financial investments at amortised cost are summarised as follows:

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2021	1,844	682	524	3,050
Addition/(Reversal), net	45	19	91	155
Transfer out	–	258	(223)	35
Written-offs	–	–	–	–
Recovery after written-offs	–	–	–	–
Transfers:	274	(673)	399	–
<i>Transfer between Stage 1 and Stage 2, net</i>	274	(274)	–	–
<i>Transfer between Stage 1 and Stage 3, net</i>	–	–	–	–
<i>Transfer between Stage 2 and Stage 3, net</i>	–	(399)	399	–
Remeasurement	(465)	85	101	(279)
Exchange differences	(3)	–	–	(3)
As at 31 December 2021	1,695	371	892	2,958

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2020	2,455	178	630	3,263
Addition/(Reversal), net	(602)	–	(26)	(628)
Transfer out	–	–	(83)	(83)
Written-offs	–	–	–	–
Recovery after written-offs	–	–	–	–
Transfers:	(191)	191	–	–
<i>Transfer between Stage 1 and Stage 2, net</i>	(191)	191	–	–
<i>Transfer between Stage 1 and Stage 3, net</i>	–	–	–	–
<i>Transfer between Stage 2 and Stage 3, net</i>	–	–	–	–
Remeasurement	183	313	3	499
Exchange differences	(1)	–	–	(1)
As at 31 December 2020	1,844	682	524	3,050

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

23 FINANCIAL INVESTMENTS (Continued)

The movements in allowance for impairment losses of debt investments at FVOCI are summarised as follows:

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2021	670	11	563	1,244
Addition/(Reversal), net	(4)	-	-	(4)
Transfer out	-	(11)	(116)	(127)
Written-offs	-	-	-	-
Recovery after written-offs	-	-	-	-
Transfers:	(9)	9	-	-
<i>Transfer between Stage 1 and Stage 2, net</i>	(9)	9	-	-
<i>Transfer between Stage 1 and Stage 3, net</i>	-	-	-	-
<i>Transfer between Stage 2 and Stage 3, net</i>	-	-	-	-
Remeasurement	(111)	1	27	(83)
Exchange differences	9	-	(18)	(9)
As at 31 December 2021	555	10	456	1,021

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2020	660	-	393	1,053
Addition/(Reversal), net	84	-	-	84
Transfer out	-	-	(27)	(27)
Written-offs	-	-	-	-
Recovery after written-offs	-	-	-	-
Transfers:	(28)	3	25	-
<i>Transfer between Stage 1 and Stage 2, net</i>	(3)	3	-	-
<i>Transfer between Stage 1 and Stage 3, net</i>	(25)	-	25	-
<i>Transfer between Stage 2 and Stage 3, net</i>	-	-	-	-
Remeasurement	31	8	193	232
Exchange differences	(77)	-	(21)	(98)
As at 31 December 2020	670	11	563	1,244

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

24 PRINCIPAL SUBSIDIARIES

24.1 Details of the principal subsidiaries

Name of subsidiaries	Legal representative/ Principal	Registered capital	Nature of entity	Place of operation	Place of registration	Nature of business	Principal business	Proportion of shares held		Means of acquisition
								Direct	Indirect	
Bank of Communications Financial Leasing Co., Ltd.	Zhao Jiong	RMB14,000,000,000	Limited liability company	No. 333 Lujiazui Ring Road, Pudong New District, Shanghai	Mainland China	Financial industry	Financial leasing	100.00	-	Establishment
Bank of Communications International Trust Co., Ltd.	Tong Xuewei	RMB5,764,705,882	Limited liability company	No. 333 Lujiazui Ring Road, Pudong New District, Shanghai	Mainland China	Financial industry	Trust investment	85.00	-	Investment
Bank of Communications Schroder Fund Management Co., Ltd.	Ruan Hong	RMB200,000,000	Limited liability company	No. 8 Century Avenue, Pudong New District, Shanghai	Mainland China	Financial industry	Fund management	65.00	-	Establishment
BOCOM MSIG Life Insurance Company Limited	Zhang Hongliang	RMB5,100,000,000	Limited liability company	No. 333 Lujiazui Ring Road, Pudong New District, Shanghai	Mainland China	Financial industry	Life Insurance	62.50	-	Investment
BoCom International Holdings Company Limited (formerly known as BoCom Securities Company Limited)	Tan Yueheng	HKD2,734,392,000	Foreign legal entity	No. 68 Des Voeux Road Central, Central, Hong Kong	Hong Kong China	Financial industry	Securities dealing and brokerage	73.14	-	Establishment
China BoCom Insurance Co., Ltd. (formerly known as China Communications Insurance Company Limited)	FENG WANG	HKD400,000,000	Foreign legal entity	No. 8 Cotton Tree Drive, Central, Hong Kong	Hong Kong China	Financial industry	General insurance and reinsurance	100.00	-	Establishment
Dayi BoCom Xingmin Rural Bank Ltd.	Sun Jian	RMB230,000,000	Limited liability company	No. 168-170 Central Fumin Road, Dayi County, Chengdu City, Sichuan Province	Mainland China	Financial industry	Commercial banking	97.29	-	Establishment
Zhejiang Anji BoCom Rural Bank Ltd.	Xu Tong	RMB180,000,000	Joint stock company	Tower 1, Changshuo Square, Changshuo Street, Anji County, Huzhou City, Zhejiang Province	Mainland China	Financial industry	Commercial banking	51.00	-	Establishment
Xinjiang Shihezi BoCom Rural Bank Company Ltd.	Yang Xiaohui	RMB150,000,000	Joint stock company	No. 127 Dongyi Road, Shihezi, Xinjiang Uygur Autonomous Region	Mainland China	Financial industry	Commercial banking	51.00	-	Establishment
Qingdao Laoshan BoCom Rural Bank Company Ltd.	Sheng Liang	RMB150,000,000	Joint stock company	Room 101, Building 1, No. 156 Shenzhen Road, Laoshan District, Qingdao, Shandong	Mainland China	Financial industry	Commercial banking	51.00	-	Establishment
Bank of Communications (Luxemburg) Limited	Zhang Shuren	EUR350,000,000	Foreign legal entity	7 Rue de la Chapelle, L-1325 Luxembourg, Luxembourg	Luxembourg	Financial industry	Commercial banking	100.00	-	Establishment
Bank of Communications Financial Assets Investment Co., Ltd.	Zheng Zhiyang	RMB10,000,000,000	Limited liability company	No. 333 Lujiazui Ring Road, Pudong New District, Shanghai	Mainland China	Financial industry	Debt-to-equity swaps	100.00	-	Establishment
Bank of Communications (Hong Kong) Limited	Wu Ye	HKD37,900,000,000	Foreign legal entity	20 Pedder Street, Central, Hong Kong	Hong Kong China	Financial industry	Commercial banking	100.00	-	Establishment

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

24 PRINCIPAL SUBSIDIARIES (Continued)

24.1 Details of the principal subsidiaries (Continued)

Name of subsidiaries	Legal representative/ Principal	Registered capital	Nature of entity	Place of operation	Place of registration	Nature of business	Principal business	Proportion of shares held		Means of acquisition
								Direct	Indirect	
BOCOM Wealth Management Co., Ltd.	Tu Hong	RMB8,000,000,000	Limited liability company	No. 333 Lujiazui Ring Road, Pudong New District, Shanghai	Mainland China	Financial industry	Financial products issuing and financial consulting	100.00	-	Establishment
Bocom Brazil Holding Company Ltda	Sun Xu	BRL533,377,877	Foreign legal entity	Rua Voluntários daPátria, 89 - 1st floor - room 103 and 104, Botafogo, Rio de Janeiro, Brazil	Brazil	Non-financial industry	Investment	100.00	-	Establishment
BANCO BoCom BBM S.A.	Alexandre Lowenkron	BRL313,686,111	Foreign legal entity	Av Barão de Tefé, 34-20th, Rio de Janeiro, Brazil, 20220-460	Brazil	Financial industry	Commercial banking	-	80.00	Investment

As at 31 December 2021, the amount of non-controlling interests of these subsidiaries is insignificant to the Group.

24.2 Auditors of subsidiaries

For the year ended 31 December 2021, PricewaterhouseCoopers Limited was the auditor of all principal subsidiaries incorporated in Hong Kong (for the year ended 31 December 2020: PricewaterhouseCoopers).

For the year ended 31 December 2021, PricewaterhouseCoopers ZhongTian LLP was the auditor of all principal subsidiaries incorporated in PRC (for the year ended 31 December 2020: PricewaterhouseCoopers ZhongTian Certified Public Accountants LLP).

For the year ended 31 December 2021, Bank of Communications (Luxemburg) Limited was audited by PricewaterhouseCoopers, Société coopérative (for the year ended 31 December 2020: PricewaterhouseCoopers, Société coopérative).

For the year ended 31 December 2021, BoCom Brazil Holding Company Ltda and BANCO Bocom BBM S.A. were audited by PricewaterhouseCoopers LLP (for the year ended 31 December 2020: PricewaterhouseCoopers LLP).

25 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	As at 31 December 2021	As at 31 December 2020
Investments in associates		
Investment cost	4,062	3,312
Share of net profit of associates for the year	1,599	1,328
Share of other equity changes of associates for the year	93	77
Dividend income	(204)	(147)
Subtotal	5,550	4,570
Investments in joint ventures	229	111
Total	5,779	4,681

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

25 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (Continued)

The Group's investments in associates mainly include the investments in Jiangsu Changshu Rural Commercial Bank Co., Ltd. and Bank of Tibet Co., Ltd.

Jiangsu Changshu Rural Commercial Bank Co., Ltd. was incorporated in Changshu City, Jiangsu Province on 3 December 2001. The registered capital of the entity is RMB2,741 million, and the principal activities of the entity are banking activities. The Group held 9.01% of equity interest in this associate as at 31 December 2021 (31 December 2020: 9.01%).

There are 14 directors at the Board of Directors of Jiangsu Changshu Rural Commercial Bank Co., Ltd., of which 3 directors were nominated by the Group. Accordingly, the Group is able to exert significant influence on such company, so such company is accounted for as an associate.

Bank of Tibet Co., Ltd. was incorporated in Tibet Autonomous Region, PRC on 30 December 2011. The registered capital of the entity is RMB3,320 million, and the principal activities of the entity are banking activities. The Group held 10.60% of equity interest in this associate as at 31 December 2021 (31 December 2020: 10.60%).

There are 11 directors at the Board of Directors of Bank of Tibet Co., Ltd., of which 3 directors were nominated by the Group. Accordingly, the Group is able to exert significant influence on such company, so such company is accounted for as an associate.

26 PROPERTY AND EQUIPMENT

	Buildings	Construction in progress	Equipment And Transportation equipment	Aircraft and vessels	Property improvement	Total
Cost						
As at 1 January 2021	62,743	3,369	26,655	136,705	9,654	239,126
Additions	36	1,351	3,486	16,758	200	21,831
Disposals	(422)	-	(2,687)	(9,596)	(150)	(12,855)
Construction in progress transfer in/(out)	1,334	(1,727)	-	-	393	-
Transfer in from investment properties	899	-	-	-	-	899
Transfer into investment properties	-	-	-	-	-	-
Other transfers out	-	(30)	-	-	-	(30)
As at 31 December 2021	64,590	2,963	27,454	143,867	10,097	248,971
Accumulated depreciation						
As at 1 January 2021	(20,459)	-	(20,679)	(21,241)	(6,485)	(68,864)
Charge for the year	(2,007)	-	(2,242)	(6,738)	(731)	(11,718)
Disposals	183	-	2,592	2,430	104	5,309
Transfer into investment properties	-	-	-	-	-	-
As at 31 December 2021	(22,283)	-	(20,329)	(25,549)	(7,112)	(75,273)
Allowance for impairment losses						
As at 1 January 2021	-	(16)	-	(775)	-	(791)
Provision for impairment	-	-	-	(1,981)	-	(1,981)
Decrease	-	-	-	268	-	268
As at 31 December 2021	-	(16)	-	(2,488)	-	(2,504)
Net book value						
As at 31 December 2021	42,307	2,947	7,125	115,830	2,985	171,194

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

26 PROPERTY AND EQUIPMENT *(Continued)*

As at 31 December 2021, the net book value of the aircrafts and vessels used as collateral for borrowings was RMB57,988 million (31 December 2020: RMB58,496 million).

As at 31 December 2021, the property and equipment with re-registration procedure not completed amounted to RMB198 million (31 December 2020: RMB198 million). However, this registration process does not affect the rights of the Bank to these assets.

	Buildings	Construction in progress	Equipment And Transportation equipment	Aircraft and vessels	Property improvement	Total
Cost						
As at 1 January 2020	61,764	2,625	26,034	133,756	9,378	233,557
Additions	70	1,870	2,822	18,424	98	23,284
Disposals	(293)	–	(2,201)	(15,475)	(156)	(18,125)
Construction in progress transfer in/(out)	616	(950)	–	–	334	–
Transfer in from investment properties	589	–	–	–	–	589
Transfer into investment properties	(3)	–	–	–	–	(3)
Other transfers out	–	(176)	–	–	–	(176)
As at 31 December 2020	62,743	3,369	26,655	136,705	9,654	239,126
Accumulated depreciation						
As at 1 January 2020	(18,678)	–	(20,644)	(16,876)	(5,824)	(62,022)
Charge for the year	(1,982)	–	(2,027)	(6,882)	(783)	(11,674)
Disposals	200	–	1,992	2,517	122	4,831
Transfer into investment properties	1	–	–	–	–	1
As at 31 December 2020	(20,459)	–	(20,679)	(21,241)	(6,485)	(68,864)
Allowance for impairment losses						
As at 1 January 2020	–	(16)	–	(340)	–	(356)
Provision for impairment	–	–	–	(485)	–	(485)
Decrease	–	–	–	50	–	50
As at 31 December 2020	–	(16)	–	(775)	–	(791)
Net book value						
As at 31 December 2020	42,284	3,353	5,976	114,689	3,169	169,471

27 DEFERRED INCOME TAX

Deferred income taxes for transactions in PRC are calculated on all temporary differences using an effective tax rate of 25% for the year ended 31 December 2021 (for the year ended 31 December 2020: 25%). Deferred income taxes for transactions in Hong Kong are calculated on all temporary differences using an effective tax rate of 16.5% (for the year ended 31 December 2020: 16.5%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

27 DEFERRED INCOME TAX *(Continued)*

Deferred income tax assets and liabilities are attributable to the following items:

	As at 31 December 2021		As at 31 December 2020	
	Deductible/ (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	(6,240)	(1,560)	(6,272)	(1,568)
Changes in fair value of financial assets and liabilities at FVPL	(3,464)	(866)	(3,724)	(931)
Changes in fair value of derivative instruments	(39,220)	(9,667)	(54,212)	(13,648)
Changes in fair value of investment properties	(3,020)	(755)	(2,836)	(709)
Others	(6,764)	(1,691)	(3,014)	(754)
	(58,708)	(14,539)	(70,058)	(17,610)
Deferred income tax assets				
Allowance for impairment of assets	119,972	29,993	101,480	25,370
Provisions	9,672	2,418	8,672	2,168
Changes in fair value of financial assets at FVOCI	5,132	1,283	4,292	1,073
Changes in fair value of derivative instruments	36,074	9,250	55,942	13,740
Others	7,067	1,767	7,885	1,964
	177,917	44,711	178,271	44,315
Net deferred income tax assets	119,209	30,172	108,213	26,705

The above net deferred income tax assets are disclosed separately on the statements of financial position based on different taxation authorities and entities:

	As at 31 December 2021	As at 31 December 2020
Deferred income tax assets	32,061	27,991
Deferred income tax liabilities	(1,889)	(1,286)
	As at 31 December 2021	As at 31 December 2020
Net opening balance	26,705	23,147
Including: Deferred income tax assets	44,315	33,452
Deferred income tax liabilities	(17,610)	(10,305)
Net change in deferred income tax recognised in income tax expense in the current period/ year	3,863	2,599
Net changes in deferred income tax recognised in other comprehensive income in the current period/year	(396)	959
Net ending balance	30,172	26,705
Including: Deferred income tax assets	44,711	44,315
Deferred income tax liabilities	(14,539)	(17,610)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

28 OTHER ASSETS

	As at 31 December 2021	As at 31 December 2020
Accounts receivable and temporary payments	66,062	44,950
Less: Allowance for impairment losses (a)	(3,265)	(2,764)
Advance payments	16,328	11,865
Investment properties (b)	6,340	7,353
Right-of-use assets (c)	6,777	6,669
Precious metal	4,878	10,631
Interest receivable ⁽¹⁾	4,250	3,784
Land use rights and others	2,077	2,057
Intangible assets (d)	1,797	1,550
Long-term deferred expenses	721	599
Foreclosed assets	1,030	967
Goodwill (e)	395	401
Refundable deposits	458	466
Unsettled assets	31	33
Others	6,738	6,104
	114,617	94,665

Note 1: The interest receivable account only reflects the interest for relevant financial instruments which is due but not received on balance sheet date.

(a) Allowance for impairment losses

	As at 1 January 2021	Amounts accrued	Reversal	Written-offs	Transfers (in)/ out	Recoveries after written- offs	Exchange differences	As at 31 December 2021
Other receivables and prepayments	(2,764)	(2,137)	1,020	1,111	(356)	(140)	1	(3,265)

	As at 1 January 2020	Amounts accrued	Reversal	Written-offs	Transfers (in)/ out	Recoveries after written- offs	Exchange differences	As at 31 December 2020
Other receivables and prepayments	(2,717)	(1,972)	1,117	929	-	(107)	(14)	(2,764)

(b) Investment properties

	As at 1 January 2021	Increases/ (Decreases) of the year	Gains on property revaluation	Exchange differences	As at 31 December 2021
Investment properties	7,353	(899)	183	(297)	6,340

	As at 1 January 2020	Increases/ (Decreases) of the year	Gains on property revaluation	Exchange differences	As at 31 December 2020
Investment properties	7,894	(577)	180	(144)	7,353

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

28 OTHER ASSETS (Continued)

(b) Investment properties (Continued)

The Group's investment properties are located in active real estate markets. The external appraisers make reasonable estimation of fair value using market prices of the similar properties.

As at 31 December 2021, fair value hierarchies of the investment properties of the Group are as follows:

	Level 1	Level 2	Level 3	As at 31 December 2021
Commercial property units located in Hong Kong	–	–	770	770
Commercial property units located outside Hong Kong	–	–	5,570	5,570

The valuation of investment properties was performed by independent qualified professional valuers not connected to the Group. Valuation methodologies include "Rental Income Approach" and "Direct Comparison Approach". The inputs to these models mainly include growth rate of rental, capitalisation rate and unit price.

(c) Right-of-use assets

	As at 31 December 2021	As at 31 December 2020
Cost		
Opening balance	13,693	13,513
Additions	2,946	3,030
Decreases	(2,659)	(2,850)
As at the end of the year	13,980	13,693
Accumulated depreciation:		
Opening balance	(7,024)	(6,992)
Additions	(2,416)	(2,445)
Decreases	2,237	2,413
As at the end of the year	(7,203)	(7,024)
Net book value	6,777	6,669
Lease liabilities	6,640	6,532

As at 31 December 2021, committed by leases but not yet commenced amount to RMB158 million (as at 31 December 2020: RMB136 million).

The Group's right-of-use assets include the above assets and land use rights.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

28 OTHER ASSETS (Continued)

(d) Intangible assets

	Software
Cost	
As at 1 January 2021	3,888
Additions	633
Transfers in	–
Disposals	(17)
As at 31 December 2021	4,504
Accumulated amortisation	
As at 1 January 2021	(2,338)
Amortisation expense	(376)
Transfers in	–
Disposals	7
As at 31 December 2021	(2,707)
Net book value	1,797

	Software
Cost	
As at 1 January 2020	3,386
Additions	522
Transfers in	–
Disposals	(20)
As at 31 December 2020	3,888
Accumulated amortisation	
As at 1 January 2020	(2,018)
Amortisation expense	(326)
Transfers in	–
Disposals	6
As at 31 December 2020	(2,338)
Net book value	1,550

(e) Goodwill

	As at 1 January 2021	Addition during the year	Decrease during the year	Exchange differences	As at 31 December 2021
Bank of Communications International Trust Co., Ltd.	200	–	–	–	200
BOCOM MSIG Life Insurance Company Limited	122	–	–	–	122
BANCO Bocom BBM S.A.	79	–	–	(6)	73
Total	401	–	–	(6)	395

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

28 OTHER ASSETS (Continued)

(e) Goodwill (Continued)

	As at 1 January 2020	Addition during the year	Decrease during the year	Exchange differences	As at 31 December 2020
Bank of Communications International Trust Co., Ltd.	200	–	–	–	200
BOCOM MSIG Life Insurance Company Limited	122	–	–	–	122
BANCO Bocom BBM S.A.	108	–	–	(29)	79
Total	430	–	–	(29)	401

At each end of year, the Group performed impairment tests on goodwill. In the test, the Group compares the book value of cash-generating unit (CGU) or CGUs (including goodwill) with the recoverable amount. If the recoverable amount is less than the book value, the related difference is recognised in profit or loss.

The Group calculates the recoverable amount of CGU and CGUs using cash flow models based on the management's approved financial forecasts and fixed growth rates afterwards.

As indicated by the impairment tests, goodwill arising from business combinations is not impaired and therefore, no impairment loss is recognised.

29 DUE TO AND PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 December 2021	As at 31 December 2020
Borrowing from central banks	334,794	472,460
Accrued interest	4,564	6,285
Due to banks		
– Banks operating in Mainland China	242,492	200,025
– Banks operating outside Mainland China	11,871	28,084
Due to other financial institutions		
– Other financial institutions operating in Mainland China	831,784	664,299
– Other financial institutions operating outside Mainland China	6,810	9,548
Accrued interest	3,683	3,002
Placements from banks		
– Banks operating in Mainland China	284,232	164,583
– Banks operating outside Mainland China	170,980	153,341
Placements from other financial institutions		
– Other financial institutions operating in Mainland China	2,364	2,500
– Other financial institutions operating outside Mainland China	8,583	9,124
Accrued interest	860	1,019
Financial assets sold under repurchase agreements		
Securities		
– Governments	9,782	9,706
– Policy banks	801	3,283
– Financial institutions	32,411	25,515
– Corporates	1,716	9,312
Bills	–	25,363
Accrued interest	41	42
Total	1,947,768	1,787,491

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

30 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December 2021	As at 31 December 2020
Short position of securities held for trading	134	–
Certificates of deposit issued	1,400	7,868
Financial liabilities related to precious metal contracts	15,247	16,104
Notes issued	1,385	417
Others(a)	31,882	4,890
Total	50,048	29,279

(a) As at 31 December 2021, others mainly are liabilities of consolidated structured entities and shares held by other parties rather than the Group.

Except for certificates of deposit issued by branch in Hong Kong, notes issued by BoCom International Holdings Company Limited, and shares of consolidated structured entities held by other parties rather than the Group which are designated at fair value through profit or loss, financial liabilities at fair value through profit or loss are financial liabilities held for trading.

Financial liabilities designated at fair value through profit or loss

	As at 31 December 2021	As at 31 December 2020
Difference between carrying amount and maturity amount		
Fair values	34,667	13,175
Amount payable at maturity	34,709	12,962
	(42)	213

For the year ended 31 December 2021 and the year ended 31 December 2020, there were no significant changes in the fair value of the Group's financial liabilities designated at fair value through profit or loss that were attributable to the changes in credit risk.

31 DUE TO CUSTOMERS

	As at 31 December 2021	As at 31 December 2020
Corporate demand deposits	2,061,672	2,005,934
Corporate time deposits	2,488,348	2,335,590
Personal demand deposits	850,831	812,534
Personal time deposits	1,551,981	1,379,697
Other deposits	3,359	5,499
Due to customers	6,956,191	6,539,254
Accrued interest	83,586	68,076
Total	7,039,777	6,607,330
Including:		
Deposits pledged as collateral	220,878	229,546

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

32 CERTIFICATES OF DEPOSITS ISSUED

Certificates of deposits at year end were issued by the Bank's domestic branches, branches in Macau, Hong Kong, New York, Tokyo, Singapore, Seoul, Sydney, London and Luxembourg, Bank of Communications (Luxemburg) Limited, Bank of Communications (Hong Kong) Limited and BANCO Bocom BBM S.A., which were measured at amortised cost.

33 DEBT SECURITIES ISSUED

		As at 31 December 2021	As at 31 December 2020
Carried at amortised cost:			
Subordinated bonds			
The Bank	33.1	–	25,950
Subsidiaries	33.1	4,800	–
Tier-2 capital bonds			
The Bank	33.2	139,971	113,945
Subsidiaries	33.2	8,371	1,995
Bonds			
The Bank	33.3	256,571	251,580
Subsidiaries	33.3	75,501	85,767
Accrued interest		6,158	5,145
Subtotal		491,372	484,382
Carried at fair value:			
Bonds			
The Bank	33.3	12,153	13,373
Total		503,525	497,755

Note: Debt securities issued are designated as fair value through profit or loss upon initiation as the Hong Kong branch of the Bank considers such designation could eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise result from measuring the corresponding derivative assets or recognising the gains or losses on them on different basis. Accordingly, the debts are designated as fair value through profit or loss with changes in fair values charged to profit and loss account. For the year ended 31 December 2021 and the year ended 31 December 2020, there were no significant changes that were attributable to the Group's changes in credit risks.

33.1 Subordinated bonds

Detailed information of subordinated bonds is disclosed as follows:

	Currency	Issue place	Coupon rate %	Par value (CCY)	Issue date	Maturity	Note	Ending balance	Opening balance
11 BoComm 01	RMB	Mainland China	5.75	26,000	2011/10/21	15 years	(a)	–	25,950
Subtotal								–	25,950
Subsidiary									
21 Insurance 01	RMB	Mainland China	4.30	3,000	2021/03/25	10 years	(b)	3,000	–
21 Insurance 02	RMB	Mainland China	3.93	1,800	2021/07/27	10 years	(c)	1,800	–
Subtotal								4,800	–
Total								4,800	25,950

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

33 DEBT SECURITIES ISSUED (Continued)

33.1 Subordinated bonds (Continued)

- (a) The Group has redeemed full face value of 11 BoComm 01 by exercising redemption option on 24 October 2021.
- (b) BOCOM MSIG Life Insurance Company Limited has an option to redeem 21 Insurance 01 at the par value partially or as a whole on the last day of the fifth interest-bearing year, provided that the permission of PBOC and CBIRC is acquired in advance and the BOCOM MSIG Life Insurance Company Limited's solvency ratio is not less than 100% if the redemption is exercised.
- (c) BOCOM MSIG Life Insurance Company Limited has an option to redeem 21 Insurance 02 at the par value partially or as a whole on the last day of the fifth interest-bearing year, provided that the permission of PBOC and CBIRC is acquired in advance and the BOCOM MSIG Life Insurance Company Limited's solvency ratio is not less than 100% if the redemption is exercised.

33.2 Tier 2 capital bonds

Detailed information of Tier 2 capital bonds is disclosed as follows:

	Currency	Issue place	Coupon rate %	Par value (CCY)	Issue date	Maturity	Note	Ending balance	Opening balance
The Bank									
14 BoComm 01-Euro	EUR	Hong Kong China	3.625	500	2014/10/03	12 years	(a)	-	3,984
17 BoComm	RMB	Mainland China	4.50	30,000	2017/04/11	10 years	(b)	29,978	29,973
19 BoComm 01	RMB	Mainland China	4.10	30,000	2019/08/14	10 years	(c)	29,998	29,993
19 BoComm 02	RMB	Mainland China	4.49	10,000	2019/08/14	15 years	(d)	9,999	9,999
20 BoComm	RMB	Mainland China	3.24	40,000	2020/05/19	10 years	(e)	39,996	39,996
21 BoComm	RMB	Mainland China	3.65	30,000	2021/09/23	10 years	(f)	30,000	-
Subtotal								139,971	113,945
Subsidiaries									
18 Leasing 02	RMB	Mainland China	5.15	2,000	2018/09/18	10 years	(g)	1,996	1,995
21 BoComm Hong Kong	USD	Hong Kong China	2.304	1,000	2021/07/08	10 years	(h)	6,375	-
Subtotal								8,371	1,995
Total								148,342	115,940

- (a) The Group has redeemed full face value of 14 BoComm 01-Euro by exercising redemption option on 3 October 2021.
- (b) The Group has an option to redeem 17 BoComm at the par value partially or as a whole on 13 April 2022, the first day upon the end of the fifth interest-bearing year, provided that the CBIRC's permission is acquired in advance and the Group's capital structure fulfills the CBIRC requirements on capital if the redemption is exercised.
- (c) The Group has an option to redeem 19 BoComm 01 at the par value partially or as a whole on 16 August 2024, the last day of the interest-bearing year with early redemption option embedded, provided that the CBIRC's permission is acquired in advance and the Group's capital structure fulfills the CBIRC requirements on capital if the redemption is exercised.
- (d) The Group has an option to redeem 19 BoComm 02 at the par value partially or as a whole on 16 August 2029, the last day of the interest-bearing year with early redemption option embedded, provided that the CBIRC's permission is acquired in advance and the Group's capital structure fulfills the CBIRC requirements on capital if the redemption is exercised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

33 DEBT SECURITIES ISSUED (Continued)

33.2 Tier 2 capital bonds (Continued)

- (e) The Group has an option to redeem 20 BoComm at the par value partially or as a whole on 21 May 2025, the last day of the interest-bearing year with early redemption option embedded, provided that the CBIRC's permission is acquired in advance and the Group's capital structure fulfills the CBIRC requirements on capital if the redemption is exercised.
- (f) The Group has an option to redeem 20 BoComm at the par value partially or as a whole on 27 September 2026, the last day of the interest-bearing year with early redemption option embedded, provided that the CBIRC's permission is acquired in advance and the Group's capital structure fulfills the CBIRC requirements on capital if the redemption is exercised.
- (g) The Group has an option to redeem 18 Leasing 02 at the par value partially or as a whole on 20 September 2023, the first day upon the end of the fifth interest-bearing year, provided that the CBIRC's permission is acquired in advance and the Group's capital structure fulfills the CBIRC requirements on capital if the redemption is exercised.
- (h) The Group has an option to redeem 21 BoComm Hong Kong as a whole on 8 July 2026. If the issuer does not exercise the redemption right by 8 July 2026, the interest rate will be readjusted based on the 5-year U.S. Treasury rate plus 140 basis points initial rate differential.

These tier-2 capital bonds have the write-down feature, which allows the Group to write down the entire principals of the bonds when regulatory triggering events as stipulated in the offering documents occur and any accumulated unpaid interest would become not payable. These bonds are regarded as tier-2 capital without any guarantees provided and the proceeds of the debts cannot be used for compensating daily operating loss of the Group.

33.3 Bonds

Detailed information of bonds held at amortised cost is as follows:

	Currency	Issue place	Coupon rate %	Par value (CCY)	Issue date	Maturity	Ending balance	Opening balance
The Bank								
16 BoComm Green Financial bond 02	RMB	Mainland China	3.25	20,000	2016/11/18	5 years	-	20,000
18 Bocom Micro Small Enterprises Bond	RMB	Mainland China	3.79	10,000	2018/11/28	3 years	-	10,000
19 Bocomm 01	RMB	Mainland China	3.35	50,000	2019/11/25	3 years	50,000	50,000
19 Bocomm 02	RMB	Mainland China	3.35	40,000	2019/12/11	3 years	40,000	40,000
20 Bocomm 01	RMB	Mainland China	3.18	50,000	2020/08/05	3 years	50,000	50,000
20 Bocomm 02	RMB	Mainland China	3.50	40,000	2020/11/11	3 years	40,000	40,000
21 Bocom Micro Small Enterprises Bond	RMB	Mainland China	3.40	40,000	2021/04/06	3 years	40,000	-
14 Formosa Bond C	RMB	Taiwan China	4.15	500	2014/06/23	7 years	-	500
17 medium-term notes 02	USD	Hong Kong China	3MLibor+0.88	300	2017/05/15	5 years	1,912	1,957
17 medium-term notes 04	USD	Hong Kong China	3MLibor+0.90	600	2017/12/04	5 years	3,825	3,915
18 medium-term notes 01	USD	Hong Kong China	3MLibor+0.75	600	2018/05/17	3 years	-	3,915
18 medium-term notes 02	USD	Hong Kong China	3MLibor+0.85	700	2018/05/17	5 years	4,462	4,567
20 Hong Kong medium-term notes 01	HKD	Hong Kong China	2.25	2,800	2020/01/22	2 years	2,289	2,357
20 Hong Kong medium-term notes 02	USD	Hong Kong China	3MLibor+0.58	1,300	2020/01/22	3 years	8,287	8,482
20 Hong Kong medium-term notes 04	USD	Hong Kong China	3MLibor+0.75	100	2020/06/05	3 years	637	651
20 Hong Kong medium-term notes 05	USD	Hong Kong China	3MLibor+0.8	650	2020/07/20	3 years	4,143	4,241
20 Hong Kong medium-term notes 06	USD	Hong Kong China	3MLibor+0.9	400	2020/07/20	5 years	2,550	2,610
20 Hong Kong medium-term notes 07	USD	Hong Kong China	1.20	800	2020/09/10	5 years	5,084	5,199
20 Hong Kong medium-term notes 08	USD	Hong Kong China	3MLibor+0.8	350	2020/09/10	3 years	2,231	2,284
21 Macau PA-medium-term notes	MOP	Macau China	0.85	1,200	2021/12/15	2 years	951	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

33 DEBT SECURITIES ISSUED (Continued)

33.3 Bonds (Continued)

Detailed information of bonds held at amortised cost is as follows: (Continued)

	Currency	Issue place	Coupon rate %	Par value (CCY)	Issue date	Maturity	Ending balance	Opening balance
P14JHTP1C	RMB	Taiwan China	3.90	700	2014/12/04	7 years	-	702
P14JHTP1D	RMB	Taiwan China	4.00	200	2014/12/04	10 years	200	200
Subtotal							256,571	251,580
Subsidiaries								
13 Azure Orbit	USD	Hong Kong China	3.75	500	2013/03/06	10 years	3,187	3,260
5 Year USD bond	USD	Hong Kong China	2.625	600	2016/03/15	5 years	-	3,914
3 Year USD bond	USD	Hong Kong China	3.50	300	2018/01/25	3 years	-	1,957
5 Year USD bond	USD	Hong Kong China	3.75	950	2018/01/25	5 years	6,047	6,179
10 Year USD bond	USD	Hong Kong China	4.00	250	2018/01/25	10 years	1,580	1,614
19 Brazil bonds	BRL	Brazil	110%SELIC	200	2019/01/30	5 years	46	48
16 Leasing 03	RMB	Mainland China	3.25	500	2016/09/07	5 years	-	449
18 Leasing 01	RMB	Mainland China	4.53	4,000	2018/07/05	3 years	-	3,998
18 Leasing 02	RMB	Mainland China	4.14	4,000	2018/10/22	3 years	-	3,997
19 Leasing 01	RMB	Mainland China	3.68	5,000	2019/05/20	3 years	4,998	4,994
19 Leasing 02	RMB	Mainland China	3.65	5,000	2019/07/08	3 years	4,998	4,994
19 Leasing 03	RMB	Mainland China	3.49	3,500	2019/10/22	3 years	3,498	3,495
20 Leasing 01	RMB	Mainland China	3.65	3,000	2020/11/05	3 years	2,996	2,915
21 Leasing 01	RMB	Mainland China	3.62	4,000	2021/03/01	3 years	3,993	-
21 Leasing 02	RMB	Mainland China	3.45	3,000	2021/04/22	3 years	2,625	-
Azure Nova	USD	Hong Kong China	2.625	1,000	2016/10/25	5 years	-	6,514
Azure Nova	USD	Hong Kong China	3.50	1,050	2017/03/21	5 years	6,692	6,843
Azure Nova	USD	Hong Kong China	4.25	250	2017/03/21	10 years	1,589	1,626
19 USD medium-term notes 01	USD	Hong Kong China	4.00	800	2019/01/22	3 years	3,693	3,726
19 USD medium-term notes 02	USD	Hong Kong China	4.375	700	2019/01/22	5 years	2,766	2,713
19 USD medium-term notes 03	USD	Hong Kong China	3MLibor+1.20	120	2019/04/12	3 years	765	783
19 USD medium-term notes 04	USD	Hong Kong China	3MLibor+1.175	400	2019/09/05	5 years	1,129	1,319
19 USD medium-term notes 05	USD	Hong Kong China	2.625	200	2019/09/05	5 years	723	767
19 USD medium-term notes 06	USD	Hong Kong China	3MLibor+1.05	180	2019/10/25	3 years	1,148	1,174
19 USD medium-term notes 07	USD	Hong Kong China	3MLibor+1.075	600	2019/12/10	5 years	1,585	1,773
20 USD medium-term notes 01	USD	Hong Kong China	3MLibor+0.95	500	2020/03/02	5 years	1,710	2,021
20 USD medium-term notes 02	USD	Hong Kong China	3MLibor+0.83	300	2020/03/02	3 years	1,492	1,602
20 USD medium-term notes 03	USD	Hong Kong China	1.750	350	2020/07/08	3 years	1,515	1,650
20 USD medium-term notes 04	USD	Hong Kong China	3MLibor+1.70	450	2020/07/08	5 years	1,348	1,457
21 USD medium-term notes 01	USD	Hong Kong China	1.125	500	2021/06/16	3 years	1,865	-
21 USD medium-term notes 02	USD	Hong Kong China	1.07	100	2021/09/27	3 years	634	-
21 Bocomm International 01	USD	Hong Kong China	1.75	500	2021/06/22	5 years	2,890	-
20 Financial Investing 01	RMB	Mainland China	2.70	3,000	2020/03/11	3 years	2,999	2,997
20 Financial Investing 02	RMB	Mainland China	2.80	7,000	2020/03/11	5 years	6,990	6,988
Subtotal							75,501	85,767
Total							332,072	337,347

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

33 DEBT SECURITIES ISSUED (Continued)

33.3 Bonds (Continued)

Detailed information of bonds held at fair value is as follows:

	Currency	Issue place	Coupon rate %	Par value (CCY)	Issue date	Maturity	Fair value at the end of the period	Fair value at the beginning of the period
14 Hong Kong bond	HKD	Hong Kong China	4.00	500	2014/02/14	7 years	-	428
19 Hong Kong RMB medium-term notes	RMB	Hong Kong China	3.40	2,500	2019/03/21	2 years	-	2,526
19 Hong Kong medium-term notes	HKD	Hong Kong China	2.85	3,500	2019/03/21	5 years	3,027	3,157
19 Hong Kong USD medium-term notes	USD	Hong Kong China	3MLibor+0.78	800	2019/03/21	3 years	5,106	5,226
20 Hong Kong medium-term notes 03	RMB	Hong Kong China	3.15	2,000	2020/01/22	2 years	2,034	2,036
21 Hong Kong medium-term notes 01	HKD	Hong Kong China	0.95	1,200	2021/12/13	2 years	980	-
21 Hong Kong medium-term notes 02	RMB	Hong Kong China	3.15	1,000	2021/12/13	3 years	1,006	-
Total							12,153	13,373

34 OTHER LIABILITIES

	As at 31 December 2021	As at 31 December 2020
Insurance liabilities	74,493	58,842
Clearing and settlement	24,056	31,482
Temporary receipts	16,015	23,212
Staff compensation payable	14,401	11,591
Deposits received for finance lease	6,842	6,893
Lease liabilities	6,640	6,532
Provision for outstanding litigations (a)	472	1,032
Expected credit impairment allowance of credit related commitments and financial guarantees (b)	9,242	10,500
VAT and other taxes payable	5,639	4,208
Special purpose funding	2,108	2,571
Dividends payable	81	124
Others	52,706	44,835
Total	212,695	201,822

(a) Movements in the provision for outstanding litigations

	As at 1 January 2021	Amounts accrued during the year	Amounts settled during the year	Amounts reversed during the year	Exchange differences	As at 31 December 2021
Provision for outstanding litigations	1,032	99	(361)	(298)	-	472

	As at 1 January 2020	Amounts accrued during the year	Amounts settled during the year	Amounts reversed during the year	Exchange differences	As at 31 December 2020
Provision for outstanding litigations	1,029	120	(29)	(88)	-	1,032

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

34 OTHER LIABILITIES (Continued)

(b) Movements in the expected credit impairment allowance of credit related commitments and financial guarantees

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2021	6,858	3,642	–	10,500
Addition	1,200	(65)	–	1,135
Transfer out	–	(3,244)	–	(3,244)
Transfers:	(37)	37	–	–
<i>Transfer between Stage 1 and Stage 2, net</i>	(37)	37	–	–
Remeasurement	725	138	–	863
Exchange differences	(10)	(2)	–	(12)
As at 31 December 2021	8,736	506	–	9,242

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2020	5,358	974	–	6,332
Addition	1,443	2,261	–	3,704
Transfer out	(35)	(651)	–	(686)
Transfers:	(928)	928	–	–
<i>Transfer between Stage 1 and Stage 2, net</i>	(928)	928	–	–
Remeasurement	1,037	133	–	1,170
Exchange differences	(17)	(3)	–	(20)
As at 31 December 2020	6,858	3,642	–	10,500

35 SHARE CAPITAL AND CAPITAL SURPLUS

	Number of shares (in millions)	Ordinary shares of RMB1 each	Capital surplus
As at 1 January 2021	74,263	74,263	111,428
As at 31 December 2021	74,263	74,263	111,428

	Number of shares (in millions)	Ordinary shares of RMB1 each	Capital surplus
As at 1 January 2020	74,263	74,263	113,663
As at 31 December 2020	74,263	74,263	111,428

As at 31 December 2021 and 31 December 2020, the number of A shares of the Group was 39,251 million, and the number of H shares of the Group was 35,012 million, both with par value of RMB1 per share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

35 SHARE CAPITAL AND CAPITAL SURPLUS (Continued)

As at 31 December 2021 and 31 December 2020, the Group's capital surplus is listed as follows:

	As at 1 January 2021	Additions	Reductions	As at 31 December 2021
Share premium	110,770	–	–	110,770
Other capital reserve	658	–	–	658
Total	111,428	–	–	111,428

	As at 1 January 2020	Additions	Reductions	As at 31 December 2020
Share premium	113,005	–	(2,235)	110,770
Other capital reserve	658	–	–	658
Total	113,663	–	(2,235)	111,428

36 OTHER EQUITY INSTRUMENTS

36.1 Preference shares

36.1.1 Preference shares outstanding at the end of the period

Domestic preference shares	Issue date	Accounting classification	Dividend rate %	Issue price	Amount in shares	In original currency (in millions)	In RMB (in millions)	Maturity	Conversion condition	Conversion
Preference shares in RMB	2 September 2016	Equity	4.07	RMB100/ share	450,000,000	45,000	45,000	No maturity date	Mandatory	No conversion during the period
Total							45,000			
Less: Issuance fees							(48)			
Carrying amount							44,952			

36.1.2 Movements of preference shares issued

	As at 1 January 2021	Additions	Decreases	As at 31 December 2021
Domestic reference shares				
Amount (shares)	450,000,000	–	–	450,000,000
In RMB(millions)	44,952	–	–	44,952

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

36 OTHER EQUITY INSTRUMENTS *(Continued)*

36.1 Preference shares *(Continued)*

36.1.3 Main clauses

Domestic preference shares

(a) Dividend

The domestic preference shares will accrue dividends on their issue price at the relevant dividend rate below:

- (1) From and including the issue date to but excluding the first reset date, at the rate of 3.90% per annum; and
- (2) The dividend rate will be re-priced every five years thereafter with reference to the arithmetic average value (rounding off to 0.01%) of five-year Chinese treasury bonds yield at the date which is 20 transaction days before the reset date (excluding the date) plus a fixed premium of 1.37%. As authorised by the shareholders' annual general meeting, the Board of Directors has the sole discretion to declare and distribute dividends on domestic preference shares.

With effect from 7 September 2021, the Bank has adjusted the dividend rate for the second dividend rate adjustment period to 4.07%.

The dividend for domestic preference shares is non-cumulative. Where the Bank determines to cancel the dividend for domestic preference shares in whole or in part, the omitted dividend will not be carried forward and claimed in the future period. After receiving dividends at the agreed dividend rate, domestic preference shareholders of the Bank will not participate in the distribution of residual profits with ordinary shareholders. Domestic preference shares issued by the Bank have the same dividend distribution order as the offshore preference shares.

(b) Conditions to distribution of dividends

The Bank could pay dividends while the Bank still has distributable after-tax profit after making up previous years' losses, contributing to the statutory reserve and making general provisions, and the Bank's capital adequacy ratio meets regulatory requirements. Domestic preference shareholders of the Bank are senior to the ordinary shareholders on the right to dividends.

Subject to a resolution to be passed at a shareholders' general meeting of the Bank on each such occasion, the Bank may elect to cancel (in whole or in part) any preference share dividend. The Bank shall not distribute any dividends to its ordinary shareholders before it declares such dividends to preference shareholders for the relevant periods.

(c) Mandatory conversion trigger events

Upon occurrence of the triggering events as stipulated by the offering documents and subject to regulatory approval, domestic preference shares shall be mandatorily converted into ordinary A Shares of the Bank, partially or entirely. The initial mandatory conversion price is RMB6.25 per share. To balance the interest between preference shareholders and ordinary shareholders, the mandatory conversion price of the preference shares will be cumulatively adjusted in sequence where certain events occur including issuances of bonus shares, capitalisation of reserves, new issuances of ordinary shares at a price lower than the market price (excluding equity increased due to exercise of convertible financing instruments that can be converted into ordinary shares) and rights issues, subject to terms and formulas provided for in the offering documents. Appropriation of dividends to ordinary shareholders is not trigger event for price adjustment.

(d) Order of distribution and liquidation method

On winding-up of the Bank, distribution to domestic preference shareholders is made after all debts of the Bank (including subordinated debts) and obligations that are issued or guaranteed by the Bank and specifically stated to be distributed prior to the domestic preference shares; all domestic preference shareholders are ranked at the same in the distribution sequence without priority among them and have the same repayment sequence rights as holders of obligations with equivalent rights. In addition, distribution is made to domestic preference shareholders prior to ordinary shareholders.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

36 OTHER EQUITY INSTRUMENTS (Continued)

36.1 Preference shares (Continued)

36.1.3 Main clauses (Continued)

Domestic preference shares (Continued)

(d) Order of distribution and liquidation method (Continued)

On winding-up of the Bank, any remaining assets of the Bank shall, after the distributions in accordance with the terms and conditions of the domestic preference shares have been made, be applied to the claims of the domestic preference shareholders equally in all respects with the claims of holders of any parity obligations (which term, for the avoidance of doubt, includes the domestic preference shares and any other preference shares of the Bank issued from time to time to investors outside the PRC) and in priority to the claims of the holders of ordinary shares.

The distribution amount obtained by the domestic preference shareholders shall be the total par value of the issued and outstanding preference shares plus dividends declared but not paid in the current period; if the distribution amount is insufficient, domestic and offshore preference shareholders will share the distribution amount on a proportional basis.

(e) Redemption

The domestic preference shares are perpetual and have no maturity date. The Bank may, subject to obtaining the CBIRC approval and in compliance with the redemption preconditions, redeem all or some of the domestic preference shares on 2 September 2021 and on any preference share dividend payment date thereafter. The redemption period ends at the date when shares are fully converted or redeemed.

36.2 Perpetual bonds

36.2.1 Perpetual bonds outstanding at the end of the period

	Issue date	Accounting classification	Original interest rate %	Issue price	Amount in shares	In original currency (in millions)	In RMB (in millions)	Maturity
19 BoComm perpetual bonds(1)	20 September 2019	Equity	4.20	RMB100/ bond	400,000,000	40,000	40,000	No fixed maturity date
20 BoComm perpetual bonds(2)	25 September 2020	Equity	4.59	RMB100/ bond	300,000,000	30,000	30,000	No fixed maturity date
21 BoComm perpetual bonds(2)	10 June 2021	Equity	4.06	RMB100/ bond	415,000,000	41,500	41,500	No fixed maturity date
Perpetual bonds in USD(3)	18 November 2020	Equity	3.80	USD 200,000/ bond	14,000	2,800	18,366	No fixed maturity date
					Total		129,866	
					Less: Issuance fees		(28)	
					Carrying amount		129,838	

36.2.2 Main clauses

- (1) With the approvals by relevant regulatory authorities, the Bank issued RMB40.0 billion undated capital bonds in China's National Inter-Bank Bond Market on 18 September 2019, and the issuance was completed on 20 September 2019. The denomination of the bonds is RMB100 each and coupon rate of 4.20%. The bonds adopt a coupon rate adjusted on a stage-by-stage basis and a coupon rate adjustment period for every five years during which interests will be paid at the agreed coupon rate.

The perpetual bonds will continue to be outstanding so long as the Bank's business continues to operate. The bonds have set forth terms regarding the Bank's redemption with pre-conditions, by which the Bank is entitled to redeem the bonds after five years since the issue date in whole or in part on the annual interest payment date (including the interest payment date of the fifth year after the issue date). If, after the issuance, the perpetual bonds no longer qualify as additional tier-1 capital as a result of an unforeseeable change or amendment to relevant provisions of supervisory regulations, the Bank may redeem the whole but not part of the perpetual bonds.

The claims in respect of the perpetual bonds are subordinated to the claims of depositors, general creditors, and subordinated indebtedness that rank senior to the perpetual bonds; and will rank in priority to all classes of equity shares held by the Bank's shareholders and rank pari passu with the claims in respect of any other additional tier-1 capital instruments of the Bank that rank pari passu with the perpetual bonds.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

36 OTHER EQUITY INSTRUMENTS *(Continued)*

36.2 Perpetual bonds *(Continued)*

36.2.2 Main clauses *(Continued)*

Upon the occurrence of Additional tier-1 capital trigger event, namely, the Bank's core tier-1 capital adequacy ratio having fallen to 5.125% (or below), the Bank has the right, subject to the approval of the CBIRC but without the need for the consent of the bondholders, to write down whole or part of the aggregate amount of the perpetual bonds then issued and outstanding, in order to restore the core tier-1 capital adequacy ratio to above 5.125%. Upon the occurrence of a Non-Viability Triggering Event, the Bank has the right to write down all the above perpetual bond issued and existing at that time in accordance with the total par value without the consent of the bondholders.

The distributions on the perpetual bonds are non-cumulative, and the Bank shall have the right to cancel, in whole or in part, distributions on the bonds and any such cancellation shall not constitute an event of default. The Bank may, at its sole discretion, use the proceeds from the cancelled distributions to meet other obligations as they fall due. Cancellation of any distributions on the bonds, no matter in whole or in part, will not impose any other restriction on the Bank, except in relation to dividend distributions to ordinary shares.

Investors have no right to redeem their subscription from the Bank. The net proceeds from the Bank's issuance of the above bonds, after deducting offering related expenses, will be used to replenish the Additional tier-1 capital of the Bank.

- (2) With the approvals by relevant regulatory authorities, the Bank issued RMB30.0 billion undated capital bonds in China's National Inter-Bank Bond Market on 23 September 2020, and the issuance was completed on 25 September 2020. The denomination of the Bonds is RMB100 each and coupon rate of 4.59%. The Bonds adopt a coupon rate adjusted on a stage-by-stage basis and a coupon rate adjustment period for every five years during which interests will be paid at the agreed coupon rate.

With the approvals by relevant regulatory authorities, the Bank issued RMB41.5 billion undated capital bonds in China's National Inter-Bank Bond Market on 8 June 2021, and the issuance was completed on 10 June 2021. The denomination of the Bonds is RMB100 each and coupon rate of 4.06%. The Bonds adopt a coupon rate adjusted on a stage-by-stage basis and a coupon rate adjustment period for every five years during which interests will be paid at the agreed coupon rate.

The perpetual bonds will continue to be outstanding so long as the Bank's business continues to operate. The bonds have set forth terms regarding the Bank's redemption with pre-conditions, by which the Bank is entitled to redeem the bonds after five years since the issue date in whole or in part on the annual interest payment date (including the interest payment date of the fifth year after the issue date). If, after the issuance, the perpetual bonds no longer qualify as additional tier-1 capital as a result of an unforeseeable change or amendment to relevant provisions of supervisory regulations, the Bank may redeem the whole but not part of the perpetual bonds.

The claims in respect of the perpetual bonds are subordinated to the claims of depositors, general creditors, and subordinated indebtedness that rank senior to the perpetual bonds; and will rank in priority to all classes of equity shares held by the Bank's shareholders and rank pari passu with the claims in respect of any other additional tier-1 capital instruments of the Bank that rank pari passu with the perpetual bonds.

Upon the occurrence of a Non-Viability Triggering Event, the Bank has the right to write down/write off in whole or in part, without the need for the consent of the holders of the bonds, the principal amount of the bonds.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

36 OTHER EQUITY INSTRUMENTS *(Continued)*

36.2 Perpetual bonds *(Continued)*

36.2.2 Main clauses *(Continued)*

The distributions on the perpetual bonds are non-cumulative, and the Bank shall have the right to cancel, in whole or in part, distributions on the bonds and any such cancellation shall not constitute an event of default. The Bank may, at its sole discretion, use the proceeds from the cancelled distributions to meet other obligations as they fall due. Cancellation of any distributions on the bonds, no matter in whole or in part, will not impose any other restriction on the Bank, except in relation to dividend distributions to ordinary shares.

Investors have no right to redeem their subscription from the Bank. The net proceeds from the Bank's issuance of the above bonds, after deducting offering related expenses, will be used to replenish the additional tier-1 capital of the Bank.

- (3) With the approvals by relevant regulatory authorities, the Bank has completed the issuance of the USD2.8 billion undated capital bonds in the offshore market on 18 November 2020. The coupon rate of the bonds is 3.80%. The bonds adopt a coupon rate adjusted on a stage-by-stage basis and a coupon rate adjustment period for every five years during which interests will be paid at the agreed coupon rate.

The perpetual bonds will continue to be outstanding so long as the Bank's business continues to operate. The bonds have set forth terms regarding the Bank's redemption with pre-conditions. Subject to the satisfaction of the redemption conditions and having obtained the prior approval of the CBIRC, the bank is entitled to redeem the bonds after five years since the issue date in whole or in part on the annual interest payment date (including the interest payment date of the fifth year after the issue date). If, after the issuance, the perpetual bonds no longer qualify as additional tier-1 capital as a result of an unforeseeable change or amendment to relevant provisions of supervisory regulations, the Bank may redeem the whole but not part of the perpetual bonds.

The claims in respect of the perpetual bonds are subordinated to the claims of depositors, general creditors, and subordinated indebtedness that rank senior to the perpetual bonds; and will rank in priority to all classes of equity shares held by the Bank's shareholders and rank *pari passu* with the claims in respect of any other additional tier-1 capital instruments of the Bank that rank *pari passu* with the perpetual bonds.

Upon the occurrence of a Non-Viability Triggering Event, the Bank has the right to write down/write off in whole or in part, without the need for the consent of the holders of the bonds. Once the principal amount of the Bonds (in whole or in part) has been written-off, such relevant written-off portion of the bonds will not be restored or become payable again in any circumstances (including where the relevant Non-Viability Triggering Event ceases to continue), and any accrued but unpaid distribution in respect of such relevant written-off portion of the bonds shall cease to be payable. In addition, there will be no compensation in any form to remedy the loss of the bondholders.

The distributions on the perpetual bonds are non-cumulative, and the Bank shall have the right to cancel, in whole or in part, distributions on the bonds and any such cancellation shall not constitute an event of default. The Bank may, at its sole discretion, use the proceeds from the cancelled distributions to meet other obligations as they fall due. Cancellation of any distributions on the bonds, no matter in whole or in part, will not impose any other restriction on the Bank, except in relation to dividend distributions to ordinary shares.

Investors have no right to redeem their subscription from the Bank. The net proceeds from the Bank's issuance of the above bonds, after deducting offering related expenses, will be used to replenish the additional tier-1 capital of the Bank.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

36 OTHER EQUITY INSTRUMENTS (Continued)

36.3 Interests attributable to holders of other equity instruments

	As at 31 December 2021	As at 31 December 2020
Total equity attributable to equity holders of the parent company	964,647	866,607
Equity attributable to ordinary shareholders of the parent company	789,857	733,315
Equity attributable to preference shareholders of the parent company	44,952	44,952
Equity attributable to perpetual bond holders of the parent company	129,838	88,340
Total equity attributable to non-controlling interests	12,589	12,021
Equity attributable to non-controlling interests of ordinary shares	9,424	8,763
Equity attributable to non-controlling interests of Non-cumulative Subordinated Additional Tier-1 Capital Securities (Note 39)	3,165	3,258

Dividends paid to preference shareholders and interest paid to perpetual bond holders for the year ended 31 December 2021 are disclosed in Note 38.

37 OTHER RESERVES AND RETAINED EARNINGS

Pursuant to the relevant PRC regulations, the appropriation of profits to the statutory general reserve, the discretionary reserve and the distribution of dividends in each year are based on the recommendations of the directors and are subject to the resolutions to be passed at the General Meeting of Shareholders.

Pursuant to relevant PRC regulations, the Bank appropriated 10% of its net profit for the year under CAS to the statutory surplus reserve until the reserve balance reaches 50% of the Bank's registered capital. The statutory surplus reserve can be used to compensate losses or to increase share capital upon approval. The Bank appropriate RMB6,897 million to the statutory surplus upon approval from the 2020 Annual General Meeting of Shareholders held on 29 June 2021.

The Group	As at 1 January 2021	Appropriate	Decrease	As at 31 December 2021
Statutory reserve	72,431	7,536	–	79,967
Discretionary reserve	139,930	92	–	140,022
Total	212,361	7,628	–	219,989

Pursuant to relevant PRC banking regulations, since 1 July 2012, the Bank made statutory general reserve from net profit through profit appropriation according to *Administrative Measures for the Provisioning of Financial Enterprises* (Cai Jin [2012] No. 20). The proportion is determined based on several factors including the Bank's overall exposure to risk, normally no lower than 1.5% of the ending balance of risk assets. The statutory general reserve is an integral part of shareholders' equity but not subject to dividend distribution. The Bank's subsidiaries and overseas branches, if required by local regulation requirements, also need to make such general reserve. The 2020 Annual General Meeting of Shareholders, held on 29 June 2021, considered and adopted the 2020 profit distribution scheme, which stipulates as follows:

The Group	As at 1 January 2021	Appropriate	Decrease	As at 31 December 2021
Statutory general reserve	123,163	7,117	–	130,280

The Bank appropriated RMB6,432 million to the statutory general reserve upon approval from the 2020 Annual General Meeting of Shareholders held on 29 June 2021, of which the overseas branches of the Bank have appropriated RMB11 million to statutory general reserve according to the requirement of local regulatory authorities in the year ended 31 December 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

37 OTHER RESERVES AND RETAINED EARNINGS (Continued)

Revaluation reserve

The movements of revaluation reserve are set out below:

As at 31 December 2020	456
Changes in fair value recorded in equity	2,526
Changes in fair value recognised in profit or loss	(1,160)
Tax effects arising from components of other comprehensive income	(347)
Transferred from other comprehensive income	56
As at 31 December 2021	1,531
As at 31 December 2019	3,421
Changes in fair value recorded in equity	(2,452)
Changes in fair value recognised in profit or loss	(1,344)
Tax effects arising from components of other comprehensive income	858
Transferred from other comprehensive income	(27)
As at 31 December 2020	456

Retained earnings

The movements of retained earnings are set out below:

As at 1 January 2021	214,448
Profit for the year	87,581
Appropriation to statutory reserve	(7,536)
Appropriation to general reserve	(7,117)
Appropriation to discretionary reserve	(92)
Dividends payable to ordinary shareholders	(23,541)
Dividends payable to preference shareholders	(1,755)
Interest to perpetual bond holders of the Bank	(3,858)
Others	(56)
As at 31 December 2021	258,074
As at 1 January 2020	177,141
Profit for the year	78,274
Appropriation to statutory reserve	(7,534)
Appropriation to general reserve	(5,596)
Appropriation to discretionary reserve	(77)
Dividends payable to ordinary shareholders	(23,393)
Dividends payable to preference shareholders	(2,714)
Interest to perpetual bond holders of the Bank	(1,680)
Others	27
As at 31 December 2020	214,448

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

38 DIVIDENDS

	Year ended 31 December	
	2021	2020
Dividends to ordinary shareholders of the Bank	23,541	23,393
Dividends to preference shareholders of the Bank	1,755	2,714
Interest to perpetual bond holders of the Bank	3,858	1,680

Under PRC Company Law and the Bank's Articles of Association, the net profit after tax as reported in the PRC statutory financial statements can only be distributed as dividends after allowances for the following:

- (1) Making up cumulative losses from prior years, if any;
- (2) Allocations to the non-distributable statutory reserve of 10% of the net profit of the Bank as determined under the relevant PRC accounting standards;
- (3) Allocations to statutory general reserve;
- (4) Allocations to the discretionary reserve upon approval by the Annual General Meeting of Shareholders. These funds form part of the shareholders' equity.

The cash dividends are recognised in the consolidated statement of financial position upon approval by the shareholders at Annual General Meeting.

Pursuant to the approval by the Board meeting on 29 April 2021, the Bank will appropriate domestic preference dividends on 7 September 2021 with a dividend yield of 3.9% (the actual dividend yield obtained by the preference shareholders), with total amount of RMB1,755 million.

Pursuant to the approval by the Annual General Meeting of Shareholders on 29 June 2021, the Bank appropriated RMB6,432 million to the statutory general reserve. It was also resolved that a cash dividend of RMB0.317 (before tax) for each ordinary share, with total amount of RMB23,541 million, calculated based on 74,263 million shares outstanding (the par value per share is RMB1) as at 31 December 2020, will be distributed to ordinary shareholders.

The Bank distributed the interest on the 2020 undated capital bonds amounting to RMB801 million on 18 November 2021.

The Bank distributed the interest on the 2019 undated capital bonds amounting to RMB1,680 million on 20 September 2021.

The Bank distributed the interest on the 2020 undated capital bonds amounting to RMB1,377 million on 25 September 2021.

On 25 March 2022, the Board of Directors of the Bank proposed to appropriate RMB7,522 million to the statutory reserve and RMB11,422 million to the statutory general reserve. A cash dividend of RMB0.355 (before tax) for each share, totalling RMB26,363 million, calculated based on the total number of shares outstanding of 74,263 million shares (RMB1 per share) as at 31 December 2021 was also proposed. The proposal will be subject to the approval by the General Meeting of Shareholders.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

39 NON-CONTROLLING INTERESTS

Non-controlling interests of the Group include equity attributable to non-controlling interests of ordinary shares and equity attributable to non-controlling interests of other equity instruments. As at 31 December 2021, equity attributable to other equity instruments holders was RMB3,165 million. Other equity instruments were non-cumulative subordinated additional tier-1 capital securities issued by Bank of Communications (Hong Kong) Limited on 3 March 2020.

Issue Date	3 March 2020
Face Value	USD500 million
First Call Date	3 March 2025
Distribution Rate	(i) from the issue date to the first call date, 3.725% per annum (ii) for every five calendar years after the first call date, the then-prevailing US Treasury Rate plus 2.525% per annum
Frequency of distribution payments	Semi-annually

Bank of Communications (Hong Kong) Limited may determine the policies of distribution payments and whether to redeem the bonds. Therefore, the Group recognised the bonds as equity instruments.

Pursuant to the terms and conditions of the Non-Cumulative Subordinated Additional Tier-1 Capital Securities, Bank of Communications (Hong Kong) Limited has paid a total distribution of RMB122 million during the year ended 31 December 2021.

40 CREDIT RELATED COMMITMENTS AND FINANCIAL GUARANTEES, OTHER COMMITMENTS AND CONTINGENT LIABILITIES

Credit related commitments and financial guarantees

The following tables provide the contractual amounts of the Group's credit related commitments and financial guarantees which the Group has committed to its customers:

	As at 31 December 2021	As at 31 December 2020
Letters of guarantee	373,630	333,610
Letters of credit commitments	194,724	163,151
Acceptance bills	368,120	319,076
Credit card commitments	908,358	800,441
Loan commitments		
– Under 1 year	3,936	5,111
– 1 year and above	57,657	55,323
	1,906,425	1,676,712

Capital expenditure commitments

	As at 31 December 2021	As at 31 December 2020
Contracted but not provided for	71,053	62,224

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

40 CREDIT RELATED COMMITMENTS AND FINANCIAL GUARANTEES, OTHER COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

Operating lease commitments

The Group acts as lessor in operating leases principally through aircraft and vessels leasing undertaken by its subsidiaries. The future minimum lease receivables on certain aircraft and vessel under irrevocable operating leases are as follows:

	As at 31 December 2021	As at 31 December 2020
Within 1 year (inclusive)	13,186	13,074
Beyond 1 year but no more than 2 years (inclusive)	12,864	12,622
Beyond 2 years but no more than 3 years (inclusive)	12,269	12,220
Beyond 3 years but no more than 5 years (inclusive)	21,388	22,062
More than 5 years	38,879	36,562
	98,586	96,540

Commitments on security underwriting and bond acceptance

The Group is entrusted by the Ministry of Finance ('MOF') to underwrite certain Certificated Bonds and Savings Bonds. The investors of Certificated Bonds and Savings Bonds have early redemption right while the Group has the obligation to buy back those Certificated Bonds and Savings Bonds. The redemption price is the principal value of the Certificated Bonds or Savings Bonds plus unpaid interest till redemption date. As at 31 December 2021, the principal value of the certain Certificated Bonds and Savings Bonds that the Group had the obligation to buy back amounted to RMB78,594 million (31 December 2020: RMB81,548 million). The MOF will not provide funding for the early redemption of these Certificated Bonds and Savings Bonds on a back-to-back basis but will pay interest and principal at maturity. The Group expects the amount of redemption before the maturity dates of these bonds through the Group will not be material.

The original maturities of these bonds vary from 1 to 5 years.

As at 31 December 2021, the Group had no announced but unfulfilled irrevocable commitment on security underwriting (31 December 2020: Nil).

Legal proceedings

The Group has been involved as defendants in certain lawsuits arising from its normal business operations. Management of the Group believes, based on legal advice, the final result of these lawsuits will not have a material impact on the financial position or operations of the Group. Provision for litigation losses as advised by in-house or external legal professionals is disclosed in Note 34. The total outstanding claims against the Group (as defendant) by a number of third parties at the end of the year are summarised as follows:

	As at 31 December 2021	As at 31 December 2020
Outstanding litigations	4,096	3,876
Provision for outstanding litigation (Note 34)	472	1,032

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

41 COLLATERALS

(1) Assets pledged

The Group uses part of its assets as collaterals for interbank repurchase arrangements and other liabilities-related business. All of these arrangements mature within 12 months from the date they take effect. The carrying amount of these collaterals and the balance of operations related are listed below:

	Pledged assets		Associated liabilities	
	As at 31 December 2021	As at 31 December 2020	As at 31 December 2021	As at 31 December 2020
Investment securities	382,640	520,254	326,776	456,210
Bills	3,531	28,854	3,531	28,854
Total	386,171	549,108	330,307	485,064

Financial assets sold under repurchase agreements included certain transactions under which the title of the pledged securities has been transferred to counterparties. These transactions have been disclosed in Note 46 transfers of financial assets.

In addition, loans and advances to customers pledged as collateral for placements from banks by the Group as at 31 December 2021 amounted to RMB5,090 million in total (31 December 2020: RMB6,401 million).

(2) Collateral accepted

As part of the repurchase agreements, the Group has received securities that is allowed to sell or repledge in the absence of default by their owners. As at 31 December 2021, the Group had received securities with a fair value of RMB731 million on such terms(31 December 2020:Nil). As at 31 December 2021 and 31 December 2020, the Group did not sell or repledge any collaterals received.

42 OTHER COMPREHENSIVE INCOME

	Year ended 31 December 2021		
	Before tax amount	Tax effect	Net of tax amount
Other comprehensive income			
Loans and advances to customers – carried at FVOCI	43	(12)	31
<i>Amount recognised in equity</i>	614	(155)	459
<i>Amount reclassified to profit or loss</i>	(571)	143	(428)
Debt investments at FVOCI	2,925	(571)	2,354
<i>Amount recognised in equity</i>	3,514	(718)	2,796
<i>Amount reclassified to profit or loss</i>	(589)	147	(442)
Effective portion of gains or losses on hedging instruments in cash flow hedges	516	(88)	428
<i>Amount recognised in equity</i>	1,133	(242)	891
<i>Amount reclassified to profit or loss</i>	(617)	154	(463)
Translation difference on foreign operations	(3,450)	–	(3,450)
Changes in fair value of equity investments designated at FVOCI	(1,830)	275	(1,555)
Changes in fair value attributable to changes in the credit risk of financial liabilities designated at FVPL	(36)	–	(36)
Actuarial gains on pension benefits	55	–	55
Others	16	–	16
Other comprehensive income for the year	(1,761)	(396)	(2,157)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

42 OTHER COMPREHENSIVE INCOME (Continued)

	Year ended 31 December 2020		
	Before tax amount	Tax effect	Net of tax amount
Other comprehensive income			
Loans and advances to customers – carried at FVOCI	(218)	54	(164)
<i>Amount recognised in equity</i>	26	(7)	19
<i>Amount reclassified to profit or loss</i>	(244)	61	(183)
Debt investments at FVOCI	(2,122)	377	(1,745)
<i>Amount recognised in equity</i>	(1,022)	102	(920)
<i>Amount reclassified to profit or loss</i>	(1,100)	275	(825)
Effective portion of gains or losses on hedging instruments in cash flow hedges	(676)	129	(547)
<i>Amount recognised in equity</i>	(1,761)	399	(1,362)
<i>Amount reclassified to profit or loss</i>	1,085	(270)	815
Translation difference on foreign operations	(4,776)	–	(4,776)
Changes in fair value of equity investments designated at FVOCI	(1,606)	402	(1,204)
Changes in fair value attributable to changes in the credit risk of financial liabilities designated at FVPL	7	–	7
Actuarial gains on pension benefits	(132)	–	(132)
Others	15	(3)	12
Other comprehensive income for the year	(9,508)	959	(8,549)

43 NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

Analysis of the balance of cash and cash equivalents

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise the following balances with maturities of less than or equal to 90 days from date of purchase and used for the purpose of meeting short-term cash commitments:

	As at 31 December 2021	As at 31 December 2020
Cash and balances with central banks	103,648	171,950
Due from and placements with banks and other financial institutions	90,660	135,170
	194,308	307,120

44 CONSOLIDATED STRUCTURED ENTITIES

Structured entities consolidated by the Group include certain trust investment plans, funds, and securitisation products issued, managed and invested by the Group. The Group controls these entities because the Group has power over, is exposed to, or has right to variable returns from its involvement with these entities and has the ability to use its power over these entities to affect the amount of the Group's returns. As at 31 December 2021, the consolidated structured entities amounted to RMB182,733 million (As at 31 December 2020, the consolidated structured entities amounted to RMB36,716 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

45 UNCONSOLIDATED STRUCTURED ENTITIES

The Group has been involved in other structured entities through investments in structured entities or acting as sponsors of structured entities that provide specialised investment opportunities to investors. These structured entities generally finance the purchase of assets by issuing units of the products. The Group does not control these structured entities and therefore, these structured entities are not consolidated.

As at 31 December 2021, those structured entities sponsored by the Group consist primarily of funds, trusts, asset management products, limited partnerships, wealth management products with principals not guaranteed by the Group and securitisation products. The Group earns commission income by providing management services to the investors of these structured entities. In addition, the Group is also involved in certain structured entities sponsored by the Group or third parties through direct investments. These investments are recognised as financial investments at fair value through profit or loss, financial investments at fair value through other comprehensive income, and financial investments at amortised cost.

As at 31 December 2021, the balance of the non-principal guaranteed wealth management products set up by the Group amounted to RMB1,426,253 million (As at 31 December 2020: RMB1,211,959 million), the balance of funds issued by the Group amounted to RMB547,188 million, the balance of trusts and asset management plans and others sponsored by the Group amounted to RMB721,946 million (As at 31 December 2020: the balance of funds issued by the Group amounted to RMB339,871 million, the balance of trusts and asset management plans and others sponsored by the Group amounted to RMB843,540 million).

For the year ended 31 December 2021, the Group's commission income from providing services to the structured entities managed by the Group was RMB11,775 million (For the year ended 31 December 2020: RMB9,856 million), and no interest income from placements and repurchase transactions with those unconsolidated wealth management products (For the year ended 31 December 2020: RMB1 million).

To achieve a smooth transition and steady development of the wealth management business, in 2021, in accordance with the requirements of the Guidance on Regulating the Asset Management Business of Financial Institutions, the Group has consistently promoted net worth transformation of its wealth management products and the disposal of existing portfolios, included part of the wealth management assets into the balance sheet from the wealth management products off the balance sheet, and measured them as debt investment at amortised cost.

As at 31 December 2021 and 31 December 2020, the carrying amount of interests in unconsolidated structured entities held by the Group through investment was set out as follows:

As at 31 December 2021

	Carrying amount				Type of income
	Financial investments at FVPL	Financial investments at FVOCI	Financial investments at amortised cost	Maximum exposure to loss	
Funds	144,421	-	-	144,421	Net gains arising from trading activities
Trusts and asset management products	13,445	-	83,245	96,690	Net interest income, net gains arising from trading activities
Limited partnerships	3,317	620	-	3,937	Net gains arising from trading activities, net gains arising from financial investments
Securitisation products	63	-	134	197	Net interest income, Net gains arising from trading activities
Total	161,246	620	83,379	245,245	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

45 UNCONSOLIDATED STRUCTURED ENTITIES *(Continued)*

The information of total size of the unconsolidated structured entities listed above is not readily available from the public domain.

As at 31 December 2020

	Carrying amount				Maximum exposure to loss	Type of income
	Financial investments at FVPL	Financial investments at FVOCI	Financial investments at amortised cost			
Funds	243,980	–	–	243,980	Net gains arising from trading activities	
Trusts and asset management products	3,956	–	101,599	105,555	Net interest income, net gains arising from trading activities	
Limited partnerships	2,729	619	–	3,348	Net gains arising from trading activities, net gains arising from financial investments	
Securitisation products	–	–	134	134	Net interest income	
Total	250,665	619	101,733	353,017		

The information of total size of the unconsolidated structured entities listed above is not readily available from the public domain.

46 TRANSFERS OF FINANCIAL ASSETS

46.1 Financial assets sold under repurchase agreements

Sales and repurchase agreements are transactions in which the Group sells a security and simultaneously agrees to repurchase it (or an asset that is substantially the same) at a fixed price on a future date. Since the repurchase prices are fixed, the Group is still exposed to substantially all the credit risks and market risks and rewards of those securities sold. These securities, which the Group does not have the ability to use during the term of the arrangements, are not derecognised from the financial statements but regarded as “collateral” for the secured lending. In addition, the Group recognises a financial liability for cash received.

As at 31 December 2021 and 31 December 2020, the Group entered into repurchase agreements with certain counterparties. The proceeds from selling such securities are presented as “financial assets sold under repurchase agreements” (Note 29).

The following table provides a summary of carrying amounts related to the transferred financial assets that are not derecognised and the associated liabilities:

	Collaterals		Associated liabilities	
	As at 31 December 2021	As at 31 December 2020	As at 31 December 2021	As at 31 December 2020
Investment securities	–	2,020	–	1,806

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

46 TRANSFERS OF FINANCIAL ASSETS *(Continued)*

46.2 Securities lending transactions

Transferred financial assets that do not qualify for de-recognition mainly include debt securities lent to counterparties under securities lending agreements. The counterparties are allowed to sell or repledge those securities lent under agreements to repurchase in the absence of default by the Group, but has an obligation to return the securities at the maturity of the contract. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. As at 31 December 2021, the carrying value of debt securities lent to counterparties was RMB13,900 million (31 December 2020: RMB12,640 million).

46.3 Asset securitisation

The Group enters into securitisation transactions in the normal course of business by which it transfers credit assets to special purpose trusts which issue asset-backed securities to investors.

The Group retains interests in the form of subordinated tranches which may give rise to the Group's continuing involvement in the transferred assets. Those financial assets are recognised on the consolidated statement of financial position to the extent of the Group's continuing involvement, while the rest are derecognised. The extent of the Group's continuing involvement is the extent of risk the Group faces due to changes in the value of the transferred assets.

As at 31 December 2021, loans with an original value of RMB66,061 million and carrying amount of RMB56,834 million (31 December 2020: RMB53,492 million and RMB41,600 million) have been securitised by the Group. For the year ended 31 December 2021, the Group transferred financial assets amounted to RMB13,927 million through assets backed securitization transactions, and all have met the requirement of derecognition (For the year ended 31 December 2020, the Group transferred financial assets amounted to RMB15,272 million through assets backed securitization transactions, and all have met the requirement of derecognition).

As at 31 December 2021, the Group retained their continued involvement in securitised credit assets by holding subordinated securities. The value of the assets that the Group continued to recognise was RMB5,529 million (31 December 2020: RMB4,275 million).

46.4 Disposal of non-performing loans and advances to customers

The Group disposes non-performing loans and advances to customers through transferring to third parties in the normal course of business. For the year ended 31 December 2021, the Group had transferred non-performing loans and advances to customers with a gross carrying amount of RMB12,853 million (31 December 2020: RMB18,806 million) and collected cash totalling RMB8,403 million (31 December 2020: RMB8,790 million) from the transfer. The difference between the gross carrying amount and the cash collected had been written off. The Group derecognised the non-performing loans and advances to customers from the Group's financial statements at the time of disposal.

47 RELATED PARTY TRANSACTIONS

(a) Transactions with the MOF

As at 31 December 2021, the MOF held 17,732 million (31 December 2020: 17,732 million) ordinary shares of Bank of Communications Co., Ltd. which represented 23.88% (31 December 2020: 23.88%) of the total share capital.

The MOF is a Chinese government ministry, primarily responsible for managing state fiscal revenue and expenditures, and establishing and enforcing taxation policies. The Group enters into banking transactions with the MOF under normal commercial terms and at market rates. These transactions mainly include the purchase and redemption of financial investments issued by the MOF.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

47 RELATED PARTY TRANSACTIONS (Continued)

(a) Transactions with the MOF (Continued)

Details of transaction volumes and outstanding balances are summarised below:

	As at 31 December 2021	As at 31 December 2020
Bonds issued by the MOF	974,910	801,187
	Year ended 31 December	
	2021	2020
Interest income	26,029	22,081
Net gains arising from trading activities	368	129

The interest rates of the transactions between the Group and MOF are summarised below:

	Year ended 31 December	
	2021	2020
	%	%
Bonds issued by the MOF	0.13~5.06	0.13~5.32

(b) Transactions with the National Council for Social Security Fund

As at 31 December 2021, the National Council for Social Security Fund held 12,160 million (31 December 2020: 12,160 million) ordinary shares of Bank of Communications Co., Ltd. which represented 16.37% (31 December 2020: 16.37%) of the total share capital.

The National Council for Social Security Fund was incorporated in August 2000, which is an independent legal entity under the management of the Ministry of Finance, responsible for managing and operating the national social security fund. Its legal representative is Liu Wei, its registered capital is RMB8.00 million and its registered address is South Fortune Times Building, No. 11 Fenghuiyuan, Xicheng District, Beijing. The Group enters into transactions with the National Council for Social Security Fund in the normal course of business and they mainly include deposits which are carried out under normal commercial terms and paid at market rates.

Details of transaction volumes and outstanding balances are summarised below:

	As at 31 December 2021	As at 31 December 2020
Due to customers	92,373	87,356
	Year ended 31 December	
	2021	2020
Interest expense	(3,703)	(3,523)

The interest rates of the transactions between the Group and the National Council for Social Security Fund are summarised below:

	Year ended 31 December	
	2021	2020
	%	%
Due to customers	3.50~5.20	3.85~5.30

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

47 RELATED PARTY TRANSACTIONS (Continued)

(c) Transactions with the Hongkong and Shanghai Banking Corporation Limited (“HSBC”) Group and its joint ventures

As at 31 December 2021, HSBC held 13,886 million (31 December 2020: 13,886 million) ordinary shares of the Bank of Communications Co., Ltd. which represented 18.70% (31 December 2020: 18.70%) of the total share capital.

HSBC was incorporated in 1866, primarily providing local and international banking services, and related financial services in the Asia-Pacific region. Its Co-chief Executive Officer is Liao, Yi Chien David and Surendra Rosha, and its registered address is 1 Queen’s Road Central, Central, Hong Kong. The ordinary share capital of HSBC is HKD116,103 million and USD7,198 million, which was divided into 46,441 million ordinary shares. Transactions between the Group and HSBC are carried out under normal commercial terms and paid at market rates.

Details of transaction volumes and outstanding balances are summarised below:

	As at 31 December 2021	As at 31 December 2020
On-balance sheet items		
Due from and placements with banks and other financial institutions	3,338	11,328
Derivative financial assets	1,672	2,370
Financial investments at FVPL	1,931	2,709
Financial investments at amortised cost	419	432
Financial investments at FVOCI	4,052	3,354
Due to and placements from banks and other financial institutions	17,083	8,261
Financial liabilities at FVPL	1,424	212
Derivative financial liabilities	1,613	2,963
Off-balance sheet items		
Notional principal of derivative financial instruments	240,864	192,032

	Year ended 31 December	
	2021	2020
Interest income	163	203
Interest expense	(95)	(202)
Fee and commission income	1	52
Fee and commission expense	(4)	(8)
Net gains/(losses) from trading activities	2,310	(264)

The interest rates of the transactions between the Group and HSBC are summarised below:

	Year ended 31 December	
	2021	2020
	%	%
Due from and placements with banks and other financial institutions	0.0001~3.60	0.01~3.42
Financial investments at FVPL	0.98~6.00	1.49~6.00
Financial investments at amortised cost	3.26~4.74	3.26~4.74
Financial investments at FVOCI	(0.04)~4.95	0.002~4.95
Due to and placements from banks and other financial institutions	(0.40)~4.12	(0.24)~4.12
Financial liabilities at FVPL	0.46~0.69	0.50~0.70

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

47 RELATED PARTY TRANSACTIONS (Continued)

(d) Transactions with state-owned entities in PRC

The Group operates in an economic environment predominated by enterprises directly or indirectly owned and/or controlled by the government through its authorities, affiliates or other organisations (collectively the “state-owned entities”). During the period, the Group entered into extensive banking transactions with these state-owned entities including, but not limited to, the provision of credit and guarantees, deposits, foreign exchange, derivatives transactions, agency business, underwriting and distribution of bonds issued by the government as well as trading and redemption of securities issued by the government.

Management considers that transactions with state-owned entities are activities conducted in the ordinary course of business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and these state-owned entities are ultimately controlled or owned by the government. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are state-owned entities.

(e) Transactions with subsidiaries

Transactions between the Bank and its subsidiaries are carried out under normal commercial terms and paid at market rates. These transactions are eliminated on consolidation. Basic information and relevant details of subsidiaries are set out in note 24.

Details of transaction volumes and outstanding balances are summarised below:

The Bank	As at 31 December 2021	As at 31 December 2020
Due from and placements with banks and other financial institutions	123,461	141,231
Loans and advances to customers	486	521
Financial investments at FVPL	433	891
Financial investments at amortised cost	1,551	1,240
Financial investments at FVOCI	11,455	8,986
Derivative financial assets	793	1,736
Other assets	766	808
Due to and placements from banks and other financial institutions	14,523	16,236
Derivative financial liabilities	1,851	429
Due to customers	11,683	14,873
Debt securities issued	–	51
Other liabilities	119	97

The Bank	Year ended 31 December	
	2021	2020
Interest income	1,952	2,024
Interest expense	(238)	(377)
Fee and commission income	1,681	1,251
Fee and commission expense	(95)	(191)
Net gains arising from trading activities	818	138
Other operating income	555	570
Other operating expense	(82)	(184)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

47 RELATED PARTY TRANSACTIONS (Continued)

(e) Transactions with subsidiaries (Continued)

The interest rates of the transactions between the Bank and its subsidiaries are summarised below:

	Year ended 31 December	
	2021	2020
The Bank	%	%
Due from and placements with banks and other financial institutions	0.01~6.40	0.01~5.69
Financial investments at FVPL	1.12~4.00	1.97~4.38
Financial investments at amortised cost	1.07~6.00	1.18~4.70
Financial investments at FVOCI	0.95~4.38	0.95~4.38
Loans and advances to customers	1.29~3.00	1.61~3.97
Due to and placements from banks and other financial institutions	(0.48)~2.95	0.01~4.50
Due to customers	0.04~4.00	0.70~4.18
Debt securities issued	5.75	5.75

(f) Transactions with directors, supervisors and senior management

Transactions with directors, supervisors, senior management, their close relatives and entities that are controlled, jointly controlled or significantly influenced by either such directors, supervisors and senior management or their close relatives mainly include loans and deposits and are carried out under normal commercial terms and paid at market rates.

Details of transaction volumes and outstanding balances are summarised below:

	As at 31 December 2021	As at 31 December 2020
Due to customers	10	6
Loans and advances to customers	1	1

Compensations of directors and senior management are disclosed in Note 15.

(g) Transactions with associates and joint ventures

Transactions between the Group and its associates and joint ventures are carried out under normal commercial terms and paid at market rates. Basic information and relevant details of associates and joint ventures are set out in note 25.

Details of transaction volumes and outstanding balances are summarised below:

	As at 31 December 2021	As at 31 December 2020
On-balance sheet items		
Due from and placements with banks and other financial institutions	500	100
Derivative financial assets	31	7
Loans and advances to customers	6,041	4,767
Due to and placements from banks and other financial institutions	104	44
Derivative financial liabilities	35	16
Off-balance sheet items		
Notional principal of derivative financial instruments	6,947	2,094
Credit related commitments(Guarantees, acceptances and letters of credit)	12,126	10,337

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

47 RELATED PARTY TRANSACTIONS (Continued)

(g) Transactions with associates and joint ventures (Continued)

	Year ended 31 December	
	2021	2020
Interest income	242	195
Interest expense	(6)	(2)
Net losses from trading activities	(13)	(14)

The interest rates of the transactions between the Group and its associates and joint ventures are summarised below:

	Year ended 31 December	
	2021	2020
	%	%
Due from and placements with banks and other financial institutions	0.30~3.19	0.30~1.81
Loans and advances to customers	0.30~4.90	2.95~5.39
Due to and placements from banks and other financial institutions	0.0001~0.35	0.01~1.55
Due to customers	0.75~2.03	0.30~1.89

(h) Transactions with other related parties

Details of transaction volumes and outstanding balances are summarised below:

	As at 31 December 2021	As at 31 December 2020
Loans and advances to customers	1,080	744
Financial investments at amortised cost	–	204
Due to and placements from banks and other financial institutions	1,204	92
Due to customers	79,787	42,313

	Year ended 31 December	
	2021	2020
Interest income	22	45
Interest expense	(2,543)	(1,593)

The interest rates of the transactions between the Group and other related parties are summarised below:

	Year ended 31 December	
	2021	2020
	%	%
Loans and advances to customers	0.30~4.79	0.30~5.06
Financial investments at amortised cost	3.78	3.19~3.78
Due to and placements from banks and other financial institutions	0.30~2.20	0.30~3.15
Due to customers	0.30~4.18	0.30~4.18

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

47 RELATED PARTY TRANSACTIONS (Continued)

(i) Proportion of major related party transactions

The major balances and transactions with subsidiaries have been eliminated in the consolidated financial statements. When calculating the proportion of related party transactions, transactions with the subsidiary are not involved.

	As at 31 December 2021		As at 31 December 2020	
	Balances	%	Balances	%
On-balance sheet items				
Due from and placements with banks and other financial institutions	3,838	0.01	11,428	0.02
Derivative financial assets	1,703	4.34	2,377	4.38
Loans and advances to customers	7,122	0.11	5,512	0.10
Financial investments	981,312	27.85	807,886	24.96
Due to and placements from banks and other financial institutions	18,391	0.01	8,397	0.01
Financial liabilities at FVPL	1,424	2.85	212	0.72
Derivative financial liabilities	1,648	4.57	2,979	5.33
Due to customers	172,170	2.45	129,675	1.96
Off-balance sheet items				
Notional principal of derivative financial instruments	247,811	3.48	194,126	3.51
Credit related commitments(Guarantees, acceptances and letters of credit)	12,126	0.64	10,337	0.62
	Year ended 31 December 2021		Year ended 31 December 2020	
	Amount	%	Amount	%
Interest income	26,456	7.01	22,524	6.10
Interest expense	(6,347)	2.94	(5,320)	2.47
Fee and commission income	1	–	52	0.11
Fee and commission expense	(4)	0.08	(8)	0.19
Net gains/(losses) from trading activities	2,665	0.11	(149)	Not applicable

48 SEGMENTAL ANALYSIS

The Group's Board of Directors and senior management reviews the Group's operation by the particular economic areas in which the Group's branches and subsidiaries provide products or services. The Group's geographical operating segments are decided based upon location of the assets, as the Group's branches and subsidiaries mainly serve local customers.

The reportable geographical operating segments derive their revenue primarily from commercial banking services and investing activities, including deposits, loans, bills, trade financing, money market placements and takings, and securities investments, etc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

48 SEGMENTAL ANALYSIS *(Continued)*

The Group's geographical operating segments include provincial and directly managed branches and subsidiaries (if any) in relevant regions, as follows:

- (1) Yangtze River Delta: including Shanghai (excluding Head Office), Jiangsu Province, Zhejiang Province, and Anhui Province;
- (2) Pearl River Delta: including Fujian Province and Guangdong Province;
- (3) Bohai Rim Economic Zone: including Beijing, Tianjin, Hebei Province, and Shandong Province;
- (4) Central China: including Shanxi Province, Jiangxi Province, Henan Province, Hubei Province, Hunan Province, Hainan Province, and Guangxi Zhuang Autonomous Region;
- (5) Western China: including Chongqing, Sichuan Province, Guizhou Province, Yunnan Province, Shanxi Province, Gansu Province, Qinghai Province, Inner Mongolia Autonomous Region, Ningxia Autonomous Region, and Xinjiang Uyghur Autonomous Region;
- (6) Northeastern China: including Liaoning Province, Jilin Province and Heilongjiang Province;
- (7) Overseas: including Hong Kong, New York, Tokyo, Singapore, Seoul, Frankfurt, Macau, Ho Chi Minh City, San Francisco, Sydney, Taipei, London, Luxembourg, Brisbane, Paris, Rome, Brazil, Melbourne, Toronto, Prague, Johannesburg;
- (8) Head Office, including the Pacific Credit Card Centre.

The revenue from external parties is reported to the Board of Directors and the senior management in a manner consistent with that in the consolidated statement of profit or loss and other comprehensive income.

As the Group's major revenue is derived from interest, and the Board of Directors and the senior management relies primarily on net interest income to assess the performance of segments, the interest income and expenses for all reportable segments are presented on a net basis.

The Group's Board of Directors and senior management reviews the segment performance on the basis of profit before tax. Funds are ordinarily allocated between segments. Costs of these funds are charged at the Group's cost of capital and disclosed in inter-segment net interest income. There are no other material items of income or expenses between the segments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

48 SEGMENTAL ANALYSIS (Continued)

Geographical operating segment information

	Year ended 31 December 2021								
	Yangtze River	Pearl River	Bohai Rim	North Eastern			Overseas	Head Office	Total
	Delta	Delta	Economic Zone	Central China	Western China	China			
External interest income	74,720	34,117	36,732	47,925	32,359	10,039	18,082	123,672	377,646
External interest expense	(48,442)	(21,514)	(37,735)	(25,027)	(15,472)	(9,411)	(7,584)	(50,768)	(215,953)
Inter-segment net interest income/(expense)	21,275	6,424	24,200	7,087	1,800	5,192	18	(65,996)	-
Net interest income	47,553	19,027	23,197	29,985	18,687	5,820	10,516	6,908	161,693
Fee and commission income	14,540	3,652	5,739	5,803	3,064	1,238	2,488	15,761	52,285
Fee and commission expense	(2,941)	(39)	(77)	(101)	(26)	(18)	(233)	(1,277)	(4,712)
Net fee and commission income	11,599	3,613	5,662	5,702	3,038	1,220	2,255	14,484	47,573
Net gains arising from trading activities	7,031	376	380	659	1,824	12	(784)	13,846	23,344
Net gains arising from financial investments	849	-	27	-	-	18	589	(172)	1,311
Insurance business income	16,459	-	-	-	-	-	56	-	16,515
Share of profits of associates and joint ventures	-	-	-	-	-	-	47	230	277
Other operating income	15,316	416	954	734	551	203	456	405	19,035
Total operating income -net	98,807	23,432	30,220	37,080	24,100	7,273	13,135	35,701	269,748
Credit impairment losses	(7,451)	(4,828)	(8,046)	(9,019)	(10,600)	(9,582)	(977)	(15,868)	(66,371)
Other assets impairment losses	(2,020)	(6)	(8)	(14)	(58)	(212)	-	(2)	(2,320)
Insurance business expense	(17,037)	-	-	-	-	-	(17)	-	(17,054)
Other operating expense	(26,518)	(6,571)	(8,854)	(9,125)	(5,922)	(3,378)	(4,372)	(25,304)	(90,044)
Profit before tax	45,781	12,027	13,312	18,922	7,520	(5,899)	7,769	(5,473)	93,959
Income tax									(5,020)
Net profit for the year									88,939
Depreciation and amortisation	(1,814)	(909)	(1,133)	(1,116)	(954)	(498)	(469)	(1,206)	(8,099)
Capital expenditure	(17,500)	(660)	(494)	(864)	(488)	(265)	(141)	(2,535)	(22,947)

	Year ended 31 December 2020								
	Yangtze River	Pearl River	Bohai Rim	North Eastern			Overseas	Head Office	Total
	Delta	Delta	Economic Zone	Central China	Western China	China			
External interest income	69,139	29,870	34,257	43,757	29,309	9,248	23,605	129,916	369,101
External interest expense	(47,044)	(19,874)	(35,346)	(23,741)	(15,176)	(9,090)	(14,820)	(50,674)	(215,765)
Inter-segment net interest income/(expense)	23,063	6,369	21,884	7,625	2,324	5,189	19	(66,473)	-
Net interest income	45,158	16,365	20,795	27,641	16,457	5,347	8,804	12,769	153,336
Fee and commission income	11,724	3,370	5,173	5,560	3,001	1,154	2,802	16,514	49,298
Fee and commission expense	(2,137)	(47)	(71)	(69)	(25)	(19)	(226)	(1,618)	(4,212)
Net fee and commission income	9,587	3,323	5,102	5,491	2,976	1,135	2,576	14,896	45,086
Net gains/(losses) arising from trading activities	3,443	171	253	485	57	16	(346)	9,765	13,844
Net gains/(losses) arising from financial investments	507	-	-	-	-	-	2,420	(1,750)	1,177
Insurance business income	15,103	-	-	-	-	-	67	-	15,170
Share of profits of associates and joint ventures	-	-	-	-	-	-	50	172	222
Other operating income	14,321	495	1,218	629	497	174	285	270	17,889
Total operating income -net	88,119	20,354	27,368	34,246	19,987	6,672	13,856	36,122	246,724
Credit impairment losses	(7,443)	(4,301)	(7,287)	(10,201)	(1,679)	(3,028)	(1,156)	(26,964)	(62,059)
Other assets impairment losses	(486)	-	1	-	-	(4)	5	-	(484)
Insurance business expense	(15,699)	-	-	-	-	-	(30)	-	(15,729)
Other operating expense	(25,848)	(6,376)	(8,188)	(8,471)	(5,882)	(3,248)	(4,222)	(19,792)	(82,027)
Profit before tax	38,643	9,677	11,894	15,574	12,426	392	8,453	(10,634)	86,425
Income tax									(6,855)
Net profit for the year									79,570
Depreciation and amortisation	(1,779)	(902)	(1,114)	(1,096)	(945)	(486)	(488)	(1,078)	(7,888)
Capital expenditure	(19,236)	(545)	(760)	(1,460)	(561)	(273)	(193)	(1,130)	(24,158)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

48 SEGMENTAL ANALYSIS (Continued)

Geographical operating segment information (Continued)

	As at 31 December 2021									
	Yangtze River	Pearl River	Bohai Rim	North Eastern			Overseas	Head Office	Eliminations	Total
	Delta	Delta	Economic Zone	Central China	Western China	China				
Segment assets	2,881,066	1,059,386	1,711,386	1,277,003	881,918	409,288	1,095,657	4,459,033	(2,141,041)	11,633,696
Including:										
Investments in associates and joint ventures	4	-	-	1	-	-	201	5,573	-	5,779
Unallocated assets										32,061
Total assets										11,665,757
Segment liabilities	(2,658,802)	(1,042,577)	(1,688,784)	(1,239,658)	(870,308)	(417,068)	(1,046,572)	(3,863,904)	2,141,041	(10,686,632)
Unallocated liabilities										(1,889)
Total liabilities										(10,688,521)

	As at 31 December 2020									
	Yangtze River	Pearl River	Bohai Rim	North Eastern			Overseas	Head Office	Eliminations	Total
	Delta	Delta	Economic Zone	Central China	Western China	China				
Segment assets	2,564,088	930,550	1,567,967	1,196,795	825,149	385,027	1,114,676	4,226,501	(2,141,128)	10,669,625
Including:										
Investments in associates and joint ventures	4	-	-	6	-	-	203	4,468	-	4,681
Unallocated assets										27,991
Total assets										10,697,616
Segment liabilities	(2,359,977)	(918,511)	(1,549,435)	(1,165,323)	(811,091)	(386,178)	(1,057,224)	(3,711,091)	2,141,128	(9,817,702)
Unallocated liabilities										(1,286)
Total liabilities										(9,818,988)

Given the adjustment to the standards of dividing segments and evaluation guidelines of income allocation within segment, the comparative figures were stated under existing standards

Business information

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

48 SEGMENTAL ANALYSIS *(Continued)*

Business information *(Continued)*

The business information of the Group is summarised as follows:

	Year ended 31 December 2021				Total
	Corporate Banking Business	Personal Banking Business	Treasury Business	Other Business	
External net interest income	69,804	53,414	38,353	122	161,693
Inter-segment net interest income/ (expense)	16,291	18,260	(34,551)	-	-
Net interest income	86,095	71,674	3,802	122	161,693
Net fee and commission income	10,341	30,743	6,330	159	47,573
Net gains arising from trading activities	8,883	2,073	12,040	348	23,344
Net gains arising from financial investments	(323)	313	1,321	-	1,311
Share of profits of associates and joint ventures	6	-	-	271	277
Insurance business income	56	16,459	-	-	16,515
Other operating income	15,406	2,857	35	737	19,035
Total operating income – net	120,464	124,119	23,528	1,637	269,748
Credit impairment losses	(47,024)	(19,079)	(259)	(9)	(66,371)
Other assets impairment losses	(2,265)	(55)	-	-	(2,320)
Insurance business expense	(17)	(17,037)	-	-	(17,054)
Other operating expense					
– Depreciation and amortisation	(2,941)	(4,460)	(641)	(57)	(8,099)
– Others	(35,267)	(40,350)	(5,404)	(924)	(81,945)
Profit before tax	32,950	43,138	17,224	647	93,959
Income tax					(5,020)
Net profit for the year					88,939
Depreciation and amortisation	(2,941)	(4,460)	(641)	(57)	(8,099)
Capital expenditure	(8,332)	(12,636)	(1,817)	(162)	(22,947)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

48 SEGMENTAL ANALYSIS (Continued)

Business information (Continued)

	Year ended 31 December 2020				Total
	Corporate Banking Business	Personal Banking Business	Treasury Business	Other Business	
External net interest income	61,666	49,328	42,280	62	153,336
Inter-segment net interest income/ (expense)	18,634	16,978	(35,612)	–	–
Net interest income	80,300	66,306	6,668	62	153,336
Net fee and commission income	11,254	28,090	5,585	157	45,086
Net gains arising from trading activities	3,909	1,444	8,371	120	13,844
Net gains arising from financial investments	(140)	396	926	(5)	1,177
Share of profits of associates and joint ventures	(8)	–	–	230	222
Insurance business income	32	15,138	–	–	15,170
Other operating income	14,408	2,530	219	732	17,889
Total operating income – net	109,755	113,904	21,769	1,296	246,724
Credit impairment losses	(33,072)	(28,214)	(772)	(1)	(62,059)
Other assets impairment losses	(489)	–	–	5	(484)
Insurance business expense	(30)	(15,699)	–	–	(15,729)
Other operating expense					
– Depreciation and amortisation	(1,430)	(2,250)	(176)	(52)	(3,908)
– Others	(34,150)	(38,444)	(4,537)	(988)	(78,119)
Profit before tax	40,584	29,297	16,284	260	86,425
Income tax					(6,855)
Net profit for the year					79,570
Depreciation and amortisation	(2,949)	(4,433)	(407)	(99)	(7,888)
Capital expenditure	(9,033)	(13,574)	(1,247)	(304)	(24,158)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

48 SEGMENTAL ANALYSIS (Continued)

Business information (Continued)

	As at 31 December 2021				Total
	Corporate Banking Business	Personal Banking Business	Treasury Business	Other Business	
Segment assets	4,645,110	2,385,982	4,530,160	72,444	11,633,696
Including:					
<i>Investments in associates and joint ventures</i>	-	-	-	5,779	5,779
Unallocated assets					32,061
Total assets					11,665,757
Segment liabilities	(4,999,768)	(2,533,625)	(3,078,851)	(69,663)	(10,681,907)
Unallocated liabilities					(6,614)
Total liabilities					(10,688,521)

	As at 31 December 2020				Total
	Corporate Banking Business	Personal Banking Business	Treasury Business	Other Business	
Segment assets	4,192,292	2,067,778	4,346,218	63,337	10,669,625
Including:					
<i>Investments in associates and joint ventures</i>	-	-	-	4,681	4,681
Unallocated assets					27,991
Total assets					10,697,616
Segment liabilities	(4,832,353)	(2,312,508)	(2,598,865)	(70,190)	(9,813,916)
Unallocated liabilities					(5,072)
Total liabilities					(9,818,988)

There were no significant transactions with a single external customer that the Group mainly relied on.

The comparative information was prepared in accordance with the categorisation of the current period since the assessment rules of the income and expense distribution between various business segments have been adjusted.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

49 FINANCIAL STATEMENTS OF THE BANK

(a) Statement of financial position of the Bank

	As at 31 December 2021	As at 31 December 2020
ASSETS		
Cash and balances with central banks	721,912	807,383
Due from and placements with banks and other financial institutions	720,824	670,148
Derivative financial assets	38,426	54,494
Loans and advances to customers	6,083,046	5,441,506
Financial investments at fair value through profit or loss	507,745	391,648
Financial investments at amortised cost	2,147,313	1,980,248
Financial investments at fair value through other comprehensive income	472,635	555,787
Investments in associates and joint ventures	5,118	4,178
Investments in subsidiaries	79,269	79,272
Property and equipment	50,297	50,500
Deferred income tax assets	29,950	26,262
Other assets	86,801	69,219
Total assets	10,943,336	10,130,645
Liabilities		
Due to banks and other financial institutions	1,807,016	1,672,012
Financial liabilities at FVPL	16,799	23,972
Derivative financial liabilities	36,740	54,311
Due to customers	6,769,618	6,404,997
Certificates of deposits issued	882,435	627,011
Current income tax liabilities	2,952	2,643
Deferred income tax liabilities	41	58
Debt securities issued	413,552	408,906
Other liabilities	98,910	107,985
Total liabilities	10,028,063	9,301,895
Equity		
Share capital	74,263	74,263
Other equity investments	174,790	133,292
<i>Including: Preference shares</i>	<i>44,952</i>	<i>44,952</i>
<i>Perpetual bonds</i>	<i>129,838</i>	<i>88,340</i>
Capital surplus	111,226	111,226
Other reserves	336,666	324,383
Retained earnings	218,328	185,586
Total equity	915,273	828,750
Total equity and liabilities	10,943,336	10,130,645

The financial statements of the Bank were approved and authorised for issuance by the Board of Directors on 25 March 2022 and signed on its behalf by:

Chairman and Executive Director: Ren Deqi

Vice Chairman, Executive Director and President: Liu Jun

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

49 FINANCIAL STATEMENTS OF THE BANK (Continued)

(b) Statement of changes in equity of the Bank

	Other reserves											Total			
	Share capital	Preference shares	Perpetual bonds	Capital surplus	Statutory reserve	Discretionary reserve	Statutory general reserve	FVOCI	FVPL	Cash flow hedge reserve	Translation reserve on foreign operations		Actuarial changes reserve	Others	Retained earnings
As at 1 January 2021	74,263	44,952	88,340	111,226	70,147	139,764	115,920	(769)	12	40	(1,964)	(142)	1,375	185,586	828,750
Net profit for the year	-	-	-	-	-	-	-	-	-	-	-	-	-	75,219	75,219
Other comprehensive income	-	-	-	-	-	-	-	752	(36)	13	(1,840)	55	16	-	(1,040)
Total comprehensive income	-	-	-	-	-	-	-	752	(36)	13	(1,840)	55	16	75,219	74,179
Capital contribution by holders of other equity instruments	-	-	41,498	-	-	-	-	-	-	-	-	-	-	-	41,498
Dividends paid to ordinary shareholders	-	-	-	-	-	-	-	-	-	-	-	-	-	(23,541)	(23,541)
Dividends paid to preference shareholders	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,755)	(1,755)
Interest paid to perpetual bond holders	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,858)	(3,858)
Transfer to reserves	-	-	-	-	6,897	-	6,421	-	-	-	-	-	-	(13,318)	-
Transferred from other comprehensive income	-	-	-	-	-	-	-	5	-	-	-	-	-	(5)	-
As at 31 December 2021	74,263	44,952	129,838	111,226	77,044	139,764	122,341	(12)	(24)	53	(3,804)	(87)	1,391	218,328	915,273

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

(All amounts expressed in millions of RMB unless otherwise stated)

49 FINANCIAL STATEMENTS OF THE BANK (Continued)
 (b) Statement of changes in equity of the Bank (Continued)

	Other reserves											Total				
	Share capital	Preference shares	Perpetual bonds	Capital surplus	Statutory reserve	Discretionary reserve	Statutory general reserve	Revaluation reserve for the financial assets measured at FVOCI	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	
As at 1 January 2020	74,263	59,876	39,994	113,427	63,072	139,764	111,455	2,327	5	(18)	293	(10)	1,363	155,944	761,755	
Net profit for the year	-	-	-	-	-	-	-	-	-	-	-	-	-	-	68,969	68,969
Other comprehensive income	-	-	-	-	-	-	-	(3,096)	7	58	(2,257)	(132)	12	-	(5,408)	
Total comprehensive income	-	-	-	-	-	-	-	(3,096)	7	58	(2,257)	(132)	12	68,969	63,561	
Capital contribution by holders of other equity instruments	-	(14,924)	48,346	(2,201)	-	-	-	-	-	-	-	-	-	-	31,221	
Dividends paid to ordinary shareholders	-	-	-	-	-	-	-	-	-	-	-	-	-	(23,393)	(23,393)	
Dividends paid to preference shareholders	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,714)	(2,714)	
Interest paid to perpetual bond holders	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,680)	(1,680)	
Transfer to reserves	-	-	-	-	7,075	-	4,465	-	-	-	-	-	-	(11,540)	-	
As at 31 December 2020	74,263	44,952	88,340	111,226	70,147	139,764	115,920	(769)	12	40	(1,964)	(142)	1,375	185,586	628,750	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

50 COMPARATIVE FIGURES

Certain comparative figures have been adjusted to conform with changes in disclosures in current year.

51 NON-ADJUSTING EVENTS AFTER REPORTING PERIOD

In February 2022, the Bank issued a tier-2 capital bond of RMB30,000 million with the maturity date in 2032 and a coupon rate of 3.45% on the national interbank bond market. The Bank has an option to exercise its right of redemption at the end of 2027.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(All amounts expressed in millions of RMB unless otherwise stated)

Currency concentrations	313
International claims	314
Overdue and restructured assets	315
Segmental information of loans	316
Loans and advances to customers	317

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(All amounts expressed in millions of RMB unless otherwise stated)

1 CURRENCY CONCENTRATIONS

	USD	HKD	Others	Total
As at 31 December 2021				
Spot assets	1,016,873	233,474	174,843	1,425,190
Spot liabilities	(956,839)	(305,411)	(125,300)	(1,387,550)
Forward purchases	1,446,642	227,581	171,559	1,845,782
Forward sales	(1,571,846)	(130,762)	(222,085)	(1,924,693)
Net option position	5,503	(12)	(747)	4,744
Net long/(short) position	(59,667)	24,870	(1,730)	(36,527)
Net structural position	121,168	31,246	7,799	160,213
As at 31 December 2020				
Spot assets	971,473	232,530	200,619	1,404,622
Spot liabilities	(866,247)	(339,250)	(131,716)	(1,337,213)
Forward purchases	1,130,911	298,686	81,772	1,511,369
Forward sales	(1,293,531)	(155,669)	(141,908)	(1,591,108)
Net option position	(1,878)	41	2,663	826
Net long/(short) position	(59,272)	36,338	11,430	(11,504)
Net structural position	117,569	30,147	11,065	158,781

The net options position is calculated using the approach set out by the CBIRC in the regulatory report. The net structural position of the Group includes the structural positions of the Group's overseas branches, banking subsidiaries and other subsidiaries substantially involved in foreign exchange. Structural assets and liabilities include:

- Investments in fixed assets and properties, net of depreciation charges;
- Capital and statutory reserve of overseas branches;
- Investments in overseas subsidiaries and related companies; and
- Loan capital

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(All amounts expressed in millions of RMB unless otherwise stated)

2 INTERNATIONAL CLAIMS

International claims are the sum of cross-border claims in all currencies and local claims in foreign currencies. The Group is principally engaged in business operations within Mainland China.

In respect of this unaudited supplementary financial information, Mainland China excludes Hong Kong Special Administrative Region of the PRC (“Hong Kong”), Macau Special Administrative Region of the PRC (“Macau”) and Taiwan.

International claims include loans and advances to customers, due from and placements with banks and other financial institutions, holdings of trade bills and certificates of deposits and investment securities.

International claims have been disclosed by country or region. A country or region is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfers are only made if risk exposure is transferred to other counterparty by risk resolving methods. Exposure to credit risk is also mitigated through methods of guarantees, collaterals and credit derivatives.

As at 31 December 2021	Bank	Official sector	Non-bank private sector	Others	Total
Asia Pacific	448,033	122,959	717,912	-	1,288,904
<i>Of which attributed to Hong Kong</i>	62,204	21,533	304,709	-	388,446
North and South America	34,071	21,351	65,018	-	120,440
Africa	442	1,887	-	-	2,329
Europe	42,156	3,878	23,337	-	69,371
	524,702	150,075	806,267	-	1,481,044

As at 31 December 2020	Bank	Official sector	Non-bank private sector	Others	Total
Asia Pacific	509,860	53,881	568,620	-	1,132,361
<i>Of which attributed to Hong Kong</i>	129,213	23,119	299,229	-	451,561
North and South America	41,818	28,597	70,286	-	140,701
Africa	575	613	-	-	1,188
Europe	42,235	2,727	31,132	-	76,094
	594,488	85,818	670,038	-	1,350,344

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(All amounts expressed in millions of RMB unless otherwise stated)

3 OVERDUE AND RESTRUCTURED ASSETS

3.1 Balance of overdue loans

	As at 31 December 2021	As at 31 December 2020
Loans and advances to customers which have been overdue for:		
– Less than 3 months	23,164	25,480
– 3 to 6 months	15,966	10,884
– 6 to 12 months	13,467	23,261
– Over 12 months	34,565	30,578
	87,162	90,203
Percentage (%):		
– Less than 3 months	0.35	0.44
– 3 to 6 months	0.24	0.19
– 6 to 12 months	0.21	0.40
– Over 12 months	0.53	0.51
	1.33	1.54

3.2 Overdue and restructured loans

	As at 31 December 2021	As at 31 December 2020
Total restructured loans and advances to customers	8,792	8,299
<i>Including: Restructured loans and advances to customers overdue above 3 months</i>	1,625	2,394
Percentage of restructured loans and advances to customers overdue above 3 months in total loans	0.02	0.04

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(All amounts expressed in millions of RMB unless otherwise stated)

4 SEGMENTAL INFORMATION OF LOANS

4.1 Impaired loans and advances to customers by geographical area

	As at 31 December 2021		As at 31 December 2020	
	Impaired loans and advances to customers	Allowance for impairment losses	Impaired loans and advances to customers	Allowance for impairment losses
PRC domestic regions				
–Yangtze River Delta	22,399	(13,277)	20,149	(11,213)
–Pearl River Delta	5,559	(3,389)	7,332	(4,050)
–Bohai Rim Economic Zone	13,893	(9,786)	17,058	(12,068)
–Central China	19,224	(10,244)	18,788	(10,673)
–Western China	9,661	(6,402)	9,220	(6,136)
–North Eastern China	12,090	(9,299)	10,998	(7,891)
–Head Office	10,831	(10,064)	10,567	(10,466)
Subtotal	93,657	(62,461)	94,112	(62,497)
Hong Kong, Macau, Taiwan and overseas regions	3,139	(1,421)	3,586	(843)
Total	96,796	(63,882)	97,698	(63,340)

4.2 Overdue loans and advances to customers by geographical area

	As at 31 December 2021		As at 31 December 2020	
	Overdue loans	Allowance for impairment losses	Overdue loans	Allowance for impairment losses
PRC domestic regions				
–Yangtze River Delta	16,399	(9,189)	15,722	(10,996)
–Pearl River Delta	5,853	(3,166)	6,167	(3,208)
–Bohai Rim Economic Zone	9,749	(6,561)	14,517	(10,140)
–Central China	15,170	(8,080)	14,405	(8,252)
–Western China	7,176	(4,333)	7,312	(4,748)
–North Eastern China	9,119	(6,644)	10,283	(7,194)
–Head Office	20,468	(12,767)	18,251	(13,048)
Subtotal	83,934	(50,740)	86,657	(57,586)
Hong Kong, Macau, Taiwan and overseas regions	3,228	(1,516)	3,546	(976)
Total	87,162	(52,256)	90,203	(58,562)
Fair value of collaterals	42,319	Not applicable	44,069	Not applicable

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(All amounts expressed in millions of RMB unless otherwise stated)

5 LOANS AND ADVANCES TO CUSTOMERS

5.1 The risk concentration analysis for loans and advances to customers by industry sectors (gross)

Hong Kong	As at 31 December 2021			As at 31 December 2020		
		%	Amount covered by collaterals		%	Amount covered by collaterals
Corporate loans						
Manufacturing						
– Petroleum and chemical	1,130	0.54	148	1,325	0.68	-
– Electronics	1,577	0.76	25	4,441	2.28	21
– Textile and clothing	148	0.07	7	312	0.16	6
– Other manufacturing	25,506	12.24	5,284	15,599	8.02	5,401
Production and supply of power, heat, gas and water	1,418	0.68	320	861	0.44	365
Construction	5,051	2.42	1,159	4,469	2.30	1,009
Transportation, storage and postal service	9,482	4.55	3,375	14,550	7.48	2,540
Information transmission, software and IT services	3,537	1.70	20	3,257	1.67	8
Wholesale and retail	15,584	7.48	4,052	15,912	8.18	3,657
Finance	6,730	3.23	826	5,339	2.74	594
Real estate	60,900	29.23	16,186	55,315	28.43	16,532
Leasing and commercial services	11,711	5.62	3,838	6,636	3.41	2,903
Others	22,489	10.79	4,175	29,347	15.09	5,640
Total corporate loans	165,263	79.31	39,415	157,363	80.88	38,676
Personal loans						
Mortgage	29,857	14.33	29,837	23,621	12.14	23,616
Credit cards	94	0.05	-	97	0.05	-
Others	13,149	6.31	12,539	13,492	6.93	12,745
Total personal loans	43,100	20.69	42,376	37,210	19.12	36,361
Gross amount of loans and advances to customers before impairment allowance	208,363	100.00	81,791	194,573	100.00	75,037
Outside Hong Kong	6,352,037			5,653,851		

Note: The classification of industries is consistent with the latest national standards for industry classification (*Industrial Classification for National Economic Activities* (GB/T 4754-2017) issued by SAC and AQSIQ in 2017).

The risk concentration analysis for loans and advances to customers by industry sectors is based on the Group's internal classification system.

The ratio of collateral and pledge loans to the total loans of the Group was 52% as at 31 December 2021 (31 December 2020: 52%).

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(All amounts expressed in millions of RMB unless otherwise stated)

5 LOANS AND ADVANCES TO CUSTOMERS (Continued)

5.2 Allowance on loans and advances to customers by type of loan

	As at 31 December 2021		As at 31 December 2020	
	Impaired loans	Allowance for impairment losses	Impaired loans	Allowance for impairment losses
Corporates	77,628	(49,172)	78,925	(48,335)
Individuals	19,168	(14,710)	18,773	(15,005)
	96,796	(63,882)	97,698	(63,340)
Fair value of collaterals	46,194	Not applicable	46,359	Not applicable

Collaterals held against such loans mainly include cash deposits and mortgages over properties.

The amount of new provisions charged to statement of profit or loss, and the amount of loans and advances written off during the years are disclosed below:

	Year ended 31 December 2021			Year ended 31 December 2020		
	New provisions	Loans and advances written off as uncollectible	Recoveries of loans and advances written off in previous years	New provisions	Loans and advances written off as uncollectible	Recoveries of loans and advances written off in previous years
Corporates	45,986	(32,886)	4,443	29,855	(33,248)	3,340
Individuals	16,959	(14,633)	1,881	26,414	(20,580)	1,712
	62,945	(47,519)	6,324	56,269	(53,828)	5,052

SUPPLEMENTARY INFORMATION ON LEVERAGE RATIO, LIQUIDITY COVERAGE RATIO AND NET STABLE FUNDING RATIO

APPENDIX 1: INFORMATION RELATED TO LEVERAGE RATIO

Leverage ratio disclosure is disclosed according to Note 3 *Leverage Ratio Disclosure Format of the Measures for the Administration of the Leverage Ratio of Commercial Banks (Revised)*.

Reconciliation of Regulatory Consolidation and Accounting Consolidation

(in millions of RMB)

Serial Number	Item	31 December 2021	31 December 2020
1	Total consolidated assets	11,665,757	10,697,615
2	Adjustments of consolidation	(91,385)	(70,282)
3	Adjustments item of customer's assets	0	0
4	Adjustments of derivatives	41,498	33,616
5	Adjustments of securities financing transactions	725	2,022
6	Adjustments of off-balance sheet item	1,021,988	844,885
7	Other Adjustments	(6,010)	(5,252)
8	Balance of adjusted on- and off-balance sheet assets	12,632,573	11,502,604

Leverage Ratio Information

(in millions of RMB unless otherwise stated)

Serial Number	Item	31 December 2021	31 December 2020
1	On-balance-sheet assets (excluding derivatives and securities financing transactions)	11,426,283	10,495,090
2	Less: Deduction of tier-1 capital	(6,010)	(5,252)
3	Balance of adjusted on-balance sheet assets (excluding derivatives and securities financing transactions)	11,420,273	10,489,838
4	Replacement costs of derivatives (less eligible margin)	39,220	54,236
5	Potential risk exposure of derivatives	41,498	33,616
6	Sum of collaterals deducted from the balance sheet	0	0
7	Less: Assets receivable from providing eligible margin	0	0
8	Less: Derivative assets resulting from the transactions with central counterparties in providing clearing settlement services for customers	0	0
9	Notional principal of sold credit derivatives	0	0
10	Less: Deductible balance of sold credit derivatives	0	0
11	Derivative asset balance	80,718	87,852
12	Accounting asset balance of securities financing transactions	108,869	78,007
13	Less: Balance of deductible securities financing transaction assets	0	0
14	Counterparty credit risk exposure of securities financing transactions	725	2,022
15	Balance of securities financing transaction assets from acting for securities financing transactions	0	0
16	Securities financing assets balance	109,594	80,029
17	Balance of off-balance-sheet items	2,373,602	2,007,150
18	Less: Balance of off-balance-sheet items arising from the reduction of credit transfer	(1,351,614)	(1,162,265)
19	Adjusted off-balance sheet items balance	1,021,988	844,885
20	Net tier-1 capital	960,225	862,221
21	Adjusted balance of on- and off-balance sheet assets	12,632,573	11,502,604
22	Leverage ratio (%)	7.60	7.50

SUPPLEMENTARY INFORMATION ON LEVERAGE RATIO, LIQUIDITY COVERAGE RATIO AND NET STABLE FUNDING RATIO (CONTINUED)

APPENDIX 2: THE DAILY AVERAGE LIQUIDITY COVERAGE RATIO AND ITS DETAILS OF THE GROUP IN THE FOURTH QUARTER OF 2021

(in millions of RMB unless otherwise stated)

Serial Number	Amount before conversion	Amount after conversion
The qualified high-quality liquid assets		
1 The qualified high-quality liquid assets		2,143,415
Cash Outflow		
2 Retail deposits, small business deposits, including:	2,283,598	218,861
3 Stable deposit	187,863	9,287
4 Less stable deposit	2,095,735	209,574
5 Unsecured wholesale funding, including:	4,773,737	2,005,883
6 Business relationship deposit (excluding agency business)	2,658,589	663,356
7 Non-business relationship deposit (including all counterparties)	2,099,114	1,326,493
8 Unsecured debt	16,034	16,034
9 Secured funding		12,989
10 Other items, including:	2,201,657	1,262,724
11 Cash outflow relates to derivatives and other collateral/pledged assets	1,227,188	1,209,533
12 Cash outflow relates to loss of funding on asset-blocked securities	162	162
13 Committed credit and liquidity facilities	974,307	53,029
14 Other contractual obligation to extend funds	58,341	58,341
15 Contingent funding obligations	1,825,657	67,107
16 Total expected cash outflow		3,625,905
Cash Inflow		
17 Secured lending (including reverse repos and securities borrowing)	103,994	102,556
18 Inflows from fully performing exposure	837,116	545,173
19 Other cash inflow	1,241,241	1,222,887
20 Total expected cash inflow	2,182,351	1,870,616
		Amount after adjustment
21 The qualified high-quality liquid assets		2,031,441
22 Net cash outflow		1,755,289
23 Liquidity Coverage Ratio (%)		115.70

**SUPPLEMENTARY INFORMATION ON LEVERAGE RATIO, LIQUIDITY COVERAGE RATIO
AND NET STABLE FUNDING RATIO (CONTINUED)**

**APPENDIX 3: NET STABLE FUNDING RATIO AND ITEMS FOR THE THIRD
QUARTER OF 2021**

(in millions of RMB unless otherwise stated)

Serial Number		Unweighted value			Weighted value	
		No Maturity	Less than 6 months	6-12 months		Over 1 year
Available Stable Funding Item						
1	Capital	950,277	–	–	150,433	1,100,710
2	Regulatory Capital	950,277	–	–	143,733	1,094,010
3	Other capital instruments	–	–	–	6,700	6,700
4	Retail deposits and deposits from small enterprises	847,332	1,609,483	10,059	760	2,230,672
5	Stable deposits	190,908	2,990	625	568	185,365
6	Less stable deposits	656,424	1,606,493	9,434	192	2,045,307
7	Wholesale funding	2,606,884	3,291,982	725,454	444,407	3,023,305
8	Operational deposits	2,524,843	117,421	39,694	8,173	1,349,152
9	Other wholesale funding	82,040	3,174,561	685,761	436,234	1,674,153
10	Liabilities with matching interdependent assets	–	–	–	–	–
11	Other liabilities	54,954	311,985	18,282	361,707	387,256
12	Net stable funding ratio derivative liabilities	–	–	–	27,725	–
13	All other liabilities and equities not included in the above categories	54,954	311,985	18,282	333,982	387,256
14	Total available stable funding					6,741,944
Required Stable Funding Item						
15	Total net stable funding ratio high-quality liquid assets					337,642
16	Business relationship deposits held at other financial institutions	99,183	100	1,500	500	50,891
17	Loans and securities	73,115	1,804,015	1,048,456	4,680,628	5,312,307
18	Loans to financial institutions secured by Level 1 assets	–	31,502	–	–	4,680
19	Loans to financial institutions secured by non-Level 1 assets or unsecured	–	360,390	196,460	81,808	234,096
20	Loans to retail and small business customers, non-financial institutions, sovereigns, central banks and public sector entities.	130	1,371,656	813,953	2,735,257	3,411,535
21	Including: with a risk weight less than or equal to 35%	–	18,336	6,582	32,987	33,900
22	Residential mortgages	–	686	832	1,394,361	1,185,966
23	Including: with a risk weight less than or equal to 35%	–	–	–	–	–
24	Securities that are not in default and do not qualify as high-quality liquid assets, including exchange-traded equities	72,985	39,781	37,211	469,202	476,030
25	Assets with matching interdependent liabilities	–	–	–	–	–
26	Other assets	189,303	70,451	9,146	58,456	296,987
27	Physical traded commodities (including gold)	26,431	–	–	–	22,467

SUPPLEMENTARY INFORMATION ON LEVERAGE RATIO, LIQUIDITY COVERAGE RATIO AND NET STABLE FUNDING RATIO (CONTINUED)

APPENDIX 3: NET STABLE FUNDING RATIO AND ITEMS FOR THE THIRD QUARTER OF 2021 (CONTINUED)

(in millions of RMB unless otherwise stated)

Serial Number		Unweighted value			Weighted value	
		No Maturity	Less than 6 months	6-12 months		Over 1 year
28	Assets posted as initial margin for derivative contracts and contributions to default funds of central counterparties				9,757	8,294
29	Net stable funding ratio derivative assets				30,101	2,376
30	Derivative with additional requirements				27,725	5,545
31	All other assets not included in the above	162,872	70,451	9,146	18,598	258,306
32	Off-balance-sheet items				3,189,068	135,138
33	Total required stable funding					6,132,965
34	Net stable funding ratio (%)					109.93

Notes:

- The "no maturity" bucket mentioned in the table above include, but are not limited to, capital with perpetual maturity, non-maturity (demand) deposits, short positions, open maturity positions, non-high-quality liquid assets equities, and physical traded commodities.
- The unweighted value of item 30 "Net stable funding ratio derivative liabilities with additional requirements" is the net stable funding ratio derivative liabilities before the deduction of the variation margin, without differentiation of maturity, and not included in the unweighted value of item 26 "Other assets".

**SUPPLEMENTARY INFORMATION ON LEVERAGE RATIO, LIQUIDITY COVERAGE RATIO
AND NET STABLE FUNDING RATIO (CONTINUED)**

**APPENDIX 4: NET STABLE FUNDING RATIO AND ITEMS FOR THE FOURTH
QUARTER OF 2021**

(in millions of RMB unless otherwise stated)

Serial Number		Unweighted value			Weighted value	
		No Maturity	Less than 6 months	6-12 months		Over 1 year
Available Stable Funding Item						
1	Capital	970,768	–	–	139,972	1,110,740
2	Regulatory Capital	970,768	–	–	139,972	1,110,740
3	Other capital instruments	–	–	–	–	–
4	Retail deposits and deposits from small enterprises	898,313	1,577,874	10,109	775	2,249,286
5	Stable deposits	213,205	3,057	634	540	206,591
6	Less stable deposits	685,108	1,574,817	9,475	235	2,042,694
7	Wholesale funding	2,855,911	3,201,260	786,525	464,642	3,121,409
8	Operational deposits	2,787,487	117,955	39,697	6,786	1,479,356
9	Other wholesale funding	68,424	3,083,305	746,828	457,855	1,642,054
10	Liabilities with matching interdependent assets	–	–	–	–	–
11	Other liabilities	59,399	232,740	109,046	247,800	312,855
12	Net stable funding ratio derivative liabilities	–	–	–	36,101	–
13	All other liabilities and equities not included in the above categories	59,399	232,740	109,046	211,699	312,855
14	Total available stable funding					6,794,290
Required Stable Funding Item						
15	Total net stable funding ratio high-quality liquid assets					373,711
16	Business relationship deposits held at other financial institutions	98,421	340	2,000	–	50,381
17	Loans and securities	42,612	1,855,894	1,015,633	4,753,861	5,382,024
18	Loans to financial institutions secured by Level 1 assets	–	26,216	–	–	3,896
19	Loans to financial institutions secured by non-Level 1 assets or unsecured	–	334,814	195,396	101,570	249,490
20	Loans to retail and small business customers, non-financial institutions, sovereigns, central banks and public sector entities	–	1,416,380	791,861	2,792,283	3,470,996
21	Including: with a risk weight less than or equal to 35%	–	12,499	7,116	34,380	32,155
22	Residential mortgages	–	714	883	1,447,908	1,231,520
23	Including: with a risk weight less than or equal to 35%	–	–	–	–	–
24	Securities that are not in default and do not qualify as high-quality liquid assets, including exchange-traded equities	42,611	77,770	27,494	412,099	426,121
25	Assets with matching interdependent liabilities	–	–	–	–	–
26	Other assets	191,296	68,009	9,493	77,511	310,191
27	Physical traded commodities (including gold)	26,357	–	–	–	22,404

SUPPLEMENTARY INFORMATION ON LEVERAGE RATIO, LIQUIDITY COVERAGE RATIO AND NET STABLE FUNDING RATIO (CONTINUED)

APPENDIX 4: NET STABLE FUNDING RATIO AND ITEMS FOR THE FOURTH QUARTER OF 2021 (CONTINUED)

(in millions of RMB unless otherwise stated)

Serial Number		Unweighted value			Weighted value	
		No Maturity	Less than 6 months	6-12 months		Over 1 year
28	Assets posted as initial margin for derivative contracts and contributions to default funds of central counterparties				10,288	8,745
29	Net stable funding ratio derivative assets				39,220	3,119
30	Derivative with additional requirements				36,101	7,220
31	All other assets not included in the above	164,938	68,009	9,493	28,003	268,703
32	Off-balance-sheet items				3,228,439	137,793
33	Total required stable funding					6,254,099
34	Net stable funding ratio (%)					108.64

Notes:

- The “no maturity” bucket mentioned in the table above include, but are not limited to, capital with perpetual maturity, non-maturity (demand) deposits, short positions, open maturity positions, non-high-quality liquid assets equities, and physical traded commodities.
- The unweighted value of item 30 “Net stable funding ratio derivative liabilities with additional requirements” is the net stable funding ratio derivative liabilities before the deduction of the variation margin, without differentiation of maturity, and not included in the unweighted value of item 26 “Other assets”.



Bank of Communications Co., Ltd.

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

Address and Postcode

188 Yin Cheng Zhong Lu, Pudong New District, Shanghai, P.R. China
200120

www.bankcomm.com