交通銀行
BANK OF COMMUNICATIONS

Bank of Communications Co., Ltd.

2020 ANNUAL REPORT

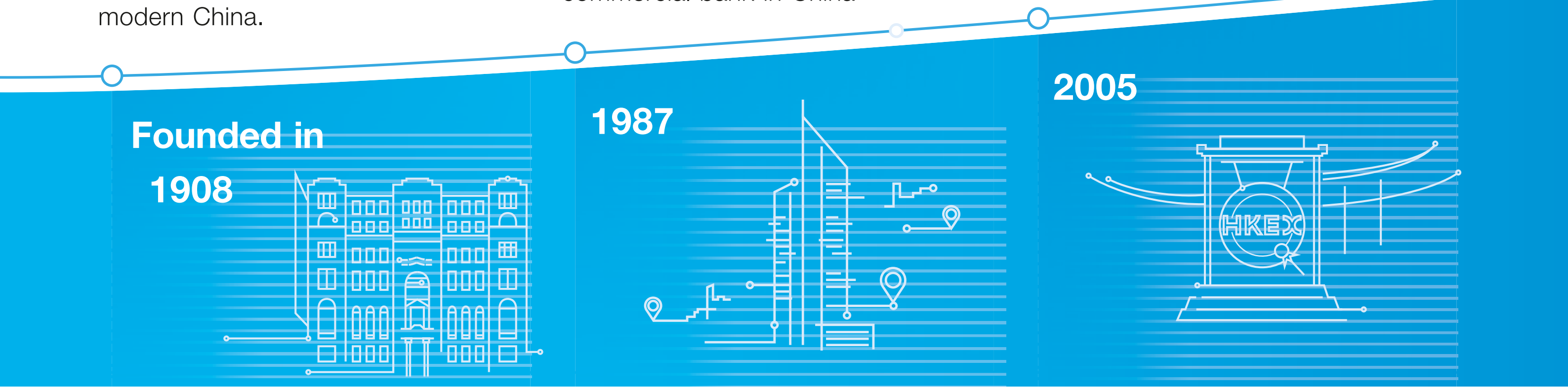
Stock Code:03328

Contents

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

After restructuring, BoCom became the first nationwide state-owned joint-stock commercial bank in China

BoCom was listed on the Hong Kong Stock Exchange.



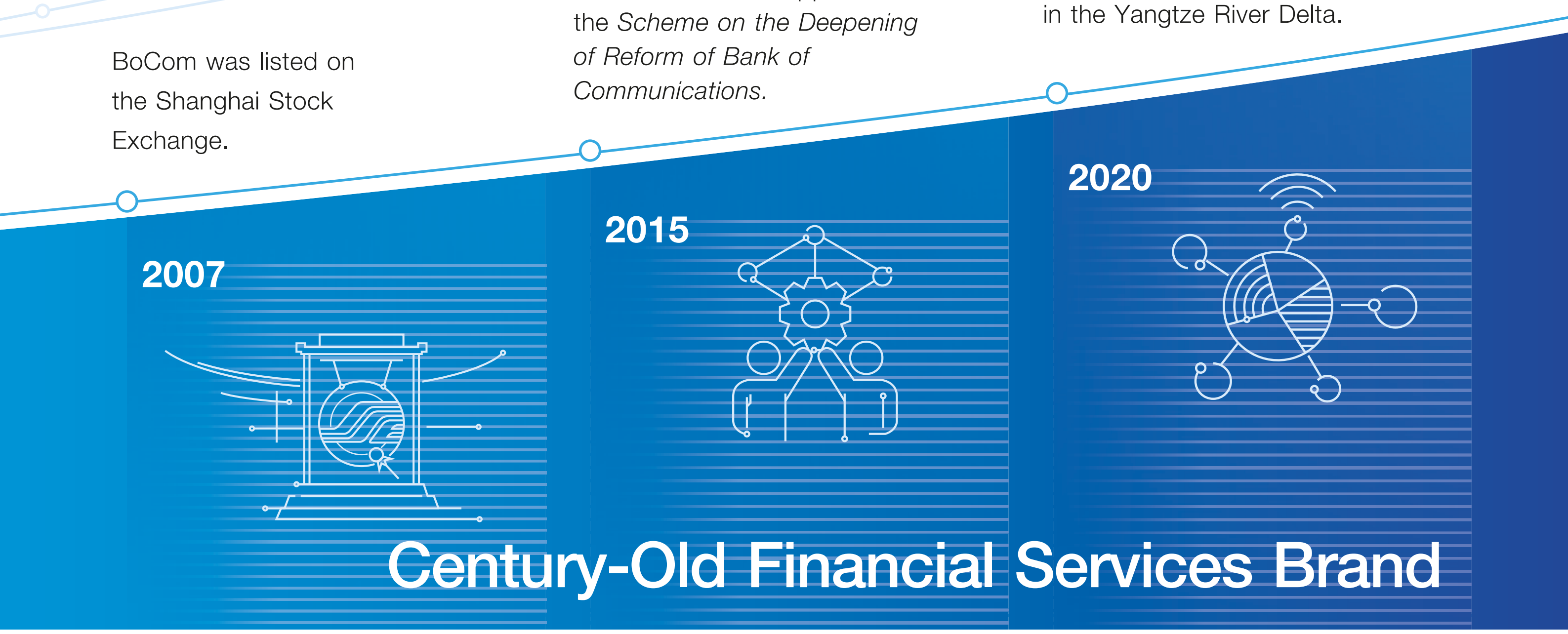
Corporate Governance

Consolidated Financial Statements and Others

BoCom was listed on the Shanghai Stock Exchange.

The State Council approved the *Scheme on the Deepening of Reform of Bank of Communications.*

BoCom carries out FinTech and digital transformation. BoCom builds the leading bank in the Yangtze River Delta.



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 2020 Annual Report and its summary of the Bank have been reviewed and approved at the 18th meeting of the 9th Session of the Board of Directors of the Bank on 26 March 2021. The number of directors who should attend the meeting was 15, with 15 directors attending the meeting in person.

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 Annual Report.

IV. The Group's financial statements that were prepared in accordance with China Accounting Standards were audited by PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership). 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 2020 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 RMB0.317 (including tax) per share would be distributed to registered shareholders of A share and H share, totalling RMB23.541 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 among the 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 took and will continue to take various steps to effectively manage risks. For more details, please refer to 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.
"CBIRC"	China Banking and Insurance Regulatory Commission
"CHI"	Central Huijin Investment Ltd.
"CSRC"	China Securities Regulatory Commission
"Group"	The Bank and its subsidiaries
"Hong Kong Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"HSBC"	The Hongkong and Shanghai Banking Corporation Limited
"Ministry of Finance"	Ministry of Finance of the People's Republic of China
"PBOC"	The People's Bank of China
"SSE"	The Shanghai Stock Exchange
"SSF"	The National Council for Social Security Fund

Major products and services of the Bank

"Benefit Loan"	Online credit consumption loans launched by the Bank for qualified customers.
"BoCom Tong Ye Fortune"	An interbank wealth management brand of the Bank with core value of "Corporation for Everlasting Enterprises" devoted to providing comprehensive product support and service solution for interbank financial customers.
"Cloud Banking"	A WeChat Mini Program-based online marketing service platform of the Bank for account managers.
"Go Pay"	A one-stop digital service platform of finance and life for all customers.
"Inclusive e-Loan"	Online inclusive financing business services launched by the Bank for qualified customers.
"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.
"OTO Fortune"	A main brand of retail business of the Bank with core value of "Creating and Sharing Abundant Wealth with Noble Virtue" devoted to realising value maintenance and appreciation of wealth for customers.
"Win to Fortune"	A corporate wealth management brand of the Bank providing comprehensive one-stop wealth management solutions for corporate and government institutions through intelligent financial service and digital transformation.

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, China (Shanghai) Pilot Free Trade Zone, Shanghai, P.R. China

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 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	BOCOMPREF1	360021

Domestic auditor: PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership)
11th Floor PricewaterhouseCoopers Centre, 2 Corporate Avenue, 202 Hu Bin Road, Shanghai, PRC
Name of auditor signed: Hu Liang, Ma Yingni

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

PRC legal advisor: Grandall Law Firm (Shanghai)
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

II. COMPANY PROFILE AND PRINCIPLE 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.

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

III. INVESTMENT VALUE AND CORE COMPETITIVENESS

Constantly enhanced wealth management features. Building up wealth management features remains the Bank's important strategic goal. The Bank took advantage of the Group's integrated and international operation to provide on- and off-balance sheet and debt and equity investment services of full product cycle both online and offline for individuals, companies, financial institutions and other types of customers, and to develop the service products system of wealth preservation and appreciation, financial planning and risk hedging, forming series of brands including "OTO Fortune", "Win to Fortune" and "BoCom Tong Ye Fortune".

Comprehensively accelerated FinTech empowerment. The Bank adhered to the technology-driven strategy to continuously enhance its technology empowerment. The FinTech and Product Innovation Committee was established to build and optimise the FinTech organisational structure which adapted to the digitalised business development and responded quickly, to improve the FinTech top-level design and the level of integrated management. Focusing on the integration of business and technology as well as the improvement of data management, the Bank fully applied science and technology to business management, and upheld the role of FinTech from a supporting role to the leadership in development.

Continuously improved capacity of integrated operation. The Bank was committed to becoming an integrated financial service group focusing on banking industry. The Bank was in the first batch in terms of integrated development among all domestic banks. Beside the major business of commercial banking, the Bank also obtained license of non-bank financial services including trust, financial leasing, fund, insurance, overseas securities, debt-to-equity swap and asset management (wealth management), delivering financial services across borders, industries and markets to customers.

Increasingly optimised capacity of global service. The Bank is one of the most internationalised domestic banks. As of now, the Bank set up 23 overseas branches (sub-branches) and representative offices in 18 countries and regions, forming an overseas operating network covering major international financial centres across five continents, providing customers with domestic and overseas integrated services in local and foreign currencies. In addition, the Bank and HSBC jointly launched the "1+1 Global Financial Cooperation" to assist Chinese enterprises to "go global".

High-quality customer services with market recognition. The Bank continuously upgraded customer service experience through measures of building a benchmark of service quality, establishing online service evaluation system and promoting the optimisation of service process. High quality services have become one of the Bank's operational characteristics and highlights. In recent years, the Bank ranked first for six times in China Banking Association's assessment of "Top Thousand Best Units" and "Top Hundred Best Units".

Sound and effective comprehensive risk management. The Bank always adhered to the risk appetite of "stability, balance, compliance and innovation", formed a risk culture of "legal compliance, stable operation, innovation and aggressiveness and accountability for violation of regulations" as its core values. Focusing on "full coverage, full process, specialisation and accountability", the Bank developed core risk management advantages with its own distinctive characteristics.

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

HONOURS AND REWARDS

Top 1000 World Banks 2020 (ranked 11)

The Banker (UK)

Fortune Global 500 – 2020 (ranked 162)

Fortune (USA)

Outstanding Corporate Social Responsibility Award or Chinese Enterprises in 2020
Excellent Corporate Social Responsibility Cases in 2020

Xinhuanet

Best Brand Image Bank of the Year
Best Innovative FinTech Bank of the Year

Sina Finance

Best Bank for Poverty Alleviation Support in 2020

Financial Times

Mobile Banking with Best User Experience Award
Best Open Bank Award

China Financial Certification Authority (CFCA)

cebnet.com.cn

Bank of Communications Financial Leasing Co., Ltd.

Best Financial Leasing Company of the Year under the Gold Medal Award of Chinese Financial Institutions in 2020

Financial Times

Bank of Communications Schroder Fund Management Co., Ltd.

Top 10 Star Fund Companies, Star Fund Companies with Positive Return for Five Consecutive Years, Star Fund Companies in Active Equity Investment Securities Times

Golden Bull Fund Management Company China Securities Journal

Bank of Communications International Trust Co., Ltd.

Excellent Risk Management Trust Company of the Year

Securities Times

BoCommLife Insurance Company Limited

Outstanding Life Insurance Company of the Year

National Business Daily

BoCom International Holdings Company Limited

Best Chinese-funded Securities Trader

Hong Kong Tai Kung Wen Wei Media Group

BOCOM Wealth Management Co., Ltd.

2020 Gamma Award for Net Value Wealth Management Products
Securities Times

Excellent Professional Wealth Management Company of the Year
National Business Daily

"Golden Wealth Management" TOP Wealth Management Brand of the Year
"Golden Wealth Management" Outstanding Fixed Income Wealth Management Product of the Year
Shanghai Securities News

2020 Excellent Bank Wealth Management Company of Banking Wealth Management Registration
Bank Wealth Management Registration and Depository Centre

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	2020	2019	2018	2017	2016
Full year results					*(in millions of RMB)*
Net interest income	**153,336**	144,083	130,908	124,873	131,315
Net fee and commission income	**45,086**	43,625	41,237	40,551	36,795
Net operating income	**246,724**	232,857	213,055	196,520	194,027
Profit before tax	**86,425**	88,200	86,067	83,265	86,110
Net profit (attributable to shareholders of the Bank)	**78,274**	77,281	73,630	70,223	67,210
As at the end of the Reporting Period					*(in millions of RMB)*
Total assets	**10,697,616**	9,905,600	9,531,171	9,038,254	8,403,166
Loans and advances to customers[1]	**5,848,424**	5,304,275	4,854,228	4,579,256	4,220,635
Total liabilities	**9,818,988**	9,104,688	8,825,863	8,361,983	7,770,759
Due to customers[1]	**6,539,254**	6,005,070	5,724,489	5,545,366	5,284,059
Shareholders' equity (attributable to shareholders of the Bank)	**866,607**	793,247	698,405	671,143	629,142
Per share					*(in RMB)*
Earnings per share (attributable to the ordinary shareholders of the Bank)[2]	**0.99**	1.00	0.96	0.91	0.89
Net assets per share (attributable to ordinary shareholders of the Bank)[3]	**9.87**	9.34	8.60	8.23	7.67
Key financial ratios					*(%)*
Return on average assets	**0.77**	0.80	0.80	0.81	0.87
Return on weighted-average shareholders' equity[2]	**10.35**	11.20	11.36	11.40	12.22
Net interest margin[4]	**1.57**	1.58	1.51	1.51	1.78
Cost-to-income ratio[5]	**28.29**	30.11	31.50	31.85	30.90
Non-performing loan ratio	**1.67**	1.47	1.49	1.50	1.50
Provision coverage ratio	**143.87**	171.77	173.13	154.73	153.61
Capital adequacy ratios		*(in millions of RMB unless otherwise stated)*			
Net capital[6]	**1,021,246**	911,256	817,549	790,381	723,961
Including: Net core tier-1 capital[6]	**727,611**	689,489	634,807	609,454	568,131
Other tier-1 capital[6]	**134,610**	100,057	60,025	59,975	59,920
Tier-2 capital[6]	**159,025**	121,710	122,717	120,952	95,910
Risk-weighted assets[6]	**6,695,462**	6,144,459	5,690,542	5,646,313	5,163,250
Capital adequacy ratio (%)[6]	**15.25**	14.83	14.37	14.00	14.02
Tier-1 capital adequacy ratio (%)[6]	**12.88**	12.85	12.21	11.86	12.16
Core tier-1 capital adequacy ratio (%)[6]	**10.87**	11.22	11.16	10.79	11.00

Notes:

1. According to *Notice on Revising and Issuing the Format of Financial Statements of Financial Enterprises for 2018* (Cai Kuai [2018] No. 36) issued by Ministry of Finance, the interest of financial instruments calculated on the basis of the effective interest rate method should be included in the carrying amounts of corresponding financial instruments and reflected in the related items in the balance sheet. The items of "interest receivables" and "interest payables" should not be presented separately. In the consideration of analysis, "loans and advances to customers" here does not include interest receivable on related loans and advances and "due to customers" does not include interest payable on related deposits.
2. 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 Equity and Earnings per Share* (2010 Revision) issued by the China Securities Regulatory Commission ("CSRC").
3. Refers to shareholders' equity attributable to ordinary shareholders of the Bank after the deduction of other equity instruments against the total issued ordinary shares at the end of the period.
4. Represented the ratio of net interest income to total average interest-bearing assets.
5. Calculated as business and management fees divided by net operating income after the deduction of other operating expenses, consistent with the financial report in accordance with China Accounting Standards.
6. Calculated pursuant to the *Administrative Measures for the Capital Management of Commercial Banks (Trial Implementation)* by the China Banking and Insurance Regulatory Commission ("CBIRC").

STATEMENT FROM CHAIRMAN OF THE BOARD OF DIRECTORS

Ren Deqi

Chairman, Executive Director

Over the past year, the COVID-19 pandemic, with its sudden onset, triggered major changes unprecedented in a century at an accelerated rate. Under such circumstances, Chinese economy demonstrated remarkable resilience. While actively fulfilling our responsibility as a state-owned financial institution in the fight against the pandemic, Bank of Communications demonstrated determined initiative in identifying challenges, responding decisively, and leading bold changes in an uncertain environment. The Bank has maintained steady progress in business development and quality improvement, through intense focus, targeted strategies, and a more aggressive spirit of reform.

Generally, the Bank has maintained operational resilience and stable business performance in 2020, achieving reasonable growth and a steady improvement in quality. **In terms of quantity,** both assets and net profit increased steadily. The total asset of the Group was more than 10 trillion, representing an increase of 8% during the year. Net profit attributable to the shareholders of the Bank increased by 1.28% on a year-on-year basis. **In terms of quality,** the connotation, structure and mode of our growth in net profit demonstrated continuous improvement in quality. We consistently optimized the profile of our assets and liabilities, and net interest margin (NIM) gradually improved over the same period. Our commitment to diversified business development and multi-nodal support across the Group continued with increasingly strengthened wealth management features. The compound growth rate of the Group's net operating income in the past three years was 7.88%, which remained stable. With the accelerated clearance of historical risks, asset quality remained stable and well-controlled, establishing a firm foundation for high quality development.

The drastic events of 2020 presented many challenges, but they also provided ample opportunities for us to accelerate our transformation and evolution. We clearly recognized that, instead of being disturbed by the pandemic, the general development trend of the banking industry has further evolved and become even clear. We followed the laws of banking operations, adhered to the principle of value creation, maintained the balance between strategic stability and tactical flexibility, and never ceased striving towards high quality development.

We coordinated pandemic prevention and control with business development, comprehensively upgraded our delivery of financial services from a digital perspective and focused on improving the targeting and effectiveness of our service to the real economy. Working in concert with the real economy under the impact of the pandemic, we were actively engaged as a source of "blood transfusion and oxygen supply", mobilizing a pandemic relief loan program that has granted 400.0 billion in credit. We maintained our commitment to "stabilising six areas of economy, namely employment, finance, foreign trade, foreign investment, domestic investment and market expectations" and "safeguarding six priorities of economy, namely employment, people's livelihood, development of market entities, food and energy security, stable operation of industrial and supply chains, and smooth functioning of society", as we enhanced our support to key areas in economic transformation and inclusive finance. New loans to the manufacturing industry were more than twice the cumulative increment in the previous three years. We fully leveraged the catalytic effect of the pandemic to the digital operation. By creating a scenario- and platform-based business model, we played a more proactive role in solving problems of imbalance and insufficiency. The Group also explored improving the coverage, accessibility and sustainability of financial services through digital inclusiveness. The Group supported the digital transformation of governmental affairs and launched our "BoCom e-Service" digital finance brand, with the goal of empowering people's well-being. Products like Inclusive e-Loan, "Smart Property", and "Toll Housekeeper" also achieved further improvement in their levels of service and efficiency.

We were determined to deepen our reform, focused on streamlining the mechanism and optimizing our functional structure, and achieved consistent improvement in the Group's level of governance and the vitality of our development. Over the past year, we intensely addressed multiple reform projects, emphasizing aspects that included connecting to the national strategy and establishing featured advantages. We also reinvigorated our efforts on FinTech reform and strengthened our organizational management. As a result, a business system focusing on serving the real economy and highlighting the operation features is being formulated. We were committed to taking home breakthroughs to leverage overall development, anchoring the target of "Leading Bank in the Yangtze River Delta". We set up a penetrating and coordinative mechanism and successively released exclusive products for the concept of the Yangtze River Delta integration, so as to create an innovation source that radiates the Group and leads the future. We accelerated the development of the "New Digital BoCom", increased resource input and expanded our efforts to cultivate talent. During the past two years, the average annual growth rate of our FinTech investment has reached 18%. To date, initiatives such as our extensive integration of technology across our business operations, coupled with agile development, have created exciting results.

We proactively responded to the risk exposure under the attack of the pandemic, emphasized the effective management of both historical and newly emerging risks, and accelerated the improvement of the quality and efficiency of risk management across the Group. In the uncertain environment created by the pandemic, resilience in maintaining asset quality became even more critical. We consistently accelerated the reform of credit risk management, strengthened post-loan and investment management, enhanced capabilities in credit risk resolution and gradually implemented key reforms, such as the development of a comprehensive accountability framework. Through these efforts, our core competence in risk prevention and control were reinforced, and the stability of asset quality gradually increased. We launched an aggressive non-performing loan disposal plan, accelerating their disposal and write-off. This was achieved by innovating our approach, expanding the methods used to dispose of non-performing assets, and improving our efficiency in this area. A total of 213.4 billion non-performing assets has been disposed in the past three years, which exceeded the total of the six years from 2012 to 2017; and the amount of write-offs in the past three years was 146.0 billion, which is more than the total of the previous 13 years.

We actively fulfilled our social responsibilities, assisted with poverty alleviation and green development, and contributed to the balanced development of society as well as the construction of wonderful homeland. In response to the sudden onset of COVID-19, we took the lead in donating 8.00 million to Hubei Province, and the total donation of the Group in cash and supplies amounted to 66.5530 million. Through our poverty alleviation efforts consisting of financial, medical, educational, consumption, and industrial aspects, we assisted three counties designated for poverty alleviation – Tianzhu County in Gansu Province, Hunyuan County in Shanxi Province and Litang County in Sichuan Province – to be lifted from poverty. With these achievements, we were awarded the honour of “Advanced Unit in National Poverty Alleviation”. Meanwhile, we adhered to the concept of green development and guided credit resources to areas of green development. We actively participated in the establishment of the National Green Development Fund, with a balance of green credit accounting for 99.63%, resulting in our being awarded the “Advanced Unit in the Overall Evaluation of Green Banks in 2019”.

As bitter cold faded with snow and warmth comes along with spring breeze, the mosaic of the “14th Five-Year Plan” has been gradually evolved. It is expected that the recovering post-pandemic growth will bring about a “warm spring” to the macroeconomy, and the creation of the “Dual Circulation” development pattern will result in virtually boundless market opportunities. The Chinese banking industry is expected to accelerate its pace of development, but at the same time, it is also faced with an external environment with increasing uncertainty and intensified competition around differentiation. Facing both opportunities and challenges, we will be committed to our faith in serving the real economy and our aim of high quality development. We will also leverage the social economic trend and integrate ourselves into the big picture with our mission of creating shared value, constantly highlighting our featured advantages in the implementation of the strategic layout.

We will seize the new opportunity of the Yangtze River Delta integrated development and accelerate building the "Leading Bank in the Yangtze River Delta" with our advantages of being headquartered in Shanghai, international layout and integrated operations. We will be a pioneer in establishing the innovation source and the reform experimental field in Shanghai and the Yangtze River Delta area. Through empowerment through decentralisation, early implementation and coordination between different units, we will make breakthroughs in our function, efficiency, quality and scale of business, becoming a demonstration of high quality development.

We will embrace digital economy with a digitalised mindset and upgrade our financial supply capacity upon the restructure of our business principle, operating mode and ways of service delivery. Digital transformation, in connection with the open ecosystem, will accelerate our construction of scenario finance in serving governmental affairs, civil life and small and micro enterprises. Once proved to be practical, such model will be duplicated for wider application, contributing to the construction of the "New Digital BoCom".

Focusing on serving the new development pattern, we will follow the trend of Sci-tech innovation and the industrial chain and supply chain upgrading while seizing the opportunities to expand domestic demands and improve people's livelihood. With an insight into domestic and international dual circulation as well as individual's wealth growth, we will consistently innovate our supply of financial services and concentrate our efforts on four major business features – inclusive finance, trade finance, technology finance and wealth finance.

We understand the ultimate test of development capabilities is to achieve sustainable growth and high quality development across economic cycles. While maintaining our intense focus on securing our stewardship of the advantages and traditions of a century-old financial services brand, we will never stop moving forward to build "the First-tier Bank with Wealth Management Characteristics and Global Competitive Capabilities in the World" and build "BoCom" into a brand that is more worthy of trust to customers and investors.

We believe that only those who insist on long-term development can successfully reach the other side. If we work diligently, there will be fruitful results.

STATEMENT FROM PRESIDENT

Liu Jun

Vice Chairman, Executive Director and President

I want to express my appreciation to all our shareholders and customers for steadfastly supporting Bank of Communications throughout an extraordinary 2020.

This year, “slowness” and “speediness” are superimposed on each other. On one hand, the broader global economy experienced a deep recession and the traditional business model witnessed a gradual decline as a result of the pandemic. On the other hand, there were radical innovations in the “new economy” and the accelerated development of a digital business order. Faced with myriad uncertainties arising from the pandemic, we chose a path of resilient development, demonstrating both stability and agility, which is the optimal paradigm for the Bank to pursue in responding to changes.

Return to our origin and fully demonstrate robust resilience in creating value

To provide financial services under the circumstances of pandemic normalization requires a long-term perspective over the short-term fluctuations, harnessing the underlying logic of commercial perspectives, to effectively allocate resources to the real economy, and continue to create value for our customers. In 2020, the assets of the Group reached 10.7 trillion, representing an increase of 8% over the year. Net profit attributable to shareholders of the Bank was 78.274 billion, representing a year-on-year increase of 1.28%, and net operating income, net interest income, net fee and commission income increased by 5.96%, 6.42%, and 3.35% respectively. Underpinning this steady growth in performance is an unremitting persistence to the mission of “creating shared value”.

We anchored the goal of "steady growth in net operating income" and effectively balanced the relationship between short- and long-term objectives, along with quality and efficiency. **On the asset side,** we promoted the concentration of financial resources in key regions and key industries consistent with the national strategic deployment initiative and extended the strategic depth of the Bank's development. In 2020, customer loans increased by 544.149 billion, representing an increase of 10.26% during the year. Of this growth, customer loans in the three major regions of the Yangtze River Delta, the Guangdong-Hong Kong-Macao Greater Bay Area, and the Beijing-Tianjin-Hebei area accounted for 53.3%. Further, the growth rates of inclusive loans to small and micro enterprises, as well as that of medium- and long-term manufacturing loans, exceeded 50%. Our nimble transformation accelerated with personal loans comprising over 30% of customer loans throughout the year. **On the liability side,** we adhered to the concept of "cultivating downward" and drove capital accumulation through full-scale customer operations. The numbers of small and micro customers, OTO customers, and private banking customers increased by 51.72%, 15.50%, and 21.67% respectively during the year. In 2020, customer deposits increased by 534.184 billion over the end of the previous year, representing an increase of 8.9%, and the incremental amount increased by 253.603 billion on a year-on-year basis. **In terms of revenue,** we seized market opportunities with ample liquidity and a stable foundation of net interest income, which is largely the result of our optimizing our liability structure. The annual debt cost ratio was 2.29%, a year-on-year decrease of 27 basis points. Net interest margin was 1.57%, maintaining a generally stable trend. Leveraging the potential of the Group, we developed "core competence" in wealth management and accelerated the evolution of diversified profitability. Personal assets under management (AUM) was nearly 3.9 trillion, of which wealth management products related to asset management, fund, insurance and trust activities accounted for over 60% in the total AUM increment. Net income related to wealth management fees and commissions increased by 35.18% on a year-on-year basis, achieving a record high for the recent three years. The three major performance indicators of total assets, market share and operating income of BoCom Leasing all ranked first in the industry[1]. Active equity funds managed by BoCom Schroder Fund increased by 152% over the end of the previous year and the yield of equity investment under active management in the past five years ranked among the top three in the industry; the balance of BOCOM Wealth Management products was 533.797 billion, representing an increase of 384.37% over the end of the previous year.

At the same time, we insisted on the dual implementation of historical risk disposal and emerging risk prevention, while maintaining an intense focus on effectively managing the superposition of various risks as a result of the pandemic. In 2020, our disposal of non-performing loans amounted to 82.911 billion, representing a year-on-year increase of 31%. The balance and proportion of overdue loans both decreased as compared to the beginning of the year. For the year, loan impairment losses totalled 56.269 billion, representing a year-on-year increase of 14.65%, and the provision coverage ratio was compliant with regulatory requirements. Tempered by the pandemic, a stronger core endowed us with enough confidence to embrace the future with less burden.

1 According to the statistical standards of the Financial Leasing Committee of China Banking Association

Follow the trend and further leverage the multiplier effect of financial technology

Catalysed by the pandemic, the digital economy accelerated the overall restructure of commercial system. Technology extended media, media renewed humanities, and humanities reshaped the business rules. Under this new paradigm, there is no clear border between finance and technology. As the philosopher Marshall McLuhan said, "technology is the extension of mankind." We firmly integrated the concept of "One BoCom, One Customer" throughout each aspect of the development of the "New Digital BoCom". This is how we have consistently addressed the full range of customer needs and followed the technological trends, as we hone our "hardcore ability" to respond to changes in an agile manner. In the recent two years, the Bank's average annual growth of FinTech investment was 18%, and FinTech investment in 2020 accounted for 2.85% of operating income, representing a year-on-year increase of 0.28 percentage point.

In 2020, with the grand opening of our financial technology subsidiary, the Bank's new FinTech organizational structure has been established. As the new "531" project was successfully completed, the distributed technical structure that was developed and launched independently provides a strong foundation for business continuity. Also, we continued to optimize our enterprise-level data standards and governance process. Technology-enabled operations and management have also achieved positive results. The forecasting accuracy of overdue loan models, for example, doubled while the efficiency of paperless credit application process increased by 40%. Emerging technologies, such as biological recognition and intelligent voice, were widely applied. Our integrated retail marketing platform, based on big data analysis, enabled us to implement a strategy of customization "for a thousand people, in a thousand scenarios" for customers in all channels.

In the process of driving technology from back to front and evolving from the role of business support to a strategic guide, we realized that digitalization does not simply mean "everything online". Customers' requirements for financial services included not only fast delivery speed, but also a tailored scenario experience to meet their needs. We accelerated scenario development and product innovation, achieved the multi-coupling of financial services with application scenarios, and also implemented technical support through a collaborative platform. We successfully entered the "first echelon" of digital Renminbi operating institutions and extended the internet financial service chain through the in-depth integration of the BoCom digital Renminbi wallet into the ecosystem of our application scenario. We fully integrated into Shanghai's call for "Enabling Access to Government Services via One Website and Achieving Unified Management with One Website", launching the "BoCom e-Service" product series. The number of contracted customers of the "Benefit Medical Payment" accounted for more than 85% of the Shanghai market. In addition, the comprehensive financing product Inclusive e-Loan, the industry chain rapid financing products, the "Easy Series" products for international businesses, and the fund investment advisory platform for personal customers continued to enrich the full spectrum of online financial offerings of the Bank. Two major applications, Mobile Banking and Go Pay, both entered the "first echelon" in the 2020 Sina evaluation, and monthly active users (MAU) totalled more than 55.00 million.

Keep on walking and draw a new chapter of the "14th Five-Year Plan" with intense dedication

Facing a level of challenge that is unprecedented over the last century, the global political and economic landscape has experienced profound changes. Standing at an intersection of history, Bank of Communications will adhere to our strategic determination, focus on the strategic vision of "Building the First-tier Bank with Wealth Management Characteristics and Global Competitive Capabilities in the World", adhere to the general principle of seeking progress while maintaining stability, forge our strengths and compensate for our weaknesses. We will make every effort to achieve high quality development over the course of the "14th Five-Year Plan".

In terms of business strategy, the advent of vaccines and the election of Biden have accelerated the recovery of global markets. A new development paradigm with "Domestic Circulation Being the Mainstay and the Domestic and International Circulations Reinforcing Each Other" has released tremendous structural opportunities. We will chart a clear course through the evolving market, while we maintain our mindset focused on the market, creating value, and delivering a strong bottom line. Through the vivid interpretation of financial technology, we will promote "integrated transformation, broad based empowerment and revolutionary reshaping" of our operations and management.

In terms of business development, the digital economy paradigm accelerated the shift of the traditional industrial structure to new economic sectors, as the global reconfiguration of wealth also placed higher demands on the professionalism and specialization of financial services. We will fully leverage the advantages of global layout and integrated operation of the Bank, using the development of the leading bank in the Yangtze River Delta as fulcrum, highlighting the features in four aspects of inclusive finance, trade finance, technology finance, and wealth finance; so as to realize the simultaneous development of the Bank along with that of the real economy.

In terms of our reform efforts, as economic recovery continued in the second half period, domestic economic growth previously fuelled by counter-cyclical responses became driven by endogenous forces. We will closely follow the strategic developments around "expanding domestic demand" while accelerating the transformation and restructure of business model, service model, management model and channel model. We will persevere in the "points of the second half" of reform such as risk credit, digital transformation, incentive restrictions, and the comprehensive transformation of outlets, continuously implementing the construction of the "New Digital BoCom". Through the intelligent interpretation of financial services, we will better empower all the industries while serving the well-being of people and society.

Even though the road is long and arduous, perseverance will take us to the destination with a promising future.


WINTO FORTUNE
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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！
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I. ECONOMIC AND FINANCIAL ENVIRONMENT

In 2020, China adhered to the general principle of seeking progress while maintaining stability, insisted on the high-quality development, coordinated pandemic prevention and control with economic and social development. With overall national economy remaining stable, China scored a complete victory in the fight against poverty and secured a decisive success in building a moderately prosperous society in all respects. The annual gross domestic product amounted to 101.6 trillion, representing a year-on-year increase of 2.3%, which made China the only growing economy among major economies in the world. The policies of “stabilising six areas of economy, namely employment, finance, foreign trade, foreign investment, domestic investment and market expectations” and “safeguarding six priorities of economy, namely employment, people’s livelihood, development of market entities, food and energy security, stable operation of industrial and supply chains, and smooth functioning of society” brought about prominent results. As a result, the employment situation was better than expected, the international payment was basically balanced and the consumer prices were generally stable.

The prudent monetary policy became more flexible and moderate, and the scale of monetary credit and social financing increased reasonably. The PBOC lowered the required reserve ratio for three times, providing a long-term liquidity of 1.75 trillion for the real economy. The PBOC guided the financial system to surrender a total profit of 1.5 trillion to the real economy through multiple measures. The exchange rate of Renminbi remained generally stable on a reasonable and balanced basis. The PBOC also created monetary policy tools that directly addressed the real economy, increased financial support to key areas and weak parts including small and micro enterprises, and built a stable and suitable monetary environment.

Facing the impact of the pandemic and the complicated and tough operating environment, the banking industry continued to further support the real economy and carefully handled myriad risks and challenges. The asset scale kept a steady growth. At the same time, under the influences of the pandemic, the decreased acceleration of the economy and the decreasing interest rate, the interest rate spread of the banking industry narrowed, and the banking industry is under great pressure to gain profits and the growth rate in net profit decreased. With the impact of the pandemic, the banking industry’s asset quality is under pressure in stages. However, with the increasing efforts to dispose of non-performing assets, the asset quality was generally stable.

II. FINANCIAL STATEMENT ANALYSIS

In 2020, in the face of the severe impact of COVID-19 pandemic and the complicated and tough operating environment, the Group actively implemented the “three major tasks of serving the real economy, financial risks management and deepening financial reforms”. The Group was also committed to “stabilising six areas of economy, namely employment, finance, foreign trade, foreign investment, domestic investment and market expectations” and “safeguarding six priorities of economy, namely employment, people’s livelihood, development of market entities, food and energy security, stable operation of industrial and supply chains, and smooth functioning of society”. The Group insisted on high-quality development and adhered to serving the real economy, further implemented the new development philosophy while deeply integrating into national strategies. In addition, the Group coordinated regular pandemic prevention and control with business development, which enabled the Group to make progress while ensuring stability in the overall operation.

FINANCIAL STATEMENT ANALYSIS

The Group paid constant attention to value creation and achieved steady growth in operating performance. During the Reporting Period, the Group's net profit (attributable to shareholders of the Bank) amounted to 78.274 billion, representing a year-on-year increase of 1.28%. The Group's net operating income amounted to 246.724 billion, representing a year-on-year increase of 5.96%. Net interest income amounted to 153.336 billion, representing a year-on-year increase of 6.42%. Net fee and commission income amounted to 45.086 billion, representing a year-on-year increase of 3.35%. The Group's interest margin remained basically stable, and net interest margin stood at 1.57%. With increased investment in technology, the Group's cost-to-income ratio decreased by 1.82 percentage points on a year-on-year basis to 28.29%.

The Group achieved a steady asset growth, and issued more loans. As at the end of the Reporting Period, the total assets of the Group increased by 8.00% over the end of the previous year to 10.70 trillion. The balance of the Group's loans and advances to customers increased by 544.149 billion or 10.26% over the end of the previous year to 5.85 trillion, and the incremental amount increased by 94.102 billion on a year-on-year basis. The balance of the Group's due to customer increased by 534.184 billion or 8.90% over the end of the previous year to 6.54 trillion, and the incremental amount increased by 253.603 billion on a year-on-year basis.

The Group kept strict risk control, and continued to improve asset quality. As at the end of the Reporting Period, the non-performing loan ratio of the Group was 1.67%, representing an increase of 0.20 percentage point over the end of the previous year. Loan impairment losses amounted to 56.269 billion, representing a year-on-year increase of 7.188 billion or 14.65%. Provision coverage ratio was 143.87%, which met the regulatory requirements.

(I) Analysis on Key Income Statement Items

1. Profit before tax

During the Reporting Period, the Group's profit before tax decreased by 1.775 billion on a year-on-year basis, representing a decrease of 2.01% to 86.425 billion. Profit before tax was mainly derived from net interest income and net fee and commission income. Credit impairment losses increased by 10.105 billion or 19.45% on a year-on-year basis.

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

(in millions of RMB unless otherwise stated)

	2020	2019	Increase/ (decrease) (%)
Net interest income	153,336	144,083	6.42
Net non-interest income	93,388	88,774	5.20
Including: Net fee and commission income	45,086	43,625	3.35
Net operating income	246,724	232,857	5.96
Credit impairment losses	(62,059)	(51,954)	19.45
Impairment losses on other assets	(484)	(270)	79.26
Insurance business expense	(15,729)	(11,432)	37.59
Other operating expenses	(82,027)	(81,001)	1.27
Including: Operating expenses	(66,004)	(66,560)	(0.84)
Profit before tax	86,425	88,200	(2.01)
Income tax	(6,855)	(10,138)	(32.38)
Net profit	79,570	78,062	1.93

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

(in millions of RMB unless otherwise stated)

	2020		
	Amount	Proportion (%)	Net increase/ (decrease) (%)
Net interest income	153,336	62.15	6.42
Net fee and commission income	45,086	18.27	3.35
Net gains arising from trading activities	13,844	5.61	(13.13)
Net gains arising from financial investments	1,177	0.48	276.04
Net share of profits of associates and joint ventures	222	0.09	(46.38)
Insurance business income	15,170	6.15	29.80
Other operating income	17,889	7.25	6.49
Net operating income	246,724	100.00	5.96

2. Net interest income

During the Reporting Period, the Group's net interest income increased by 9.253 billion on a year-on-year basis to 153.336 billion, accounting for 62.15% of the net operating income, which was a major component of the Group's income. The increase in net interest income was attributable to the increase in the scale of interest-bearing assets. Besides, due to structural optimisation of liabilities and the decrease of cost ratio during the Reporting Period, the Group's interest expenses for the current year was lower than that of the previous year.

FINANCIAL STATEMENT ANALYSIS

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

(in millions of RMB unless otherwise stated)

	From January to December 2020			From January to December 2019		
	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	788,180	10,770	1.37	810,744	11,691	1.44
Due from and placements with banks and other financial institutions	811,543	16,180	1.99	820,846	24,167	2.94
Loans and advances to customers	5,522,008	251,468	4.55	4,969,586	242,948	4.89
Investment securities	2,672,875	90,683	3.39	2,498,842	88,647	3.55
Interest-earning assets	9,794,606	369,101	3.77	9,100,018	367,453	4.04
Non-interest-bearing assets	947,106			812,366		
Total assets	10,741,712			9,912,384		
Liabilities and Shareholders' Equity						
Due to customers	6,325,312	139,142	2.20	5,919,435	139,153	2.35
Due to and placements from banks and other financial institutions	2,053,415	46,653	2.27	2,027,770	57,650	2.84
Debt securities and others	1,037,751	29,970	2.89	764,402	26,567	3.48
Interest-bearing liabilities	9,416,478	215,765	2.29	8,711,607	223,370	2.56
Shareholders' equity and non-interest-bearing liabilities	1,325,234			1,200,777		
Total Liabilities and Shareholders' Equity	10,741,712			9,912,384		
Net interest income		153,336			144,083	
Net interest spread [1]			1.48			1.48
Net interest margin [2]			1.57			1.58
Net interest spread [1,3]			1.69			1.67
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 cost ratio of total average interest-bearing liabilities.
2. Represented the net interest income to total average interest-bearing assets.
3. Taken into account the tax exemption on the interest income from bonds.

During the Reporting Period, the Group's net interest income increased by 6.42% on a year-on-year basis. The net interest spread was 1.48%, flat on a year-over-year basis. The net interest margin decreased by 1 basis point on a year-on-year basis to 1.57%.

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

Item (%)	2020 January – March	April – June	July – September	October – December
Net interest spread	1.45	1.44	1.54	1.47
Net interest margin	1.55	1.52	1.61	1.58
Net interest spread [Note]	1.65	1.65	1.75	1.69
Net interest margin [Note]	1.75	1.73	1.82	1.79

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 expense. 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 2020 and 2019 Increase/(Decrease) due to		
	Amount	Interest rate	Net increase/ (decrease)
Interest-bearing assets			
Cash and balances with central banks	(325)	(596)	(921)
Due from and placements with banks and other financial institutions	(274)	(7,713)	(7,987)
Loans and advances to customers	27,013	(18,493)	8,520
Investment securities	6,178	(4,142)	2,036
Changes in interest income	32,592	(30,944)	1,648
Interest-bearing liabilities			
Due to customers	9,538	(9,549)	(11)
Due to and placements from banks and other financial institutions	728	(11,725)	(10,997)
Debt securities issued and others	9,513	(6,110)	3,403
Changes in interest expenses	19,779	(27,384)	(7,605)
Changes in net interest income	12,813	(3,560)	9,253

During the Reporting Period, the Group's net interest income increased by 9.253 billion on a year-on-year basis, of which the increase of 12.813 billion was due to changes in the average balances of assets and liabilities and the decrease of 3.560 billion was due to changes in the average rate of return and the average rate of cost.

(1) Interest income

During the Reporting Period, the Group's interest income increased by 1.648 billion or 0.45% on a year-on-year basis to 369.101 billion. The interest income from loans and advances to customers, investment security and cash and balances with central banks accounted for 68.13%, 24.57% and 2.92% 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 8.520 billion or 3.51% on a year-on-year basis to 251.468 billion, which was mainly due to the impact on the average balance of loans and advances to customers increasing by 552.422 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 2020			From January to December 2019		
	Average balance	Interest income	Average rate of return (%)	Average balance	Interest income	Average rate of return (%)
Corporate loans	**3,531,559**	**151,301**	**4.28**	3,124,000	145,053	4.64
– Short-term loans	**1,251,162**	**49,603**	**3.96**	1,168,636	50,912	4.36
– Medium and long-term loans	**2,280,397**	**101,698**	**4.46**	1,955,364	94,141	4.81
Personal loans	**1,797,028**	**94,684**	**5.27**	1,632,315	90,667	5.55
– Short-term loans	**493,737**	**31,033**	**6.29**	454,968	34,307	7.54
– Medium and long-term loans	**1,303,291**	**63,651**	**4.88**	1,177,347	56,360	4.79
Discounted bills	**193,421**	**5,483**	**2.83**	213,271	7,228	3.39
Total loans and advances to customers	**5,522,008**	**251,468**	**4.55**	4,969,586	242,948	4.89

B. Interest income from investment securities

During the Reporting Period, interest income from investment securities increased by 2.036 billion or 2.30% on a year-on-year basis to 90.683 billion, which was mainly due to the year-on-year increase by 174.033 billion in the average balance of investment securities.

C. Interest income from cash and balances with central banks

The balances with central banks mainly included balances in statutory reserves and in excess reserves. During the Reporting Period, interest income from cash and balances with central banks decreased by 0.921 billion or 7.88% on a year-on-year basis to 10.770 billion, which was mainly due to the year-on-year decrease of 7 basis points in the average rate of return on cash and balances with central banks.

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

During the Reporting Period, the interest income from balances due from and placements with banks and other financial institutions decreased by 7.987 billion or 33.05% on a year-on-year basis to 16.180 billion, which was mainly due to the year-on-year decrease of 95 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 expense decreased by 7.605 billion or 3.40% on a year-on-year basis to 215.765 billion. During the Reporting Period, due to the declining market interest rate, interest expenses on balances due to and placements from banks and other financial institutions decreased.

A. Interest expense on due to customers

Due to customers is the Group's primary funding source. During the Reporting Period, interest expenses on due to customers decreased by 0.011 billion or 0.01% on a year-on-year basis to 139.142 billion, accounting for 64.49% of total interest expenses. During the Reporting Period, the Group focused on reducing the scale of high-cost deposits and continuously optimising the deposit structure, which resulted in a significant growth in the scale of deposits without increasing interest expenses.

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

(in millions of RMB unless otherwise stated)

	From January to December 2020			From January to December 2019		
	Average balance	Interest expenses	Average rate of cost (%)	Average balance	Interest expenses	Average rate of cost (%)
Corporate deposits	4,236,366	89,749	2.12	4,016,938	92,749	2.31
– Corporate demand deposits	1,867,106	17,401	0.93	1,761,404	17,087	0.97
– Corporate time deposits	2,369,260	72,348	3.05	2,255,534	75,662	3.35
Personal deposits	2,088,946	49,393	2.36	1,902,497	46,404	2.44
– Personal demand deposits	811,519	6,593	0.81	701,742	5,057	0.72
– Personal time deposits	1,277,427	42,800	3.35	1,200,755	41,347	3.44
Total due to customers	6,325,312	139,142	2.20	5,919,435	139,153	2.35

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

During the Reporting Period, interest expenses on balances due to and placements from banks and other financial institutions decreased by 10.997 billion or 19.08% on a year-on-year basis to 46.653 billion, which was mainly due to a year-on-year basis decrease of 57 basis points in the average rate of cost of balances due to and placements from banks and other financial institutions.

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

During the Reporting Period, interest expenses on debt securities and other interest-bearing liabilities increased by 3.403 billion or 12.81% on a year-on-year basis to 29.970 billion, which was mainly due to a year-on-year increase of 273.349 billion in average balance of debt securities issued and others.

3. Net fee and commission income

Net fee and commission income was an important component of the Group's net operating income. During the Reporting Period, the Group continued to facilitate the transformation of its profit-making mode and diversify revenue streams. The Group's net fee and commission income increased by 1.461 billion or 3.35% on a year-on-year basis to 45.086 billion. Management and agency services were the main drivers of the Group's net fee and commission income.

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

(in millions of RMB unless otherwise stated)

	2020	2019	Increase/(decrease) (%)
Bank cards	**20,107**	21,050	(4.48)
Management services	**16,889**	14,400	17.28
Agency services	**4,200**	3,098	35.57
Investment banking	**3,706**	4,337	(14.55)
Guarantee and commitment	**2,617**	2,520	3.85
Settlement services	**1,531**	2,024	(24.36)
Others	**248**	240	3.33
Total fee and commission income	**49,298**	47,669	3.42
Less: Fee and commission expense	**(4,212)**	(4,044)	4.15
Net fee and commission income	**45,086**	43,625	3.35

Fee income from management services increased on a year-on-year basis, mainly due to the increase in the scale of wealth management investment products and funds. Fee income from agency services increased on a year-on-year basis, mainly due to the increase in the income of funds sales. Fee income from investment banking decreased on a year-on-year basis, mainly due to the decrease in the income of financial consulting service.

4. Operating expenses

During the Reporting Period, the Group's operating expenses decreased by 0.556 billion on a year-on-year basis to 66.004 billion. The Group's cost-to-income ratio was 28.29%, representing a year-on-year decrease of 1.82 percentage points. The cost-to-income ratio would decrease by about 2 percentage points from 28.29% if the tax exemption effect of bond interest and other income was restored. Some region introduced social insurance relief policies due to the impact of the COVID-19 pandemic, so the social insurance expenditure of the employees was reduced.

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

(in millions of RMB unless otherwise stated)

	2020	2019	Increase/(decrease) (%)
Staff remuneration, bonus, allowance and welfare [Note]	**22,638**	22,291	1.56
Other staff costs	**9,829**	10,994	(10.60)
Operating expenses [Note]	**25,649**	25,170	1.90
Depreciation and amortisation	**7,888**	8,105	(2.68)
Total operating expenses	**66,004**	66,560	(0.84)

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

5. *Asset impairment losses*

During the Reporting Period, the Group's asset impairment losses were 62.543 billion, representing a year-on-year increase of 10.319 billion or 19.76%, including loan impairment losses which increased by 7.188 billion or 14.65% on a year-on-year basis to 56.269 billion. Under the influence of COVID-19 pandemic, the Group updated all parameters in the impairment model in a timely manner to reflect the impact of economic instability and uncertainty on asset credit risk. The Group increased the provision for impairment losses with a forward-looking vision. At the same time, the Group continuously intensified the disposal of non-performing assets in accordance with regulatory requirements, resulting in an increase in the corresponding asset impairment losses.

6. *Income tax*

During the Reporting Period, the Group's income tax expenses decreased by 3.283 billion or 32.38% on a year-on-year basis to 6.855 billion. The effective tax rate of 7.93% 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 792.016 billion or 8.00% over the end of the previous year to 10,697.616 billion, mainly due to the increase in the scale of loans granted and financial investments.

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

(in millions of RMB unless otherwise stated)

	31 December 2020		31 December 2019	
	Balance	**Proportion (%)**	Balance	Proportion (%)
Loans and advances to customers (after impairment allowances)	**5,720,568**	**53.48**	5,183,653	52.34
Financial investments	**3,237,337**	**30.26**	3,005,843	30.34
Cash and balances with central banks	**817,561**	**7.64**	760,185	7.67
Due from and placements with banks and other financial institutions	**571,130**	**5.34**	648,488	6.55
Others	**351,020**	**3.28**	307,431	3.10
Total assets	**10,697,616**	**100.00**	9,905,600	100.00

(1) Loans and advances to customers

During the Reporting Period, the Group achieved a balanced and steady growth in loans with reasonably controlling of the amount, direction and pace of credit.

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

(in millions of RMB unless otherwise stated)

	31 December 2020		31 December 2019		31 December 2018	
	Balance	Proportion (%)	Balance	Proportion (%)	Balance	Proportion (%)
Corporate loans	3,707,471	63.39	3,346,476	63.09	3,061,915	63.08
– Short term loans	1,251,162	21.39	1,189,543	22.43	1,170,200	24.11
– Medium and long-term loans	2,456,309	42.00	2,156,933	40.66	1,891,715	38.97
Personal loans	1,980,882	33.87	1,754,765	33.08	1,635,627	33.69
– Mortgage	1,293,773	22.12	1,135,428	21.41	1,007,528	20.75
– Credit card	464,110	7.94	467,387	8.81	505,190	10.41
– Others	222,999	3.81	151,950	2.86	122,909	2.53
Discounted bills	160,071	2.74	203,034	3.83	156,686	3.23
Total loans and advances to customers	5,848,424	100.00	5,304,275	100.00	4,854,228	100.00

As at the end of the Reporting Period, the Group's total loans and advances to customers increased by 544.149 billion or 10.26% over the end of the previous year to 5,848.424 billion, among which the Renminbi loans from domestic branches increased by 574.852 billion or 12.33% over the end of the previous year.

The corporate loan balance was 3,707.471 billion, achieving an increase of 360.995 billion or 10.79% over the end of the previous year, whose proportion in loans and advances to customers increased by 0.30 percentage point to 63.39% over the end of the previous year. Short-term loans increased by 61.619 billion, and medium and long-term loans increased by 299.376 billion, whose proportion in loans and advances to customers increased to 42.00%.

The balance of personal loans was 1,980.882 billion, representing an increase of 226.117 billion or 12.89% over the end of the previous year, whose proportion in loans and advances to customers increased by 0.79 percentage point to 33.87% over the end of the previous year. Mortgage loans increased by 158.345 billion or 13.95% over the end of the previous year, whose proportion in loans and advances to customers increased to 22.12%. Credit card loans decreased by 3.277 billion or 0.70% over the end of the previous year.

Discounted bills decreased by 42.963 billion or 21.16% over the end of the previous year.

Distribution of the loans and advances to customers by security types

(in millions of RMB unless otherwise stated)

	31 December 2020		31 December 2019	
	Balance	Proportion (%)	Balance	Proportion (%)
Unsecured loans	**1,812,785**	**31.00**	1,844,304	34.77
Guaranteed loans	**990,248**	**16.93**	943,076	17.78
Collateralised and other secured loans	**3,045,391**	**52.07**	2,516,895	47.45
– Loans secured by collateral	**2,191,847**	**37.48**	1,926,508	36.32
– Pledged loans	**853,544**	**14.59**	590,387	11.13
Total	**5,848,424**	**100.00**	5,304,275	100.00

Expected credit loss allowance for loans and advances to customers

(in millions of RMB)

	31 December 2020	31 December 2019
Balance at the end of the previous year	**134,052**	125,540
Accrual/(Reversal) in the period	**56,269**	49,081
Transfer in/(Transfer out) in the period	**(683)**	(1,329)
Write-offs and disposals in the period	**(53,828)**	(41,983)
Recovered after written-off	**5,052**	2,688
Exchange differences	**(301)**	55
Balance at the end of the period	**140,561**	134,052

(2) Financial investments

As at the end of the Reporting Period, the Group's net balance of financial investments increased by 231.494 billion or 7.70% over the end of the previous year to 3,237.337 billion.

The breakdown of investments by nature

(in millions of RMB unless otherwise stated)

	31 December 2020		31 December 2019	
	Balance	Proportion (%)	Balance	Proportion (%)
Bonds	**2,787,701**	**86.11**	2,585,678	86.02
Equity instruments and others	**449,636**	**13.89**	420,165	13.98
Total	**3,237,337**	**100.00**	3,005,843	100.00

The breakdown of investments by the presentation basis of financial statements

(in millions of RMB unless otherwise stated)

	31 December 2020		31 December 2019	
	Balance	Proportion (%)	Balance	Proportion (%)
Financial investments at fair value through profit and loss	**482,588**	**14.91**	406,498	13.52
Financial investments at amortised cost	**2,019,529**	**62.38**	1,929,689	64.20
Financial investments at fair value through other comprehensive income	**735,220**	**22.71**	669,656	22.28
Total	**3,237,337**	**100.00**	3,005,843	100.00

As at the end of the Reporting Period, the balance of the Group's bond investments increased by 202.023 billion or 7.81% over the end of the previous year to 2,787.701 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 restructuring the existing structure. 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. The Bank will seek the opportunity to replace some historical low-yield bonds with other assets of higher yield.

The breakdown of investment securities by issuers

(in millions of RMB unless otherwise stated)

	31 December 2020		31 December 2019	
	Balance	Proportion (%)	Balance	Proportion (%)
Government and central banks	**2,057,685**	**73.81**	1,788,034	69.15
Public sector entities	**26,940**	**0.97**	29,797	1.15
Banks and other financial institutions	**552,765**	**19.83**	634,303	24.53
Corporate entities	**150,311**	**5.39**	133,544	5.17
Total	**2,787,701**	**100.00**	2,585,678	100.00

As at the end of the Reporting Period, financial bonds held by the Group amounted to 552.765 billion, including bonds issued by policy bank of 200.590 billion and by banks and non-bank financial institutions of 352.175 billion, which accounted for 36.29% and 63.71% 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	6,903	4.99	24/01/2023	1.03
Policy Bank Bond issued in 2018	6,420	4.82	24/01/2021	0.95
Policy Bank Bond issued in 2017	6,330	4.39	08/09/2027	0.91
Policy Bank Bond issued in 2017	5,680	4.44	09/11/2022	0.84
Policy Bank Bond issued in 2018	5,000	4.98	12/01/2025	0.75
Policy Bank Bond issued in 2018	4,420	4.83	22/01/2021	0.66
Policy Bank Bond issued in 2018	4,400	4.97	29/01/2023	0.66
Commercial Bank Bond issued in 2018	3,500	4.45	27/04/2028	–
Policy Bank Bond issued in 2016	3,333	3.33	22/02/2026	0.49
Policy Bank Bond issued in 2017	3,330	4.30	21/08/2024	0.48

(3) Foreclosed asset

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

(in millions of RMB)

	31 December 2020	31 December 2019
Original value of foreclosed assets	1,109	907
Less: Impairment allowance	(142)	(148)
Net value of foreclosed assets	967	759

2. Liabilities

As at the end of the Reporting Period, the Group's total liabilities increased by 714.300 billion or 7.85% over the end of the previous year to 9,818.988 billion. Among them, due to customers increased by 534.184 billion or 8.90% over the end of the previous year, which accounted for 66.60% of total liabilities and represented an increase of 0.64 percentage point over the end of the previous year. Balance of due to and placement from banks and other financial institutions decreased by 116.591 billion or 6.12% over the end of the previous year, which accounted for 18.20% of total liabilities and represented a decrease of 2.71 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 due to customer balance increased by 534.184 billion or 8.90% over the end of the previous year to 6,539.254 billion. In terms of the customer structure, the proportion of corporate deposits was 66.39%, representing a decrease of 0.75 percentage point over the end of the previous year. The proportion of personal deposits was 33.52%, representing an increase of 0.72 percentage point over the end of the previous year. In terms of deposit tenure, the proportion of demand deposits decreased by 0.18 percentage point over the end of the previous year to 43.09%, while the proportion of time deposits increased by 0.15 percentage point over the end of the previous year to 56.82%.

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

(in millions of RMB unless otherwise stated)

	31 December 2020		31 December 2019		31 December 2018	
	Balance	Proportion (%)	Balance	Proportion (%)	Balance	Proportion (%)
Corporate deposits	4,341,524	66.39	4,031,784	67.14	3,944,098	68.90
– Corporate demand deposits	2,005,934	30.67	1,835,688	30.57	1,748,857	30.55
– Corporate time deposits	2,335,590	35.72	2,196,096	36.57	2,195,241	38.35
Personal deposits	2,192,231	33.52	1,969,922	32.80	1,776,488	31.03
– Personal demand deposits	812,534	12.42	762,669	12.70	687,393	12.01
– Personal time deposits	1,379,697	21.10	1,207,253	20.10	1,089,095	19.02
Other deposits	5,499	0.09	3,364	0.06	3,903	0.07
Total due to customers	6,539,254	100.00	6,005,070	100.00	5,724,489	100.00

3. Off-balance sheet items

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

The Group entered into various derivative financial instruments relating to 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 amounts 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 of the Consolidated Financial Statements for the details of the contingencies and commitments.

(III) Analysis on Key Cash Flow Items

As at the end of the Reporting Period, the balance of Group's cash and cash equivalents increased by 139.385 billion over the end of the previous year to 307.120 billion.

The net cash inflows from operating activities increased by 231.943 billion on a year-on-year basis to 149.398 billion, which was mainly resulted from a year-on-year increase of net cash inflows from due to customers.

The net cash outflows from investing activities increased by 12.783 billion on a year-on-year basis to 94.591 billion, which was mainly due to a year-on-year increase in net cash outflows related to financial investing activities.

The net cash inflows from financing activities increased by 1.549 billion on a year-on-year basis to 88.277 billion, which was mainly due to the year-on-year increase of cash inflow from issuance of bonds and perpetual bonds and the cash outflow for the redemption of preference shares during the year.

(IV) Segment Analysis

1. *Operating results by geographical segments*

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

(in millions of RMB unless otherwise stated)

	2020				2019			
	Profit before tax	Proportion (%)	Net operating income[1]	Net Proportion(%)	Profit before tax	Proportion (%)	Net Operating income[1]	Proportion (%)
Yangtze River Delta	37,936	43.89	88,342	35.81	34,369	38.96	75,929	32.61
Pearl River Delta	9,448	10.93	20,069	8.13	10,205	11.57	17,916	7.69
Bohai Rim Economic Zone	11,725	13.57	27,112	10.99	8,151	9.24	24,097	10.35
Central China	16,081	18.61	34,035	13.79	15,132	17.16	31,081	13.35
Western China	12,216	14.13	19,771	8.01	8,107	9.19	19,302	8.29
North Eastern China	283	0.33	6,563	2.66	(2,002)	(2.27)	6,177	2.65
Overseas	8,453	9.78	13,856	5.62	8,932	10.13	14,558	6.25
Head Office[2]	(9,717)	(11.24)	36,976	14.99	5,306	6.02	43,797	18.81
Total[3]	86,425	100.00	246,724	100.00	88,200	100.00	232,857	100.00

Notes:

1. Including net interest income, net fee and commission income, net gains arising from trading activities, net gains arising from financial investments, net gains from investments in associates and joint ventures, insurance business income and other operating income. Same applies hereinafter.
2. Head office included the Pacific Credit Card Centre. Same applies hereinafter.
3. Total included profit/(loss) attributable to non-controlling interests.
4. Due to the adjustment to the standards of dividing segments and evaluation guidelines of income allocation within segment, comparative data has been restated in accordance with the current presentation.

2. Deposits and loans and advances by geographical segments

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

(in millions of RMB unless otherwise stated)

	31 December 2020				31 December 2019			
	Deposit balances	Proportion (%)	Loans and advances balances	Proportion (%)	Deposit balances	Proportion (%)	Loans and advances balances	Proportion (%)
Yangtze River Delta	1,786,446	27.31	1,576,465	26.96	1,657,282	27.58	1,434,280	27.04
Pearl River Delta	768,470	11.75	701,865	12.00	664,151	11.06	572,226	10.79
Bohai Rim Economic Zone	1,348,298	20.62	831,454	14.22	1,216,551	20.26	740,248	13.96
Central China	1,072,501	16.40	958,527	16.39	983,484	16.38	827,110	15.59
Western China	734,423	11.23	680,088	11.63	694,097	11.56	585,712	11.04
North Eastern China	330,087	5.05	232,864	3.98	306,599	5.11	212,871	4.01
Overseas	495,356	7.58	359,368	6.14	465,096	7.75	391,517	7.38
Head Office	3,673	0.06	507,793	8.68	17,810	0.30	540,311	10.19
Total	6,539,254	100.00	5,848,424	100.00	6,005,070	100.00	5,304,275	100.00

3. Operating results by business segments

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

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

(in millions of RMB unless otherwise stated)

	2020		2019	
	Amount	Proportion (%)	Amount	Proportion (%)
Net operating income	246,724	100.00	232,857	100.00
Corporate banking	115,330	46.74	107,616	46.22
Personal banking	113,730	46.10	103,631	44.50
Treasury businesses	15,892	6.44	19,908	8.55
Other businesses	1,772	0.72	1,702	0.73
Profit before tax	86,425	100.00	88,200	100.00
Corporate banking	45,310	52.43	40,177	45.56
Personal banking	28,945	33.49	30,433	34.50
Treasury businesses	11,792	13.64	17,537	19.88
Other businesses	378	0.44	53	0.06

Note: Due to the adjustment to the standards of the business segment classification of some subsidiaries, comparative data have been restated 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 from the CBIRC in 2014, the Bank implemented and applied it in accordance with the regulatory requirements. Upon the approval of the CBIRC in 2018, the Bank ended the Advanced Approach of Capital Management parallel period and expanded the application scope. As at the end of the Reporting Period, the Group's capital adequacy ratio, tier-1 capital adequacy ratio and core tier-1 capital adequacy ratio were 15.25%, 12.88%, and 10.87% respectively, all of which met the regulatory requirements.

(in millions of RMB unless otherwise stated)

	The Group	The Bank
Net core tier-1 capital	**727,611**	**614,452**
Net tier-1 capital	**862,221**	**747,744**
Net capital	**1,021,246**	**900,694**
Core tier-1 capital adequacy ratio (%)	**10.87**	**10.21**
Tier-1 capital adequacy ratio (%)	**12.88**	**12.42**
Capital adequacy ratio (%)	**15.25**	**14.96**

Notes:

1. The above calculation excluded China BoCom Insurance Co., Ltd. and BoCommLife Insurance Company Limited.
2. According to the implementation scope of the Advanced Measurement Approach of Capital Management approved by the CBIRC, the credit risk 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 *2020 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 *Measures for the Administration of the Leverage Ratio of Commercial Banks (Revised)* issued by the CBIRC. As at the end of the Reporting Period, the Group's leverage ratio was 7.50%, which met the regulatory requirements.

(in millions of RMB unless otherwise stated)

	31 December 2020	30 September 2020	30 June 2020	31 March 2020
Net tier-1 capital	**862,221**	821,274	801,083	808,639
Balance of adjusted on-and off-balance sheet assets	**11,502,604**	11,616,142	11,459,393	11,262,732
Leverage ratio (%)	**7.50**	7.07	6.99	7.18

Please refer to the section "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) Corporate Banking Businesses

The Bank's corporate loan balance

increased by +10.79% over the end of the previous year to 3,707.471 billion, hitting a new high in recent years in terms of increment and growth rate, among which medium and long-term loans increased by +13.88% over the end of the previous year.

Corporate deposit balance

increased by +7.68% over the end of the previous year to 4,341.524 billion, among which demand deposits increased by +9.27% over the end of the previous year with lower cost.

1. *Scenario-based financial businesses*

The Bank deeply explored scenario-based finance through digital thinking to serve the government affairs, people's welfare, small and micro enterprises related financial needs, and developed key product "BoCom e-Service" for the benefit and convenience of people covering three ends of "B-G-C". The Bank strengthened the application of scenario-based finance in areas including medical care, parks, property management, parking, mortgage and Party membership dues. The Bank also launched online services including Benefit Medical Payment, Inclusive e-Loans, e-License, e-Mortgage and Green e-Charge, overall upgrading the comprehensive financial solution for all industries. During the Reporting Period, Inclusive e-Loans for small and micro businesses represented nearly 78% of the inclusive financial loans' net increase amount. The Bank developed a new model of scenario-based trade financial services with full-cycle competitiveness by innovatively providing the comprehensive financial solution of Single Window at customs. As at the end of the Reporting Period, only four months after the standard service was launched, the accumulated international settlement amounted to USD1.028 billion, representing 6.44% of the market share. The Bank deepened the cooperation with top internet companies such as Alibaba Group, Tencent and JD, and launched service of corporate online guarantee transaction covering "Cash + Notes".

2. *Industrial value chain financial businesses*

The Bank focused on "Settlement Services + Trade Finance" for the financial service of the integrated industrial chain, built an "Online + Offline" integrated digital service model, and enhanced the application of technology. The Bank promoted digital note product of "Win to Fortune Rapid Discount", which satisfied customers' demand for fast financing. The Bank explored and optimized the product of factoring financing, and developed a product line of industrial chain rapid financing product, with characteristics of flexible credit granting and convenient operation. A leap forward was made in the efficiency of financing. As at the end of the Reporting Period, the total accumulated number of qualified industrial chain networks developed by domestic branches exceeded 5,100 and the balance of key products of industrial value chain financing increased by 27.07% to over 180.0 billion over the end of the previous year.

3. *Investment banking businesses*

The domestic branches accumulatively underwrote 745 different corporate bonds (excluding local treasury bonds). The underwriting amount was 475.883 billion, representing an increase of 51.19%. The Bank underwrote 18 bonds related to the prevention and control of the pandemic, with the underwriting amount of 11.3 billion. The Hubei Branch ranked first in terms of the scale of underwriting debt financing instruments in the local market and fully supported the prevention and control of the pandemic and the resumption of work and production. The increased scale of domestic and overseas mergers and acquisitions finance was 72.735 billion, representing an increase of 68.69% on a year-on-year basis. For three consecutive years, this scale increased by over 65% on a year-on-year basis, ranking in the forefront of the market. The Bank forged an integrated equity investment platform by establishing a subsidiary named BoCom Capital Management Co., Ltd. The Bank actively participated in national green development fund, implemented major projects of debt-equity combination financing, and served the demands of financing from customers of green finance and FinTech covering all scenarios, all aspects and whole life cycle. The Bank was awarded “2020 Gamma Award for Best Comprehensive Bank in Undertaking Investment Bank Business” by the *Securities Times* and “Best Green Bond 2020 (China)” by *The Asset*.

4. *Inclusive loans for small and micro enterprises*

The Bank proactively promoted the digitalization of inclusive finance and reengineered the process of inclusive finance businesses with characteristics of “Targeted Marketing, Standardized Products, Digital Risk Management and Concentrated Operation”, which promoted the high-quality development of inclusive finance. The Bank innovatively acquired customers relying on digital methods including linked recommendation marketing and scenario-based platform, which overall enhanced the availability and ability of service for inclusive customers and achieved targeted marketing. Focusing on customer needs, the Bank improved standardized products and established Inclusive e-Loan comprehensive online financing product system. Customers can flexibly choose “individual or entity” as the loan principal and combine the modes of “mortgage, credit and guarantee” by themselves, which improved the availability and convenience of inclusive finance. The Bank enhanced digital risk management, improved the loan approval rules, enhanced the precision of warning during loan management, strengthened the intelligent and differentiated post-loan monitoring, established digital risk management system and enhanced the capability of online risk management. The Bank also promoted concentrated operation, reinforced the inclusive operating system, strengthened online business operating monitoring and built concentrated collection system.

As at the end of the Reporting Period, the balance of loans of inclusive loans for small and micro enterprises increased by 96.802 billion or 59.04% over the end of the previous year to 260.753 billion. Among them, the balance of online products increased by 75.284 billion over the end of the previous year. The number of customers with loan balance increased by 54 thousand over the end of the previous year to 158.4 thousand, representing an increase of 51.72%. The non-performing loan ratio was 1.91%, representing a decrease of 1.31 percentage points over the end of the previous year. During the Reporting Period, the average interest rate of cumulative loans was 4.08% and comprehensive financing cost of small and micro customers decreased by 96 basis points. As at the end of the Reporting Period, the Bank provided inclusive credit services in 2,766 outlets.

Besides that, at the end of the Reporting Period, the Bank's balance of loans of targeted financial poverty alleviation increased by 30.58% over the end of the previous year to 33.489 billion. The balance of inclusive agriculture-related loans increased by 21.97% over the end of the previous year to 34.824 billion.

5. Asset custody businesses

The Bank strengthened the cooperation of businesses, and proactively developed public fund custody businesses, with the focus on top-performing equity funds. The Bank continued to expand pension custody businesses, realising the full implementation of professional annuities in 30 overall planning areas across the country. Seizing the policy opportunities, the Bank strengthened domestic and overseas combination marketing, and steadily promoted cross-border custody businesses. As at the end of the Reporting Period, the assets under custody increased by 9.97% to 10.33 trillion over the end of the previous year.

Column Build the leading bank in the Yangtze River Delta

As the only large-scale state-owned commercial bank headquartered in Shanghai, the Bank of Communications proactively connected to the national strategy of the Yangtze River Delta integrated development and leveraged its dual advantages of "full business license" and "international layout". Through the improvement of top-level design, the innovation of mechanism and the optimisation of product services, the Bank has formed a co-prosperous mode of serving national key regions while maintaining high-quality development. During the Reporting Period, the total profit of the Yangtze River Delta region was 37.936 billion, contributing 43.89% of the Group's profit with a year-on-year increase of 4.93 percentage points.

Improve the top-level design. During the Reporting Period, the Bank established Yangtze River Delta Integration Management Department, became the first to be granted the building of branches in the Yangtze River Delta Demonstration Region, and formed a top-down regional coordinated mechanism. The Bank optimised the joint credit management model for group customers, improved the service efficiency and speeded up the response to the market.

Promote integrated operations and localized services. The Bank broke the obstacles of administrative borders and explored a coordinative mechanism between provincial and directly managed branches within the region. The Bank innovatively designed a new model of joint credit management for group customers and the principle of one-time loan approval, promoting the joint credit of regional branches. The Bank waived the transfer fees for online banking within the Yangtze River Delta region, developed a cooperation model for remote mortgage and industrial chain businesses within the region. In this way, the Bank improved the service efficiency and optimised the customer's experience.

Column Build the leading bank in the Yangtze River Delta

Create an innovation highland. The Bank responded to Shanghai's call for "Enabling Access to Government Services via One Website and Achieving Unified Management with One Website", launched multiple online services and products for medical payment, small and micro corporate financing, mortgage registration, electronic identification and five "One Thing" innovated by Shanghai, and established the brand of "BoCom e-Service". Within this e-Service, the number of contracted customers of credit medical treatment by the end of 2020 accounted for around 85% market share in Shanghai, and the product "Benefit Medical Payment" was also launched in "My Nanjing" APP in December 2020. The Bank innovatively introduced an evaluation model for technical enterprises as well as BoCom Sci-tech loan products, and increased the support to those medium, small and micro enterprises of Sci-tech innovation within this region.

Increase the resource input and support major projects within the region. During the Reporting Period, new customer loans of the Yangtze River Delta region was 142.185 billion and accounted for 26.13% of the Group's total new loans. Among them, customer loans of the seven provincial and directly managed branches within the region increased by 12.73%, exceeding the average growth rate of the Group's loans and advances to customers by 2.47 percentage points. The branches in the region accomplished 84 cases of joint credit, successfully supported Shanghai Electric, SAIC Motor Corporation Limited and other group customers with cross-regional credit limit totaling over 50.0 billion, provided a special financing limit of 20.0 billion for the enterprises in Shanghai Hongqiao Business District, and granted a loan limit of nearly 10.0 billion to the three subway projects of Nanjing Metro Group Co., Ltd.

In the future, the Bank will accelerate the operating mechanism reform in the Yangtze River Delta, further delegate the power and motivate productivity. The Bank will make prominent breakthroughs in inclusive finance, trade finance, technology finance, wealth finance and services to the key areas and become the pioneer in the market. The Bank will also be intensively involved in the development of financial market innovation in the Yangtze River Delta, and continuously expand the Bank's business scale and market share in this region, with an obvious improvement in profit contribution.

Column Serve the new development pattern and develop features of trade finance

In recent years, empowered by technology, the Bank constantly expanded the business categories in fields of cash management, industrial value chain finance, international settlement and cross-border trade financing. By improving the quality and efficiency of services, the Bank gradually formulated the features of trade finance.

Customize cash management services for customers. The Bank was one of the first banks to initiate cash management services and created the brand "Win To Account". In recent years, the Bank successively launched some industry-leading products like Smart Zone, Smart Property, Smart Parking and Party Membership Fee Helper, providing integrated solution to the industry finance. By the end of 2020, the number of group customers under cash management exceeded 28.2 thousand, representing an increase of 712 over the end of the previous year; and the number of accounts related to cash management was over 1.0848 million, representing a net increase of 250.2 thousand over the end of the previous year.

Upgrade the industrial value chain finance and optimise customer experience, The Bank focused on "Settlement Services + Trade Finance" and established an "Online + Offline" integrated service model for the whole industrial chain. The Bank innovatively introduced a digital note product series of "Win to Fortune Rapid Discount", as well as the industrial chain rapid financing product line. As at the end of the Reporting Period, the total accumulated number of qualified industrial chain networks developed by domestic branches exceeded 5,100 and the balance of key products of industrial value chain financing increased by 27.07% to over 180.0 billion over the end of the previous year.

Focus on the scenario of cross-border trade and provide one-stop financial services. The Bank actively carried out technological innovation, optimised traditional trade finance business processes, and launched a series of online paperless products like EASY-Remittance, EASY-Certificate, EASY-Loan, EASY-Currency, to provide convenient cross-border payment, settlement, trade financing and foreign exchange financial services for foreign trade customers. The Bank also connected to the "Single Window" of the customs to provide one-stop trading, settlement and financing services for foreign trade companies. During the Reporting Period, international payment reached USD332.659 billion, an increase of 6.67% on a year-on-year basis. The volume of financing for cross-border trade increased by 36.43% on a year-on-year basis to USD23.523 billion; the volume of external guarantee by domestic branches reached USD4.058 billion.

Column Serve the new development pattern and develop features of trade finance

Seize the opportunity of free trade zone businesses and provide offshore and onshore integrated financial services for domestic and overseas businesses. As at the end of the Reporting Period, the Bank established a total of 106 free trade zone branches and sub-branches in 21 provincial and municipal free trade zones. Relying on the advantage of integrated account system of "domestic account, NRA account, FT account, offshore Renminbi account and offshore foreign currency account", the Bank provided full-cycle services of settlement, remittances and financing for non-residential customers. By the end of December, the volumes of cross-border asset transfer in key regions such as the Yangtze River Delta, the Greater Bay Area and Hainan Free Trade Port exceeded RMB8.0 billion. In addition, the Bank's market share in the Special Area of Shanghai Free Trade Zone was over 70%.

In the future, the Bank will concentrate on the core node enterprises of the industry chain, supply chain and value chain in the "dual circulation" development pattern, and provide offshore and onshore integrated financial services in local and foreign currencies for domestic and overseas businesses. The Bank will highlight trade finance features to better serve the daily production and operating activities of the enterprises.

(II) Personal Banking Businesses

The balance of personal deposits

increased by **+11.29**% over the end of the previous year to **2,192.231** billion;

The balance of personal loans

increased by **+12.89**% over the end of the previous year to **1,980.882** billion, of which personal mortgage loans increased by **+13.95**% over the end of the previous year.

1. Retail customers and assets under management (AUM)

The Bank was determined in retail digital transformation. By leveraging the advantages of "Financial Asset + Data Asset", the Bank created shared value with customers while insisting on retail digital transformation and provided best services to customers. The Bank continued to build wealth management capabilities and create wealth management characteristics from a three-dimensional perspective of "capacity + system + team" to accurately match multi-level wealth management needs for customers. In addition, the Bank strengthened data governance by means of building retail customer label system, and iteratively optimised the operational strategies throughout the customer life cycle upon the technical foundation of big data. By maximising the effect of dual-line synergy, we improved wealth management service system. 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 3.34% over the end of the previous year to 179 million. The number of qualified customers (customers with quarterly average assets of 0.50 million to 6.00 million) of OTO Fortune increased by 15.50% over the end of the previous year to 1.7372 million. Personal financial AUM of domestic branches increased by 13.04% or 449.251 billion over the end of the previous year to 3,895.566 billion, hitting a new height in recent years. The contribution of middle and high-end customer continued to increase. The balance of AUM of qualified customers for OTO and customers above the standard (customers with quarterly average assets of over 0.50 million) increased by 19.24% over the end of the previous year to 2,602.645 billion, accounting for 66.81% of the AUM balance of the Bank, representing an increase of 3.70 percentage points on a year-on-year basis, among which the AUM balance of qualified customers for OTO reached 1,789.750 billion, representing an increase of 16.96% over the end of the previous year.

2. Wealth management business

The Bank extended the connotation of wealth management, selected high-quality products such as wealth management, funds and insurance from the market and developed into key products in the categories of "Cash+", "Fixed income+" to satisfy customer's increasingly diversified demands in wealth allocation. At the end of the Reporting Period, the incremental amount of wealth management products including asset management, fund, insurance and trust increased by 24.40% on a year-on-year basis, accounting for 63.94% in the increment of retail AUM and becoming the new engine of AUM increase. Net wealth management fee and commission income increased by 35.18% on a year-on-year basis to 7.634 billion, both the amount and the growth rate hit a new high record in recent three years.

As at the end of the Reporting Period, the balance of public fund product on consignment (including securities dealer and exclusive accounts) was 238.817 billion, representing an increase of 90.30% over the end of the previous year. The growth rate of existing scale and the increment of the public fund AUM ranked in the forefront among the top-five banks. The Bank realised an income of fund on consignment (including securities dealers and exclusive accounts) of 1.986 billion, representing an increase of 216.17% over the end of the previous year. The Bank introduced high-quality wealth management products from other banks to build wealth management system for different customer groups and a wealth management brand of OTO Best Choice and the average yield of the "OTO Best Choice Fund" outperformed the market. The Bank smoothly realized the net-worth transformation of wealth management products, with the proportion of the balance of net-worth asset management products doubled compared with the end of the previous year. At the end of the Reporting Period, the balance of wealth management products AUM increased by 15.55% over the end of the previous year to 878.89 billion; the income of wealth management was 3.393 billion, representing an increase of 17.34% over the end of the previous year.

3. Personal loan businesses

The Bank continued to accelerate the digital transformation of personal loan businesses. The Bank seized the opportunities for consumption finance, took the initiative to become digital-oriented and developed scenario-based Benefit Loan to meet people's needs for a better life with inclusive and favourable microfinance services. Adhering to the principle that houses are for living in, not for speculation, the Bank implemented regionally differentiated management for housing loans. To improve housing mortgage loan services, the Bank implemented online housing loans process, provided online functions such as pre-approval, pre-application and information exchange and launched Mobile banking services and H5 processing channels. As at the end of the Reporting Period, the personal housing mortgage loan balance increased by 13.95% to 1,293.773 billion over the end of the previous year. The balance of domestic personal non-housing consumption loan (excluding credit card loans) increased by 75.18% over the end of the previous year. The increase ranked second among 17 major banks[1], and the market share increased by 0.45 percentage point on a year-on-year basis. The Benefit Loan accumulatively served 5.15 million customers, and accumulatively lent out 122.760 billion, which included the newly issued loans of 82.774 billion over the year.

The Bank actively supported the remission of individual customers' repayment difficulties during the pandemic and provided a grace period for repayment to individual customers complied with relevant regulatory policies. At the end of the Reporting Period, 41.5 thousand personal loan customers with loans of 21.119 billion, which included housing mortgages and consumption loans, were relieved. In addition, the Bank optimized retail credit policies, improved the application of the personal financial rule engine system, established a pre-warning risk classification mechanism, strengthened the use of big data for screening purposes, promoted the construction of risk control centres, and enhanced digital risk control capability.

1 The 17 banks refer to Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of China, China Construction Bank, Bank of Communications, China Merchants Bank, Shanghai Pudong Development Bank, China CITIC Bank, Industrial Bank Co., Ltd, China Minsheng Banking Corp., Ltd, China Everbright Bank, Guangdong Development Bank, Hua Xia Bank Co., Ltd, Ping An Bank Co., Ltd, Hengfeng Bank Co., Ltd, China Zheshang Bank Co., Ltd and China Bohai Bank Co., Ltd.

4. Private banking businesses

The Bank enhanced professional capabilities to provide wealth management services to high-end customers. Focusing on customers' demands on wealth preservation and increase, the Bank developed asset allocation models, established daily, weekly and quarterly reporting systems, developed asset allocation service tools and issued formal asset allocation proposals. The Bank initiated the reform in the business model of private banking, set up Retail and Private Wealth Management Committee, established 5 deliberative systems composed of investment strategy conference, product admittance review, marketing promotion, asset allocation and wealth management expert group, and formed a wealth management expert group.

The Bank diversified wealth management products for high-end customers. The Bank launched the "Zhen Cheng" series of insurance trust businesses with multiple functions such as insurance personal protection, high leverage and trust asset protection, and flexible inheritance. The Bank strengthened the business collaboration with subsidiaries including trust, insurance, fund and wealth management, customised innovative family trust services for customers, launched the first financial product exclusively designated for family wealth named "BoCom Fortune Wen Xiang Duo Yuan Ce Lue" to meet the individual needs of high net-value customers for wealth protection and stable inheritance. As at the end of the Reporting Period, there were 61.1 thousand private banking customers of the Group, representing an increase of 21.67% over the end of the previous year; the assets of private banking customers under management of the Group were 833.801 billion, representing increase of 25.93% over the end of the previous year. Major interbank[1] market share of private banking businesses has risen for three consecutive years.

5. Bank card businesses

The Bank promoted the digitalisation of customer acquisition of the credit card businesses, expanded internal and external channels and platforms via tools including big data and API technology, and established a multi-scenario, precise and three-dimensional digital customer acquisition system. In addition, the Bank optimised the coordination mechanism between credit card centres and various branches to create an integrated customer acquisition model. By focusing on high-quality targeted customers, the Bank launched personalised card products including Huanran Platinum Credit Card, Yangtze River Delta Theme Credit Card, Crystal Honey Card, Chinese Zodiac Card, JD PLUS Co-branded Card, World Skills Contest Credit Card, which gradually enriched the brand's element of "youth, high-end". At the end of the Reporting Period, there were 72.66 million registered domestic credit cards, within which customers acquired online accounted for 54.69%. The proportion of high-quality customers among new customers throughout the year increased by 7.65 percentage points on a year-on-year basis.

1 Refer to Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of China, China Construction Bank, Bank of Communications and China Merchants Bank.

In response to the national call for consumption promotion and growth stability, the Bank carried out series of marketing campaigns such as “That’s the Deal offered by Bank of Communications”, “Weekly Swipe”, “10th Anniversary of Super Red Friday”. Additionally, the Bank carried out more segmented customer marketing activities based on the life cycle of credit card customers, managing the existing customers of credit card businesses. The cumulative consumption of credit cards throughout the year was 2,904.249 billion, and the average consumption of current accounts increased by 9% on a year-on-year basis; the number of existing active accounts increased by 3.0838 million on a year-on-year basis; the proportion of mobile payment transactions increased by 1.5 percentage points over the previous year. At the end of the Reporting Period, the credit card overdraft balance in domestic branches was 464.013 billion. The credit card overdraft non-performing ratio was 2.27%.

As at the end of the Reporting Period, the accumulated consumption of debit cards amounted to 1,971.918 billion. The accumulated number of cards issued amounted to 159.2390 million, representing a net increase of 6.8635 million over the end of the previous year.

Column Highlight wealth management features and implement retail digital transformation

Over the years, focusing on the strategic goal of “building the first-tier bank with wealth management characteristics and global competitive capabilities in the world” and the business principle of “creating shared value and providing the best service”, as well as with the driving force of the two wheels of “financial assets + data assets”, the retail business never stopped highlighting wealth management features and implementing retail digital transformation. In recent three years, the personal assets under management (AUM) developed rapidly, and the increments from 2018 to 2020 were 6.11%, 12.71% and 13.04% respectively. The AUM increment of net wealth management products like asset management, fund, insurance and trust steadily increased from 41.57% in 2018 to 63.94% in 2020. Both the incremental amount and degree of net wealth management fee and commission income became a record high in recent three years, basically forming a growth pattern driven by wealth management. The rapid development of wealth management also contributed to the leading status of retail value creation in the market. During the period from 2017 to 2019, the average annual growth rate of operating income, pre-tax profit, and the net income of fee and commission of the retail business all exceeded the average of the top-four banks.

Column Highlight wealth management features and implement retail digital transformation

Highlight the wealth management features from three dimensions of "Capability + System + Team". Above all, the Bank cultivated the wealth management capacities and furthered the construction of investment research team. Under the guidance of the wealth management professional team, we fully implemented the wealth management asset allocation to provide professional and diversified asset allocation strategies and tools for the customers. **Second,** the Bank extended the system of wealth management products, fully leveraged the integrated advantage of the Group and strengthened cooperation with subsidiaries like BoCom Schroder Fund Management and BOCOM Wealth Management to enhance the professional capabilities in asset allocation. We opened to introduce high-quality products from other financial institutions and spared no effort in selecting products of high competence from customer's perspective. **Third,** we improved the wealth management team and consistently polished the working platform of account manager, enabling them to provide services both online and offline. At the end of the Reporting Period, the average number of accounts managed of all account managers doubled, and we further extended the range of customer services, continuously improving the yield per capita.

Improve the wealth management services from two perspectives of "digital operation and digital service". On one hand, the Bank furthered digital operation, created thousands of tags for retail customers and portraited completed customer profile. The Bank constantly improved the integrated retail marketing platform and enriched the Bank's data models and data assets, which effectively supported a digital marketing layout with multiple touch and various customer groups. We launched a business model of wealth management product line and cleared the segregation between business, technology and operation, accelerating the product evolution and innovation by means of intensive coupling. **On the other hand,** the Bank fully implemented digital services, built an all-round WeChat based service system, including "Cloud banking", "BoCom WeBank" public accounts and "BoCom" WeChat Mini Program, establishing a "cloud office". In this way, the offline services at the outlets were transferred online, which enhanced the level of digitalisation and intelligence of the Bank's services. Two major APPs of Mobile Banking and Go Pay accelerated the scenario establishment and continuously improved customer's experience, ranking third and second respectively in 2020 Sina Assessment. The Bank's outlets also ranked top for six times in China Banking Association's assessment of Top Thousand Best Units and Top Hundred Best Units.

(III) Interbank and Financial Market Businesses

Balance of due to and placements from banks and other financial institutions

decreased by 116.591 billion or -6.12% over the end of the previous year, which accounted for 18.20% of total liabilities and represented a decrease of -2.71 percentage points over the end of the previous year.

The financial investment and investment yield

reached 3,237.337 billion, representing an increase of +7.70% over the end of the previous year, and the securities investment yield was 3.39%.

The balance of current Renminbi interbank deposits of domestic branches was 654,038 billion, which accounted for 75.66% of Renminbi interbank deposits of domestic branches and represented an increase of 29 percentage points on a year-on-year basis.

1. Interbank businesses

The Bank deepened the business cooperation with financial institutions. Using channel construction and fund settlement as cornerstones, the Bank continued to conduct researches on business chains for customers in upstream, midstream and downstream. The Bank also participated in and served customer operations in aspects including market cultivation, product configuration, system construction, and end customer marketing in great depth. As at the end of the Reporting Period, there were 1,550 cooperative institutional customers on interbank platforms, representing an increase of 420 over the end of the previous year. The Bank's system connection covered 98% of securities traders in the third-party depository systems and 98% of the bank-future account transfer systems. The Bank was in the first tier to be granted the qualification of QFII/RQFII financing and securities lending settlement bank. The number of customers for transactions with securities and future trading companies increased by 1.0464 million over the end of the previous year. The balance of the deposit pledged as collateral of futures trading companies reached 79.99 billion, maintaining a leading position in the market. The Bank served the development of cross-border Renminbi clearing business and the number of customers indirectly involved in Cross-Border Interbank Payment System (CIPS) ascended to fourth in the market, and the number of new customers indirectly involved in CIPS ranked first in the market in 2020.

2. Financial market businesses

Under measures taken to mitigate impacts of the pandemic and maintain stable market operation, the Bank's accumulated trading volume of annual financial market business increased by more than 30% on a year-on-year basis, contributed by 53.54 trillion of trading volume in Renminbi money market of domestic branches, USD1.33 trillion of the transaction volume in foreign currency market, 4.40 trillion of trading volume of Renminbi bonds, USD2.21 trillion of transaction volume in interbank foreign exchange market, 362.7 billion in terms of volume of precious metal brokerage transactions and 3,835 tons of volume of self-operated gold trading. The Bank maintained its market position as an active trading bank.

Investments as anti-pandemic special treasury bonds and anti-pandemic themed special bonds totalled over 50.0 billion, and interbank certificates of deposit issued amounted to 736.7 billion, of which 1.0 billion was for the first batch of anti-pandemic special interbank certificates of deposit. The Bank effectively responded to the impact of the pandemic, and ensured the bottom line of risk, ensuring the continuity of transaction, settlement, clearing and monitoring of businesses in the financial market; faced with dramatic fluctuations on international crude oil price, the Bank fully safeguarded the rights and interests of customers of the account-based products.

The Bank invested more in central and local government bonds, with new investments in treasury bonds of 250.8 billion and local treasury bonds of 277.3 billion; the Bank further scaled up support of bond investment business for enterprise operation and development, with new credit bonds investment amounting to 25.6 billion during the year; in close collaboration with enterprises for the purpose of risk avoiding and value preservation, the Bank completed interest rate derivatives transactions in Renminbi amounting to 25.0 billion, and gold hedging on consignment of 33 tons.

The Bank made efforts to accelerate the global capital integration. The Bank officially launched the capital platform of the Asia-pacific overseas branches, and concentrated US Dollar and offshore Renminbi funds of seven Asia-pacific overseas branches in Tokyo, Singapore, Seoul and other regions to centralize securities issuance and investment operation business, money market business, as well as foreign exchanges and derivatives transactions with the international market, to improve returns on capital operations.

The Bank continuously expanded the business scope. The Bank was among the first batch of banks to develop treasury bond futures transactions of commercial banks, pledge-style repo transactions of cross-custodian institution, interest rate option transactions, standardised foreign currency pair swaps, FDR001(interbank overnight fixing repo rate), interest rate swaps, repurchase of domestic debt in foreign currency transactions settled in delivery versus payment (DVP). The Bank became one of the first prime brokers of the interbank Renminbi-foreign exchange market and was in the first batch of domestic market makers to obtain the innovative qualification of direct transaction services under the mode of direct investment.

3. *Asset management business*

The Bank promoted the transformation of off-balance-sheet wealth management business. By focusing on products with fixed income, the Bank expanded and strengthened flagship products and improved product competitiveness in order to meet customers' wealth management needs. The Bank put efforts in optimising and refining featured products by using differentiated investment themes and investment strategies, and continued to enrich product types to meet diversified and personalised customer needs in order to develop featured customer services. During the Reporting Period, the average balance of off-balance-sheet asset management products of the Group reached 1,093.835 billion, representing an increase of 22.09% or 197.915 billion over the end of the previous year. The average balance of net-worth wealth management products increased by 298.216 billion or 108.62% over the previous year, totalling 572.763 billion, the proportion of which to the Group's off-balance-sheet wealth management products increased by 21.72 percentage points on a year-on-year basis to 52.36%. The Bank, in compliance with regulatory requirements, carried forward orderly rectification to existing businesses in the transitional period. As at the end of the Reporting Period, existing products of wealth management business amounted to 574.645 billion, representing a decrease of 31.78% from the beginning of the year.

During the Reporting Period, the Bank rolled out the flagship product --"BoCom Fortune Wen Xiang Xian Jin Tian Li", providing T+0 quick redemption services. The Bank also launched open-ended products with a minimum holding period to encourage customers to adopt a long-term value investing approach. The Bank diversified regional theme wealth management products. As at the end of the Reporting Period, the scale of Yangtze River Delta themed product reached nearly 30.0 billion. In addition, a new series of value investment products were rolled out for the Greater Bay Area.

Column

Deepen the factor market businesses and serve the financial infrastructure construction

The Bank is one of the most qualified comprehensive financial service providers in financial factor market. Oriented by customer demands and keep connected through transaction settlement, the Bank extensively linked and served various market participants in the financial factor market ecosystem with a focus on product system.

Improve service capacity and obtain license resources. The Bank obtained full license of the central counterparty clearing business in the interbank market as well as full license of domestic and overseas futures settlement business within and over the market. The Bank is the only bank that obtained the qualification as over-the-market depository bank of all futures exchanges, and thus became one of the five most fully equipped banks in terms of the securities treasury businesses and the only major settlement bank for the secondary trading market of China Securities Index quote.

Implement key projects and support national strategy. The Bank was committed to contributing to national strategies like the Yangtze River Delta Integration and the "6+1" development pattern construction of Shanghai as an international financial centre and boosting the innovative development of financial factor market businesses. The Bank established a new model for overseas customers to get access to the Renminbi commodity and derivatives market and performed the duties as the only depository bank for the designated account of National Equities Exchange and Quotations venture funds while applying new technologies such as blockchain and Internet of Things to serve futures and commodities trading market.

As at the end of the Reporting Period, the average deposit of financial factor market was 232.670 billion, representing a year-on-year increase of 32.728 billion or 16.37%. Among them, the average balance of current deposits in the financial factor market was 183.687 billion, representing an increase of 64.423 billion or 54.02% on a year-on-year basis; the scale of agent clearing and settlement in financial factor market increased significantly. The interbank factor market and the futures factor market increased by 163.56% and 17.6% on a year-on-year basis respectively, which was in the leading position of the market.

(IV) Integrated Operation

Net profit attributable to shareholders of the Bank from the subsidiaries[1]

amounted to **8.203** billion representing a year-on-year increase of **+47.51**%, the proportion of which to the Group's net profit increased by **+3.28** percentage points to **10.48**% on a year-on-year basis.

The total assets of the subsidiaries

the total assets of the subsidiaries increased by **+16.69**% over the end of the previous year to **495.644** billion, the proportion of which to the total assets of the Group increased by **+0.34** percentage point to **4.63**% over the end of the previous year.

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

Bank of Communications Financial Leasing Co., Ltd. – As the Bank's wholly-owned subsidiary, it officially was set up in December 2007 with a registered capital of 14.0 billion. The main business scope includes financial leasing and operating leasing in sectors such as aviation, shipping and energy power, transportation infrastructure, equipment manufacturing and livelihood services. In recent years, the company adhered to the development strategy of "Professional, Internalisation, Differentiation and Characteristics". It promoted aviation and shipping businesses, covering more than 30 countries and regions on five continents, which further highlighted the professional advantages. As at the end of the Reporting Period, the company's total assets and net assets were 309.272 billion and 31.799 billion respectively. The company's net profit during the Reporting Period was 3.202 billion, which is an increase of 7% on a year-on-year basis. In addition, the company's balance of leasing assets amounted to 268.766 billion, including aircraft and ship assets amounting to 166.647 billion, with fleets of 264 planes and 386 ships. The annual financing for shipping amounted to USD3.8 billion and ranked first in the world, which further strengthened its brand influence and market vitality in the field of international ship financing. Based on the statistic from China Banking Association ("CBA") Financial Leasing Committee, total assets, the balance of leased assets and operating income of the company all ranked first among domestic financial leasing companies.

Bank of Communications International Trust Co., Ltd. – It 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% respectively. The main business scope includes trust loans, investment fund trusts, accounts receivable financing, real estate trusts, family trusts, charitable trusts, credit asset securitisation, corporate asset securitisation, qualified domestic institutional investor (QDII), and private equity investment trusts. In recent years, with the strategic goal of "Building The Most Trustworthy Trust Asset Management Institution", the company focused on three key strategic businesses namely "professional asset management, high-end wealth management and high-quality fiduciary services", to highlight the essence of trust and serve the real economy. As at the end of the Reporting Period, the company's total assets and the assets under management (AUM) were 18.701 billion and 649.325 billion respectively. The company's net profit during the Reporting Period was 1.218 billion, which is an increase of 7% on a year-on-year basis.

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

Bank of Communications Schroder Fund Management Co., Ltd. – It was set up in August 2005 with a registered capital of 0.2 billion, jointly contributed by the Bank, Schroder Investment Management Limited and China International Marine Containers (Group) Co., Ltd., accounting for 65%, 30% and 5% respectively. The primary businesses includes fund raising, fund sales and asset management. As at the end of the Reporting Period, the company's total assets and net assets were 6.018 billion and 4.738 billion respectively. The company's net profit during the Reporting Period was 1.260 billion, which is an increase of 114% on a year-on-year basis. During the Reporting Period, the company achieved outstanding investment performance driven by high quality research. The yield of equity investment under active management ranked 2/80 in the industry in recent five years and 5/93 in recent three years. The return of two fund products in recent five years was more than 200%, while the return of 14 fund products in recent three years was more than 100%. As at the end of the Reporting Period, the public fund under management reached 339.5 billion, representing an increase of 54.25% over the end of the previous year.

BOCOM Wealth Management Co., Ltd. – As a wholly-owned subsidiary of the Bank, it was set up in June 2019 with a registered capital of 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. As at the end of the Reporting Period, the company's total assets and net assets were 8.874 billion and 8.742 billion respectively. The company's net profit during the Reporting Period was 0.665 billion, which is an increase of 647% on a year-on-year basis. The company represented a core vehicle for the Group to build up wealth management characteristics, a core supplier of wealth management products and an integrated platform for innovation and development of wide asset management business. As at the end of the Reporting Period, the balance of products was 533.797 billion, representing an increase of 384.37% over the end of the previous year, to which the proportion of open-ended net worth products (excluding cash management products) accounted for 59.55%, with the balance of 317.866 billion; and the balance of products sold under consignment outside the Bank was 91.422 billion, accounting for 17.13% of the balance of products.

BoCommLife Insurance Company Limited. – It was set up in January 2010 with a registered capital of 5.1 billion, of which the Bank and the Commonwealth Bank of Australia contributed 62.50% and 37.50% respectively. The business scope includes life insurance, health insurance, accident insurance and reinsurance businesses of the aforementioned insurances, and the company operated in Shanghai, as well as regions where the branches were established. As at the end of the Reporting Period, the company's total assets and net assets were 71.501 billion and 6.953 billion respectively. The company's net profit during the Reporting Period was 1.035 billion[1], representing an increase of 29% on a year-on-year basis. In recent years, with the strategic goal of "Becoming A Company with A Leading Position in Growth and Profitability of Guaranteed Insurance", the company stayed committed to providing insurance guarantee. During the Reporting Period, the premium increased by 20.10% on a year-on-year basis to 17.225 billion.

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

BOCOM Financial Asset Investment Co., Ltd. – As a wholly-owned subsidiary of the Bank, it was set up in December 2017 with a registered capital of 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 supporting services. As at the end of the Reporting Period, the company's total assets and net assets were 49.038 billion and 11.360 billion respectively. The company's net profits during the Reporting Period was 1.235 billion, which is an increase of 610% on a year-on-year basis. During the Reporting Period, in response to the impacts of the pandemic, the company made efforts to develop the main business of market-oriented debt-to-equity swap, and reduced leverage ratio and controlled risks to serve the real economy. As at the end of the Reporting Period, a total of 76 debt-to-equity swap projects were put into operation, amounting to 43.019 billion, representing an increase of 36.87% over the end of the previous year; the Company's investment amount per person, net profit per person, ROAE, ROAA and other indicators were at the top level in the industry, and its capital adequacy ratio was in compliance with regulatory requirements.

BoCom International Holdings Company Limited. – It was set up on 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. As at the end of the Reporting Period, the Bank's shareholding in the company was 73.14%. The main business of BoCom International is divided into four major sections, namely, securities brokerage and margin financing, corporate finance and underwriting, asset management and consulting, and investment and loan. As at the end of the Reporting Period, the total asset of the company was HKD23.360 billion, of which the net asset was HKD7.78 billion. During the Reporting Period, the company achieved a net profit of HKD0.851 billion, representing a year-on-year increase of 70%.

China BoCom Insurance Co., Ltd. – As a wholly-owned subsidiary of the Bank, it was set up in November 2000 with a registered capital of HKD0.4 billion. The main business was the operation of 17 types of general insurances approved by the Insurance Authority of Hong Kong. As at the end of the Reporting Period, the company's total assets and net assets were HKD0.769 billion and HKD0.555 billion respectively. The company's net profits during the Reporting Period were HKD12.80 million, representing a year-on-year increase of 20%. During the Reporting Period, the company gave full play to the advantage of business license of Hong Kong insurance business, launched medical insurance products customised for Greater Bay Area, and introduced the reinsurance business of aircraft fleet of BoCom Leasing. The gross premiums increased by 12.87%, premium profits before expenditure increased by 12.62% and the net compensation rate was 45.80%, all of which outperformed the market level[1].

1 The conclusion was made based on the latest data of Hong Kong general insurance market as at the end of the third quarter of 2020.

(V) Global Service Capabilities

Net profit of overseas banking institutions	**The total assets of overseas banking institutions**
decreased by -3.99% on a year-on-year basis to 6.109 billion, whose contribution to the Bank's total net profit decreased by -0.43 percentage point to 7.80% on a yearon-year basis.	**increased by +6.61% over the end of the previous year to 1,240.992 billion, whose contribution to the Bank's total assets decreased by -0.15 percentage point to 11.60% over the end of the previous year.**

During the Reporting Period, the Bank's Johannesburg Branch in South Africa officially opened, which filled its market gaps in Africa. As of now, there are 23 overseas banking institutions, covering 18 countries and regions.

1. International settlement and trade financing

The Bank promoted trade facilitation, actively carried out technological innovation, optimised traditional trade finance business processes, and launched a series of online paperless products like EASY-Remittance, EASY-Certificate, EASY-Loan, EASY-Currency, to provide convenient cross-border payment, settlement, trade financing and foreign exchange financial services to support the development of the real economy. The Bank also connected to the "Single Window" of the customs to provide one-stop trading, settlement and financing services to foreign trade companies. In addition, the Bank developed a new format of trade services, actively connected the Bank with cross-border e-Commerce enterprises and integrated foreign trade service platforms to improve the foreign exchange settlement autonomy and capital turnover efficiency of medium, small and micro enterprises. During the Reporting Period, international payment reached USD332.659 billion, an increase of 6.67% on a year-on-year basis. The volume of financing for cross-border trade increased by 36.43% on a year-on-year basis to USD23.523 billion; the volume of external guarantee by domestic branches reached USD4.058 billion.

2. Overseas service network

The landscape of overseas service network made a steady progress. As at the end of the Reporting Period, the Bank established 23 overseas branches (sub-branches) and representative offices with 69 operating outlets in 18 countries and regions, providing customers with comprehensive financial services including deposits, loans and advances, international settlement, trade financing and foreign currency exchange. In 2020, the overseas branches insisted on the business philosophy of staying steady and complying with the laws and regulations, actively cooperated with domestic branches to fight against the pandemic, combined local endowments with the characteristics of these overseas branches to satisfy the cross-border financial needs of domestic customers who had the intention of "going global" and overseas customers. The Bank established overseas banking service network with 1,004 banks in 125 countries and regions, set up 256 cross-border Renminbi interbank accounts for 108 overseas Renminbi participating banks in 31 countries and regions, and opened 81 foreign currency settlement accounts in 26 major currencies with 62 banks in 31 countries and regions.

3. Cross-border Renminbi transactions

The Bank launched "Kua Rong Tong" service and implemented the first forfaiting asset transfer transaction in the market. The Bank participated in the construction of CIPS direct participation banks, and the Seoul Branch became the first batch of overseas institutions transferring from indirect participation to direct participation. During the Reporting Period, the volume of cross-border Renminbi settlement of domestic and overseas banking institutions reached RMB2.03 trillion.

4. Offshore services

With the advantage of business license, the Bank grabbed the development opportunities arising from Lin-Gang Special Area of Shanghai Pilot Free Trade Zone and the integration of Yangtze River Delta. During the Reporting Period, the net operating income of offshore business amounted to USD120.7328 million, while the total amount of offshore assets reached USD11.744 billion at the end of the Reporting Period.

Column BOCOM-HSBC Strategic Cooperation

In 2020, under the new market positioning of "Deepen Strategic Cooperation and Create Shared Value", the Bank and HSBC overcame the adverse effects of the pandemic and continued to deepen all-round strategic cooperation, which in return achieved positive results.

Maintain smooth communications with senior management and lay a solid foundation for cooperation. In virtue of the communication framework of strategic cooperation, both parties learned from experiences, set objectives and promoted cooperation via multi-level management meetings such as the Summit Meeting and the Co-Chair Meeting.

Leverage complementary advantages and develop global business cooperation. Under the framework of "1+1 Global Financial Services", business cooperation kept a stable growth between both parties. BoCom and HSBC joined hands to assist Chinese enterprises to "go global", concluding 4 cooperative syndicated loan projects. Both parties consolidated cooperative advantages in Hong Kong, concluding 16 cooperative syndicated loan projects and 35 bond underwriting projects. Cooperation in offshore financing and treasury business was promoted in an orderly manner, further deepening the cooperation in foreign currency settlement and cross-border Renminbi settlement. In addition, cooperation in trust business was steadily promoted. In 2020, the amount of cooperative trust products reached 51.57 billion. Meanwhile, both parties worked together to promote the development of businesses empowered by FinTech, enhance the efficiency of trade finance to serve the real economy, and successfully implement the first domestic securities transaction between Chinese and foreign banks on the interbank trading platform of the China Banking Association.

Column BOCOM-HSBC Strategic Cooperation

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

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

(VI) Channel Construction and Service and Consumer Protection

1. Channel construction

Mobile banking – Adhering to the "customer-oriented" principle, the Bank elaborately refined its Mobile banking from the perspectives of user interface, business functions, system performance and product types for continuous iteration, to improve customer experience. As at the end of the Reporting Period, there were 31.0290 million monthly active users (MAU), increasing by 39.88% on an annual basis. Mobile banking APP used in financial and non-financial scenarios reached 84.70% and 38.23% respectively. The Bank interconnected the user system of Mobile banking and Go Pay APP, and established the system of "one account for all", which enabled users to log in to the two APPs with the same username and password.

Go Pay – Accelerating the platform digital transformation progress, the Bank established an online "Finance + Life" service platform, covering areas including food and beverages, payment, prepayment, video, music, reading, car life and medicine. The Bank continuously improved the service capability of Go Pay APP platform, focusing on developing the ecosystem of digital scenario-based service. As at the end of the Reporting Period, the accumulated number of registered customers of Go Pay App was 65.2837 million while the number of MAUs was 24.2182 million. Go Pay APP used in financial and non-financial scenarios were 79.72% and 42.15% respectively.

Personal payment – The Bank arranged comprehensive online payment scenarios by providing functions such as online face-scanning payment, one-click card binding for Mobile banking, card binding without card numbers on cooperative APP platforms and launched integrated preferential service plans for small and medium-sized merchants. The Bank extended the payment scenarios by scanning WeChat payment code and launched electronic medical insurance card on the Mobile banking, making it more convenient for customers to seek medical treatment without physical medical insurance card. The Bank opened the electronic social security card issuance for all customers, breaking the regional restriction, and launched a specific social security zone in the Mobile banking, so that customers could enjoy one-stop access to social security services.

Open banking – The construction of Open banking has made a steady growth. As at the end of the Reporting Period, 633 interfaces were launched for Open banking, covering 7 modules including investment and wealth management, asset credit, payment for acquiring services, financial information, account services, utilities payment and corporate services. In addition, it created 6 major types of life scenarios such as car owner services and 3 main business models of consumer finance, service payments and account deposit.

Third-party platforms – The Bank vigorously promoted the deployment of third-party platforms such as WeChat and Alipay. The Bank built an all-round WeChat-based service system, including "Cloud Banking", "BoCom WeBank" public accounts and "BoCom" WeChat Mini Program to enhance its customer acquisition capability. As at the end of the Reporting Period, customers served by Cloud Banking and "BoCom" WeChat Mini Program increased by 158.98% and 159.66% respectively over the previous year.

2. Service and consumer protection

Insisting on the "consumer-oriented" principle, the Bank established a sound consumer protection mechanism and enhanced process control across various departments to build a benchmark for service quality. During the Reporting Period, 0.227 million complaints were received and all of them were processed, with a complaint follow-up satisfaction rate of 98.08%. The Bank was awarded the 2019 A Level bank in the People's Bank of China Consumer Protection Rating. In the campaign on consumer protection, the Bank was awarded the "Outstanding Bank for Event Organisation for '3.15' Education Awareness Week 2020" and the "Outstanding Bank for Event Organisation" in the campaign of "Providing Financial Literacy for Thousands of Families in the Financial Literacy Month" host by CBIRC.

(VII) FinTech and Digital Transformation

The Bank's investment in FinTech

increased by +13.45% on a year-on-year basis to 5.724 billion, which accounted for 2.85% of operating income, representing an increase of +0.28 percentage point over the previous year.

The number of FinTech employees

increased to 3,976, which accounted for 4.38% of the Bank's total employees, out of which the number of information technology employees was 3,190, accounted for 3.52% of total employees.

1. Deepen the reform of FinTech mechanism

As the FinTech and Product Innovation Committee was established under the Senior Management and BOCOM Financial Technology Company Limited was incorporated, the structure of "Two Departments, Three Centres, One Company, One Research Institute, One Office" was formed, which has been improving the governance system. The mechanism of agile development tightly coupled with businesses and technologies achieved an initial success. At the same time, agile transformation in project research and development promoted the shift from the demand-based model to the problem-based model for system development, saving one third of the average end-to-end delivery time.

2. *Accurately respond to customer and market demands in virtue of digital transformation*

In response to Shanghai's call for "enabling access to government services via one website and achieving unified management with one website", the Bank, acting on the principle of "providing convenience and benefits for the people", launched the brand "BoCom e-Service". Within this e-Service, the credit medical treatment services covered over 400 public medical institutions, and the number of contracted customers accounted for about 85% of the market share in Shanghai. In addition, "Benefit Medical Payment", being a breakthrough, was the first product of its type, featured with 60-second online application process.

The Bank continued to improve product functions and user experience of its Mobile banking, with the number of MAUs reaching 31.0290 million, representing a year-on-year increase of 39.88%. In addition, the number of MAUs of Go Pay APP was 24.2182 million. The two APPs ranked third and second respectively in 2020 Sina Assessment. There were 7 modules in Open banking, fully covering investment and wealth management, asset credit, service payments, financial information, account services, utilities payment and corporate services. During the Reporting Period, the Bank was awarded the Best Innovative FinTech Bank of the Year by Sina Finance. Besides, Mobile banking and Open banking were awarded the Best Mobile User Experience Award and the Best Open Bank Award respectively by the CFCA.

In order to develop a comprehensive online credit granting system and launch Inclusive e-Loan for small and micro enterprises, the Bank, through connection to governmental affairs platforms, achieved accurate customer identification, effective customer acquisition, automatic approval, and intelligent risk control in virtue of digitalisation.

The Bank fought against the pandemic with the assistance of the Intelligent Financial Service Platform. In virtue of the "Finance + Scenario" platform, the Bank rolled out a pandemic control information management system within a week, providing enterprises, public institutions and communities with Internet-based pandemic prevention and control services through its functions such as registration for pandemic control, online reservation of masks and declaration of health condition. Cloud banking was successfully connected to the Internet medical platform "WeDoctor", with the number of patients ranking first in the financial sector. In addition, as "95559 Smart Voice Portal" was quickly piloted in Wuhan, the average daily calls handled by the smart voice assistant reached 47 thousand and the number of interactions with smart customer service bots exceeded 0.70 million.

3. *Enhance financial risks management capability*

The Bank improved the accuracy, coverage and timeliness of risk identification through knowledge diagram, doubled the overdue forecast accuracy of the forecast model for loans approaching due dates, improved the identification accuracy of anti-telecommunication fraud model to over 75% and reduced the workload of manual risk investigation by 75%. Credit approval efficiency increased by 40% after the use of intelligent credit approval that enables paperless declaration. Intelligent operating system automatically categorised 59 types of vouchers, reduced the time cost from 4 seconds to 1.8 seconds after the replacement of manual operation by machine recognition, with an average recognition rate of more than 95%, and thus improved efficiency while reducing manual operation risks in an effective manner.

4. *Strengthen data governance capability*

The Bank developed “1+1+N” data governance system consisting of one general policy, one principal measure and numerous (“N”) management regulations in key areas. In addition, the Bank launched the construction of an enterprise-level data middle office and constantly improve the capability of data asset management. The Bank set up the enterprise-level data standard and reinforced data quality control. The Bank established a unified foundation of big data and continuously improved the capacity of data storage and calculation. The Bank focused on the data demands from regulatory requirements, customer services and business management, improved the data application capabilities, and designed multiple digital products such as customer tags, business indicators and intelligent knowledge diagrams. Based on the innovative design of enterprise-level data middle office, adding the data services applicable to multiple scenarios, the Bank was empowered for the digital transformation and development. The Bank also reinforced integration and connection with external data sources, doubling the Bank’s external data dimensions over the previous year, so as to continuously improve the accuracy and effectiveness of business decisions and financial services.

5. *Enhance technology innovation*

Through a newly self-developed core application architecture, the Bank promoted the transformation to distributed technology architecture. The daily transaction volume of debit cards and accounting transactions via the distributed platform accounted for 70% of the daily transactions on the main server, ensuring business continuity under extreme conditions. Numerous recognition technologies such as face recognition, fingerprint recognition, vein recognition and iris recognition were integrated into the unified biological recognition platform, and applied to more than 300 transactions in multiple channels such as corporate Mobile banking, personal Mobile banking, and mobile handset. The average monthly transaction volume exceeded 6.00 million with the highest daily transaction volume reaching 0.70 million. In addition, an enterprise-class robotic process automation (RPA) platform was adopted in operation, custody, wealth management and other sectors. Meanwhile, the Bank applied intelligent voice into intelligent customer service bots, intelligent calls and intelligent voice analysis with the overall recognition accuracy rate over 90%. Furthermore, the unified diagram engine platform was used in 32 business scenarios and awarded First Prize of Shanghai Financial Innovation. The Bank completed IPV6 retrofit of 49 sets of Internet-to-customer application system, ranking third in the PBOC list of IPV6 demonstration units in the financial sector. The Bank was certified on the highest level (level 5) of software test maturity model integration (TMMi) recognised by the international certified organisation TMMi, and became the first domestic commercial bank that completed the accreditation certification independently. Insisting on the requirement of using licensed software, the Bank vigorously explored product lines with open source technology. In 2021, the Bank was titled “2020 National Copyrights Demonstration Unit (Licensed Software)” by the National Copyright Administration of the People’s Republic of China. The Bank joined hands with Fudan University and China Mobile to establish the FinTech Joint Lab, to further support Shanghai in transforming into an international financial centre.

6. Consolidate cybersecurity construction

The Bank continued to promote security management of application system throughout the whole life cycle of development, operation and maintenance, and achieved 100% security control over system development and 100% security protection after system deployment. In addition, the Bank established an integrated security monitoring platform, with an in-built threat model covering nine types of security risks and more than 120 security monitoring scenarios. Meanwhile, the Bank established a sound security operation mechanism, to achieve 24/7 monitoring on security alerts throughout the Bank, to correspond in minutes and to handle in hours. A safe telecommuting channel was developed, allowing more than 20 thousand employees to work from home. Furthermore, the Bank organised an industry-leading information security team and actively introduced external authorities for assessment and certification, to ensure that the information construction was secured and in compliance with relevant laws and regulations.

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, country and reputation to exercise strict control over various risk types and ensure 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 management through its Risk Management and Related Party Transaction Control Committee. The Bank's Senior Management established a Risk Management Committee, namely the Comprehensive Risk Management and Internal Control Committee, and two business review committees, namely the Credit and Investment Review Committee and the High-risk Asset Review Committee. The business review committees were guided by and reported to the Comprehensive Risk Management and Internal Control Committee. Each provincial and directly managed branch, overseas branch, subsidiary and directly operating institution correspondingly established the Risk Management Committee accordingly referring to the aforementioned framework, which served as the main platform to study the prevention and control of systematic and regional risks and decision-making risks on major issues, ensured that the comprehensive risk management system had been implemented throughout the Group.

(II) Risk Management Tool

The Group actively introduced various types of risk information data, explored the application of advanced technologies such as big data, artificial intelligence and knowledge diagram to build models, upgraded the unified risk monitoring system of the Group and enhanced the intellectualization of the risk management. During the Reporting Period, the Group pushed forward the construction of risk measurement system and achieved the unified management of risk measurements throughout the Group. Additionally, the calculation system and application mechanism of risk return index were also established to enhance the balance of risk and return.

(III) Credit Risk Management

During the Reporting Period, responding to state policies and market fluctuations, the Group upgraded the outline of credit granting and risk policy and guidelines on industrial investment to implement the principle of "one policy for one bank". The Group strengthened asset quality management during the pandemic by implementing the relief policies in compliance with relevant requirements, strengthening management of loans approaching due dates and accurately implementing loan classification. The Group also established a monthly dynamic inspection mechanism to identify customers with potential risk and substantial risk exposed under the pandemic in advance. It adopted a multi-level, category-specific approach by customers to ensure responsibilities were fulfilled, and disposal and mitigation measures were taken beforehand. Control over key areas and sensitive industries of credit card, overcapacity, real estate, cross-border business and implicit government debts was strengthened by means of total volume control, name list and quota limits. In addition, the Group also intensify the regional risk control.

Meanwhile, the Group enhanced disposal and collection. During the Reporting Period, disposal of total amount of non-performing loans reached 82.911 billion, representing a year-on-year increase of 19.621 billion, of which 53.828 billion was written off. The Group, through securitisation of non-performing assets, actively expanded channels for disposal. Throughout the year, the Group issued a total of three transactions of securities and disposed of 14.144 billion of non-performing loans, with the issuing scale taking the third place in the market. In addition, the Group enhanced the application of market-oriented debt-to-equity swap of risk assets to successfully settle projects of large exposure risk such as Dandong Port, Qinghai Salt Lake Industry Co., Ltd. and Sichuan Coal Industry Group.

The Group continued to strengthen credit card risk management capabilities through digitalisation. As part of this, the iteration of financial risk models accelerated; the accuracy of measurement modelling increased; and customers' pre-loan approval standards were optimised. In addition, management of customer segments in the middle of the loan process was specified to resolve potential risks exposed. Post-loan follow-ups were reinforced to achieve effective loan collectivity. As a result, the preliminary manifestation of risk management procedures was shown. The loan migration rate has decreased since the second quarter, the quarterly increment amount of non-performing loans in the second half year gradually decreased, and the overall quality of credit card assets stayed under control.

During the Reporting Period, under the influence of COVID-19 pandemic and other factors, risk exposure of some customers was accelerated. Meanwhile, the Group strengthened risk identification and strictly followed asset quality classification standards. As at the end of the Reporting Period, the balance of non-performing loans was 97.698 billion and the non-performing loan ratio was 1.67%, representing an increase of 19.655 billion and 0.20 percentage point respectively over the end of the previous year. The period also witnessed a decrease in the balance and proportion of special mention loans. Meanwhile, the balance of overdue loans remained stable, yet the proportion declined.

Distribution of loans by five categories of loan classification

(in millions of RMB unless otherwise stated)

	31 December 2020		31 December 2019		31 December 2018	
	Amount	**Proportion (%)**	Amount	Proportion (%)	Amount	Proportion (%)
Pass loan	**5,668,199**	**96.92**	5,111,715	96.37	4,662,605	96.06
Special mention loan	**82,527**	**1.41**	114,517	2.16	119,111	2.45
Total performing loan balance	**5,750,726**	**98.33**	5,226,232	98.53	4,781,716	98.51
Sub-standard loan	**52,652**	**0.90**	16,963	0.32	13,711	0.28
Doubtful loan	**26,713**	**0.46**	42,508	0.80	38,456	0.79
Loss loan	**18,333**	**0.31**	18,572	0.35	20,345	0.42
Total non-performing loan balance	**97,698**	**1.67**	78,043	1.47	72,512	1.49
Total	**5,848,424**	**100.00**	5,304,275	100.00	4,854,228	100.00

Distribution of special mention loans and overdue loans by business type

(in millions of RMB unless otherwise stated)

	31 December 2020				31 December 2019			
	Special mention loan balance	Special mention loan ratio (%)	Overdue loan balance	Overdue loan balance ratio (%)	Special mention loan balance	Special mention loan ratio (%)	Overdue loan balance	Overdue loan balance ratio (%)
Corporate loans	71,677	1.93	60,851	1.64	101,987	3.05	60,022	1.79
Personal loans	10,841	0.55	29,264	1.48	12,280	0.70	30,472	1.74
Mortgage	2,395	0.19	7,132	0.55	2,380	0.21	6,214	0.55
Credit cards	7,684	1.66	18,245	3.93	9,449	2.02	20,589	4.41
Personal business loans	204	0.17	1,648	1.36	97	0.17	1,685	3.03
Others	558	0.55	2,239	2.19	354	0.37	1,984	2.06
Discounted bills	9	0.01	88	0.05	250	0.12	26	0.01
Total	82,527	1.41	90,203	1.54	114,517	2.16	90,520	1.71

The balance of corporate special mention loan was 71.677 billion, representing a decrease of 30.310 billion over the end of the previous year. The special mention loan ratio was 1.93%, representing a decrease of 1.12 percentage points over the end of the previous year. The balance of corporate overdue loan was 60.851 billion, representing an increase of 0.829 billion over the end of the previous year. The overdue loan ratio was 1.64%, representing a decrease of 0.15 percentage point over the end of the previous year.

The balance of personal special mention loan was 10.841 billion, representing a decrease of 1.439 billion over the end of the previous year. The special mention loan ratio was 0.55%, representing a decrease of 0.15 percentage point over the end of the previous year. The balance of personal overdue loan was 29.264 billion, representing a decrease of 1.208 billion over the end of the previous year. The overdue loan ratio was 1.48%, representing a decrease of 0.26 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 2020				31 December 2019			
	Loans	Proportion (%)	Non-performing loans	Non-performing loan ratio (%)	Loans	Proportion (%)	Non-performing loans	Non-performing loan ratio (%)
Corporate loans	3,707,471	63.39	78,830	2.13	3,346,476	63.09	59,443	1.78
Personal loans	1,980,882	33.87	18,773	0.95	1,754,765	33.08	18,574	1.06
Mortgage	1,293,773	22.12	4,849	0.37	1,135,428	21.41	4,038	0.36
Credit cards	464,110	7.94	10,558	2.27	467,387	8.81	11,135	2.38
Personal business loans	120,985	2.07	1,542	1.27	55,560	1.05	1,647	2.96
Others	102,014	1.74	1,824	1.79	96,390	1.81	1,754	1.82
Discounted bills	160,071	2.74	95	0.06	203,034	3.83	26	0.01
Total	5,848,424	100.00	97,698	1.67	5,304,275	100.00	78,043	1.47

RISK MANAGEMENT

Distribution of loans and non-performing loans by industry

(in millions of RMB unless otherwise stated)

	31 December 2020				31 December 2019			
	Loans	Proportion (%)	Non-performing loans	Non-performing loan ratio (%)	Loans	Proportion (%)	Non-performing loans	Non-performing loan ratio (%)
Corporate loans	3,707,471	63.39	78,830	2.13	3,346,476	63.09	59,443	1.78
Transportation, storage and postal services	708,649	12.12	9,738	1.37	637,943	12.03	8,665	1.36
Manufacturing	658,203	11.25	29,301	4.45	601,143	11.33	24,711	4.11
Leasing and commercial services	577,500	9.87	10,876	1.88	508,863	9.59	2,428	0.48
Water conservancy, environmental and other public facilities	334,399	5.72	234	0.07	284,797	5.37	124	0.04
Real estate	348,185	5.95	4,711	1.35	264,495	4.99	877	0.33
Wholesale and retail trade	204,856	3.50	9,823	4.80	221,381	4.17	11,601	5.24
Production and supply of electric power, heat, gas and water	221,313	3.78	2,156	0.97	215,642	4.07	1,210	0.56
Construction	135,732	2.32	3,683	2.71	135,998	2.56	2,099	1.54
Mining	125,367	2.14	2,625	2.09	117,555	2.22	2,999	2.55
Finance	118,702	2.03	10	0.01	107,865	2.03	11	0.01
Education, science, culture and public health	112,961	1.93	2,908	2.57	96,875	1.83	728	0.75
Others	85,570	1.48	1,075	1.26	93,314	1.76	2,515	2.70
Accommodation and catering	34,886	0.60	701	2.01	32,259	0.61	1,051	3.26
Information transmission, software and information technology services	41,148	0.70	989	2.40	28,346	0.53	424	1.50
Personal loans	1,980,882	33.87	18,773	0.95	1,754,765	33.08	18,574	1.06
Discounted bills	160,071	2.74	95	0.06	203,034	3.83	26	0.01
Total	5,848,424	100.00	97,698	1.67	5,304,275	100.00	78,043	1.47

During the Reporting Period, the Group actively supported the real economy development with its new loans preferentially going to industries such as manufacturing, service and transportation. With respect to real estate loans, the principle that "houses are for living in, not for speculation" was insisted to maintain a sound and healthy development. In addition, the Group enhanced control over industries with severe overcapacity. As at the end of the Reporting Period, the balance of loans to industries with severe overcapacity accounted for 2.60% of the total domestic loans, representing a decrease of 0.5 percentage point from the beginning of the year.

Distribution of loans and non-performing loans by region

(in millions of RMB unless otherwise stated)

	31 December 2020				31 December 2019			
	Loans	Proportion (%)	Non-performing loans	Non-performing loan ratio (%)	Loans	Proportion (%)	Non-performing loans	Non-performing loan ratio (%)
Yangtze River Delta	**1,576,465**	**26.96**	**20,932**	**1.33**	1,434,280	27.04	12,836	0.89
Pearl River Delta	**701,865**	**12.00**	**7,332**	**1.04**	572,226	10.79	6,056	1.06
Bohai Rim Economic Zone	**831,454**	**14.22**	**17,058**	**2.05**	740,248	13.96	9,646	1.30
Central China	**958,527**	**16.39**	**18,005**	**1.88**	827,110	15.59	11,369	1.37
Western China	**680,088**	**11.63**	**9,220**	**1.36**	585,712	11.04	11,951	2.04
North Eastern China	**232,864**	**3.98**	**10,998**	**4.72**	212,871	4.01	13,826	6.50
Overseas	**359,368**	**6.14**	**3,586**	**1.00**	391,517	7.38	1,213	0.31
Head Office	**507,793**	**8.68**	**10,567**	**2.08**	540,311	10.19	11,146	2.06
Total	**5,848,424**	**100.00**	**97,698**	**1.67**	5,304,275	100.00	78,043	1.47

Note: Head Office included the Pacific Credit Card Centre.

Based on regional economic traits, the Group implemented differentiated policies of "One Strategy for One Bank" to make dynamic adjustments to business authorisation based on different regions. The Pearl River Delta, Western China and North Eastern China witnessed a decrease in the non-performing loan ratio over the previous year while other regions showed an increase in this ratio.

Overdue loans and advances

(in millions of RMB unless otherwise stated)

	31 December 2020		31 December 2019	
Overdue period	**Amount**	**Proportion (%)**	Amount	Proportion (%)
Within 3 months	**25,480**	**0.44**	28,923	0.55
3 months to 1 year	**34,145**	**0.58**	28,618	0.53
1 to 3 years	**25,916**	**0.44**	23,661	0.45
Over 3 years	**4,662**	**0.08**	9,318	0.18
Total	**90,203**	**1.54**	90,520	1.71

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

As at the end of the Reporting Period, the balance of overdue loans was 90.203 billion, representing a decrease of 0.317 billion over the end of the previous year. The overdue ratio was 1.54%, representing a decrease of 0.17 percentage point over the end of the previous year. The balance of loans overdue for over 90 days was 64.723 billion, representing an increase of 3.126 billion over the end of the previous year.

Loan migration rates

(%)	2020	2019	2018
Pass loan migration rate	**1.84**	1.71	1.85
Special mention loan migration rate	**46.59**	29.76	30.01
Sub-standard loan migration rate	**25.48**	42.76	88.62
Doubtful loan migration rate	**19.92**	10.92	15.36

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

Credit risk concentration

As at the end of the Reporting Period, the total loans of the largest single borrower of the Group accounted for 3.71% of the Group's net capital, and the total loans of top 10 borrowers accounted for 15.75% of the Group's net capital. The following table illustrates the loans of top 10 single borrowers as at the end of the Reporting Period:

(in millions of RMB unless otherwise stated)

	As at 31 December 2020		
	Industry	**Amount**	**Percentage of total loans (%)**
Customer A	**Transportation, storage and postal services**	**37,927**	**0.64**
Customer B	**Production and supply of electric power, heat, gas and water**	**25,700**	**0.44**
Customer C	**Manufacturing - Electronics**	**17,866**	**0.31**
Customer D	**Transportation, storage and postal services**	**13,677**	**0.23**
Customer E	**Transportation, storage and postal services**	**12,864**	**0.22**
Customer F	**Transportation, storage and postal services**	**12,000**	**0.21**
Customer G	**Transportation, storage and postal services**	**10,589**	**0.18**
Customer H	**Transportation, storage and postal services**	**10,236**	**0.18**
Customer I	**Finance**	**10,015**	**0.17**
Customer J	**Production and supply of electric power, heat, gas and water**	**10,000**	**0.17**
Total of Top Ten Customers		**160,874**	**2.75**

(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 and share price. Interest rate risk and exchange rate risk are the major market risks encountered by the Group.

Based on the risk appetite of the Board of Directors, the Group proactively identified, measured, monitored, controlled and reported its market risk through quota management, risk hedging and risk transfer. As a result, the Group was able to manage its market risk exposure to an acceptable level and maximise its risk-adjusted profits.

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

During the Reporting Period, the Group kept improving the market risk management system, strengthened the risk management of overseas branches, enhanced exposure monitoring and risk warning in the event of financial market volatility, and strictly controlled the market risk exposure limits, optimised the market risk information management system and promoted the construction of a large middle ground system of market risks. The Group also optimised market risk management models and configurations, closely monitored the risk management of domestic and overseas markets, performed quantitative testing of market risk and thoroughly analysed the possible challenges in new trends of market risk regulation.

(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 implemented the *Rules on Liquidity Risk Management of Commercial Group* issued by the CBIRC. Various businesses of the Group were developed in a coordinative manner under a stable liquidity risk condition with satisfactory liquidity indicators under regulatory requirements of liquidity ratio, liquidity coverage ratio, net stable funding ratio and liquidity matching ratio. In accordance with regulatory policy requirements and the need for deepening reform across the Bank, the Group further strengthened on- and off-balance sheet liquidity risk management. By 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.

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

	Standard Value	**31 December 2020**	31 December 2019	31 December 2018
Liquidity ratios (%)	≥25	**69.24**	72.92	68.73

Note: Calculated according to the regulatory calibre 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 2020 was 132.33% (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 0.88 percentage point over the previous quarter mainly due to increase in net cash outflows.

The net stable funding ratio is the ratio of available stable funds to the required stable funds. The aim is to ensure that commercial banks have sufficient sources of stable 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 2020 was 109.01%, representing a decrease of 0.76 percentage point over the previous quarter, which was mainly due to the increase in loans issued to retail and small business customers, non-financial institutions, sovereignty, central banks and public sector entities. In the fourth quarter of 2020, the net stable funding ratio was 110.60%, representing an increase of 1.59 percentage points over the previous quarter, which was mainly due to the increase in deposits from retail and small business customers.

For more details about the liquidity coverage ratio 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 2020, 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, lost data collection, key risk indicator monitoring and operational risk management. During the Reporting Period, the Group improved the operational risk management and risk assessment mechanism, carried out operational control assessment on key processes and established an integrated business continuity management at home and abroad to extend outsourcing risk management mechanism to the whole Group.

(VII) Legal Compliance and Anti-money Laundering

During the Reporting Period, the Bank promoted the development of long-term mechanism for overseas compliance management, improved legal knowledge education and the construction of compliance culture to enhance the legal compliance guarantee for operation and management. The Bank also improved the anti-money laundering management structure; optimised the anti-money laundering process; advocated the establishment of anti-money laundering system and improved the capabilities to manage money laundering risks.

(VIII) Reputation Risk Management

The Group improved the reputation risk management framework. Negative comments from various stakeholders regarding the Group's operation, management, any other behaviours or external events were managed. Situations regarding reputation risk were appropriately handled. The Group intensified the identification, warning, assessment and monitoring of reputation risk, and promptly adjusted corresponding strategy and measures. During the Reporting Period, negative public opinions were actively handled, and reputational risk was under control. No event occurred regarding significant reputational risk.

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

The Group set up the risk management system across industries and boarders characterised by "Centralised Management, Clear Task Allocation, Complete and Adequate System Tools, IT Support, Risk Quantification, and Consolidation of Substantially Controlled Entities". During the Reporting Period, considering the uncertainties caused by the spread of COVID-19 pandemic overseas, the Group intensified the prevention and control of the pandemic in overseas institutions to ensure stable operation of business. In addition, the Group also strengthened management of key areas such as liquidity, business continuity, asset quality and employees' awareness of pandemic prevention in overseas institutions. The Group carried out risk assessment of overseas banking institutions and improved assessment method and working mechanism. The Group enhanced the consolidation management, issued the Measures on Consolidation Management of Bank of Communications (2020), optimised consolidation management system, provided better guidance and evaluated subsidiaries' consolidation management. The Group implemented country risk management, optimised country risk limit plans, regularly monitored country risk exposures and timely carried out country risk rating, assessment, and indication.

(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 management process and organisation structure. The Group continued to monitor large exposure risk, and strictly adhered to relevant 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 met the regulatory requirements.

V. DEEPEN THE REFORM

Sticking to the strategic goal of "building the first-tier bank with wealth management characteristics and global competitive capabilities in the world" and the aim of continuously improving the adaptability, competitiveness, inclusiveness and FinTech capacity, the Bank has been deepening the reform on related mechanism and consistently simulating the motivation and vitality of business development, so as to better serve the real economy and control financial risks.

(I) Integrate into China's national strategies to build featured advantages.

Seizing the strategic opportunity of the Yangtze River Delta regional integrated development, the Group reformed the framework, optimised the function of the Yangtze River Delta integration management and established a strategic leadership group and Yangtze River Delta Integration Management Department. The Group fully exploited its global layout, integrated operation and unique geographical advantages in the Yangtze River Delta to better serve the national strategy of regional development.

The Group leveraged the qualification advantages of the offshore business, performed reforms on the business function and business framework of the offshore free trade zone, and enhanced the risk prevention and control as well as the compliance and anti-money laundering management of the offshore businesses. The Group supported and served the construction of the new area in Shanghai Free Trade Zone, and built the advantages of offshore finance and trade finance.

The Group implemented the reform of the Beijing Administrative Department and the Head Office's Strategic Customer Department to enhance the integrated operating function of group customers. The Group optimised the business functional framework of the financial market and strengthened the integrated management of the financial markets in terms of the domestic and overseas business as well as the local and foreign currency business. The Group reformed the equity investment platform and provided support for the construction of Shanghai Technology Innovation Centre to align with the deepening reform of the capital market.

(II) Optimise the functional structure and realize management efficiency.

Targeting at building the core competence of FinTech, the Group accelerated the intensive integration of technology into businesses, performed the reform on FinTech mechanism, and thus improved the overall FinTech framework of the Group. The Group set up the FinTech Committee to improve the broad plan, top-level design and the integrated management capacities of FinTech businesses. By improving the settings and functions of department, the Group integrated the software development resources and promoted the integration of technology and business. The Group also implemented three major projects of FinTech Ten Thousand Plan, FinTech Management Trainee as well as Empowerment and Transformation for Existing Talents.

DEEPEN THE REFORM

In order to solve the problems of department functional positioning, classified management, coordination and absence or repetition, the Bank initiated reforms on the functional structure and the management system such as budget and finance, assets and liabilities, operation channel as well as strategic management and research, focused on the pain points, clarified the boundaries of responsibilities, and unleashed the management efficiency to improve professional management capabilities. As a result, a basic framework of “four beams and eight pillars” for the middle and back office across the Bank was established, and achievements of the reform gradually became prominent.

(III) Deepen the reform on credit risk management.

The Bank implemented reforms on credit risk management and anti-money laundering, and segregated the functions of credit management and credit approval. The Bank also integrated the post-loan/investment management functions, implemented a unified management over credit risk by the Credit Management Department, and clarified the overall risk management functions led by the Risk Management Department. The asset preservation function, after removed from the Risk Management Department, has achieved independence in operation and has been under professional management, which improved the quality and efficiency of risk disposal. In addition, the Bank established the Anti-money Laundering Centre of sub-department level under the Department of Law and Compliance at the Head Office, reinforced the management function of anti-money laundering and sanction compliance across the Bank, and optimised the process of compliant anti-money laundering management, accelerating the unified management of anti-money laundering business.

(IV) Reinforce the institutional management and incentive constraints.

To focus on value creation and encourage positive incentives, the Bank optimised the classified management of provincial branches, establishing a scientific and reasonable guideline for assessment and distribution. Based on the principle of “compliance and clearness, positive incentives, fairness and transparency”, the Bank optimised the bank-wide position system.

VI. OUTLOOK

Looking forward into 2021, the international economic situation will remain complex and challenging, and the global economic recovery is still going to be tottering, but the fundamentals of China's long-term economic development remain positive. The pandemic prevention and control results will continue to consolidate, and the macro policies will remain their continuity, stability and sustainability. The implementation of policy would be more targeted and effective. Overall, during 2021 and the period of the "14th Five-Year Plan", the banking industry will switch from rapid growth to a new phase of high-quality development, with opportunities going together with challenges.

On one hand, the banking industry faces great opportunities for transformation and development. In the new development stage, technology innovation becomes the major force driving the economic growth. The modernisation of the industrial chain keeps accelerating its pace, and there are strong demands for high-end, intelligent and green transformation of traditional industries, both bringing new growth points for the operation of banks. As building a new development pattern and boosting domestic demand become the strategic basis, demands in the livelihood consumption will continue to improve in the future, bringing opportunities for the development of inclusive finance and consumer finance. Along with the comprehensive implementation of national strategies in key regions such as the Yangtze River Delta, the Guangdong-Hong Kong-Macao Greater Bay Area, the Beijing-Tianjin-Hebei region and the Chengdu-Chongqing economic circle, these areas will become major regions for the business growth of the banking industry. At the same time, the simultaneous promotion of new urbanisation and new infrastructure construction, along with the digital transformation of government and society, provides an important period of opportunity for the banking industry to accelerate the digitalisation layout.

On the other hand, the development and operations in the banking industry are facing certain challenges. Due to the accelerated rise in the leverage ratio of enterprises and residents against the backdrop of the pandemic, risks in some areas may be aggravated and there is certain downward pressure on the asset quality of the banks. Increasingly complex international environment along with gradually tightening overseas policies may increase the liquidity risks, while the geopolitical conflicts may lead to higher volatility of global financial asset price. In this situation, there will be uncertainty for the banks to develop their overseas business and certain financial market business, and pressure on risk control and anti-money laundering may turn greater. At the same time, the opening-up policy of the financial sector has gradually come into effect. Driven by policies allowing foreign-funded banks to enjoy national treatment, foreign-funded banks are speeding up their entry into the Chinese market, and competitions between domestic banks and foreign funded banks will further intensify.

2021 is the opening year of the "14th Five-Year Plan", and in this critical year, BoCom will start a new journey to push forward with its transformation and development. The Group will adhere to the tune of seeking progress while maintaining stability, and spare no efforts to promote high-quality development with reform and innovation as the fundamental driving forces. In addition, the Group will unswervingly uphold the new concept of development and serve the new development pattern by highlighting the features in areas of inclusive finance, trade finance, technology finance and wealth finance. With the breakthrough of building the Leading Bank in the Yangtze River Delta and pursuing digital transformation, BoCom will achieve coordinated development with real economy and celebrate the centenary of the Party with outstanding performance. The Group will emphasise the following areas:

OUTLOOK

Build the leading bank in the Yangtze River Delta. The Group will leverage its home advantages to transform the gift of resource into the differentiated competitiveness, make leading breakthroughs in the subdivisions and form a demonstration effect. The Group will improve the integrated mechanism that encourages the "cross-regional business development, cross-regional customer management, cross-regional resource allocation and cross-regional talent exchange". The Group will accelerate the promotion of "BoCom e-Service" and push forward the pilot run of the innovative cross-provincial business of social security, medical insurance and housing provident fund.

Further implement digital transformation. The Group will focus on enhancing its core abilities of serving customers and building digital and ecological business systems, so as to accelerate business value creation and improve customer experience. The Group will speed up to build customer service platform, marketing platform and enterprise-level risk control platform and reshape management models and business processes. The Group will continuously promote the construction of enterprise-level distributed architecture system, distributed core system and general technology capability system, and enhance the ability of FinTech to empower the business development to drive the FinTech-empowered business development. Meanwhile, the Group will promote data asset management, unified data computing and data application services to unlock the value of data, and form the digital competitiveness of the Group.

Explore the wealth finance feature. Relying on the strategic basis of "expanding domestic demand", the Group will exercise its comprehensive advantages to establish a customer-oriented business mode integrating the whole chain, so as to improve the ability in asset allocation and customer service. The Group will promote the combination of the advantages of different product lines, creating more hit products of cash management and equity investment. Through online and offline channels combination, the Group will connect Mobile banking, Go Pay APP, Online banking and physical outlets to provide full-channel wealth management services.

Improve the quality and efficiency of financial services. The Group will serve the real economy as always and increase support to key areas and weak links including small and micro enterprises, "agriculture, rural areas and farmers" and rural revitalization. Leveraging the advantages of its broad range of licensed activities and international network, the Group will serve the development of new areas such as technology innovation and the upgrading of industrial chain and supply chain, providing strong and effective financial support for the rapid construction of the new development pattern.

Maintain the stability of asset quality. Centered on the asset quality, the Group will continue to improve the comprehensive risk management system featured with "full coverage, full process, specialisation, and accountability". The Group will further deepen the reform of risk credit management and anti-money laundering, accelerate the project incubation of the FinTech Joint Lab, and push forward the construction of the middle office for retail risk management. The Group will reinforce the ability of overall risk management and control for preventing non-compliance cases, as well as optimise the mechanism of risk monitoring, early warning and response, so as to improve corresponding capabilities.

CHANGES IN SHARES AND SHAREHOLDERS

I. CHANGES IN SHARE CAPITAL OF ORDINARY SHARES

As at the end of the Reporting Period, the Bank issued a total of 74,262,726,645 ordinary shares including 39,250,864,015 A shares and 35,011,862,630 H shares, which accounted for 52.85% and 47.15%, respectively. All the ordinary shares issued by the Bank are not subject to sales restrictions.

	31 December 2020		Increase or decrease during the Reporting Period	31 December 2019	
	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. RMB ordinary shares	**39,250,864,015**	**52.85**	–	39,250,864,015	52.85
2. Domestically-listed foreign shares	**–**	**–**	–	–	–
3. Overseas-listed foreign shares	**35,011,862,630**	**47.15**	–	35,011,862,630	47.15
III. Total shares	**74,262,726,645**	**100.00**	–	74,262,726,645	100.00

II. ISSUANCE AND LISTING OF ORDINARY SHARES

During the Reporting Period, the Bank did not issue ordinary shares. The Bank has no employee stock.

III. SHAREHOLDERS OF ORDINARY SHARES

As at the end of the Reporting Period, the total number of shareholders of ordinary shares of the Bank was 424,446, of which 391,416 were holders of A shares and 33,030 were holders of H shares. On 28 February 2021, the total number of shareholders of ordinary shares of the Bank was 416,188, of which 383,344 were shareholders of A shares and 32,844 were shareholders of H shares.

CHANGES IN SHARES AND SHAREHOLDERS

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

Name of shareholders (Full name)	Increase or decrease during the Reporting Period (share)	Number of shares held as at the 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]	6,882,615	14,975,070,959	20.16	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	–	2,222,588,791	2.99	A Share	Nil	State-owned legal entity
Capital Airport Holding Company	–	1,246,591,087	1.68	A Share	Nil	State-owned 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
Hong Kong Securities Clearing Company Ltd. ("HKSCC")	(38,684,538)	651,507,280	0.88	A share	Nil	Foreign Legal entity

Notes:

1. The relevant data and information are based on the Bank's register of members at the Registrar and Transfer Office.
2. 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 accounts with it as at the end of the Reporting Period. The data included 249,218,915 and 7,649,786,777 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.
3. According to the disclosure forms of interests filed with 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.
4. 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 7,649,786,777 H shares of the Bank, of which 7,027,777,777 H shares were registered under HKSCC Nominees Limited and 622,009,000 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 12,160,497,900 A shares and H shares of the Bank, representing 16.37% of the Bank's total ordinary shares issued.**
5. Shanghai Haiyan Investment Management Co., Ltd. and Yunnan Hehe (Group) Co., Ltd. are parties acting in concert as defined under *Provisional Measures on Shareholdings Administration of Commercial Banks*.
6. HKSCC Nominees Ltd. is a wholly-owned subsidiary of HKSCC.
7. 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 *Provisional Measures on Shareholdings Administration of Commercial Banks*.

(II) Controlling Shareholders/Actual Shareholders

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

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

Name of institutional shareholders	Personal in charge or Legal representative	Date of incorporation	Organisation code/Business registration No./Unified social credit code	Registered capital	Main responsibilities or management activities
The Ministry of Finance of the People's Republic of China	Liu Kun	October 1949	00001318-6	N/A	Division of the State Council, in charge of national financial revenue and expenditure as well as fiscal and taxation policies.
The Hongkong and Shanghai Banking Corporation Limited	Peter Wong Tung Shun	1866	00173611-000	N/A[2]	Primarily providing local and international banking services, and related financial services in the Asia-Pacific region.
The National Council for Social Security Fund	Liu Wei	August 2000	12100000717800822N	RMB8.00 million	An independent legal entity under the management of Ministry of Finance, responsible for managing and operating national social security fund.

Notes:

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

According to the regulation of *Provisional Measures on the Shareholdings Administration of Commercial Banks*, the details of the substantial shareholders and their controlling shareholders, actual controllers, parties acting in concert and ultimate beneficiary as stated above as at the end of the Reporting Period were as follows:

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

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

CHANGES IN SHARES AND SHAREHOLDERS

(IV) Other Substantial Shareholders

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

1. China National Tobacco Corporation. According to the information provided by China National Tobacco Corporation, 7 shareholders of the Bank (affiliated enterprises of China National Tobacco Corporation) entrusted China National Tobacco Corporation to exercise their voting rights on behalf of them. As at the end of the Reporting Period, the above 7 shareholders together held 3.00% of shares of the Bank. China National Tobacco Corporation and the above 7 shareholders did not pledge the shares of the Bank. China National Tobacco Corporation was established on 15 December 1983 with the registered capital of 57.0 billion and its legal representative is Zhang Jianmin. The Ministry of Finance performs the duties of investor on behalf of the State Council.

2. Capital Airport Holding Company. As at the end of the Reporting Period, Capital Airport Holding Company held 1.68% of shares of the Bank, and did not pledge the shares of the Bank. Capital Airport Holding Company was established on 13 June 1988 with the registered capital of 12.0 billion and its legal representative is Liu Xuesong. The shareholder's wholly-owned controlling shareholder is Civil Aviation Administration of China. As at the end of the Reporting Period, the balance of loans of Capital Airport Holding Company and its related parties in the Bank was 667 million.

3. Aviation Industry Corporation of China, Ltd. As at the end of the Reporting Period, Aviation Industry Corporation of China, Ltd. held 0.4% of the Bank's shares, and did not pledge the shares of the Bank. Aviation Industry Corporation of China, Ltd. was established on 6 November 2008 with the registered capital of 64.0 billion and its legal representative is Tan Ruishong. The shareholder's wholly-owned controlling shareholder is State-owned Assets Supervision and Administration Commission of the State Council.

4. Daqing Petroleum Administration Bureau. As at the end of the Reporting Period, Daqing Petroleum Administration Bureau held 0.4% of the Bank's shares, and did not pledge the shares of the Bank. Daqing Petroleum Administration Bureau was established on 14 September 1991 with registered capital of 46.5 billion and its legal representative is Sun Longde. The shareholder's wholly-owned controlling shareholder is China's National Energy Corporation.

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

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

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

Name of substantial shareholders	Capacity	Number of A shares	Nature of interest[1]	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	9,055,342,332[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:

1. Long positions held other than through equity derivatives.
2. To the knowledge of the Bank, as at the end of the Reporting Period, the Ministry of Finance held 4,553,999,999 H shares and 13,178,424,446 A shares of the Bank, representing 6.13% and 17.75% of the total ordinary shares issued by the Bank, respectively.
3. To the knowledge of the Bank, as at the end of the Reporting Period, the SSF held 9,055,342,332 H shares and 3,105,155,568 A shares (please refer to details in Shareholdings of Top 10 Ordinary Shareholders and relevant notes) of the Bank, representing 12.19% and 4.18% of the total ordinary shares issued by the Bank, respectively.
4. 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.

Save as disclosed above, as at the end of Reporting Period, no other persons (excluding the Directors, Supervisors and Chief Executive 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*.

CHANGES IN SHARES AND SHAREHOLDERS

IV. ISSUANCE OF PREFERENCE SHARES

(I) Issuance and Listing of Preference Shares in the Past Three Years

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

(II) Information of Preference Shareholders

As at the end of the Reporting Period, the total number of preference shareholders was 41. As at 28 February 2021, the total number of preference shareholders was 42.

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 held	Shares pledged or frozen	Nature of shareholders
China Mobile Communications Corporation	–	100,000,000	22.22	Domestic preference share	Nil	State-owned legal entity
AXA SPDB Investment Managers – SPDB – Shanghai Pudong Development Bank Shanghai Branch	–	20,000,000	4.44	Domestic preference share	Nil	Others
CCB Trust Co., Ltd. – "Qian Yuan – Ri Xin Yue Yi" open-ended wealth management single fund trust	–	20,000,000	4.44	Domestic preference share	Nil	Others
Truvalue Asset Management – CMBC – China Merchants Bank Co., Ltd.	–	20,000,000	4.44	Domestic preference share	Nil	Others
Bosera Funds – ICBC – Bosera – ICBC – Flexible Allocation No. 5 Specific Multi-Customer Asset Management Plan	–	20,000,000	4.44	Domestic preference share	Nil	Others
Wisdom Asset Management – Ping An Bank – Ping An Bank Co., Ltd.	–	20,000,000	4.44	Domestic preference share	Nil	Others
China Citic Bank Corporation Limited – HuiYing Series of CITIC Banking Service	2,000,000	20,000,000	4.44	Domestic preference share	Nil	Others
China Ping An Life Insurance Co., Ltd. – Self-owned capital	–	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

Notes:

1. Shareholdings of preference shareholders are summarised according to the Bank's register members of preference shareholders.
2. "Percentage" refers to the percentage of number of preference shares held by preference shareholders in the total number of preference shares.
3. 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.

(III) 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 did 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 8th meeting of the 9th Session of Board of Directors of the Bank was held on 27 March 2020, during which the proposal for the dividend distribution of the offshore preference shares and the dividend distribution of the domestic preference shares were approved. The total amount of offshore preference shares' dividend distributed by the Bank amounted to USD136,111,111, including USD122,500,000 paid to preference shareholders at the after-tax dividend rate of 5% under the terms of issuance of the offshore preference shares. In addition, in accordance with relevant laws and regulations, 10% withholding tax of USD13,611,111 was withheld by the Bank on behalf of offshore preference shareholders. The above dividends were fully paid in cash on 29 July 2020. The dividend on domestic preference shares was calculated at the nominal dividend yield of 3.9% and amounted to RMB1,755,000,000, which was fully distributed as cash dividends on 7 September 2020.

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

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

Preference share type	Date of dividend distribution	Total amount of dividend distributed (including tax)	Dividend rate
Domestic Preference Share	7 September 2020	RMB1,755,000,000	3.9%
Offshore Preference Share	29 July 2020	USD136,111,111	5.0%
Domestic Preference Share	9 September 2019	RMB1,755,000,000	3.9%
Offshore Preference Share	29 July 2019	USD136,111,111	5.0%
Domestic Preference Share	7 September 2018	RMB1,755,000,000	3.9%
Offshore Preference Share	30 July 2018	USD136,111,111	5.0%

CHANGES IN SHARES AND SHAREHOLDERS

(IV). Redemption and Conversion of Preference Shares

In July 2015, the Bank issued USD2.45 billion offshore preference shares, and they were listed on the Hong Kong Stock Exchange. On 27 March 2020, *the Proposal in Relation to Exercising the Redemption Right on the Offshore Preference Shares by Bank of Communications Co., Ltd.* was passed at the 8th meeting of the 9th Session of Board of Directors of the Bank. In June 2020, the Bank received a no objection letter from the CBIRC, regarding the Bank's redemption of USD2.45 billion offshore preference shares. In accordance with the terms and conditions of offshore preference shares, the Bank redeemed all of the aforementioned offshore preference shares on 29 July 2020. The redemption price of each offshore preference share was equal to the aggregate of the issue price (that is, the amount of liquidation preference) of each offshore preference share plus any declared but unpaid dividend accrued in respect of the period from (and including) the immediately preceding dividend payment date to (but excluding) the redemption date in respect of each offshore preference share. The aggregate price of the redemption amounted to USD2.5725 billion. There were no outstanding offshore preference shares after the redemption and cancellation of the aforementioned ones.

During the Reporting Period, there was no conversion of preference shares.

(V) Restoration of Voting Rights

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

(VI) Accounting Policy for Preference Shares and its Rationale

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

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND HUMAN RESOURCE MANAGEMENT

I. MEMBERS OF THE BOARD OF DIRECTORS

The Bank currently has 15 directors as below:

Name	Position	Gender	Age	Beginning and ending dates of term
Ren Deqi	Chairman of the Board of Directors and Executive Director	Male	57	August 2018 – 2021 Annual General Meeting
Liu Jun	Vice Chairman of the Board of Directors, Executive Director and President	Male	49	August 2020 – the same as above
Li Longcheng	Non-executive Director	Male	57	June 2020 – the same as above
Wang Linping	Non-executive Director	Male	57	January 2021 – the same as above
Chang Baosheng	Non-executive Director	Male	52	January 2021 – the same as above
Chan Siu Chung	Non-executive Director	Male	58	October 2019 – the same as above
Song Hongjun	Non-executive Director	Male	55	August 2019 – the same as above
Chen Junkui	Non-executive Director	Male	46	August 2019 – the same as above
Liu Haoyang	Non-executive Director	Male	48	August 2016 – the same as above
Jason Yeung Chi Wai	Independent Non-executive Director	Male	66	October 2016 – the same as above
Raymond Woo Chin Wan	Independent Non-executive Director	Male	66	November 2017 – the same as above
Cai Haoyi	Independent Non-executive Director	Male	66	August 2018 – the same as above
Shi Lei	Independent Non-executive Director	Male	63	December 2019 – the same as above
Zhang Xiangdong	Independent Non-executive Director	Male	63	August 2020 – the same as above
Li Xiaohui	Independent Non-executive Director	Female	53	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. Term of office of Mr. Ren Deqi and Mr. Liu Jun refer to their term of office as Executive Directors of the Bank.
3. Mr. Wang Linping and Mr. Chang Baosheng have served as Non-executive Directors of the Bank since 8 January 2021. In accordance with the resolution of 2020 Second Extraordinary General Meeting, Mr. He Zhaobin no longer served as Non-executive Director of the Bank since 8 January 2021.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND HUMAN RESOURCE MANAGEMENT

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

Main duties

Mr. Ren has been Chairman of the Board of Directors 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 Bank of China Shanghai RMB Trading Business Headquarters. 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 the Ministry of Finance, Chief Inspector of the Heilongjiang Supervision & Inspection Office of the Ministry of Finance, Chief Inspector of the Liaoning Supervision & Inspection Office of the Ministry of Finance, Deputy Inspector of the Heilongjiang Supervision & Inspection Office of the Ministry of Finance, Deputy Inspector of the Zhejiang Supervision & Inspection Office of the 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 the 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 the Ministry of Finance, Chairman of China Finance and Economic Media Group, department level cadre of the Ministry of Finance. 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 the 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 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 the 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 the Ministry of Finance.

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.

Educational background and professional qualification

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

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.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND HUMAN RESOURCE MANAGEMENT

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 Pension Accounting Department of the National Council for Social Security Fund, a substantial shareholder of the Bank.

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.

Experience

Mr. Song served as 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.

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, a substantial shareholder of the Bank.

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

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.

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 Beijing Capital Airport Holding Company, a substantial shareholder of the Bank.

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

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 Beijing Capital Airport Holding Company and Assistant to Manager of the Finance Department of Jinfei Civil Aviation Economic Development Centre.

Mr. Jason Yeung Chi Wai 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

Member of the Convention 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 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. Raymond Woo Chin Wan 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.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND HUMAN RESOURCE MANAGEMENT

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 Everbright Bank of China 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.

Other duties

Independent Non-executive Director of Ko Yo Chemical (Group) Limited and Sanxiang Impression Co., Ltd.

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.

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 a 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 Camel Group 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 Cangzhou Accounting Firm, Cangshi Accounting Firm and the State-owned Assets Administration under Hebei Province Department of Finance. Ms. Li previously served as Director of Fangda Carbon New Material Co., Ltd., Bank of Beijing Co., Ltd. and China U-Ton Holdings Limited.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND HUMAN RESOURCE MANAGEMENT

II. MEMBERS OF THE BOARD OF SUPERVISORS

The Bank currently has 10 supervisors as below:

Name	Position	Gender	Age	Beginning and ending dates of term
Zhang Minsheng	Shareholder Supervisor	Male	52	March 2020 – date of 2021 Annual General Meeting
Wang Xueqing	Shareholder Supervisor	Male	53	June 2017 – the same as above
Xia Zhihua	External Supervisor	Female	66	June 2016 – the same as above
Li Yao	External Supervisor	Male	50	October 2017 – the same as above
Chen Hanwen	External Supervisor	Male	53	June 2019 – the same as above
Ju Jiandong	External Supervisor	Male	57	June 2020 – the same as above
Du Yarong	Employee Supervisor	Male	57	August 2010 – the same as above
Guan Xingshe	Employee Supervisor	Male	56	October 2018 – the same as above
Lin Zhihong	Employee Supervisor	Female	52	December 2020 – the same as above
Feng Bing	Employee Supervisor	Female	46	December 2020 – 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. Cai Yunge resigned from the Bank's Chairman of the Board of Supervisors and Shareholder Supervisor on 22 March 2021.

Mr. Zhang Minsheng Shareholder Supervisor

Main duties

Mr. Zhang has been Shareholder Supervisor of the Bank since March 2020.

Mr. Zhang serves as Chief Accountant of Aviation Industry Corporation of China, Ltd., a substantial shareholder of the Bank.

Educational background and professional qualification

Mr. Zhang obtained his EMBA degree from HEC Paris in 2009

Senior Economist

Experience

Mr. Zhang served as Director and General Manager of AVIC Capital Co., Ltd., Chief Accountant of Aero Engine Corporation of China. During the period, he also took positions of Chairman of the Board of Directors of AECC Aviation Power Co., Ltd. and Executive Director (Legal Representative) of AECC Asset Management Co., Ltd. Mr. Zhang was Chairman of the Board of Directors, Vice Chairman of the Board of Directors and General Manager of AECC Xi'an Aero-Engine (Group) Ltd. During the period, he also took the position of Deputy General Manager of AECC Aviation Power Co., Ltd. and General Manager of the Xi'an Branch, and Vice Chairman of the Board of Directors, Director, General Manager and Chairman of the Board of Supervisors of Xi'an Aviation Power Co., Ltd. Mr. Zhang previously held the position of Minister of the Audit Department of Aviation Industry Corporation of China, Ltd. ("AVIC"), and Minister, Deputy Minister, Division Chief and Deputy Division Chief of the Financial Audit Department of AVIC II.

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.

Chairman of the Board of Supervisors of PTINDOSPECENERGY

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.

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 the Ministry of Finance, Deputy Director-General of National Debt Department and the National Debt Financial Department of the Ministry of Finance, and Division Chief and Deputy Division Chief of the State Debt Management Department of the Ministry of Finance.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND HUMAN RESOURCE MANAGEMENT

Mr. Li Yao External Supervisor

Main duties

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

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

Educational background and professional qualification

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

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 visiting scholar program (CCSEP) for the purpose of governmental exchange between Chinese and Canadian exchange in Rotman School of Management at the University of Toronto.

Mr. Chen Hanwen External Supervisor

Main duties

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

Mr. Chen is Level-2 Professor, Huiyuan Distinguished Professor, Doctoral Supervisor and contact of the Post-doctoral Research Station of University of International Business and Economics.

Educational background and professional qualification

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

Other duties

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 and Executive Council Member of the China Audit Society

Independent Non-executive Director of China Shenhua Energy Company Limited, Wanda Commercial Management Group Co., Ltd., and Beijing Tri-Prime Gene Pharmaceutical 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 International Bank Co., Ltd, Industrial Securities Co., Ltd., Minsheng Holdings Co., Ltd., and Yango Group Co., Ltd. in the past three years.

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.

Educational background and professional qualification

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

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.

Mr. Du Yarong Employee Supervisor

Main duties

Mr. Du has been Employee Supervisor of the Bank since August 2010.

Mr. Du serves as Deputy Secretary of the Discipline Inspection and Supervision Group of the Central Commission for Discipline Inspection and the National Commission of Supervision in the Bank of Communications.

Educational background and professional qualification

Mr. Du obtained his Bachelor's degree in Science from Hangzhou Normal University in 1986.

Experience

Mr. Du held various positions in the Bank, including the Bank's Deputy Secretary of the Discipline Inspection Committee, Head (General Manager) of the Bureau of Supervision (Anti-fraud Department) and Director of the Office of Inspection Leadership Team, Director of the Office of Discipline Investigation and Supervision and General Manager of the Security Department, Executive Vice President in Zhejiang (Hangzhou) Branch, Director of the General Office in Hangzhou Branch, President in the Xiaoshan Sub-branch of the Hangzhou Branch (During the period, he served a temporary position in the Internal Audit Control Division at the Bank's Head Office), and Director and Deputy Director of the Party Committee Office in the Bank's Hangzhou Branch, serving the Bank for 23 years. Mr. Du served as Director and Deputy Director of the Office of Hangzhou Municipal Bureau of Strategic Reserves.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND HUMAN RESOURCE MANAGEMENT

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.

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 26 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 the BoCom Financial Asset Investment Co., Ltd.

Educational background and professional qualification

Ms. Lin obtained her Master's degree in Business Administration 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), 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 Finance Office of the Financial Accounting Department, serving the Bank for 30 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 of the Bank.

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

Experience

Ms. Feng held various positions in the Bank, including Deputy General Manager, Senior Manager of Structural Planning, Senior Manager of Performance Management (During the period, she served a temporary position in the Jiaxing Branch of the Bank as Executive Vice President) and Deputy Senior Manager of Performance Management of the Human Resource Department of the Bank's Head Office, and she also served as Deputy Head of Economic Research Office of the Development Research Department of the Bank's Head Office, serving the Bank for 20 years.

III. PROFILE OF SENIOR MANAGEMENT

The Bank currently has 8 senior managers as below:

Name	Position	Gender	Age	Beginning and ending dates of term
Liu Jun	President	Male	49	July 2020 – July 2023
Yin Jiuyong	Executive Vice President	Male	53	September 2019 – September 2022
Guo Mang	Executive Vice President	Male	58	July 2018 – July 2021
Zhou Wanfu	Executive Vice President	Male	55	July 2020 – July 2023
Hao Cheng	Executive Vice President	Male	49	March 2021 – March 2024
Gu Sheng	Secretary of the Board of Directors	Male	58	April 2018 – April 2021
Tu Hong	Chief Business Officer (Interbank and Market Business Sector)	Male	55	September 2018 – September 2021
Ng Siu On	BoCom-HSBC Strategic Cooperation Consultant	Male	67	March 2013 – March 2022

Notes:

1. Term of office of senior management is effective 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. Hao Cheng has been Executive Vice President of the Bank since 23 March 2021.

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.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND HUMAN RESOURCE MANAGEMENT

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 and Executive Vice President (in charge of overall work) of the Bank's Chongqing Branch, Executive Vice President of the Bank's Shenzhen Branch, General Manager of the Marketing Department, President and Executive Vice President (in charge of overall work) of the Hongli Sub-branch, Executive Vice President (in charge of overall work) of Shatoujiao Sub-branch and Director of Shatoujiao Office, serving the Bank for 29 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 Strategic Planning Department, President of Tianjin Training Institute, Executive Vice President of Chongqing Branch, General manager of the Asset and Liability Management Department, 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. 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's 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 Bank, President of the Xiaguan Sub-Branch, Executive Vice President of the Xiaguan Branch, Deputy Division Chief of the Personnel and Education Department and Assistant to the Division Chief of the Personnel and Education Department, serving the Bank for 34 years.

Mr. Tu Hong Chief Business Officer (Interbank and Market Business Sector)

Main duties

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

Mr. Tu has been the Chairman of BoCom Asset Management Limited Liability Company 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 Instituton Department of the Bank's Head Office, during which period he concurrently served as Chief Executive Officer of the Asset Management Business Center, Chief Executive Officer of the Financial Market Business Center, 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 31 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's 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.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND HUMAN RESOURCE MANAGEMENT

IV. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(I) Changes in Directors and Senior Management

The CBIRC approved Mr. Ren Deqi's appointment as Chairman of the Board of Directors of the Bank from 16 January 2020. On the same day, Mr. Ren Deqi would no longer serve as Vice Chairman of the Board of Directors of the Bank. The CBIRC approved Mr. Liu Jun's appointment as Vice Chairman of the Board of Directors and Executive Director from 5 August 2020; Mr. Liu has served as President of the Bank from 7 July 2020. On the same day, Mr. Ren Deqi would no longer perform the duties of acting President.

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

Name	Position	Change
Liu Jun	Vice Chairman of the Board of Directors, Executive Director and President	Elected/Appointed
Li Longcheng	Non-executive Director	Elected
Wang Linping	Non-executive Director	Elected
Chang Baosheng	Non-executive Director	Elected
Liao Yijian	Non-executive Director (designate)	Elected
Zhang Xiangdong	Independent Non-executive Director	Elected
Li Xiaohui	Independent Non-executive Director	Elected
Cai Yunge	Chairman of the Board of Supervisors and Shareholder Supervisor	Elected
Zhang Minsheng	Shareholder Supervisor	Elected
Ju Jiandong	External Supervisor	Elected
Lin Zhihong	Employee Supervisor	Elected
Feng Bing	Employee Supervisor	Elected
Zhou Wanfu	Executive Vice President	Appointed
Hao Cheng	Executive Vice President	Appointed
Zhang Hui	Chief Risk Officer	Appointed

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

Name	Ex-position	Change	Beginning and ending dates of term
Hou Weidong	Ex-Executive Director and Ex-Executive Vice President	Retired (due to retirement)	October 2015 – April 2020
Wang Taiyin	Ex-Non-executive Director	Retired (due to job assignment)	August 2013 – June 2020
Song Guobin	Ex-Non-executive Director	Retired (due to job assignment)	August 2017 – August 2020
He Zhaobin	Ex-Non-executive Director	Retired (due to job assignment)	August 2017 – January 2021
Li Jian	Ex-Independent Non-executive Director	Retired (due to the expiration of the terms)	October 2014 – August 2020
Liu Li	Ex-Independent Non-executive Director	Retired (due to the expiration of the terms)	September 2014 – November 2020
Cai Yunge	Ex-Chairman of the Board of Supervisors and Ex-Shareholder Supervisor	Resigned (due to job assignment)	November 2020 – March 2021
Tang Xinyu	Ex-External Supervisor	Retired (due to the expiration of the terms)	June 2014 – June 2020
Chen Qing	Ex-Employee Supervisor	Retired (due to retirement)	November 2004 – August 2020
Wang Xuewu	Ex-Employee Supervisor	Retired (due to job assignment)	June 2019 – December 2020
Lyu Jiajin	Ex-Executive Vice President	Resigned (due to job assignment)	January 2019 – July 2020
Xu Han	Ex-Chief Business Officer (Retail and Private Business Sector)	Resigned (due to job assignment)	September 2018 – July 2020
Zhang Hui	Ex-Chief Risk Officer	Resigned (due to job assignment)	July 2020 – November 2020

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

Mr. Ju Jiandong serves as Independent Non-executive Director of COFCO Meat Holdings Limited, which was renamed as COFCO Joycome Foods Limited during the Reporting Period.

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

Mr. Ng Siu On no longer served as Honourary Advisor of the Hong Kong Institute of Bankers.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND HUMAN RESOURCE MANAGEMENT

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

(I) Details of Emoluments and Shareholdings

Name	Position	Total taxable emoluments received during the Reporting Period (in RMB0'000)			Emoluments received from related parties or not	Class of shares	Number of shares held at the beginning of the Reporting Period (share)	Increase (or decrease) in shareholdings during the Reporting Period (Share)	Number of shares held at the end of the Reporting Period (share)
		Emoluments	Other benefits	Total					
Ren Deqi	Chairman of the Board of Directors and Executive Director	61.94	16.08	78.02	No	A share	0	0	0
						H share	100,000	100,000	200,000
Liu Jun	Vice Chairman of the Board of Directors, Executive Director and President	36.13	9.26	45.39	No	A share	0	0	0
						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
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
Jason Yeung Chi Wai	Independent Non-executive Director	31	–	31	No	A share	0	0	0
						H share	0	0	0
Raymond Woo Chin Wan	Independent Non-executive Director	31	–	31	No	A share	0	0	0
						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	31	–	31	No	A share	0	0	0
						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	3.94	–	3.94	No	A share	0	0	0
						H share	0	0	0
Zhang Minsheng	Shareholder Supervisor	–	–	–	Yes	A share	0	0	0
						H share	0	0	0
Wang Xueqing	Shareholder Supervisor	–	–	–	Yes	A share	0	0	0
						H share	0	0	0
Xia Zhihua	External Supervisor	–	–	–	No	A share	0	0	0
						H share	0	0	0
Li Yao	External Supervisor	27.00	–	27.00	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	13.00	–	13.00	No	A share	0	0	0
						H share	0	0	0

Name	Position	Total taxable emoluments received during the Reporting Period (in RMB0'000)			Emoluments received from related parties or not	Class of shares	Number of shares held at the beginning of the Reporting Period (share)	Increase (or decrease) in shareholdings during the Reporting Period (Share)	Number of shares held at the end of the Reporting Period (share)
		Emoluments	Other benefits	Total					
Du Yarong	Employee Supervisor	94.55	16.72	111.27	No	A share	60,000	30,000	90,000
						H share	20,000	0	20,000
Guan Xingshe	Employee Supervisor	90.49	16.72	107.21	No	A share	0	0	0
						H share	0	0	0
Lin Zhihong	Employee Supervisor	–	–	–	No	A share	0	30,000	30,000
						H share	0	0	0
Feng Bing	Employee Supervisor	–	–	–	No	A share	0	0	0
						H share	0	0	0
Yin Jiuyong	Executive Vice President	55.74	15.70	71.44	No	A share	0	0	0
						H share	0	0	0
Guo Mang	Executive Vice President	55.74	14.70	70.44	No	A share	50,000	0	50,000
						H share	0	0	0
Zhou Wanfu	Executive Vice President	41.81	11.57	53.38	No	A share	0	0	0
						H share	0	0	0
Hao Cheng	Executive Vice President	4.65	1.40	6.05	No	A share	0	0	0
						H share	0	0	0
Gu Sheng	Secretary of the Board of Directors	100.00	15.37	115.37	No	A share	66,100	0	66,100
						H share	21,000	0	21,000
Tu Hong	Chief Business Officer (Interbank and Market Business Sector)	100.00	17.54	117.54	No	A share	0	0	0
						H share	50,000	0	50,000
Ng Siu On	BoCom-HSBC Strategic Cooperation Consultant	–	–	–	Yes	A share	0	0	0
						H share	30,000	0	30,000
Resigned/Retired Directors, Supervisors and Senior Management									
Hou Weidong	Ex-Executive Director and Ex-Executive Vice President	18.58	5.15	23.73	No	A share	80,000	0	80,000
						H share	20,000	0	20,000
Wang Taiyin	Ex-Non-executive Director	44.40	7.54	51.94	No	A share	80,000	0	80,000
						H share	50,000	0	50,000
Song Guobin	Ex-Non-executive Director	57.40	10.13	67.53	No	A share	20,000	0	20,000
						H share	0	0	0
He Zhaobin	Ex-Non-executive Director	86.60	16.07	102.67	No	A share	20,000	0	20,000
						H share	0	0	0
Li Jian	Ex-Independent Non-executive Director	21.06	–	21.06	No	A share	0	0	0
						H share	0	0	0
Liu Li	Ex-Independent Non-executive Director	29.06	–	29.06	No	A share	0	0	0
						H share	0	0	0
Cai Yunge	Ex-Chairman of the Board of Supervisors and Ex-Shareholder Supervisor	15.48	4.10	19.58	No	A share	0	0	0
						H share	0	0	0
Tang Xinyu	Ex-External Supervisor	–	–	–	No	A share	0	0	0
						H share	0	0	0
Chen Qing	Ex-Employee Supervisor	56.90	9.13	66.03	No	A share	40,000	0	40,000
						H share	20,000	0	20,000
Wang Xuewu	Ex-Employee Supervisor	92.09	16.72	108.82	No	A share	25,000	30,000	55,000
						H share	0	0	0
Lyu Jiajin	Ex-Executive Vice President	27.87	7.89	35.76	No	A share	0	0	0
						H share	0	0	0

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND HUMAN RESOURCE MANAGEMENT

Name	Position	Total taxable emoluments received during the Reporting Period (in RMB0'000)			Emoluments received from related parties or not	Class of shares	Number of shares held at the beginning of the Reporting Period (share)	Increase (or decrease) in shareholdings during the Reporting Period (Share)	Number of shares held at the end of the Reporting Period (share)
		Emoluments	Other benefits	Total					
Xu Han	Ex-Chief Business Officer (Retail and Private Business Sector)	41.65	6.16	47.81	No	A share	50,000	0	50,000
						H share	30,000	0	30,000
Zhang Hui	Ex-Chief Risk Officer	33.32	6.75	40.07	No	A share	45,000	0	45,000
						H share	20,000		20,000

Notes:

1. Mr. Guan Xingshe purchased 30,000 A shares of the Bank in January 2021. Mr. Wang Xuewu purchased 30,000 A shares of the Bank after his resignment in December 2020.
2. In 2020, 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 2020 are now subject to confirmation and the rest of which will be disclosed when confirmed.
3. Employee Supervisors of the Bank received remunerations as employees of the Bank, while receiving no remuneration from the Bank as Employee Supervisors.
4. 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 9.3905 million.

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

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

The remuneration 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 remuneration for Directors, Supervisors and Senior Management was determined in accordance with relevant requirements of the government and the Bank's senior management annual 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 persons in charge. For the Bank's Directors, Supervisors and Senior Management who were not managed by the central government but received 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.

VII. HUMAN RESOURCE MANAGEMENT

(I) Basic Information of Employees

As at the end of the Reporting Period, the Group had a total of 90,716 employees, of whom 84,740 employees were based in domestic branches and 2,591 were local employees in overseas branches. The number of employees of the Bank's major subsidiaries was 3,385, excluding staff dispatched from the Head Office and Branches. The number of retired employees that the Bank had obligation to bear the cost to was 2,498.

For employees in domestic institutions, 29,742 employees heldhold professional and technical qualifications, of which 557 employees held senior professional and technical qualifications, accounting for approximately 0.66%. 15,791 employees held intermediate professional and technical qualifications, accounting for 18.63%. 13,394 employees held junior professional and technical qualifications, accounting for 15.81%. The number of employees with master's degree and above is 11,774, accounting for 13.89%. The number of employees with bachelor's degree is 59,581, accounting for 70.31%. And 13,385 employees had associate's degree and below, which accounted for 15.80%.

Expertise of domestic employees

Category of position	Number of employees	Proportion (%)
Market Development	28,695	33.86
Financial Accounting	25,672	30.30
Operating and Management	7,778	9.18
Service Assurance	6,734	7.95
Risk Management	5,698	6.72
Information Technology	2,809	3.31
Audit Supervision	1,383	1.63
Others	5,971	7.05
Total	**84,740**	**100.00**

As at the end of the Reporting Period, the Bank's assets, entities and employees were presented by regions as follows:

	Assets		Entities		Employees	
	Amount (in millions of RMB)	Proportion (%)	Number of entities	Proportion (%)	Number of employees	Proportion (%)
Yangtze River Delta	2,641,386	24.69	719	23.98	25,539	29.24
Pearl River Delta	920,887	8.61	323	10.77	9,262	10.61
Bohai Rim Economic Zone	1,543,501	14.43	490	16.35	13,494	15.45
Central China	1,194,919	11.17	553	18.45	13,777	15.78
Western China	822,759	7.69	485	16.18	10,795	12.36
North Eastern China	384,627	3.60	358	11.94	8,703	9.96
Overseas	1,114,676	10.42	69	2.30	2,591	2.97
Head Office	4,187,998	39.15	1	0.03	3,170	3.63
Eliminated and unallocated assets	(2,113,137)	(19.76)	–	–	–	–
Total	**10,697,616**	**100.00**	**2,998**	**100.00**	**87,331**	**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.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND HUMAN RESOURCE MANAGEMENT

(II) Employees' Remuneration Policy

In response to the reform and development requirements, the Bank improved the performance appraisal and remuneration system of "salary determined by post and bonus granted upon performance". The Bank adhered to 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 the guidance of responsibility, grass-root and performance, and focused on the precise motivation of key groups based on product profitability. Based on the risk accountability system, the Bank continued to improve the deferred payment system for the performance-based incentives of the employees in key positions for the purpose of stable operation and sustainable development. In addition to basic social pension and insurance, the Bank cared the staff and implemented the supplementary benefits such as annuity.

(III) Training Management

During the Reporting Period, the Bank continuously held various training classes for cadres, including 4 special training sessions for outstanding young and middle-aged cadres, 1 training session for newly appointed leaders in charge of the grass-roots business institutions, 1 orientation training session for senior managers, 1 training session for key leaders of provincial branches, and some qualification certification training sessions for leaders of tier-2 branches. The Bank paid great attention to professional trainings and held various seminars on corporate businesses, international businesses, inclusive finance business, credit granting businesses and interbank businesses. In addition, the Bank conducted enhancement trainings for employees to improve their business operating abilities in retail business and anti-money laundering training to strengthen the professional competence of employees. In view of the impact of COVID-19 pandemic, the Bank switched to online training via its own platform e-school, xuexi.cn APP and Tencent Meeting. During the Reporting Period, the Bank organised cadre training for nearly 1.33 million staff, including face-to-face training for over 0.17 million staff and online training for over 0.90 million staff. Besides, nearly 0.26 million staff received a combination of in-person and online training or other training.

(IV) Talent Training and Reserve

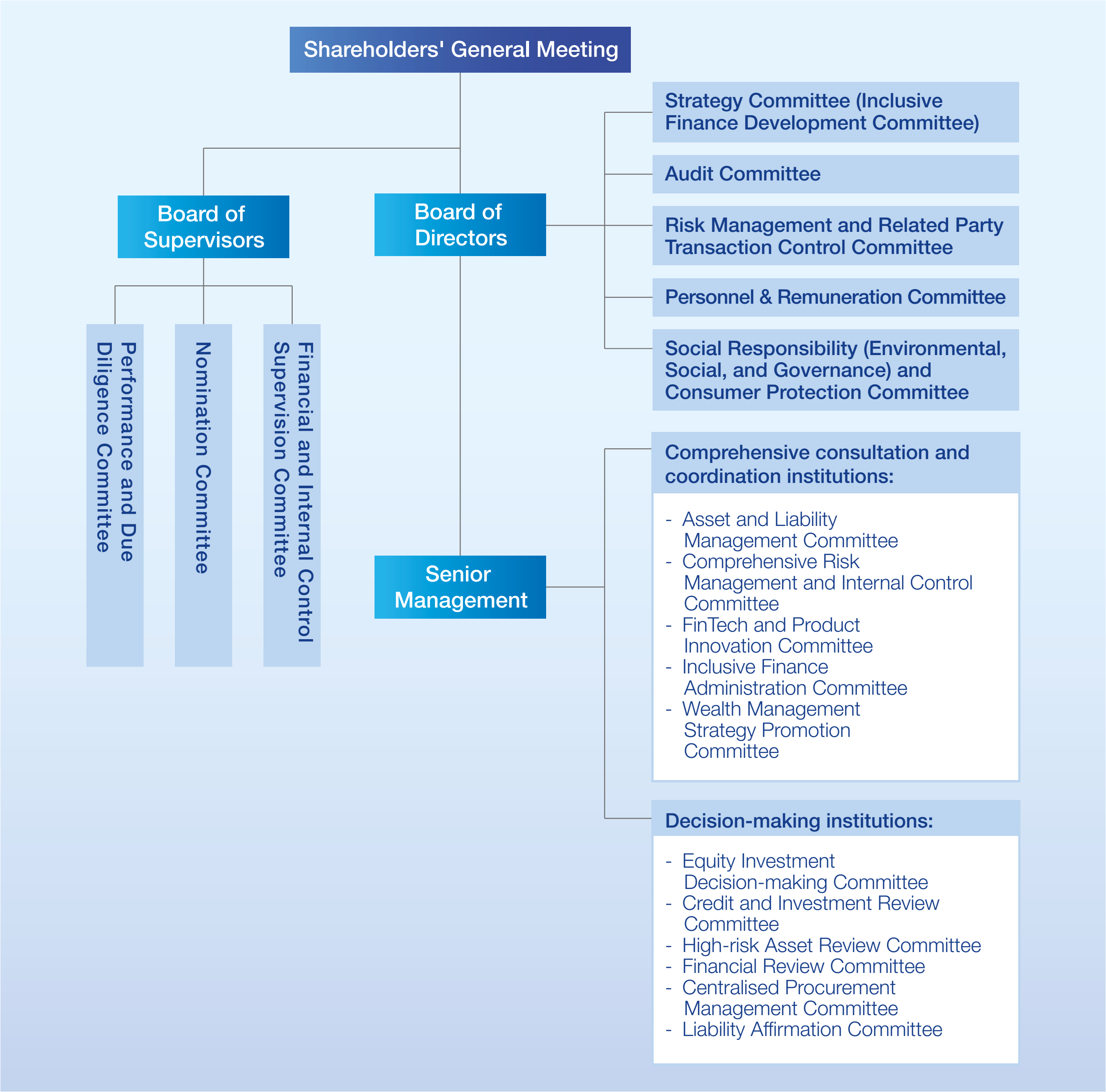
During the Reporting Period, the Bank formulated the *Plan for the Cultivation of FinTech Talents (2020-2024)*. The Bank strived to build a technology team consisting of over 10,000 talents with "forward-looking vision, agile mind, efficient work style, and value creating ability" via external talent introduction, internal talent transformation and incentive scheme. The Bank optimised the career ladder for experts and enhanced the professionals' guidance of responsibility, grass-root and performance, resulting in the employment of over 200 experts during the year. The Bank improved the mechanism for cultivating management trainees, especially FinTech professionals and other leading talents. More and more general management trainees were sent to support key areas for an accelerated career growth. The Bank kept aligned with national and local talent programmes, providing talent support for the development of Beijing-Tianjin-Hebei, Yangtze River Delta, Guangdong-Hong Kong-Macao Greater Bay Area and Hainan Free Trade Port. The Bank pushed forward the building of international talent teams and continued to develop talents in areas including risk compliance, credit review, information technology through overseas exchange and job shadowing and special training. During the Reporting Period, a total of more than 60 professional cadres were dispatched, recalled or put into job rotation. During the year, the 4 talents were listed as leading employees financial talents of Shanghai Financial System, and 7 talents were listed as young financial talents of Shanghai Financial System.

CORPORATE GOVERNANCE REPORT

Adhering to the governance vision of becoming the "best bank in corporate governance", the Bank insisted on combining effective international governance practices with China's national situation and industrial realities, and improved the governance mechanism for large-scale commercial banks with Chinese characteristics, which is "core leadership by the Party Committees, strategic decision making by the Board of Directors, legal supervision by the Board of Supervisors and authorised operation by Senior Management". During the Reporting Period, the corporate governance of the Bank strictly abided by the *Company Law*, the *Securities Law* and the requirements stipulated by the CSRC.

I. CORPORATE GOVERNANCE STRUCTURE

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



CORPORATE GOVERNANCE REPORT

II. POLICY AND MECHANISM OF CORPORATE GOVERNANCE

During the Reporting Period, the Bank strengthened the system development and improved institutional mechanism around areas including Party leadership, governance of stakeholders, Board of Directors, Board of Supervisors and Senior Management, stakeholders and social responsibilities, incentive and constraint mechanism, information disclosure, risk management and internal control. The Board of Directors fulfilled the responsibilities of examining and assessing corporate governance, inspected and evaluated the execution of corporate governance in due course and enhanced the rationality, robustness and effectiveness of corporate governance.

During the Reporting Period, the Bank evaluated the structure and composition of the Board of Directors and Senior Management, strengthened the construction of the corporate governance system, and enriched the governance fields. The Shareholders' General Meeting and the Board of Directors discussed and approved resolutions such as election of directors, appointment of senior management, and adjustment of members of Special Committees under the Board of Directors; the Board approved the implementation of *Data Governance Policy, Articles of Internal Audit, Emergency Management Measures*, revised the *Internal Control Outline, Consumer Rights Protection Policy, Working Guidance of the Risk Management and Related Party Transaction Control Committee under the Board of Directors* and *Working Guidance of the Social Responsibility and Consumer Protection Committee under the Board of Directors*. The Board fully leveraged the role of all Special Committees, expanded the responsibilities of relevant Special Committees in areas such as anti-money laundering and anti-terrorist financing, consumer rights protection, and environmental, and social and governance (ESG).

III. SHAREHOLDERS AND SHAREHOLDERS' GENERAL MEETINGS

(I) Shareholders

As at the end of the Reporting Period, the total number of issued ordinary shares of the Bank was 74,262,726,645. There was no controlling shareholder of the Bank. The largest three shareholders were the Ministry of Finance of the People's Republic of China, HSBC and the SSF. The Bank was independent from all shareholders in terms of its business, employees, assets, institutions and finance and possessed independent and complete autonomy over its business and operations. The entire business of the Bank was listed as a whole and there was no horizontal competition or related transactions arising from partial restructuring.

The Bank laid great importance to the protection of shareholders' rights and interests, and maintained smooth communication channels with shareholders through holding Shareholders' General Meetings, welcoming and receiving shareholders' visits and setting up investor hotline to ensure that all the shareholders enjoy equal status and protect their right to know, to participate and to vote on major events. Shareholders can bring up enquiries and proposals to the Board of Directors through the contacts listed in the section Corporate Information of this report. The Shareholders' General Meeting is the highest authority of the Bank and exercises its relevant functions in accordance with laws. Individual or a group of shareholders holding a total of over 10% shares with voting rights of the Bank is entitled to request in written form for convening extraordinary Shareholders' General Meeting. Individual or a group of shareholders holding a total of over 3% shares with voting rights of the Bank is entitled to bring up proposals in written form to 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 Associations* of the Bank. Details are as follows:

Session	Date	Proposal	Resolution	Website Designated for Publishing Resolution
2020 First Extraordinary General Meeting	10 March 2020	6 proposals including the *Proposal of the Issuance of Undated Capital Bonds*	Passed	The official website of the Bank at www.bankcomm.com The SSE website at www.sse.com.cn The website of the Hong Kong Stock Exchange at www.hkexnews.hk
2019 Annual General Meeting	30 June 2020	13 proposals including the *2019 Work Report of Board of Directors of the Bank of Communication Co., Ltd.*	Passed	The same as above
2020 Second Extraordinary General Meeting	18 November 2020	6 proposals including the *Proposal on the Confirmation of Donations in Fighting against COVID-19 Pandemic in 2020*	Passed	The same as above

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

(I). Composition of the Board of Directors

The Bank has developed sound and complete procedures for the nomination and election of directors, which was specified in the *Articles of Association*. The Bank is committed to promoting diversification of members of the Board of Directors and has set measurable objectives to achieve the diversification. During the process of appointing members of the Board of Directors, the Bank considered the objectives and requirements of diversity from multiple perspectives with a comprehensive assessment of the expertise, industrial experience, educational background, cultural values, gender and age of the candidates to ensure the scientific strategic decision-making of the Board of Directors with professional and diversified viewpoints and perspectives. The term of office of the Directors of the Bank is 3 years. Directors can be re-elected upon expiry of the term of office and Independent Non-executive Directors' accumulated tenure in the Bank cannot exceed 6 years.

As at the end of the Reporting Period, the Board of Directors comprised 15 members, including 2 Executive Directors, namely Mr. Ren Deqi and Mr. Liu Jun, 7 Non-executive Directors, namely Mr. Li Longcheng, Mr. Wang Linping, Mr. Chang Baosheng, Mr. Chan Siu Chung, Mr. Song Hongjun, Mr. Chen Junkui and Mr Liu Haoyang, and 6 Independent Non-executive Directors, namely Mr. Jason Yeung Chi Wai, Mr. Raymond Woo Chin Wan, 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. Please refer to the "Directors, Supervisors, Senior Management and Human Resource Management" section for the changes of the members of the Board of Directors and the current incumbent directors' biographical details.

CORPORATE GOVERNANCE REPORT

The Bank ensured that all directors adhere to the high standards of code of ethics. The executive directors of the Bank, who have extensive banking professional knowledge and management experience, have engaged in the operation and management of commercial banks for years. With years of experience in fiscal, economic, financial, auditing, and business management sectors, the non-executive directors have developed in-depth understanding of governance policies and practical management experiences. 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, 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.

Members of the Board of Directors

Type	Executive Director 2	Non-executive Director 7	Independent Non-executive Director 6
Region	Mainland China 12	Hong Kong 3	
Age	Below 50 3	50-60 7	Over 60 5
Gender	Male 14	Female 1	
Term of Office	Over 3 years 3	Below 3 years 12	

(II) Responsibilities of the Board of Directors

The Board of Directors is responsible for the Shareholders' General Meeting and takes the 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 rights and 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 the amendments to the *Articles of Association*; and listening to work reports from the president.

During the Reporting Period, in the face of complicated internal and external environment, especially the sudden onset of COVID-19 pandemic, the Board of Directors of the Bank conscientiously implemented the decisions and arrangements of the Party Central Committee and the State Council. With the support and supervision of the regulatory authorities, the shareholders and the Board of Supervisors, and focusing on the strategic vision of "Building the First Tier Bank with Wealth Management Characteristics and Global Competitive Capabilities in the World", the Bank insisted on the new development principle and served the new development paradigm, promoting the Bank to a new level of high quality development.

In 2020, the Board of Directors of the Bank primarily focused on six areas. Above all was the coordination between the pandemic prevention and control and the reform and development of the Bank with an emphasis on three critical tasks of serving the real economy, preventing financial risks and deepening the financial reform. The second was to leverage the strategic decision-making function of the Board of Directors, building the Leading Bank in the Yangtze River Delta, compiling the Outline of the 14th Five-Year Development Plan and deepening the strategic cooperation with HSBC. The third was to improve the construction of corporate governance system, optimising the implementation, monitoring and evaluation while improving the rationality, stability and effectiveness of corporate governance. The fourth was to strengthen the information disclosure and management of investor relations, actively promoting the investment value of the Bank and ensuring the legitimate rights and interests of all the shareholders. Next was to emphsise asset management and capital supplement, carefully performing the duties of internal control and related party transactions management. Last was to promote the effective transformation from poverty alleviation to rural revitalisation, caring for all employees under the circumstances of pandemic and consistently improving the public welfare brand.

Besides that, the Board of Directors performed corporate governance duties of the Bank based on D.3.1 of the *Code of Corporate Governance*. During the Reporting Period, the Board of Directors examined and evaluated the execution of the corporate governance rules on a regular basis, reviewed the policies and practices of the Bank in relation to compliance with laws and regulations and reviewed the compliance of the Bank in accordance with the *Code of Corporate Governance* and the disclosures in *Corporate Governance Report*.

(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, 10 meetings of the Board of Directors were held, which discussed and approved 71 resolutions, such as profit distribution plan, fixed assets investments plan, investment in setting up National Green Development Fund Co., Ltd., establishment of BOCOM Financial Technology Company Limited and issuance of undated capital bonds. In addition, 28 meetings were held by the five Special Committees under the Board of Directors and 115 resolutions and reports were approved. All of the above meetings were held in accordance with the requirements of the *Articles of Association*, the *Rules of Procedures for Meetings of the Board of Directors* 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 was as follows:

CORPORATE GOVERNANCE REPORT

	Number of attendance/Number of meetings should be attended		Special Committees under the Board of Directors				
	Shareholders' General Meeting	Board of Directors	Strategy Committee (Inclusive Finance Development Committee)	Audit Committee	Risk Management and Related Party Transaction Control Committee	Personnel & Remuneration Committee	Social Responsibility (Environmental, Social and Governance) and Consumer Protection Committee
Executive Directors							
Ren Deqi	3/3	10/10	5/5	–	–	–	3/3
Liu Jun	1/1	5/5	3/3	–	–	–	2/2
Non-executive Directors							
Li Longcheng	1/2	6/6	–	3/3	–	2/2	–
Wang Linping	0/0	0/0	–	–	0/0	–	0/0
Chang Baosheng	0/0	0/0	0/0	0/0	–	–	–
Chan Siu Chung	0/3	9/10	–	–	–	–	5/5
Song Hongjun	1/3	10/10	5/5	–	7/7	–	–
Chen Junkui	0/3	8/10	5/5	5/5	–	–	–
Liu Haoyang	0/3	9/10	–	–	7/7	–	5/5
Independent Non-executive Directors							
Jason Yeung Chi Wai	0/3	10/10	5/5	5/5	–	–	–
Raymond Woo Chin Wan	1/3	10/10	–	5/5	–	6/6	–
Cai Haoyi	1/3	10/10	–	–	7/7	6/6	–
Shi Lei	1/3	9/10	–	–	7/7	6/6	–
Zhang Xiangdong	1/1	4/5	–	3/3	3/3	–	–
Li Xiaohui	0/0	1/1	–	1/1	1/1	–	–
Retired Directors							
Hou Weidong	1/1	2/2	2/2	–	–	–	–
Wang Taiyin	1/1	4/4	–	2/2	–	4/4	–
Song Guobin	2/2	6/6	–	–	5/5	–	4/4
He Zhaobin	3/3	10/10	5/5	5/5	–	–	–
Li Jian	0/2	5/5	–	2/2	4/4	–	–
Liu Li	1/3	9/9	–	4/4	6/6	–	–

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

(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 (Environmental, Social and Governance) and Consumer Protection Committee. Thereinto, the Strategy Committee and Inclusive Finance Development Committee implemented "one institution, two titles"; the Risk Management and Related Party Transaction Control Committee assumed the responsibilities of the US Risk Management Committee; and the Personnel & Remuneration Committee performed the functions of both nomination and remuneration.

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

Directors	Strategy Committee (Inclusive Finance Development Committee)	Audit Committee	Risk Management and Related Party Transaction Control Committee	Personnel & Remuneration Committee	Social Responsibility (Environmental, Social and Governance) 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
Song Hongjun	Member		Member		
Chen Junkui	Member	Member			
Liu Haoyang			Member		Member
Jason Yeung Chi Wai	Member	Member			
Raymond Woo Chin Wan		Member		Member	
Cai Haoyi			Member	Chairman	
Shi Lei			Member	Member	
Zhang Xiangdong		Member	Chairman		
Li Xiaohui		Chairman	Member		

CORPORATE GOVERNANCE REPORT

During the Reporting Period, the performance results of each Special Committee under the Board of Directors of the Bank 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 capital management, conducting research and making recommendations on major equity investment plans. The committee supervises and inspects the implementation of the annual business plans, examines and assesses the implementation of corporate governance system. Furthermore, it formulates and reviews the strategic plans for the development of inclusive financial business and business operating plan, and also evaluates the achievements of inclusive finance business development. During the Reporting Period, the Committee held 5 meetings, reviewed and approved 26 proposals and reports including issuance of financial bonds and 2019 Strategy Implementation Report, and presented professional recommendations to the Board of Directors.

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, reviewed and approved 27 proposals and reports, including Periodic Financial Announcement and Articles of Internal Audit. 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.

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, case prevention, money laundering and terrorism financing; periodically assessing the risks, management status and risk tolerance level; supervising and evaluating the risk management of America-related operations, reviewing significant related party transactions, asset disposals, asset pledges or external guarantees; approving policies and procedures of money laundering risk management; reviewing anti-money laundering reports regularly, keeping abreast of major money laundering risk events and their resolutions, and evaluating the status of anti-money laundering risk management. During the Reporting Period, the Committee held 7 meetings, reviewed and approved 26 proposals and reports, including Amendments to Working Guidance of the Committees and periodical Assessment Report of Comprehensive Risk Management, and presented professional recommendations to the Board of Directors.

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 and reviewing the basic systems and policies of remuneration management; proposing suggestions on the remuneration distribution plan of directors and senior management and submitting them to the Board of Directors for approval. The Personnel & Remuneration Committee performed the functions both as a Nomination Committee and a Remuneration Committee.

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

During the Reporting Period, the Committee held 6 meetings and reviewed and approved 22 proposals including the appointment of Mr. Liu Jun as President and annual core performance appraisal targets for chief business officers, and presented professional recommendations to the Board of Directors.

5. Social Responsibility (Environmental, Social and Governance) and Consumer Protection Committee. The Committee is primarily responsible for formulating the Bank's social responsibility strategies and policies, reviewing the achievements of the social responsibility targets and submitting the Annual Social Responsibility Report to the Board of Directors; researching and assessing the measures of the ESG performance and promoting ESG information disclosure; reviewing the strategies, policies and goals on protecting the consumers' rights, studying key issues and significant policies on consumer's rights protection, approving external donations; reviewing credit policies concerning environmental and sustainable development. During the Reporting Period, the Committee held 5 meetings and reviewed and approved 14 proposals and reports, including the renaming of the Committee, revision of the working rules of the Committee and the amount of annual external donation, and presented professional recommendations to the Board of Directors.

CORPORATE GOVERNANCE REPORT

(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 directors 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 earnestly attended the Board's meetings, reviewed various proposals and report, and provided professional advice. 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.

In 2020, Independent Non-executive Director Mr. Cai Haoyi abstained the *Resolutions in relation to the Renaming and Amendments to the Working Rules of Social Responsibility and Consumer Protection Committee of Bank of Communications Co., Ltd*. at the 15th meeting of the 9th session of the Board of Directors on the grounds that further research and improvement were still required.

Details about the fulfilment of duty of independent non-executive directors of the Bank during the Reporting Period are disclosed in the *Work Report of the Independent Non-executive Directors for 2020* 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 the combination of "offline + online". In line with the economic and financial situations, the prevention and control of COVID-19 pandemic, and the Bank's themes of serving the real economy, improving corporate governance and strengthening strategy execution, 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.	Online training on the latest Hong Kong listing rules and regulations provided by the Hong Kong Institute of Chartered Secretaries (The attending directors during the Reporting Period include He Zhaobin, Li Longcheng and Shi Lei.)
2.	the Bank's special business training on anti-money laundering (The attending directors during the Reporting Period include Ren Deqi, Liu Jun, He Zhaobin, Li Longcheng, Chan Siu Chung, Song Hongjun, Chen Junkui, Liu Haoyang, Liu Li, Jason Yeung Chi Wai, Raymond Woo Chin Wan, Cai Haoyi, Shi Lei and Zhang Xiangdong.)
Major research projects:	
1.	Conducted research on the Financial Management Department, the Risk Management Department, the Financial Market Department and the Pacific Credit Card Centre of the Head Office with the theme of the development and risk prevention measures of debt investments and financial derivatives business as well as the impact of COVID-19 pandemic on the Bank's asset quality.
2.	Conducted research on Guangxi Branch, Zhejiang Provincial Branch, and Zhejiang Anji BoCom Rural Bank with the theme of combating COVID-19 pandemic, serving the real economy, developing businesses and managing risks.
3.	Conducted research on the 6 provincial and directly-managed branches in Beijing-Tianjin-Hebei Region, Yangtze River Delta and Greater Bay Area with the theme of implementing the national key regional development strategy, and comparing the Bank's three key regional institutions' business developments with industry benchmarks.
4.	Conducted research on Zhejiang Provincial Branch and Suzhou Branch with the theme of the preparation of the Development Plan for the Period of the 14th Five-Year Plan by the Bank and the achievement of integrating into the demonstration zone of green and integrated ecological development of the Yangtze River Delta.

(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 2020, 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.

CORPORATE GOVERNANCE 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.

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

The Board of Supervisors is the Bank's supervisory body and is responsible for the Shareholders' General Meeting. In accordance with the requirements of laws and regulations, the responsibilities of the Board of Supervisors include strategic and operational supervision, capital and financial supervision, internal controls and compliance supervision, risk supervision, 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.

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 of 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 4 members including the external supervisor being the chief, 1 shareholder supervisor, 1 external supervisor and 1 employee supervisor 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 supervisor. 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 6 members, including the external supervisor being the chief, 1 shareholder supervisor, 3 external supervisors and 1 employee supervisor 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 "Directors, Supervisors, Senior Management and Human Resource Management" 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 (%)
Cai Yunge	Shareholder Supervisor (Chairman of the Board of Supervisors)	0/0	/
Zhang Minsheng	Shareholder Supervisor	7/7	100
Wang Xueqing	Shareholder Supervisor	7/7	100
Xia Zhihua	External Supervisor	7/7	100
Li Yao	External Supervisor	7/7	100
Chen Hanwen	External Supervisor	7/7	100
Ju Jiandong	External Supervisor	5/5	100
Du Yarong	Employee Supervisor	7/7	100
Guan Xingshe	Employee Supervisor	7/7	100
Lin Zhihong	Employee Supervisor	0/0	/
Feng Bing	Employee Supervisor	0/0	/
Supervisors resigned			
Tang Xinyu	External Supervisor	2/2	100
Chen Qing	Employee Supervisor	4/4	100
Wang Xuewu	Employee Supervisor	7/7	100
Average attendance in person percentage		67/67	100

VI. 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 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.

CORPORATE GOVERNANCE REPORT

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 2020.

VII. 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. The internal control system is designed to manage, rather than eliminate the risks of failing to fulfill the business goals. Besides, it can only provide reasonable but not absolute assurance against material misstatement 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 control 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 a focus on its internal control objectives, the Bank established a stringent internal control 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 related budgets to achieve the Group's accounting 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, ensuring the independence of audit. The Bank set up a 3-level audit supervision system of Head Office Audit Supervision Bureau, regional Sub-bureaus of Audit Supervision 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) Self-Assessment Report on Internal Controls and Auditor's Report on Internal Controls

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

The Board of Directors conducted an annual assessment on the effectiveness of internal controls of the Bank as at 31 December 2020 (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 and audit 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.

VIII. 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.

IX. 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. 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.

CORPORATE GOVERNANCE REPORT

X. 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 Securities Listing Rules of the Hong Kong Stock Exchange. The Bank adopted a set of standards not less strict than those mentioned above for the securities transactions of the directors, supervisors and senior management. According to the checking results, all the directors, supervisors and senior management of the Bank confirmed that the securities transactions conducted by them were in compliance with the above rules during the Reporting Period.

XI. CHAIRMAN AND PRESIDENT

On 16 January 2020, Mr. Ren Deqi was appointed as Chairman of the Board of Directors of the Bank. On the same day, Mr. Ren Deqi would no longer serve as Vice Chairman of the Board of Directors of the Bank and would, perform the duties of acting President. According to the resolution at the 10th meeting of the 9th session of the Board of Directors of the Bank, Mr. Liu Jun was appointed as President of the Bank. Mr. Liu Jun served as President of the Bank from 7 July 2020. On the same day, Mr. Ren Deqi would no longer perform the duties of acting President.

Save as disclosed above, the Board of Directors of the Bank confirmed that the Bank complied with the principles and provisions of the *Corporate Governance Code* contained in Appendix XIV of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange at all times during the year ended 31 December 2020 and also complied with majority of the best suggested practices.

XII. AUDITOR’S REMUNERATION

The Audit Committee of the Board of Directors of the Bank expressed its satisfaction with the work, independence and objectivity of PricewaterhouseCoopers and its network member firms. The Shareholders’ General Meeting of the Bank approved resolution in relation to the appointment of auditors for the year of 2020. 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 7 consecutive years.

In 2020, 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 RMB68.308 million, which included financial statement audit fees of RMB66.078 million and internal controls audit fees of RMB2.23 million.

During the Reporting Period, the non-audit services provided by PricewaterhouseCoopers and its network member firms to the Group mainly included assurance services for the report on social responsibilities and translation services. The Bank paid fees of approximately RMB3.637 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.

XIII. 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.

XIV. INVESTOR RELATIONS

The Bank upheld the concept of maximising the value for investors and was committed to enhancing capabilities of value creation for investors, value promotion to investors, and value recognition by investors. The Bank constantly strengthened the communication and exchange with investors, carried out information disclosure in strict compliance with regulations, protected investors' rights and interests, and continued to consolidate the Bank's good image as an honest, open and responsible large-scale state-owned listed bank.

(I) Strictly Adhere to the Legal Compliance and Keep Information Disclosure Transparent

To comply with the principle of "True, Accurate, Complete, Timely and Fair" to carry out statutory information disclosure, a total of 203 regular reports and extraordinary announcements were issued during the year. The Bank carried out active disclosure of information and disclosed the status of strategy implementation and core competitiveness, digital transformation, wealth management features, internationalisation and Integrated development, and BoCom-HSBC Strategic Cooperation in its regular reports, and maintained good information transparency. It was rated as a Class A company for information disclosure by the SSE for seven consecutive years.

(II) Maintain Close Interaction and Communication with the Capital Market Through Multiple Channels and Forms.

Under the impact of the pandemic in 2020, the Bank maintained close and high-frequency communication with the market in great efforts, actively responded to market concerns and promoted the achievements of the Bank's reform and development by adhering to the principle of "going global" and "bringing in" through online and offline interaction. The Bank held four periodical performance announcements throughout the year and communicated with more than 1,000 investors and analysts in various forms.

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

The Bank maintained a stable dividend policy. Upon approval by the Shareholders' General Meeting, a cash dividend of RMB0.315 for each ordinary share for the year of 2019, totalling RMB23.393 billion (tax inclusive), accounting for 31.35% of the Group's total net profit (attributable to the Bank). The dividends of offshore preference shares and domestic preference shares distributed by the Bank were USD122.5 million and RMB1.755 billion respectively. In 2020, 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.

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 2020.

I. PRINCIPLE ACTIVITIES

The Group was principally engaged in the 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 five 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 to the Consolidated Financial Statements for the details of the Group's undistributed profits as at the end of the Reporting Period.

(III) There was no plan of the Bank regarding bonus shares and conversion of capital reserve to share capital for the past three years. Details of ordinary share cash dividend distributions were as follows:

(in millions of RMB unless otherwise stated)

Year of dividend distribution	Cash dividends per 10 shares (tax inclusive, RMB)	Amount of cash dividends (tax inclusive)	Net profit distributable to shareholders of the Bank	Proportion of total amount of cash dividends in net profit distributable to shareholders of the Bank (%)
2020	3.17	23,541	73,880	31.86
2019	3.15	23,393	74,610	31.35
2018	3.00	22,279	71,012	31.37

Note: The dividend distribution plan of ordinary shares for the year of 2020 shall be subject to the consideration and approval at the Shareholders' General Meeting of the Bank.

(IV) Please refer to the section of "Changes in Shares and Shareholders" for the result of preference share dividend distributions.

(V) The Formulation, Implementation or Adjustment of the Cash Dividend Policy.

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

The profit distribution policy of the Bank is in compliance with the *Articles of Association* as well as the approval procedures. The policy, which was commented by independent directors, has clear standards on dividend distributions and dividend distribution ratio and fully protects the legitimate rights and interests of medium and small investors, enabling them to fully express their opinions and demands.

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 RMB110.9675 million[1].

VI. FIXED ASSETS

Please refer to Note 26 to the Consolidated Financial Statements for the details of changes in the Group's fixed assets during the Reporting Period.

VII. PUBLIC FLOAT

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

VIII. DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

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

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.

1 Including personal donations of employees.

X. MANAGEMENT CONTRACT

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

XI. INTERESTS OF DIRECTORS IN COMPETING BUSINESS OF THE BANK

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

XII. REMUNERATION POLICY OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

XIII. RELATIONSHIP AMONG DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

There was no financial relationship, business relationship, family relationship or any other significant relationship subject to disclosure among directors, supervisors and senior management of the Bank.

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

In July 2020, the Bank has redeemed and cancelled USD2.45 billion of offshore preference shares in whole. Please refer to the section of "Changes in Shares and Shareholders" for details. Save as disclosed above, during the Reporting Period, neither the Bank nor any of its subsidiaries purchased, sold or repurchased any listed securities of the Bank.

XV. PRE-EMPTIVE RIGHTS AND SHARE OPTION ARRANGEMENTS

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

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

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

XVII. MAJOR CUSTOMERS

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

XVIII. CONTINUING CONNECTED TRANSACTIONS

(I) The Interbank Transactions Master Agreement (Hereinafter Referred to as "the Agreement")

HSBC is a substantial shareholder of the Bank. Therefore, HSBC together with its subsidiaries are all connected persons of the Bank. The Group regularly engaged in various transactions in the normal course of banking businesses with HSBC Group, including but not limited to the interbank loan and borrowing transactions, the transactions of bonds, money market, foreign currency, other financial assets transactions, 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 were applicable laws and regulations, or provisions and notices issued by regulatory authorities fixing the prices or rates, such fixed price or rate shall be adopted. If there was no fixed price or rate, reference will be made to the prevailing market prices for open market transactions. For other types of transactions (e.g. over the counter market), it shall be determined with reference to the prices or rates (if applicable) the parties would quote to each other or to independent counterparties with equivalent credit worthiness with respect to the particular type of transaction concerned and the risk management policies of both parties with respect to the transactions concerned.

During the period from 1 January 2020 to 31 May 2020, the continuing connected transactions under the Agreement did not exceed their respective caps: 1. The realised gains and losses and the unrealised gains and losses (depending on the situation) of the non-exempt continuing connected transactions did not exceed the cap of RMB4.043 billion. 2. The fair value of the foreign currency transactions, and swap and option transactions with the HSBC Group (regardless whether recorded as assets or liabilities) did not exceed the cap of RMB8.208 billion.

During the period from 1 June 2020 to 31 December 2020, the continuing connected transactions under the Agreement did not exceed their respective caps: 1. The realised gains and losses and the unrealised gains and losses (depending on the situation) of the non-exempt continuing connected transactions did not exceed the cap of RMB6.780 billion. 2. The fair value of the foreign currency transactions, other financial assets transactions, and swap and option transactions with the HSBC Group (regardless whether recorded as assets or liabilities) did not exceed the cap of RMB10.150 billion.

During the Reporting Period, the continuing connected transactions under the Agreement: 1. The realised gains and losses and unrealised gains and losses (depending on the situation) were RMB2.127 billion, RMB2.210 billion, RMB1.007 billion and RMB0.975 billion. 2. The fair value of the foreign currency transactions, other financial assets transactions and swap and option transactions with the HSBC Group (regardless whether recorded as assets or liabilities) were RMB5.333 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 declaration, annual review, announcement and independent shareholders' approval.

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

Upon detailed review of the continuing connected transactions in 2020, 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.

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

The auditors issued a letter to the Board of Directors in respect of the continuing connected transactions in 2020 confirming the follows: 1. The non-exempt continuing connected transactions were approved by the Board of Directors. 2. The non-exempt continuing connected transactions were in accordance with the pricing policies of the Bank. 3. The non-exempt continuing connected transactions were conducted in accordance with the terms of the Agreement. 4. The actual transaction amount of the non-exempt continuing connected transactions in 2020 did not exceed their respective caps.

(IV) 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.

(IV) Save as disclosed above, no related party transaction or continuing related party transaction set out in Note 47 to the Consolidated Financial Statements that constitutes the connected transaction or continuing connected transaction requirements to be disclosed under the Hong Kong Listing Rules. Regarding the non-exempt connected transaction and continuing connected transactions, the Bank complied with the disclosure requirements as specified in Chapter 14A of the Hong Kong Listing Rules.

XIX. ISSUANCE OF SHARES AND DEBT SECURITIES

For the issuance of debt securities by the Bank, please refer to the Note 33 to the Consolidated Financial Statements. Except for those disclosed above and in this Annual Report, during the Reporting Period, neither the Bank nor any of its subsidiaries issued, redeemed or granted convertible debt securities, options, warrants or other similar rights.

XX. SHARE-LINKED AGREEMENT

The Bank privately issued 0.45 billion domestic preference shares in September 2016. Assuming that the Bank triggers a mandatory conversion event and all preference shares must be converted into ordinary shares at the initial conversion price, the number of domestic preference shares converted into ordinary shares of A share will not exceed 7.2 billion. For other details of domestic preference shares, please refer to Note 36 to the Consolidated Financial Statements.

XXI. 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.

XXII. ENVIRONMENT POLICIES AND PERFORMANCE

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

XXIII. COMPLIANCE WITH LAWS AND REGULATIONS

The Group needs to comply with the laws and regulation, mainly including *Company Law of the People's Republic of China, Commercial Bank Law of the People's Republic of China, 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 adhering to the laws, regulations and legal documents (especially those having significant impacts on the business) through internal controls, 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.

XXIV. RELATIONSHIP WITH EMPLOYEES, SUPPLIERS AND CUSTOMERS

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

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

XXV. LIST OF DIRECTORS

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

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

By order of the Board of Directors
Chairman
Ren Deqi

26 March 2021

REPORT OF THE BOARD OF SUPERVISORS

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

I. MAIN RESPONSIBILITIES OF THE BOARD OF SUPERVISORS

(I) Hold and attend according to the laws and regulations. The Board of Supervisors held 7 meetings throughout the year. The attendance rate of Supervisors was 100%. The Board of Supervisors discussed 22 resolutions and 7 reports with specific topics, covering significant matters defined by laws. Three Special Committees under the Board of Supervisors held 8 meetings and discussed 19 resolutions to conduct in-depth study in related fields. The Board of Supervisors attended 3 Shareholders' General Meetings, attended the meetings of the Board of Directors, and followed up on major decision-making and deployments in time.

(II) Supervise and assess duty performance. The Board of Supervisors standardised the duty performance supervision and evaluation systems, and clarified the content, method, standard, process, and result application of duty performance supervision and evaluation. The Board of Supervisors strengthened the process supervision and applied the result of daily supervision to the performance evaluation. The Board of Supervisors formed performance evaluation comments for 24 directors and senior management in 2020. All were evaluated as "competent". The Board of Supervisors completed the performance evaluation of directors and senior management, and carried out the self-evaluation of itself and its members. The self-evaluation results of the 11 incumbent supervisors were "competent".

(III) Execute strategic supervision. The Board of Supervisors focused on the Bank's implementation of the CPC Central Committee's decisions and plans, followed up on the implementing the requirements on "stabilising six areas of economy, namely employment, finance, foreign trade, foreign investment, domestic investment and market expectations" and "safeguarding six priorities of economy, namely employment, people's livelihood, development of market entities, food and energy security, stable operation of industrial and supply chains, and smooth functioning of society", served the real economy, and supported for key areas development. The Board of Supervisors studied the quality and effectiveness of the Bank's strategic transformation, and followed up on the progress of the Bank's FinTech strategy, the Bank's business transformation, and the international strategy implementation by combining the completion of the "13th Five-Year Plan". The Board of Supervisors followed up on the Bank's deepening reform, and analysed Yangtze River Delta integration, digital transformation, and coordination between the subsidiaries and the Group.

(IV) Promote financial supervision. The Board of Supervisors strengthened the supervision on resource allocation, followed up on the reform of the performance evaluation system, evaluated the quality and effectiveness of asset and liability management, and analysed the role of management accounting in supporting the business decision-making. The Board of Supervisors focused on the operation and management issues reflected by financial indicators, and analysed the changes in market competitiveness, changes in revenue and business structure, capital adequacy ratios and risk and return structure in key areas. The Board of Supervisors carried out financial supervision and inspection, kept track of the development and implementation of the Bank's major financial decisions, focused on the compliance management of finance, and supervised the duty performance of external audit.

(V) Intensify systematic and regional risk supervision. The Board of Supervisors paid attention to the effectiveness of various risk management and controls, and analysed possible scenarios that the Bank might be exposed to credit risk, market risk, liquidity risk, operational risk, and the scenarios integrating various risks. The Board of Supervisors intensified large amount risk management supervision, kept track of the construction of the Bank's large amount risk prevention and mitigation mechanism, and analysed the trends and characteristics of risk exposure. The Board of Supervisors focused on comprehensive risk management mechanism, paid attention to the policies, processes, systems, and tools of the risk management, and urged the implementation of risk management policies at the grassroots level.

(VI) Carry out internal control and compliance supervision. The Board of Supervisors followed up on the performance of the audit function, urged the extraction and excavation of key issues, ensured audit scope covered key areas, and paid attention to the role of accountability. The Board of Supervisors paid attention to the weak links of internal controls, assessed the scientificity and effectiveness of internal controls based on implementation of policy and rectification of problems, and urged the construction and improvement of internal control system. The Board of Supervisors improved the quality and effectiveness of compliance management, followed up on the construction of the Bank's compliance management system, and paid attention to the compliance in key areas such as anti-money laundering, consumer rights protection and information disclosure.

(VII) Improve supervision efficiency. The Board of Supervisors made the system of supervision duty clear, clarified the responsibility domain and basis of the Board of Supervisors, and ensured the full coverage and effective development of supervisory activities. The Board of Supervisors refined the system of supervision perspective to develop a three-dimensional supervision perspective covering the governance of the Bank, business and institutions, by integrating the supervision position of the Board of Supervisors. The Board of Supervisors constructed a supervision promotion system and scientifically set supervision and implementation plans. The Board of Supervisors developed a sound supervision system and revised related policies based on the regulatory requirements and supervision practice, to improve the accuracy, operability, and adaptability of the system.

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 Group. PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers respectively issued unqualified auditor's report on the Group's financial statements for the year of 2020 and the Board of Supervisors has no objection to the report.

(III) Use of Proceeds Raised

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

(IV) Acquisition and Disposal of Assets by the Bank

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

(V) Related Party Transactions

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

(VI) Implementation of Information Disclosure

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

(VII) Related Proposals

The Board of Supervisors considered that the Board of Directors 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 2020* of the Bank.

The Bank vigorously performed its corporate social responsibility. The Board of Supervisors had no objection to the *Social Responsibility Report for 2020* of the Bank.

线上抵押贷
惠享好时贷
交通银行普惠金融 | 线上抵押贷
评估无费用——在线评估0费用，便捷自助享普惠
抵押成数高——住房最高抵7成，盘活资产助展业
贷款额度高——最高可贷1000万，经营周转贷无忧
贷款期限长——授信最长达10年，用款安心又省心
贷款自由用——随借随还循环用，精明省息很实惠
省费省心一站式服务 助您惠享好时“贷”
立即申请
在线估价
1688万
客服热线：95559 www.bankcomm.com
始于1908 · 您的财富管理银行
交通银行
BANK OF COMMUNICATIONS

SOCIAL RESPONSIBILITIES

With the mission of “creating shared value”, the Bank integrated the concepts of social responsibility into business development, and strived to maximise comprehensive value for shareholders, customers, environment, community and other stakeholders.

I. TARGETED POVERTY ALLEVIATION

The Bank regarded poverty alleviation as the “number one project” for enterprises to fulfil their political and social responsibilities. During the Reporting Period, the Bank focused on the agenda that “rural poor people are free from worries over food and clothing and have access to compulsory education, basis medical services and safe housing”, and took the targeted poverty alleviation path centred on finance, medical care, education, consumption and industry. The Bank innovated the pairing assistance model, and established a “BoCom Agriculture Promotion Channel” with interbank Mobile banking to achieve full coverage of agricultural products online sales in 3 designated poverty alleviation counties, provided stable income-raising channels for households in poverty, and created a “BoCom Model” of e-Commerce poverty alleviation. In February 2020, all 3 Head Office’s designated poverty alleviation counties (Tianzhu County in Gansu Province, Hunyuan County in Shanxi Province and Litang County in Sichuan Province) were lifted out of poverty. As at the end of June 2020, the Bank, ahead of schedule, fulfilled the six targets of the central government’s designated poverty alleviation above quota, and contributed a total of 24.88 million to three targeted poverty alleviation regions. As at the end of the Reporting Period, the Bank’s loan balance of targeted financial poverty alleviation was 33.489 billion, with a net increase of 30.58% by 7.842 billion since the previous year.

I. Financial Targeted Poverty Alleviation	**(In 100 million of RMB)**
Loan balance	334.89
Net increase from the beginning of the year	78.42
Growth rate	30.58%
II. Amount of Investment in Targeted Poverty Alleviation	**(In ten thousand of RMB)**
1. Investment in supporting funds	2,488
Growth rate	3.61%
2. Introduced of supporting funds	760.47
Growth rate	14.6%
3. Training of grass-root cadres	1,988
Growth rate	74.69%
4. Training of technical personnel	544
Growth rate	28.3%
5. Purchase of agricultural products in poverty alleviation regions	765.56
Growth rate	21.63%
6. Assistance in selling agricultural products of poor areas	1,857.96
Growth rate	9.83%

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

In 2021, the Bank will continue to consolidate the results of poverty alleviation, and coordinate resources for high quality and sustainable poverty alleviation projects. The Bank will gradually adjust the “blood transfusion” mode for absolute poverty alleviation to the “blood production” industrial development assistance for relative poverty relief, and will consolidate the effective connection between achievements of poverty alleviation and rural revitalisation.

II. ANTI-PANDEMIC DONATION

Facing the sudden COVID-19 pandemic, the Bank actively donated cash and supplies, showing the mission commitment of the large state-owned bank. Taking the lead in donating 8.00 million to Hubei Province, the Group's cumulative donation in cash and supplies amounted to 66.5530 million, out of which employees' personal donation exceeded 12.00 million, the donation of party members exceeded 14.00 million and the pandemic prevention supplies purchased through overseas institutions to support Hubei Province amounted to nearly 8.00 million, getting the full affirmation from the Central Guiding Team Dispatched to Hubei Province and other severely-hit regions.

III. ENVIRONMENTAL PROTECTION

The Bank actively supported the development of green industries which helped achieve the objectives of "30 • 60" peak carbon dioxide emissions and carbon dioxide emissions neutralization. The Social Responsibility (Environmental, Social and Governance) and Consumer Protection Committee was responsible of reviewing credit authorization policies related to environmental and sustainable development, and guiding and supervising Senior Management to support some of the best high quality energy-efficient and eco-friendly industries which were in compliance with the national policy guidance, and had clear management and control standards, compliant and feasible business models and relatively strong technical skills and market advantages. During the Reporting Period, the Bank was awarded "Excellent Unit for Overall Evaluation of Green Banks 2019".

(In 100 million of RMB unless otherwise stated)

	Year end of 2020	Year end of 2019	Year end of 2018
Proportion of green customers (%)	**99.34**	99.53	99.61
Proportion of loan balance made to green customers (%)	**99.63**	99.76	99.79
Loans balance of energy-saving and emission reduction sectors	**3,872.80**	3,283.52	2,830.54

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

The Bank continuously diversified its online financial services and strived to provide customers with green, low-carbon and convenient financial services of high quality. During the Reporting Period, the channel diversion rate of electronic banking services was 98.04%.

	2020	2019	2018
Channel diversion rate of electronic banking services (%)	**98.04**	97.67	96.59

For further information on the fulfilment of social responsibilities by the Bank, please refer to the *Social Responsibility Report 2020 of Bank of Communications Co., Ltd*. on the SSE Website and the website of HKEx News of Hong Kong Stock Exchange.

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 3.876 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 denouncement by the stock exchanges.

IV. INTEGRITY

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

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. During the Reporting Period, the Bank and HSBC renewed the *Interbank Transactions Master Agreement*. Details were disclosed in the announcements of the Bank published on the SSE website and the HKEx News website of the Hong Kong Stock Exchange on 29 May 2020. As at the end of the Reporting Period, details of continuing related party transactions of the Group were disclosed in Note 47 to the Consolidated Financial Statements set out in this Annual Report.

VI. MATERIAL CONTRACTS AND PERFORMANCE OF OBLIGATIONS THEREUNDER

(I) Material Trust, Sub-contract and Lease

During the Reporting Period, the Bank did not hold in trust to a material extent or entered into any material sub-contract or lease arrangement in respect of assets of other corporations, and no other corporation held in trust to a material extent or entered into any material 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 needed to be disclosed except for the financial guarantee services within the business scope as approved by the regulatory authority.

VII. OTHER SIGNIFICANT EVENTS

(I) The Shanghai Office of the China Banking and Insurance Regulatory Commission approved the increase of the registered capital of Bank of Communications Financial Leasing Co., Ltd. (hereinafter "BoCom Leasing"), the wholly-owned subsidiary of the Bank, from 8.5 billion to 14.0 billion, and approved the increase of the registered capital of BOCOM Aviation and Shipping Financial Leasing Co., Ltd., the wholly-owned subsidiary of BoCom Leasing, from 8.5 billion to 14.0 billion. Details were disclosed in the announcements issued by the Bank on 3 January and 30 March 2020 respectively.

(II) The Bank injected an additional capital of HKD20.0 billion to its wholly-owned subsidiary Bank of Communications (Hong Kong) Limited. Details were disclosed in the announcement issued by the Bank on 15 July 2020.

(III) The Bank has redeemed the USD2.45 billion offshore preference shares in whole. Details were disclosed in the announcement issued by the Bank on 30 July 2020.

(IV) The Bank issued 40.0 billion of tier-2 capital bonds in the national interbank bond market. Details were disclosed in the announcement issued by the Bank on 21 May 2020.

(V) By way of call auction, The Bank's shareholder SSF reduced its holding of the Bank's A shares by 742,627,266 shares, representing 1% of the total ordinary shares issued. Details were disclosed in the announcement issued by the Bank on 11 September 2020.

(VI) The Bank proposed to contribute 7.5 billion to the establishment of the National Green Development Fund Co., Ltd. Details were disclosed in the announcement issued by the Bank on 16 July 2020.

(VII) The Bank issued 30.0 billion of undated capital bonds in the national interbank bond market and USD2.8 billion of undated capital bonds in overseas markets. Details were disclosed in the announcements issued by the Bank on 25 September and 18 November 2020 respectively.

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).

ORGANISATIONAL CHART AND LIST OF INSTITUTIONS

Shareholders' General Meeting

Board of Directors

Board of Supervisors

Senior Management

Discipline Inspection and Supervision Group in the Bank of Communications

Head Office

FinTech Sector

- ● FinTech Department
- ● Information Technology Development Office
- ● Data Management and Application Department
- ● Software Development Center
  - ○ Software Development Center (Beijing)
  - ○ Software Development Center (Shenzhen)
- ● Data Center (System Operation Center)
- ● Test Center
- ● Institute for Fintech Innovation

General Management Sector

- ● Office of the Board of Directors
- ● Office of the Board of Supervisors
- ● Office of Party Committee / Office
- ● Corporate Culture Department
- ● Organization Department of Party Committee / Human Resources Department
- ● Party Committee (Department of Inspection Commission)
- ● Publicity Department of the Party Committee
- ● Financial Management Department
  - ○ Centralized Procurement Department
- ● Equity and Investment Management Department
- ● Operations and Channel Management Department
- ● Security Department
- ● Risk Management Department
- ● Internal Control and Crime Prevention Office
- ● Asset Preservation Department
- ● Credit Authorization Department
- ● Credit Approval Department
  - ○ Credit Authorization Approval Center (Beijing)
- ● Legal Compliance Department
  - ○ Anti-money Laundering Center

Business Operation Management Sector

- ● Corporate Business Department
  - ○ Strategic Customer Department
  - ○ Investment Banking Business Department
  - ○ Pension Business Department
- ● International Banking Department
- ● Inclusive Finance Business Division
- ● Asset Custody Department
  - ○ Asset Custody and Operation Center
- ● Yangtze River Delta Integration Management Department
- ● Personal Finance Business Department
- ● Customer Rights Protection Department
- ● Private Banking Department
- ● Pacific Credit Card Center
- ● Online Finance Business Center
- ● Financial Institution Department / Asset Management Business Center
- ● Financial Market Department (Precious Metal Business Center, Bills Business Center)
  - ○ Financial Market Trading Center
- ● Offshore Finance Business Center

Support Sector

- ● Audit Supervision Bureau
  - ▲ Sub-bureau of Audit Supervision Beijing
  - ▲ Sub-bureau of Audit Supervision Shanghai
  - ▲ Sub-bureau of Audit Supervision Guangzhou
  - ▲ Sub-bureau of Audit Supervision Wuhan
  - ▲ Sub-bureau of Audit Supervision Chengdu
  - ▲ Sub-bureau of Audit Supervision Shenyang
- ● Office of Inspection Leadership Team / Inspection Team
- ● Office of Labour Union
- ● Youth League Committee
- ● Retirement Management Department
- ● Department of General Affairs
- ● Development and Research Department
  - ○ Financial Research Center
- ● Office of the Leading Group for Deepening the Reform
- ● Party School / Finance College of Bank of Communications
- ● Financial Service Center / Business Department
  - ○ International Clearing Center
  - ▲ Wuhan Financial Services Center
  - ○ Nanning Financial Services Center
  - ○ Hefei Financial Services Center
  - ○ Yangzhou Financial Services Center

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 [The joint office of the primary office

Domestic Branches

- 37 Provincial and Directly-managed branches
  - 208 Branches Managed by Provincial Branches
- 2,929 Banking outlets

Overseas Branches and Subsidiaries

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

Rural Banks

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

ORGANISATIONAL CHART AND LIST OF INSTITUTIONS

LIST OF DOMESTIC PROVINCIAL BRANCHES AND DIRECTLY OPERATING 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 Financial 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, Jianghan 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

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. 296 Minzu North Street, Xingqing 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 business outlet address and contact information of the Bank, please visit the Bank's official website (www.bankcomm.com) and click on "Branch Inquiry" for relevant information.

ORGANISATIONAL CHART AND LIST OF INSTITUTIONS

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
Ho Chi Minh City Branch	17th floor, Vincom Center, 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, 525 Collins Street, Melbourne VIC3000, 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. 333 Lujiazui Ring Road, Pudong New District, Shanghai, No. 847 Jianshe Avenue, Wuhan
Bank of Communications Financial Leasing Co., Ltd.	No. 333 Lujiazui Ring Road, Pudong New District, Shanghai
BoCommLife 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.	No. 333 Lujiazui Ring Road, Pudong New District, Shanghai
BOCOM Financial Technology Company Limited	No. 333 Lujiazui Ring Road, Pudong New District, Shanghai
BoCom Capital Management Co., Ltd.	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

Contents

INDEPENDENT AUDITOR'S REPORT

To The Shareholders of Bank of Communications Co., Ltd.
(Incorporated in the People's Republic of China with limited liability)

OPINION

What we have audited

The consolidated financial statements of Bank of Communications Co., Ltd. (the "Bank") and its subsidiaries (the "Group") set out on pages 148 to 297, which comprise:

- the consolidated statement of financial position as at 31 December 2020;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

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

Independence

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

KEY AUDIT MATTERS

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

KEY AUDIT MATTERS *(Continued)*

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

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

2. Consolidation assessment of structured entities

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

Key Audit Matter	How our audit addressed the Key Audit Matter
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, 22.2, 23, 34 and 40 to the Group's consolidated financial statements. As at 31 December 2020, the Group's gross loans and advances to customers amounted to RMB5,861,404 million, and an expected credit loss ("ECL") allowance of RMB140,836 million was recognised in the Group's consolidated statement of financial position; the gross amount of financial investments at amortised cost was RMB2,022,579 million and an ECL allowance of RMB3,050 million was recognised; the exposure of credit related commitments and financial guarantees was RMB1,676,712 million, for which a provision of RMB10,500 million was recognised. The ECL on loans and advances to customers, financial investments at amortised cost and credit related commitments and financial guarantees recognised in the Group's consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2020 amounted to RMB60,036 million. 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.	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. 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.

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 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;

(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 also performed back-testing of the actual defaults against expected defaults generated from the model as at the end of the previous year on sample basis to assess the reasonableness of the model.

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.

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.

In addition, we assessed the reasonableness of the selection of significant uncertain factors, its application and measurement in the management overlay adjustments, and examined the accuracy of the relevant mathematical calculations.

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 2020, the carrying amount of unconsolidated structured entities invested by the Group amounted to RMB353,017 million. In addition, as at 31 December 2020, the balances of the non-principal guaranteed wealth management products, trust plans, funds and asset management plans and others originated and managed by the Group amounted to RMB1,211,959 million, RMB569,841 million, RMB339,871 million and RMB273,699 million respectively. 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 management acceptable.

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 2020, financial assets measured at fair value classified as level 3 amounted to RMB73,190 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 on measured at fair value classified as level 3 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.

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 26 March 2021

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

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

	Note	Year ended 31 December 2020	2019
Interest income		369,101	367,453
Interest expense		(215,765)	(223,370)
Net interest income	4	153,336	144,083
Fee and commission income	5	49,298	47,669
Fee and commission expense	6	(4,212)	(4,044)
Net fee and commission income		45,086	43,625
Net gains arising from trading activities	7	13,844	15,936
Net gains arising from financial investments		1,177	313
Including: Net gains/(losses) on derecognition of financial assets measured at amortised cost		*27*	*(281)*
Share of profits of associates and joint ventures		222	414
Insurance business income	8	15,170	11,687
Other operating income	9	17,889	16,799
Credit impairment losses	10	(62,059)	(51,954)
Other assets impairment losses	11	(484)	(270)
Insurance business expense	12	(15,729)	(11,432)
Other operating expenses	13	(82,027)	(81,001)
Profit before tax		86,425	88,200
Income tax	16	(6,855)	(10,138)
Net profit for the year		79,570	78,062
Other comprehensive income, net of tax			
Items that may be reclassified subsequently to profit or loss:			
Loans and advances to customers at fair value through other comprehensive income			
Amount recognised in equity		*19*	*(335)*
Amount reclassified to profit or loss		*(183)*	*(378)*
Debt investments at fair value through other comprehensive income			
Amount recognised in equity		*(920)*	*3,715*
Amount reclassified to profit or loss		*(825)*	*(395)*
Effective portion of gains or losses on hedging instruments in cash flow hedges			
Amount recognised in equity		*(1,362)*	*(156)*
Amount reclassified to profit or loss		*815*	*147*
Translation difference on foreign operations		(4,776)	1,141
Others		(8)	18
Subtotal		(7,240)	3,757

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(Continued)

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

	Note	Year ended 31 December 2020	2019
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		(1,204)	(560)
Actuarial losses on pension benefits		(132)	(20)
Changes in fair value attributable to changes in the credit risk of financial liability designated at fair value through profit or loss		7	25
Others		20	–
Subtotal		(1,309)	(555)
Other comprehensive income, net of tax	42	(8,549)	3,202
Total Comprehensive income for the year		71,021	81,264
Net profit attributable to:			
Shareholders of the Bank		78,274	77,281
Non-controlling interests		1,296	781
		79,570	78,062
Total comprehensive income attributable to:			
Shareholders of the Bank		69,960	80,414
Non-controlling interests		1,061	850
		71,021	81,264
Basic and diluted earnings per share for profit attributable to the shareholders of the Bank (in RMB yuan)	17	0.99	1.00

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

CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	Notes	As at 31 December 2020	As at 31 December 2019
ASSETS			
Cash and balances with central banks	18	817,561	760,185
Due from and placements with banks and other financial institutions	19	571,130	648,488
Derivative financial assets	21	54,212	20,937
Loans and advances to customers	22	5,720,568	5,183,653
Financial investments at fair value through profit or loss	20	482,588	406,498
Financial investments at amortised cost	23	2,019,529	1,929,689
Financial investments at fair value through other comprehensive income	23	735,220	669,656
Investments in associates and joint ventures	25	4,681	4,600
Property and equipment	26	169,471	171,179
Deferred income tax assets	27	27,991	24,065
Other assets	28	94,665	86,650
Total assets		10,697,616	9,905,600
LIABILITIES			
Due to and placements from banks and other financial institutions	29	1,787,491	1,904,082
Financial liabilities at fair value through profit or loss	30	29,279	26,980
Derivative financial liabilities	21	55,942	26,424
Due to customers	31	6,607,330	6,072,908
Certificates of deposits issued	32	634,297	498,991
Current income tax liabilities		3,786	7,086
Deferred income tax liabilities	27	1,286	918
Debt securities issued	33	497,755	403,918
Other liabilities	34	201,822	163,381
Total liabilities		9,818,988	9,104,688
EQUITY			
Share capital	35	74,263	74,263
Other equity instruments	36	133,292	99,870
Including: Preference shares		*44,952*	*59,876*
Perpetual bonds		*88,340*	*39,994*
Capital surplus	35	111,428	113,663
Other reserves		333,176	328,310
Retained earnings		214,448	177,141
Equity attributable to shareholders of the Bank		866,607	793,247
Equity attributable to non-controlling interests of ordinary shares		8,763	7,665
Equity attributable to non-controlling interests of other equity instruments	39	3,258	–
Non-controlling interests		12,021	7,665
Total equity		878,628	800,912
Total equity and liabilities		10,697,616	9,905,600

The consolidated financial statements were approved and authorised for issuance by the Board of Directors on 26 March 2021 and signed on its behalf by:

Chairman and Executive Director: Ren Deqi **Vice Chairman, Executive Director and President: Liu Jun**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

		Other equity instruments		Other reserves												Non-controlling interests		
	Share capital 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	Effective portion of gains or losses on hedging instruments in cash flow hedges	Translation reserve on foreign operations	Actuarial changes reserve	Others	Retained earnings Note 37,38	Attributable to the shareholders of the Bank	Attributable to non-controlling interests of ordinary shares	Attributable to non-controlling interests of other equity instruments	Total
As at 1 January 2020	74,263	59,876	39,994	113,663	64,897	139,853	117,567	3,421	5	15	1,199	(10)	1,363	177,141	793,247	7,665	-	800,912
Net profit for the year	-	-	-	-	-	-	-	-	-	-	-	-	-	78,274	78,274	1,231	65	79,570
Other comprehensive income	-	-	-	-	-	-	-	(2,938)	7	(547)	(4,716)	(132)	12	-	(8,314)	(35)	(200)	(8,549)
Total comprehensive income	-	-	-	-	-	-	-	(2,938)	7	(547)	(4,716)	(132)	12	78,274	69,960	1,196	(135)	71,021
Capital contribution by other equity instruments holders	-	(14,924)	48,346	(2,201)	-	-	-	-	-	-	-	-	-	-	31,221	-	3,458	34,679
Dividends paid to ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-	-	(23,393)	(23,393)	(132)	-	(23,525)
Dividends paid to preference shares	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,714)	(2,714)	-	-	(2,714)
Interest paid to perpetual bond holders	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,680)	(1,680)	-	-	(1,680)
Interest paid to non-cumulative subordinated additional tier-1 capital securities holders	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(65)	(65)
Transfer to reserves	-	-	-	-	7,534	77	5,596	-	-	-	-	-	-	(13,207)	-	-	-	-
Transferred from other comprehensive income	-	-	-	-	-	-	-	(27)	-	-	-	-	-	27	-	-	-	-
Others	-	-	-	(34)	-	-	-	-	-	-	-	-	-	-	(34)	34	-	-
As at 31 December 2020	74,263	44,952	88,340	111,428	72,431	139,930	123,163	456	12	(532)	(3,517)	(142)	1,375	214,448	866,607	8,763	3,258	878,628
As at 31 December 2018	74,263	59,876	-	113,663	64,516	139,796	114,281	1,397	(20)	24	93	10	1,345	129,161	698,405	6,903	-	705,308
Impact of adoption of IFRS 16	-	-	-	-	-	-	-	-	-	-	-	-	-	(616)	(616)	(7)	-	(623)
As at 1 January 2019	74,263	59,876	-	113,663	64,516	139,796	114,281	1,397	(20)	24	93	10	1,345	128,545	697,789	6,896	-	704,685
Net profit for the year	-	-	-	-	-	-	-	-	-	-	-	-	-	77,281	77,281	781	-	78,062
Other comprehensive income	-	-	-	-	-	-	-	2,013	25	(9)	1,106	(20)	18	-	3,133	69	-	3,202
Total comprehensive income	-	-	-	-	-	-	-	2,013	25	(9)	1,106	(20)	18	77,281	80,414	850	-	81,264
Capital contribution by other equity instruments holders	-	-	39,994	-	-	-	-	-	-	-	-	-	-	-	39,994	-	-	39,994
Dividends paid to ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-	-	(22,279)	(22,279)	(81)	-	(22,360)
Dividends paid to preference shares	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,671)	(2,671)	-	-	(2,671)
Transfer to reserves	-	-	-	-	381	57	3,286	-	-	-	-	-	-	(3,724)	-	-	-	-
Transferred from other comprehensive income	-	-	-	-	-	-	-	11	-	-	-	-	-	(11)	-	-	-	-
As at 31 December 2019	74,263	59,876	39,994	113,663	64,897	139,853	117,567	3,421	5	15	1,199	(10)	1,363	177,141	793,247	7,665	-	800,912

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

CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CONSOLIDATED STATEMENT OF CASH FLOWS

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

	Notes	Year ended 31 December 2020	2019
Cash flows from operating activities:			
Profit before tax:		86,425	88,200
Adjustments for:			
Provision for impairment losses		62,059	51,954
Provision for other assets impairment losses		484	270
Provision for insurance contracts reserve		15,495	9,115
Depreciation and amortisation		14,776	13,982
Provision for outstanding litigation		32	50
Net gains on the disposal of property, equipment and other assets		(166)	(287)
Interest income from financial investments		(90,683)	(88,647)
Accreted interests on impaired financial assets		(1,369)	(1,467)
Fair value (gains)/losses		(5,951)	1,027
Share of profit of associates and joint ventures		(222)	(414)
Net gains arising from financial investments		(1,177)	(313)
Interest expense on debt securities issued		14,566	11,519
Operating cash flows before movements in operating assets and liabilities		94,269	84,989
Net decrease in balances with central banks		29,357	41,487
Net decrease in due from and placements with banks and other financial institutions		127,404	160,720
Net increase in financial assets at fair value through profit or loss		(83,695)	(24,219)
Net increase in loans and advances to customers		(597,926)	(491,230)
Net decrease/(increase) in other assets		7,907	(27,120)
Net decrease in due to and placements from banks and other financial institutions		(113,503)	(239,042)
Net increase in financial liabilities at fair value through profit or loss		8,899	3,491
Net increase in due to customers and certificates of deposits issued		669,890	414,859
Net increase in other liabilities		19,878	2,220
Net (decrease)/increase in value-added tax and surcharge payable		(328)	21
Income tax paid		(12,754)	(8,721)
Net cash flows generated from/(used in) operating activities		149,398	(82,545)

CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

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

	Notes	Year ended 31 December 2020	2019
Cash flows from investing activities:			
Purchase of financial investments		**(838,096)**	(705,173)
Disposal or redemption of financial investments		**671,877**	565,819
Dividends received		**1,562**	537
Interest received from financial investments		**89,464**	86,428
Acquisition of intangible assets and other assets		**(2,735)**	(1,822)
Disposal of intangible assets and other assets		**372**	350
Purchase and construction of property and equipment		**(21,414)**	(30,554)
Disposal of property and equipment		**4,379**	2,607
Net cash flows used in investing activities		**(94,591)**	(81,808)
Cash flows from financing activities:			
Cash received from issuing other equity instruments		**51,804**	39,994
Cash received on debt securities issued		**177,486**	168,271
Repayment of principals and interests of lease liabilities		**(2,415)**	(2,652)
Repayment of principals of debt securities issued		**(80,476)**	(84,176)
Cash payments for interest on debt securities		**(13,050)**	(9,688)
Cash payments for distribution of dividends		**(27,785)**	(24,940)
Redemption of other equity instruments		**(17,125)**	–
Dividends paid to non-controlling interests		**(162)**	(81)
Net cash flows generated from financing activities		**88,277**	86,728
Effect of exchange rate changes on cash and cash equivalents		**(3,699)**	1,868
Net increase/(decrease) in cash and cash equivalents		**139,385**	(75,757)
Cash and cash equivalents at the beginning of the year		**167,735**	243,492
Cash and cash equivalents at the end of the year	43	**307,120**	167,735
Net cash flows from operating activities include:			
Interest received		**285,937**	283,899
Interest paid		**(205,169)**	(233,397)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020
(All amounts expressed in millions of RMB unless otherwise stated)

1 GENERAL

Bank of Communications Co., Ltd. (the "Bank") is a joint-stock national state-owned commercial bank, reorganised on 1 April 1987 at the approval of notice Guo Fa (1986) No. 81 issued by the State Council of the PRC and notice Yin Fa (1987) No. 40 issued by the People's Bank of China (the "PBOC"). Headquartered in Shanghai, the Bank operates 245 branches in Mainland China and 23 branches (sub-branches), subsidiary banks and representative offices overseas. Principal subsidiaries consolidated by the Group during the year have been disclosed in Note 24. The Bank's A shares are listed on Shanghai Stock Exchange and H shares on Hong Kong Stock Exchange.

The Bank obtained its finance permit No. B0005H131000001 from the China Banking and Insurance Regulatory Commission (the "CBIRC") of the PRC. The Bank obtained its business license with unified social credit code 9131000010000595XD from the State Administration for Industry and Commerce of the PRC.The registered capital is RMB74,263 million. The legal representative is Ren Deqi.

The Bank's stock codes of A Shares and H Shares listed on the Shanghai Stock Exchange and the Stock Exchange of Hong Kong Limited are 601328 and 03328, respectively. The Bank's domestic preference shares are listed on the Shanghai Stock Exchange and the stock codes are 360021.

The principal activities of the Bank and its subsidiaries (collectively referred to as the "Group") include corporate and personal banking services, interbank and financial market business, fund management, trustees, financial leasing, insurance, overseas securities debt-to-equity swap, asset management and other financial services.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to the periods presented unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all the applicable International Financial Reporting Standards ("IFRSs") and disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and the Hong Kong Companies Ordinance (Cap.622). The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments and investment property which are measured at fair value.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 2.29.

2.1.1 New and amended standards adopted by the Group

The Group has adopted the following new or amendments to the International Financial Reporting Standards ("IFRSs"):

Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 3	Definition of a Business
Revised Conceptual Framework for Financial Reporting	Conceptual Framework for Financial Reporting
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform
Amendments to IFRS 16	COVID-19-related Rent Concessions

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 New and amended standards adopted by the Group *(Continued)*

Amendments to IAS 1 and IAS 8

The IASB has made amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors which use a consistent definition of materiality throughout International Financial Reporting Standards and the Conceptual Framework for Financial Reporting, clarify when information is material and incorporate some of the guidance in IAS 1 about immaterial information.

In particular, the amendments clarify:

- that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information, and that an entity assesses materiality in the context of the financial statements as a whole, and

- the meaning of 'primary users of general purpose financial statements' to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need.

Amendments to IFRS 3

The amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs. The definition of the term 'outputs' is amended to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits.

The amendments will likely result in more acquisitions being accounted for as asset acquisitions.

Revised Conceptual Framework for Financial Reporting

The IASB has issued a revised Conceptual Framework which will be used in standard-setting decisions with immediate effect. Key changes include:

- increasing the prominence of stewardship in the objective of financial reporting

- reinstating prudence as a component of neutrality

- defining a reporting entity, which may be a legal entity, or a portion of an entity

- revising the definitions of an asset and a liability

- removing the probability threshold for recognition and adding guidance on derecognition

- adding guidance on different measurement basis, and

- stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

No changes will be made to any of the current accounting standards. However, entities that rely on the Framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards will need to apply the revised Framework from 1 January 2020. These entities will need to consider whether their accounting policies are still appropriate under the revised Framework.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020
(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 New and amended standards adopted by the Group *(Continued)*

Amendments to IFRS 9, IAS 39 and IFRS 7

The IASB has published amendments to IFRS 9, IAS 39 and IFRS 7 as a first reaction to the potential effects the Interest Rate Benchmark Reform ("IBOR") could have on financial reporting. The amendments provide targeted relief for financial instruments qualifying for hedge accounting in the lead up to IBOR reform. Key changes include:

- Modifying specific hedge accounting requirements so that entities would apply those hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform;

- Under the amendments, an entity assumes that the interest rate benchmark on which the cash flows of the hedged item, hedging instrument or hedged risk are based is not altered by IBOR reform; and

- In some hedges, the hedged item or hedged risk is a non-contractually specified IBOR risk component. Under the amendments, the risk component only needs to be separately identifiable at initial hedge designation and not on an ongoing basis; and

- The amendment requires disclosure of the nominal amount of hedging instruments to which the reliefs are applied, any significant assumptions or judgements made in applying the reliefs, and qualitative disclosures about how the entity is impacted by IBOR reform and is managing the transition process.

Amendments to IFRS 16

The IASB has published COVID-19-related Rent Concessions (Amendment to IFRS 16). Its key amendments include:

- Lessees were provided an exemption from assessing a rent concession related to COVID-19 is a lease modification.

- Lessees applying the exemption need to account for rent concessions as if they were not lease modification.

- Lessees that apply the exemption need to disclose that fact.

- Lessees need to apply the exemption retrospectively as required by IAS 8 without restatement of comparative amount for prior period.

The adoption of the new IFRSs and amendments to IFRSs above does not have a material impact on the Group's operating results, financial position or other comprehensive income.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.2 Standards and amendments issued but not yet effective

		Effective for annual period commencing on or after
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4, and IFRS 16	Interest Rate Benchmark Reform – Phase 2	1 January 2021
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	The amendments were originally intended to be effective for annual periods beginning on or after 1 January 2016. The effective date has now been deferred/removed.
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use	1 January 2022
IFRS 17 and its amendments	Insurance Contracts	1 January 2023
Amendments to IFRS 3	Reference to the Conceptual Framework	1 January 2022
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41	Annual Improvements to IFRS Standards 2018-2020	1 January 2022

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16
The IASB has issued amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 ("Interest Rate Benchmark Reform–Phase 2"). The amendments are effective for annual periods beginning on or after 1 January 2021, with early application permitted.

Interest Rate Benchmark Reform–Phase 2 provides additional temporary reliefs from applying specific IFRS 9 hedge accounting requirements to hedging relationships directly affected by IBOR reform, including:

- For instruments to which the amortised cost measurement applies, the amendments require entities, as a practical expedient, to account for a change in the basis for determining the contractual cash flows as a result of IBOR reform by updating the effective interest rate using the guidance in paragraph B5.4.5 of IFRS 9. As a result, no immediate gain or loss is recognised.

- Require an entity to prospectively cease to apply the Phase 1 reliefs to a non-contractually specified risk component at the earlier of when changes are made to the non-contractually specified risk component, or when the hedging relationship is discontinued.

- Additional temporary exceptions from applying specific hedge accounting requirement.

- Additional IFRS 7 disclosure requirements related to IBOR reform.

The Group is assessing the impact on the Group's operating results and financial position of adopting Interest Rate Benchmark Reform–Phase 2.

Amendments to IFRS 10 and IAS 28
The amendments address an inconsistency between IFRS 10 and IAS 28 in the sale or contribution of assets between an investor and its associate or joint venture.

A full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.2 Standards and amendments issued but not yet effective *(Continued)*

Amendments to IAS 16

The amendment to IAS 16 Property, Plant and Equipment (PP&E) prohibits an entity from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment.

Entities must disclose separately the amounts of proceeds and costs relating to items produced that are not an output of the entity's ordinary activities.

IFRS 17 and its amendments

IFRS 17 Insurance Contracts was issued in May 2017 as replacement for IFRS 4. It requires a current measurement model where estimates are re-measured in each reporting period. Contracts are measured using the building blocks of discounted probability weighted cash flows, an explicit risk adjustment, and a contractual service margin ("CSM") representing the unearned profit of the contract which is recognised as revenue over the coverage period.

The standard allows a choice between recognising changes in discount rates either in the statement of profit or loss or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9.

An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.

There is a modification of the general measurement model called the "variable fee approach" for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the CSM. The results of insurers using this model are therefore likely to be less volatile than under the general model.

The IASB issued the amendments to IFRS 17 Insurance contracts, on 25 June 2020, together with an amendment to IFRS 4, so that eligible insurers can still apply IFRS 9 alongside IFRS 17. This concluded the IASB's targeted amendments to IFRS 17 which aimed to ease implementation of the standard by reducing implementation costs and making it easier for entities to explain, to investors and others, the results from applying IFRS 17. The amendments to IFRS 17 include:

- Effective date

The effective date of IFRS 17 (incorporating the amendments) has been deferred by two years to annual reporting periods beginning on or after 1 January 2023; and the fixed expiry date of the temporary exemption from applying IFRS 9 in IFRS 4 has also been deferred to annual reporting periods beginning on or after 1 January 2023.

- Expected recovery of insurance acquisition cash flows

An entity is required to allocate part of the acquisition costs to related expected contract renewals, and to recognise those costs as an asset until the entity recognises the contract renewals. Entities are required to assess the recoverability of the asset at each reporting date, and to provide specific information about the asset in the notes to the financial statements.

- Contractual service margin attributable to investment services

Coverage units should be identified, considering the quantity of benefits and expected period of both insurance coverage and investment services, for contracts under the variable fee approach and for other contracts with an 'investment-return service' under the general model. Costs related to investment activities should be included as cash flows within the boundary of an insurance contract, to the extent that the entity performs such activities to enhance benefits from insurance coverage for the policyholder.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.2 Standards and amendments issued but not yet effective *(Continued)*

IFRS 17 and its amendments (continued)

- Reinsurance contracts held – recovery of losses

When an entity recognises a loss on initial recognition of an onerous group of underlying insurance contracts, or on addition of onerous underlying contracts to a group, an entity should adjust the contractual service margin of a related group of reinsurance contracts held and recognise a gain on the reinsurance contracts held. The amount of the loss recovered from a reinsurance contract held is determined by multiplying the loss recognised on underlying insurance contracts and the percentage of claims on underlying insurance contracts that the entity expects to recover from the reinsurance contract held. This requirement would apply only when the reinsurance contract held is recognised before or at the same time as the loss is recognised on the underlying insurance contracts.

- Other amendments to IFRS 17 include:
  - Scope exclusions for some credit card (or similar) contracts, and some loan contracts;
  - Presentation of insurance contract assets and liabilities in the statement of financial position in portfolios instead of groups;
  - Applicability of the risk mitigation option when mitigating financial risks using reinsurance contracts held and non-derivative financial instruments at fair value through profit or loss;
  - An accounting policy choice to change the estimates made in previous interim financial statements when applying IFRS 17;
  - Inclusion of income tax payments and receipts that are specifically chargeable to the policyholder under the terms of an insurance contract in the fulfilment cash flows;
  - Selected transition reliefs and other minor amendments.

The Group is assessing the impact on the Group's operating results and financial position of adopting IFRS 17.

Amendments to IFRS 3

The amendments to IFRS 3, 'Business combinations', referred to the 2018 Conceptual Framework for Financial Reporting, are in order to determine what constitutes an asset or a liability in a business combination. In addition, the amendments add a new exception in IFRS 3 for liabilities and contingent liabilities. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37, 'Provisions, Contingent Liabilities and Contingent Assets', or IFRIC 21, '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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.2 Standards and amendments issued but not yet effective *(Continued)*

Annual Improvements to IFRS Standards 2018-2020

The Annual Improvements to IFRSs 2018-2020 Cycle include a number of amendments to various IFRSs:

- IFRS 9 Financial Instruments – clarifies which fees should be included in the 10% test for derecognition of financial liabilities.

- IFRS 16 Leases – amendment of its illustrative example to remove the illustration of payments from the lessor relating to leasehold improvements, to remove any confusion about the treatment of lease incentives.

- IFRS 1 First-time Adoption of International Financial Reporting Standards – allows entities that have measured their assets and liabilities at carrying amounts recorded in their parent's books to also measure any cumulative translation differences using the amounts reported by the parent. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption.

- IAS 41 Agriculture – removal of the requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis.

Except for the above-mentioned impact of Interest Rate Benchmark Reform–Phase 2 and Amendments to IFRS 17, the adoption of the above new standards and amendments issued but not yet effective is not expected to have a material effect on the Group's operating results, financial position or other comprehensive income.

2.2 Consolidation

2.2.1 Subsidiary undertakings

The consolidated financial statements incorporate the financial statements of the Bank and entities (including structured entities) controlled by the Bank and its subsidiaries. Control is achieved when the Bank:

- has power over the investee;

- is exposed, or has rights, to variable returns from its involvement with the investee; and

- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are not consolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred in a business combinations is measured at fair value, which is calculated as the sum of the acquisition date fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition related costs are recognised in the consolidated income statement as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interests in the acquiree at the non-controlling interests' proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the identifiable net assets of the acquiree in the case of a bargain purchase, the difference is recognised in profit or loss.

All intra-Group transactions, balances, income and expenses are eliminated in full on consolidation. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation *(Continued)*

2.2.2 Transactions with non-controlling interests

For acquisition of additional interests in subsidiaries from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiaries is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group loses control of a subsidiary due to the disposal of a portion of an equity investment, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive are reclassified to profit or loss and retained earning.

2.2.3 Structured entities

Structured entities are entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entities, for example when any voting rights relate to administrative tasks only, and key activities are directed by contractual agreement. Structured entities often have restricted activities and a narrow and well-defined objective. Examples of structured entities include investment funds, trusts, securitisation vehicles and asset backed financings. Involvement with consolidated and unconsolidated structured entities is disclosed in Note 44 and 45.

2.2.4 Investment in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is an arrangement whereby the Group and other parties contractually agree to share control of the arrangement through a separate entity, and have rights to the net assets of the arrangement based on legal form, contract terms, and other facts and circumstances. Joint control is the contractually agreed sharing of control over an activity, and exists only when the decisions relating to the activity require the unanimous consent of the Group and other parties sharing the control.

The results of an associate or a joint venture are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or a joint venture equals or exceeds its interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate or joint venture.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate or a joint venture recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation *(Continued)*

2.2.4 *Investment in associates and joint ventures* *(Continued)*

Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, is recognised immediately in profit or loss.

At the end of reporting period, the Group assesses whether there is an indication of possible impairment with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested as a single asset for impairment in accordance with IAS 36 "Impairment of assets" by comparing its recoverable amount (the higher of value in use and fair value less costs of sale) with its carrying amount, any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its associate or joint venture, profits and losses resulting from the transactions with the associate or joint venture are recognised only to the extent of interests in the associate or joint venture that are not related to the Group.

2.2.5 *Goodwill*

Goodwill represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets. Goodwill is not amortised. Goodwill arising from a business combination is allocated to each cash-generating unit ("CGU") or group of CGUs, that is expected to benefit from the synergies of the combination. The Group performs an impairment test on goodwill at least once a year.

On disposal of the related CGU or group of CGUs, any attributable amount of goodwill net of allowances for impairment losses, if any, is included in the calculation of the profit or loss on disposal.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Financial instruments

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset.

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss for the period. Immediately after initial recognition, an expected credit loss allowance is recognised for financial assets measured at amortised cost and debt investments measured at fair value through other comprehensive income, which results in an accounting loss being recognised in profit or loss for the period when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognises the difference as follows:

(a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.

(b) In all other cases, the difference is deferred, and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

The method of determining fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction at the measurement date. For financial instruments with active markets, the Group uses quotations from active markets to determine their fair value, and for financial instruments where there is no active market, the Group uses valuation techniques to determine its fair value. Valuation techniques include references to prices used in recent market transactions by parties familiar with the situation and voluntary transactions, the current fair value of other financial instruments with reference to the same substantially, the discounted cash flow method and the option pricing model.

Measurement methods

Amortised cost and effective interest rate

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired ('POCI') financial assets – assets that are credit-impaired at initial recognition – the Group calculates the credit-adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

When the Group revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Financial instruments *(Continued)*

2.3.1 Financial assets

Classification and subsequent measurement

The Group has classified its financial assets in the following measurement categories:

- Fair value through profit or loss (FVPL);
- Fair value through other comprehensive income (FVOCI); or
- Amortised cost.

The classification requirements for debt and equity instruments are described below:

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

Classification and subsequent measurement of debt instruments depend on:

(i) The Group's business model for managing the asset; and

(ii) The cash flow characteristics of the asset.

Based on these factors, the Group classifies its debt instruments into one of the following three measurement categories:

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured from these financial assets. According to the business category, these financial assets are presented as 'Cash and balances with central banks', 'Due from banks and other financial insitutions', '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'.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Financial instruments *(Continued)*

2.3.1 Financial assets *(Continued)*

Classification and subsequent measurement (Continued)

Debt instruments *(Continued)*

Business model: the business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPL. Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

When, and only when, the Group changes the business model for managing its financial assets, shall it reclassify all affected financial assets, and apply the reclassification prospectively from the reclassification date. The Group does not restate any previously recognised gains, losses (including impairment gains or losses) or interest. Reclassification date is the first day of the first reporting period following the change in business model that results in the Group reclassifying financial assets.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Group subsequently measures all equity investments at fair value through profit or loss, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income, listed as 'Financial investments at FVPL'. The Group's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to sell. When this election is used, fair value gains or losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as 'Net gains arising from financial investments' when the Group's right to receive payments is established.

Gains or losses on equity investments at FVPL are recognised as 'Net gains arising from trading activities'.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Financial instruments *(Continued)*

2.3.1 Financial assets *(Continued)*

Impairment

On a forward-looking basis, the Group assesses the expected credit losses ('ECL') of debt instrument assets at amortised cost and FVOCI, exposures arising from credit related commitments and financial guarantees. The Group recognises a loss allowance accordingly at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Regarding these judgment and estimates, please refer to note 3.1.

Write-off

The book value of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. A write-off constitutes a derecognition event. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

Modification of loans

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms. The Group does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Financial instruments *(Continued)*

2.3.1 Financial assets *(Continued)*

Modification of loans (Continued)

If the terms are substantially different, the Group derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

Derecognition other than on a modification

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Group transfers substantially all the risks and rewards of ownership, or (ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control.

The Group enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if the Group:

(i) Has no obligation to make payments unless it collects equivalent amounts from the assets;

(ii) Is prohibited from selling or pledging the assets; and

(iii) Has an obligation to remit any cash it collects from the assets without material delay.

Collateral (shares and bonds) furnished by the Group under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitisation transactions in which the Group retains a subordinated residual interest.

When the contractual rights to receive the cash flows from the assets have been transferred, and the Group neither transfers nor retains substantially all the risks and rewards of ownership, and the Group has retained control of the transferred assets, the Group applies continuing involvement approach. Under this approach, the Group continues to recognise the transferred asset to the extent of its continuing involvement and recognise the associated liability, to reflect the rights and obligations retained by the Group. The net carrying amount of the transferred asset and associated liability is: (a) the amortised cost of the rights and obligations retained by the Group, if the transferred asset is measured at amortised cost; or (b) equal to the fair value of the rights and obligations retained by the Group when measured on a stand-alone basis, if the transferred asset is measured at fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020
(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Financial instruments *(Continued)*

2.3.1 Financial assets *(Continued)*

Asset securitisation

As part of its operational activities, the Group securitises financial assets, generally through the sale of these assets to structured entities which then issue securities to investors. The Group holds part or all of the subordinated tranche notes, which are not transferrable before both the principals and interests of the senior tranche notes are repaid. The Group serves as the asset management supplier, providing services including loan collection for the investment pool, keeping accounting records related to the investment pool and issuing reports as the service agency. The assets under securitisation are used to repay the principals and interests of the senior tranche notes first after deducting related taxation and expenses, and the remaining assets under securitisation are repaid to the Group and subordinated tranche notes investors. The Group derecognises the transferred assets in full or in part based on the extent of the risks and rewards retained over.

The Group evaluates the extent to which it transfers the risks and rewards of ownership of the financial assets to the other party and determines whether it retains control while applying the accounting policy in respect of asset securitisation.

(1) The financial asset is derecognised when the Group transfers substantially all the risks and rewards of ownership of the financial asset.

(2) The financial asset continues to be recognised when the Group retains substantially all the risks and rewards of ownership of the financial asset.

(3) When the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset and does not retain control it derecognises the financial asset and recognises separately as assets or liabilities any rights and obligations created or retained in the transfer.

(4) When the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset and retains control, it continues to recognise the financial asset to the extent of its continuing involvement in the financial asset. The Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Financial instruments *(Continued)*

2.3.2 Financial liabilities

Classification and subsequent measurement

In both the current and prior period, financial liabilities are classified as liabilities measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains or losses attributable to changes in the credit risk of the liability are also presented in profit or loss;

- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition or when the continuing involvement approach applies. When the transfer of financial asset did not qualify for derecognition, a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Group recognises any expense incurred on the financial liability; when continuing involvement approach applies, see note 2.3.1; and

- Credit related commitments and financial guarantees (refer to Note 2.26)

Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

The exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is more than 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

A financial instrument is an equity instrument if, and only if, both conditions (i) and (ii) below are met:

(i) The financial instrument includes no contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; and

(ii) If the financial instrument will or may be settled in the Group's own equity instruments, it is a non-derivative instrument that includes no contractual obligations for the Group to deliver a variable number of its own equity instruments; or a derivative that will be settled only by the Group exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

Equity instruments issued by the Group are recorded at the fair value of proceeds received, net of direct issuance expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020
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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Financial instruments *(Continued)*

2.3.3 Derivative financial instruments and hedge accounting

Derivatives are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the hybrid (combined) instrument vary in a way similar to a stand-alone derivative. If the hybrid contract contains a host that is a financial asset, then the Group assesses the entire contract as described in the financial assets section above for classification and measurement purposes. Otherwise, the embedded derivatives are treated as separate derivatives when:

(i) The economic characteristics and risks are not closely related to those of the host contract;

(ii) A separate instrument with the same terms would meet the definition of a derivative; and

(iii) The hybrid contract is not measured at fair value through profit or loss.

These embedded derivatives are separately accounted for at fair value, with changes in fair value recognised in the statement of profit or loss unless the Group chooses to designate the hybrid contracts at fair value through profit or loss.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated and qualifies as a hedging instrument, and if so, the nature of the item being hedged. For derivatives not designated or qualified as hedging instruments, including those intended to provide effective economic hedges of specific interest rate and foreign exchange risks, but do not qualify for hedge accounting, changes in the fair value of these derivatives are recognised in "Net trading gains" in the income statement.

The Group documents, at the inception of the hedge, the relationship between hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment of hedging effectiveness both at hedge inception and on an ongoing basis, that is, the extent to which changes in the fair value or cash flow of the hedge instrument can offset the changes in fair values or cash flows of hedged items resulting from the hedge risk.

The hedging relationship should meet all of the following hedge effectiveness requirements:

(i) There is an economic relationship between the hedged item and the hedging instrument. That means the hedging instrument and hedged item have values that generally move in the opposite direction because of the same risk, which is the hedged risk.

(ii) The effect of credit risk does not dominate the value changes that result from that economic relationship; and

(iii) The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of the hedged item. However, that designation shall not reflect an imbalance between the weightings of the hedged item and the hedging instrument that would create hedge ineffectiveness that could result in an accounting outcome that would be inconsistent with the purpose of hedge accounting.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Financial instruments *(Continued)*

2.3.3 Derivative financial instruments and hedge accounting (Continued)

Possible sources of ineffectiveness are as follows:

(i) Increase or decrease in the amounts of hedged items or hedging instruments;

(ii) Significant changes in counterparties' credit risk.

The Group discontinues hedge accounting prospectively when the hedging instrument expires or is sold, terminated or exercised (the replacement or rollover of a hedging instrument into another hedging instrument does not constitute an expiration or termination), or the hedging relationship ceases to meet the risk management objective, or to meet other qualifying criteria for hedging accounting.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship so that it meets the qualifying criteria again.

(a) Fair value hedge

Fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or a component of any such item, that is attributable to a particular risk and could affect profit or loss.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the statement of profit or loss, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss no later than when the hedged item ceases to be adjusted for hedging gains and losses over the period to maturity and recorded as net interest income.

(b) Cash flow hedge

Cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with all, or a component of, a recognised asset or liability or a highly probable forecast transaction, and could affect profit or loss.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the statement of profit or loss.

Amounts accumulated in equity are recycled to the statement of profit or loss in the periods when the hedged item affects profit or loss. They are recorded in the income or expense lines in which the revenue or expense associated with the related hedged item is reported.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised in the periods when the hedged item affects profit or loss. When a forecast transaction is no longer expected to occur (for example, the recognised hedged asset is disposed of), the cumulative gain or loss previously recognised in other comprehensive income is immediately reclassified to the statement of profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020
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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Financial instruments *(Continued)*

2.3.4 Offsetting financial assets and financial liabilities

When the Group has a currently enforceable legal right to offset recognised financial assets and financial liabilities, and intends either to settle on a net basis or to realise the financial asset and settle the financial liability at the same time, the financial assets and liabilities are offset with the net amount presented in the consolidated statement of financial position. Otherwise, financial assets and financial liabilities are presented separately. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

2.4 Interest income and expense

The "Interest income" and "Interest expense" in the Group's income statement are the interest income and expense calculated by using the effective interest method on debt investment at amortised cost, debt investment at fair value through other comprehensive income and financial liabilities at amortised cost, etc.

For those purchased or originated credit-impaired financial assets, the Group calculates the interest income by applying the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition. For those financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets, the Group calculates the interest income by applying the effective interest rate to the amortised cost of the financial asset in subsequent reporting periods.

2.5 Fee and commission income

Fee and commission income is recognised when the Group fulfills its performance obligation, either over time or at a point in time when a customer obtains control of the service.

For the performance obligations satisfied at a point in time, the Group recognises revenue when control is passed to the customer at a certain point in time. For the performance obligations satisfied over time, the Group recognises revenue according to the progress toward satisfaction of the obligation over the time.

2.6 Dividend income

Dividends are recognised when the right to receive the dividends is established.

2.7 Assets transferred under repurchase agreements

(a) Financial assets sold under repurchase agreements

Financial assets sold subject to agreements with a commitment to repurchase at a specific future date at a fixed or determinable price are not derecognised in the statement of financial position. The proceeds from selling such assets are presented under "due to banks and other financial institutions" in the statement of financial position. The difference between the selling price and repurchasing price is recognised as interest expense during the term of the agreement using the effective interest method.

(b) Financial assets purchased under resale agreements

Financial assets that have been purchased under agreements with a commitment to resell at a specific future date are not recognised in the statement of financial position. The cost of purchasing such assets is presented under "due from banks and other financial institutions" in the statement of financial position. The difference between the purchasing price and reselling price is recognised as interest income during the term of the agreement using the effective interest method.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.8 Precious metals

Precious metals that are not related to the Group's trading activities are initially measured at acquisition cost and subsequently measured at the lower of cost and net realisable value. Precious metals that are related to the Group's trading activities are initially and subsequently recognised at fair value, with changes in fair value arising from re-measurement recognised directly in profit or loss in the period in which they arise.

2.9 Property and equipment

The Group's property and equipment mainly comprise land and buildings, construction in progress, equipment, transportation equipment and property improvement.

The assets purchased or constructed are initially measured at acquisition cost.

Subsequent expenditures incurred for the property and equipment are included in the cost of the property and equipment if it is probable that economic benefits associated with the asset will flow to the Group and the subsequent expenditures can be measured reliably. Meanwhile the carrying amount of the replaced part is derecognised. Other subsequent expenditures are recognised in profit or loss in the period in which they are incurred.

Depreciation is calculated on a straight-line basis to write down the cost of such assets to their residual values over their estimated useful lives. The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each financial reporting date.

Buildings comprise primarily office premises. The estimated useful lives, depreciation rate and estimated residual value rate of buildings, equipment, transportation equipment and property improvement are as follows:

Type of assets	**Estimated 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)

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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 derecongnised 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 derecongnised.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.14 Impairment of assets

The Group determines the impairment of assets, other than the impairment of deferred tax assets and financial assets, with the following methods:

The Group assesses at the balance sheet date whether there is any indication that assets may be impaired. If any indication exists that an asset may be impaired exists, the Group estimates the recoverable amount of the asset.

If there is any indication that an asset may be impaired and it is not possible to estimate the recoverable amount of an individual asset, the Group determines the recoverable amount based on the CGU to which the asset belongs.

CGU is the smallest identifiable group of assets, and the cash inflows generated by a CGU are largely independent from other assets or groups of assets.

The recoverable amount of an asset (or CGU, group of CGUs) is the higher of its fair value less costs to sell and the present value of the expected future cash flows. The Group considers all relevant factors in estimating the present value of future cash flows, such as the expected future cash flows, the useful life and the discount rate.

(a) Testing CGU with goodwill for impairment

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to the CGU or group of CGUs that is expected to benefit from the synergies of the combination.

A CGU or group of CGUs to which goodwill has been allocated is tested for impairment by the Group at least annually, or whenever there is an indication that the CGU or group of CGUs are impaired, by comparing the carrying amount of the CGU or group of CGUs, including the goodwill, with the recoverable amount of the CGU or group of CGUs. The recoverable amount of the CGU or group of CGUs are the estimated future cash flows, which are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the CGU or group of CGUs with allocated goodwill.

At the time of impairment testing of a CGU or group of CGUs to which goodwill has been allocated, there may be an indication of an impairment of an asset within the CGU containing the goodwill. Under such circumstances, the Group tests the asset for impairment first, and recognises any impairment loss for that asset before testing for impairment on the CGU or group of CGUs containing the goodwill. Similarly, there may be an indication of an impairment of a CGU within a group of CGUs containing the goodwill. Under such circumstances, the Group tests the CGU for impairment first, and recognises any impairment loss for that CGU, before testing for impairment the group of CGUs to which the goodwill is allocated.

(b) Impairment loss

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is recognised as an impairment loss and charged to the profit or loss.

For a CGU or a group of CGUs, the amount of impairment loss firstly reduces the carrying amount of any goodwill allocated to the CGU or group of CGUs, and then reduces the carrying amount of other assets (other than goodwill) within the CGU or group of CGUs, pro rata on the basis of the carrying amount of each asset.

(c) Reversing an impairment loss

If, in a subsequent period, the amount of impairment loss of the non-financial asset except for goodwill decreases and the decrease can be linked objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the profit or loss. A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior periods.

An impairment loss in respect of goodwill is not reversed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.15 Leases

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset for a period of time, the Group assesses whether, throughout the period of use, the customer has both of the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset.

(a) The Group as Lessee

The Group recognises the right-of-use asset on the start date of the lease term and recognises the lease liability at the present value of the remaining lease payments. The lease payments include fixed payments and payments to be made when it is reasonably determined to exercise purchase option or terminate lease option. Variable rent determined based on a certain proportion of sales is not included in the lease payments and is recognised in profit or loss when incurred.

The Group's right-of-use assets include leased properties, venues, parking lots, advertising spaces, vehicles and equipment etc. The right-of-use asset is initially measured at cost, which includes the initial measurement of the lease liability, the lease payments already paid on or before the lease start date, the initial direct costs etc., and deducts any lease incentives received. The leased asset is depreciated on a straight-line basis over its remaining useful life if the Group could reasonably determine to obtain the ownership at the expiration of the lease term; if it is unsure whether the ownership of the leased asset can be obtained at the expiration of the lease term, the right-of-use asset is depreciated over the shorter of its remaining useful life and the lease term on a straight-line basis. When the recoverable value is lower than the book value of the right-of-use asset, the Group reduces the book value to the recoverable value.

For short-term leases with a lease term shorter than 12 months and leases of asset with low value when it is new, the Group recognises relevant rental expenses on a straight-line basis in profit or loss or in the related asset costs in each lease period rather than recognising the right-of-use assets or lease liabilities.

The Group accounts for a modification to a finance lease as a separate lease if both:(a) the modification increases the scope of the lease by adding the right to use one or more underlying assets; and (b) the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, in the case where the COVID-19 directly caused contract changes, a simplified method is adopted; otherwise, at the effective date of the lease modification, the Group remeasures the lease term and the lease liability by discounting the revised lease payments using a revised discount rate. The Group decreases the carrying amount of the right-of-use asset for lease modifications that decrease the scope or term of the lease, and recognised the gain or loss relating to the partial or full termination of the lease in profit or loss. The Group makes a corresponding adjustment to the right-of-use asset for all other lease modifications.

For rent concessions that are directly related to COVID-19 and applicable only before 30 June 2021, the Group uses a expedient, with the undiscounted concessions recognised in profit or loss and lease liabilities adjusted accordingly when original payments are exempted upon agreement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.15 Leases *(Continued)*

(b) The Group as Lessor

Operating Lease

When the Group leases out its own buildings and properties, equipment and transportation vehicles, the rental income arising from operating leases is recognised on a straight-line basis over the lease term. Variable rent determined based on a certain proportion of sales is recognised in rental income when incurred.

Finance Lease

As lessor of the finance lease, the Group recognises the finance lease receivables for the finance lease on the commencement date of the lease period and derecognises the related assets. Finance lease receivables are recognised at the net lease investment to “Loans and advances to customers” for the initial measurement. The net lease investment is the sum of the unsecured residual value and the present value of the lease payments unreceived at the commencement date of the lease period discounted at the interest rate implicit in lease.

Finance lease receivables are derecognised when the contractual rights of receiving cash from the finance lease receivables have expired or have been transferred and all substantial risks and rewards regarding the lease have been transferred.

During the lease period, the lessor applies the fixed periodic interest rate to calculate the interest income for each period. Contingent rentals are recognised in profit or loss when incurred.

2.16 Cash and cash equivalents

Cash and cash equivalents are short-term and highly liquid assets, which are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value. Cash and cash equivalents include cash and assets with maturities of three months or less from the date of purchase under balances with central banks, due from banks and other financial institutions.

2.17 Provisions

Provisions are recognised when the Group has a present obligation related to a contingency, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account factors pertaining to a contingency such as the risks, uncertainties and time value of money. Where the effect of the time value of money is material, the amount of the provision is determined by discounting the related future cash outflows.

Where all or some of the expenditure required to settle a provision is expected to be reimbursed by a third party, the reimbursement is recognised as a separate asset only when it is virtually certain that reimbursement will be received, and the amount of reimbursement recognised does not exceed the carrying amount of the provision.

2.18 Income taxes

Income tax represents the sum of the tax currently payable and deferred tax.

(a) Current income tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.18 Income taxes *(Continued)*

(b) Deferred income tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income, in which case the current and deferred tax are also recognised in other comprehensive income.

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

2.19 Share capital

(a) Share capital

Share capital comprises ordinary shares issued.

(b) Share issue costs

External costs directly attributable to the issuance of new shares are shown in equity as a deduction from the proceeds.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.20 Dividend distribution

(a) Dividends on ordinary shares

Dividends on ordinary shares are recognised in the period in which they are declared and approved by the Bank's shareholders.

(b) Dividends on preference shares

Preference share dividend distribution is recognised as a liability in the Group's and the Bank's financial statements in the period in which the dividends are approved by the Board of Directors of the Bank.

(c) Distribution on perpetual bonds

Perpetual bond interest distribution is recognised as a liability in the Group's and the Bank's financial statements in the period in which the interest distribution approved by the Board of Directors of the Bank.

2.21 Acceptances

Acceptances comprise the Group's commitments on payment for bills that are issued to customers. Acceptances are accounted for as credit related commitments and financial guarantees and are disclosed as contingent liabilities and commitments.

2.22 Staff costs and benefits

(a) Staff costs

Staff costs include salaries, bonuses, allowance and subsidies, staff welfare, medical insurance, employment injury insurance, maternity insurance, housing funds, labor union fees as well as staff education expenses and housing allowance. During the reporting period in which employees have rendered services, the Group recognises the staff costs payable as a liability with a corresponding charge to profit or loss or the cost of assets where appropriate.

The Group participates in the employee social security systems established by the government, including medical insurance, housing funds and other social securities, in accordance with relevant requirements. Related expenses are recognised in profit or loss when incurred.

(b) Post-employment benefits

The Group divides post-employment benefit plans into defined contribution plans and defined benefit plans. Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into a separate fund and will have no obligation to pay further contributions. Defined benefit plans are post-employment benefit plans other than defined contribution plans. During the reporting period, post-employment benefits for the employees of the Group mainly include payment to basic retirement insurance, unemployment insurance, annuity plan and supplementary retirement benefits.

Basic retirement insurance

Employees of the Group have joined basic retirement insurance arranged by local ministry of labour and social security. The Group makes monthly contributions to the retirement insurance according to the base and proportion set by local government. When employees retire, local ministry of labour and social security is responsible for the payment of the basic pension to the retired employees. Such basic retirement insurance is a defined contribution plan. During the reporting period in which employees have rendered services, the Group recognises the amounts payable as a liability with a corresponding charge to profit or loss or the cost of assets where appropriate.

Annuity plan

Employees of domestic branches who retire at or after 1 January 2009 participate in the annuity plan established by the Group. The Group contributes a certain portion of employees' gross salaries to the annuity plan. Such annuity plan is a defined benefit plan. Related expenses are recognised in profit or loss when incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020
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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.22 Staff costs and benefits *(Continued)*

(b) Post-employment benefits *(Continued)*

Supplementary retirement benefits

The Group pays supplementary retirement benefits to employees of domestic branches who retired at or before 31 December 2008. Such supplementary retirement benefits are defined benefit plans. The Group accrues a liability based on actuarial techniques and recognises all actuarial gains or losses in other comprehensive income. Such actuarial gains or losses will not be reversed to profit or loss subsequently. Past service costs are recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability and recognised in profit or loss when incurred.

(c) Early retirement expenses

The Group pays the welfare benefits for employees, who have not yet reached the statutory retirement age limit and are approved by the Group to voluntarily retire from their employment, from the early retirement date to the statutory retirement age limit. These welfare benefits are recognised in profit or loss based on the discounted cash flow calculation over the implementation period. The Group reviews present value of the welfare benefits on each reporting date, with any changes recognised in profit or loss.

2.23 Foreign currency translation

Renminbi ("RMB") is the currency of the primary economic environment in which the Bank and the Group's domestic subsidiaries operate. Therefore, the Bank and the Group's domestic subsidiaries choose RMB as their functional currency. The Bank and the Group's foreign subsidiaries choose their respective functional currencies on the basis of the primary economic environment in which they operate. The Group adopts RMB to prepare its consolidated financial statements.

In preparing the financial statements of each individual Group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

At the reporting date, foreign currency monetary items are translated into functional currency using the spot exchange rates at the reporting date. Exchange differences arising from the differences between the spot exchange rates prevailing at the reporting date and those on initial recognition or at the previous reporting date are recognised in profit or loss for the period, except that (1) exchange differences related to hedging instruments for the purpose of hedging against foreign exchange risks are accounted for using hedge accounting; (2) exchange differences arising from non-monetary items at fair value through other comprehensive income (such as shares) denominated in foreign currencies and changes in the carrying amounts (other than the amortised cost) of monetary items at fair value through other comprehensive income are recognised as other comprehensive income; and (3) exchange differences arising on a foreign currency monetary item that forms part of the Bank's net investment in a foreign operation.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the spot exchange rates at the date of the transactions or a rate that approximates the spot exchange rates of the date of the transaction. Exchange differences arising, if any, are recognised in other comprehensive income.

On disposal of the Group's entire interest in a foreign operation, or upon a loss of control over a foreign operation due to disposal of certain interest in it or other reasons, the Group transfers the accumulated exchange differences arising on translation of financial statements of this foreign operation and foreign currency monetary items that form part of the net investment in such foreign operation attributable to the owners' equity of the Group and presented under shareholder's equity in the statement of financial position, to profit or loss in the period in which the disposal occurs.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.23 Foreign currency translation *(Continued)*

In case of a disposal or other reason that does not result in the Group losing control over a foreign operation, the proportionate share of accumulated exchange differences arising on translation of financial statements are re-attributed to non-controlling interests and are not recognised in profit and loss. For partial disposals of equity interests in foreign operations which are associates and joint ventures, the proportionate share of the accumulated exchange differences arising on translation of financial statements of foreign operations is reclassified to profit or loss.

2.24 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably. Contingent liabilities are disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable and can be reliably estimated, it will then be recognised as a provision.
2.25 Insurance contracts

2.25 Insurance contracts

(a) Insurance contracts classification and division

Insurance contracts are those contracts under which the Group has undertaken significant insurance risk, relative to an insured event or occurrence. The Group issues primarily life insurance contracts, which insure events associated with mortality over a long duration. The Group also issues non-life insurance contracts, which cover short-term casualty and health insurance risk. When necessary, the Group enters into reinsurance contracts to transfer insurance risks to a reinsurer. A significant insurance risk test is performed at inception of the insurance contracts.

Under the contract the insurer signed with the policyholder, the insurer may undertake insurance risk or other risks, or both insurance risk and other risks.

Where the Group undertakes both the insurance risk and other risks, and the insurance risk and other risks can be distinguished and separately measured, the insurance risk shall be separately accounted for as insurance contracts while the other risks shall be accounted for as either investment contracts or service contracts. Where the insurance risk and other risks cannot be distinguished from each other, or can be distinguished but cannot be separately measured, significant insurance risk test shall be performed at the contract's initial recognition date. If the insurance risk is significant, the contract is classified as an insurance contract; otherwise, it is classified as an investment contract or service contract.

(b) Insurance income recognition

Insurance premium income is recognised when all of the following criteria are met:

(i) The insurance contract is issued, and related insurance risk is undertaken by the Group;

(ii) The related economic benefits are likely to flow to the Group; and

(iii) Related income can be reliably measured.

Premiums from long-term life insurance contracts are recognised as revenue when due from policyholders. Premiums related to short-term non-life insurance contracts are recognised when received at the inception of the policy, as unearned insurance premiums in the consolidated statement of financial position, and are amortised on a straight-line basis into the consolidated income statement over the term of the policy. When the Group has transferred insurance risk through reinsurance contracts, the Group calculates the amount of premium ceded and the reinsurers' share of expenses and recognises them through the consolidated income statement in accordance with the terms of the reinsurance contracts.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.25 Insurance contracts *(Continued)*

(c) Insurance contract reserves

Insurance contract liabilities are measured based on a reasonable estimate of the amount of payments that the Group will be required to make to fulfil its obligations under the insurance contracts, which represents the difference between expected future cash outflows and inflows related to such contracts. A reasonable estimate of expected future net cash flows is determined based on information currently available as at the end of the reporting period. The Group has considered the impact of time value in the liability calculation for long-term life insurance.

The Group performs liability adequacy tests based on information currently available, as at the reporting date. Additional insurance contract liabilities should be recorded if any deficiency exists.

2.26 Credit related commitments and financial guarantees

Financial guarantees are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument.

Financial guarantees are initially recognised at fair value on the date the guarantee was given. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial amount, less amortisation of guarantee fees, and the best estimate of the expected credit loss provision required to settle the guarantee. Any increase in the liability relating to guarantees is taken to the consolidated statement of profit and loss.

The impairment allowance of loan commitments provided by the Group is measured by ECL. The Group has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

For credit related commitments and financial guarantees, the loss allowance is recognised as an provision.However, for contracts that include both a loan and an undrawn commitment and the Group can not separately identify the ECL on the undrawn commitment component from those on the loan component, the ECL on the undrawn commitment are recognised together with the loss allowance for the loan. To the extent that the combined ECL exceed the gross carrying amount of the loan, the ECL are recognised as a provision.

2.27 Fiduciary activities

In activities where the Group acts in a fiduciary capacity such as trustee, custodian or agent, the assets and income arising from the transaction together with the related undertakings to return the assets to customers are excluded from the Group's consolidated financial statements.

The Group conducts entrusted lending for the third-party lenders. The Group grants loans to borrowers, as trustee, according to the instruction of the third-party lenders who fund these loans. The Group is responsible for the arrangement and collection of the entrusted loans and receives a commission for the services rendered. As the Group does not assume the risks and rewards of the entrusted loans and does not provide funding for the corresponding entrusted funds, the entrusted loans are not recognised as assets and liabilities of the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.28 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the person or Group that allocates resources to and assesses the performance of the operating segments of an entity. The Group has determined the Board of Directors and the senior management team represented by the governor as its chief operating decision maker.

An operating segment is a component of the Group with all of the following conditions are satisfied: (1) that component can earn revenues and incur expenses from ordinary activities; (2) the component's operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and (3) discrete financial information for the component is available to the Group. If two or more operating segments have similar economic characteristics, and certain conditions are satisfied, they may be aggregated into a single operating segment. Intra-segment income and expenses are eliminated. Income and expenses directly associated with each segment are considered in determining segment performance.

The Group has the following segments: Yangtze River Delta, Pearl River Delta, Bohai Rim Economic Zone, Central China, Western China, Northeastern China, Overseas and Head Office.

2.29 Critical accounting estimates and judgments in applying accounting policies

The preparation of financial statements in conformity with IFRSs and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and of the Hong Kong Companies Ordinance require the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies.

(a) Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost, debt investment measured at fair value through other comprehensive income and credit related commitments and financial guarantees, is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (e.g. the likelihood of customers defaulting and the resulting losses). Note 3.1 specifies the parameters, assumptions and estimation techniques used in the measurement of expected credit loss and also discloses the sensitivity of expected credit losses to changes in these factors.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

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

- Criteria for determining whether or not there was a significant increase in credit risk, or a default or impairment loss was incurred;

- Economic indicators for forward-looking measurement, and the application of economic scenarios and weightings;

- Management overlay adjustments due to significant uncertain factors not covered in the models; and

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

Detailed information about the judgements and estimates made by the Group in the above areas is set out in Note 3.1.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020
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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.29 Critical accounting estimates and judgments in applying accounting policies *(Continued)*

(b) Fair value of financial instruments

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. These valuation techniques include the use of recent arm's length transactions, observable prices for similar instruments, discounted cash flow analysis using risk-adjusted interest rates, and commonly used market pricing models. To the extent practical, models use observable data such as interest rate yield curves, foreign currency rates and implied option volatilities, however areas such as credit risk (both own and counterparty's), volatilities and correlations require management to make estimates. Where market observable inputs are not available, they are estimated using assumptions that are calibrated as closely as possible to market observable data. Changes in assumptions about these factors could affect reported fair value of financial instruments.

The Group assesses assumptions and estimates used in valuation techniques including review of valuation model assumptions and characteristics, changes to model assumptions, the quality of market data, whether markets are active or inactive, other fair value adjustments not specifically captured by models and consistency of application of techniques between reporting periods as part of its normal review and approval processes. Valuation techniques are validated and periodically reviewed and, where appropriate, have been updated to reflect market conditions at the financial reporting date.

Detailed information about the judgements and estimates made by the Group in the above areas is set out in Note 3.4.

(c) Income taxes

The Group is subject to income tax various jurisdictions; principally, in Mainland China and Hong Kong Special Administrative Region of the PRC. There are certain transactions and activities for which the ultimate tax determination is uncertain during the ordinary course of business. The Group has made estimates for application of tax legislation and items of uncertainty taking into account existing tax legislation and past practice. Where the final tax outcome of these matters is different from the amounts that were initially estimated, such differences will impact the current income tax and deferred income tax in the period during which such a determination is made.

(d) Consolidation of structured entities

Where the Group acts as asset manager of or investor in structured entities, the Group makes significant judgement on whether the Group controls and should consolidate these structured entities. When performing this assessment, the Group assesses the Group's contractual rights and obligations in light of the transaction structures, and evaluates the Group's power over the structured entities, performs analysis and tests on the variable returns from the structured entities, including but not limited to commission income and asset management fees earned as the asset manager, the retention of residual income, and, if any, the liquidity and other support provided to the structured entities. The Group also assesses whether it acts as a principal or an agent through analysis of the scope of its decision-making authority over the structured entities, the remuneration to which it is entitled for asset management services, the Group's exposure to variability of returns from its other interests in the structured entities, and the rights held by other parties in the structured entities.

(e) Derecognition of financial assets

In judging whether the transaction in which a loan transfer through packaging and asset securitisation is consistent with the termination confirmation of a financial asset, the Group needs to assess whether the Group meets the criteria for the transfer of financial assets and whether almost all risks and rewards in the ownership of the loan are transferred. If there is neither a transfer nor a retention of almost all the risks and rewards on the ownership of the transferred loan, the Group will further assess whether control over the transferred loan has been retained. In assessing and judging, the Group has taken into account a wide range of factors, such as whether trading arrangements are accompanied by repurchase clauses. The Group sets situational assumptions and uses the future cash flow discount model for risk and compensation transfer testing. The Group derecognised the loan only if the loan has been transferred and almost all risks and benefits in ownership have been transferred to another subject. If the Group retains almost all the risks and rewards associated with the ownership of the transferred loan, it shall continue to confirm the loan and at the same time recognise the proceeds received as a financial liability. If the Group has neither transferred nor retained almost all of the risks and rewards in the ownership of the loan and has not waived its control over the loan, the financial assets concerned are recognised to the extent that the loan continues to be involved and the relevant liability is recognised accordingly.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.29 Critical accounting estimates and judgments in applying accounting policies *(Continued)*

(f) Impairment of non-financial assets

Non-financial assets are periodically reviewed for impairment and where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and the present value of the asset's expected future cash flow.

Fair value is usually based on market prices, and the management obtains it from professional appraisal agencies. Disposal costs include legal fees and taxes related to the asset disposal. When estimating the present value of the expected future cash flow fixed assets leased out by the subsidiary, the management takes the rents agreed in the leasing contracts and the asset value at the end of the lease term as the basis of estimation and uses appropriate discount rates to determine the present value of future cash flows. Since the outbreak of the pandemic influenced the liquidity of some lessees, the Group considers various scenarios of these lessees under the circumstances of the pandemic and makes estimations of future cash flows under different scenarios. The asset value at the end of the lease term is obtained from professional appraisal agencies. Due to the uncertainty over the development and prevention of the pandemic, there remains uncertainty over the future cash flows and pre-tax discount rates of the rents in the calculation of the present value of future cash flow.

3 FINANCIAL RISK MANAGEMENT

Overview

The Group's activities expose it to a variety of financial risks and those activities involve analysis, evaluation, acceptance and management of a certain degree of risks or a portfolio of risks. The Group's aim is to achieve an appropriate balance between risks and returns and minimise potential adverse effects on the Group's financial performance. The main types of financial risks are credit risk, liquidity risk, market risk, operational risk, etc.

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, monitor the risks and to control the risk limits through reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets and products and the latest best practice.

Risk management framework

The Board of Directors sets out risk management strategies, overall risk preference and risk tolerance level. The senior management establishes risk management policies and procedures according to the strategies set by the Board of Directors. The Risk Management Department (Internal Control and Crime Prevention Office) at Head Office leads the risk management. The risk management division in each operation department at Head Office, in each domestic and overseas branch and in each subsidiary undertakes specific risk management function. Internal Audit Department is responsible for independent review of risk management and control environment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk

Credit risk is the risk of loss that a borrower or counterparty fails to or is unwilling to meet its obligations. Credit risk arises principally from loans and advances to customers, financial investments, derivative instruments and due from and placements with banks and other financial institutions. There is also credit risk in off-balance sheet items such as credit related commitments and financial guarantees, acceptances and letters of credit. Credit risk is a major risk to which the Bank is exposed. Therefore, the Group manages and controls the overall credit risk integrated into comprehensive risk management, in a prudent manner, and reports regularly to the Senior Management and the Board of Directors of the Group.

3.1.1 Credit risk management

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

(a) Loans and advances to customers and off-balance sheet commitments

As for corporate loans, the Group's relationship managers are responsible for receiving application files submitted by the applicants, conducting pre-loan investigation, assessing the credit risk, and raising the proposed rating. The Group adopts the hierarchical approval system at the branch and Head Office level based on the credit approval authority. Credit line is determined by taking into account the credit record, financial position, collaterals and guarantees of the applicant, overall credit risk of the credit portfolio, macroeconomic regulation and control policies and relevant laws and regulations. The Group keeps a close eye on the economic and financial trend and credit risk profile in the industry, provides more guidance on credit investment, formulate guidance for different industries, strengthens daily risk pre-warning, monitoring and specific risk investigation, identify customers under major risks and material potential risk points, enhances the refinement of post-loan management and centers on customer credit risk management to carry out post-loan management. The independent loan granting center shall review the compliance, completeness and effectiveness of relevant credit files before loan granting according to the applications for drawdown of credit line. The Group's relationship managers are primarily responsible for post-loan management. The Group adopts a series of tools and approaches, such as risk filtering, list management, risk warning and risk investigation, in daily risk monitoring of corporate loans. The Group manages non-performing loans mainly through (1) collection; (2) restructuring; (3) disposal of collaterals or recourse to the guarantors; (4) litigation or arbitration.

For retail credit assets, the Group manages the overall risk profile of retail credit business through on-site review and adoption of reporting system on material matters, strengthens daily risk monitoring and pre-warning through optimising management system, standardises operation process of retail credit business through formulating manuals for personal loans and small-enterprise loans, identifies and reveals material potential risks on a timely manner through strengthening risk monitoring and early-warning, and understands and forecasts the quality trends so as to adopt targeted risk control measures in advance by using stress testing and quality migration analysis. In addition, the Group continues to carry out fast response mechanism to address emergencies properly and maintains a list to manage those key risk projects through risk monitoring, guidance, collection and mitigation.

The Group adopts categorised management for retail credit assets on the basis of overdue ageing and guarantee type. With regard to retail credit customers with overdue loans, different approaches are adopted to collect such loans based on their overdue days.

Credit Card Centre of the Group is in charge of the operation and management of credit card business. Credit Card Centre of the Group adopts various supervisory and preventive measures. It reinforces data cross-validation to enhance risk prevention in the approval process, tightens credit line to high risk customers through subsequent credit investigation and enters into the collection process earlier than scheduled, effectively improves collection result through reasonable allocation of available resources, and optimises data analytic system to further enhance the management of credit card business.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.1 Credit risk management *(Continued)*

(b) Treasury business

For treasury business (including debt investments), the Group chooses banks and other financial institutions prudently and balances the credit risk and return rate of investments. By making reference to internal and external credit rating information, the Group approves credits of different levels and uses an appropriate credit limit management system to review and adjust credit lines, aiming to manage the credit risk exposed to the treasury business.

For debt securities, internal and external ratings (such as Standard and Poor's) are used by the Group when available for managing the credit risk exposed to debt securities and bills. The investment in those debts and bills is to have better credit quality assets while maintaining readily available liquidity resource. The bond issuers involved with the Group are subject to the credit granting review and approval of the Head Office and credit limits are placed on such issuers.

Debt investments other than debt securities include investments in fund trust schemes, asset management plans and wealth management products set up by banking financial institutions. Fund trust schemes and asset management plans, the funds of which ultimately go to trust loans, are mainly managed and operated by third-party trustees and asset managers.The Group implements a rating system for accepting trust companies, securities companies and fund companies, sets credit limits for repurchase parties of trust beneficiary right, ultimate borrowers of targeted asset management plans, and issuers of inter-bank wealth management products, and carries out follow-up risk management on a regular basis.

As for derivative instruments, the Group maintains strict limits on net open derivative investment positions (i.e., the difference between long and short contracts), by both amount and maturity. At any time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e., assets where their fair value is positive), which, in relation to derivative instruments, is only a fraction of the contract's notional amount used to express the amount outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market fluctuations. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except when the Group requires margin deposits from counterparties. The management has set limits of these contracts according to counterparty, and regularly monitor and control the actual credit risk when the Group concludes foreign exchange and interest rate contracts with other financial institutions and clients.

The Group manages the credit quality of due from and placements with banks and other financial institutions, and balances arising from transactions for precious metals, by considering the size, financial position, the internal and external credit rating of the banks and other financial institutions. The Head Office monitors and reviews the credit risk of due from and placements with banks and other financial institutions by counterparties regularly. Limits are placed on different counterparties.

(c) Credit-related commitments

Credit risk exposures to financial guarantees are the same as that of loans. However, commercial letters of credit are usually pledged by the relevant shipped goods, and therefore are subject to lower risk compared with direct loans. Credit-related commitments are included in the management of overall credit line granted to the applicant. For customers with transactions beyond the credit limit or infrequent transactions, the applicant shall be requested to provide relevant margin deposits in order to reduce credit risk exposures.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.1 Credit risk management *(Continued)*

(d) Credit risk quality

In accordance with the Guideline for Loan Credit Risk Classification issued by the China Banking and Insurance Regulatory Commission (the "CBIRC"), the Group measures and manages the quality of corporate and personal loans and advances by classifying loans into the following five categories: normal, special-mention, substandard, doubtful and loss, of which substandard, doubtful and loss loans are regarded as non-performing loans.

The five categories of loan classification into which the Group classifies its loans and advances to customers are set out below:

Normal: Borrowers can honour the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.

Special-mention: Borrowers are able to service their loans currently, although repayment may be adversely affected by specific factors.

Substandard: Borrowers' ability to service their loans is in question and they cannot rely entirely on normal operating revenues to repay principal and interest. Losses may ensue even when collaterals or guarantees are invoked.

Doubtful: Borrowers cannot repay principal and interest in full and significant losses will need to be recognised even when collaterals or guarantees are invoked.

Loss: Only a small portion or none of the principal and interest can be recovered after taking all possible measures and exhausting all legal remedies.

3.1.2 Expected credit loss ("ECL")

The Group measures the ECL of financial instruments at amortised cost or debt investments at fair value through other comprehensive income. The Group divides them into 3 stages by assessing whether there has been a significant increase in credit risk since initial recognition.

The Group measures the ECL of a financial instrument in a way that reflects:

(1) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;

(2) the time value of money;

(3) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Stage classification

The Group divides them into 3 stages. Stage 1 is "financial assets without significant increase in credit risk since initial recognition", at which the Group only needs to measure ECL in the next 12 months. Stage 2 is "financial assets with significant increase in credit risk" and stage 3 is "credit-impaired financial assets", at both of which the Group needs to measure lifetime ECL.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.2 Expected credit loss (“ECL”) *(Continued)*

Stage classification (Continued)

Definition of credit-impaired

The criteria adopted by the Group to determine whether a credit impairment occurs under IFRS 9 is consistent with the internal credit risk management objectives for relevant financial instrument, in addition to consideration of quantitative and qualitative indicators.

The Group considers a financial instrument to be credit-impaired when one or more of the following criteria have been met:

(1) Principal (including advances, applies to below) or interest of the asset is more than 90 days past due;

(2) The issuer or obligor is in significant financial difficulty, or has already become insolvent

(3) It is becoming probable that the obligor will enter bankruptcy;

(4) An active market for that financial asset has disappeared because of financial difficulties of issuers;

(5) Other objective evidence indicating impairment of the financial asset.

The Group considers a financial instrument is in default, when it is credit-impaired. In general, the financial instruments that are more than 90 days past due are identified as in default.

A significant increase in credit risk

The Group assesses quarterly whether the credit risk on a financial instrument has increased significantly since initial recognition. In determining the stage classification of a financial asset, the Group considers all reasonable and supportable information which reflects whether there have been significant changes in credit risk, including that which is forward-looking. Based on an individual financial instrument or a portfolio of financial instruments with similar credit risk characteristics, the Group compares risk of default occurring at reporting date as with initial recognition, in order to determine possible changes in risk of default occurring during the expected life of the financial instrument. The Group considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following criteria have been met:

(1) Principal or interest of the instrument is more than 30 days past due;

(2) Credit rating of obligor changes significantly. Credit rating is based on both internal and external rating results, and the criteria are as follow: (a) a significant increase in credit risk is determined when internal and external rating during the reporting period is below the Group’s credit acceptance standards; (b) The non-retail assets’ internal ratings are downgraded by 3 ranks or above upon initial recognition;

(3) Significant adverse issues have negative impacts on obligator’s repayment ability;

(4) Other circumstances of significant increase in credit risk. For example, appearance of other risk alarm indicators which imply growing potential risk, and could cause losses of financial assets to the Group.

The financial assets are moveable between stages. For instance, financial instruments originally classified at stage 1 should be downgraded to stage 2 if events occur such as a significant increase in credit risk. Financial instruments at stage 2 could be upgraded to stage 1 if credit risk decreases and the criteria for the determination of “a significant increase in credit risk” are no longer met.

After the outbreak of the pandemic of COVID-19, the Group strictly followed the regulatory policies and requirements and prudently evaluates the repayment ability of the clients who apply for payment holiday. On the premise that the subsequent risks will not be enlarged and subsequent settlement will not be affected, the Group provided relief measures to those clients meeting specific criteria by extending the maturity and so on. The Group has assessed whether the relief measures would cause a significant increase in credit risks and has adjusted the stage classification as appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.2 Expected credit loss ("ECL") *(Continued)*

Description of parameters, assumptions and estimation techniques

The Group recognises a loss allowance to different financial instruments at an amount equal to 12-month or lifetime expected credit loss based on whether there has been a significant increase in credit risk and whether the financial instrument is credit-impaired. ECL is the result of discounted product of the weighted average of "probability of default (PD)", "loss given default (LGD)", "exposure at default (EAD)" under the three scenarios, which are defined as follows:

Probability of default (PD) is the probability of default occurring of a client and its assets in a given period of time in the future.

Exposure at default (EAD) represents the total amount of on-balance sheet and off-balance sheet exposure at the time of default by debtor, reflecting the total amount of possible losses likely to be incurred. In general, this includes the utilised credit limit, interest receivable, the anticipated usage of unused credit facilities as well as the related expenses to be incurred.

Loss given default (LGD) represents the percentage of amount of loss to be incurred in the event of default to the total risk exposure. It typically varies by nature of debtor, type and seniority of claim and the availability of collaterals or other credit risk mitigation.

Definition of default has been consistently applied to model establishment of probability of default (PD), exposure at default (EAD), loss given default (LGD) in ECL calculation throughout the Group.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.2 Expected credit loss ("ECL") *(Continued)*

Description of parameters, assumptions and estimation techniques (Continued)

Estimation of ECL: the impairment models

The impairment models adopt a top down approach. Through grouping, the models cover the risk exposures of financial institutions, corporates and retailers. The Group has established a macro-economic forecast model driven by the year-on-year Gross Domestic Product (GDP) growth rate to forecast values of macro-economic indicators in multiple categories, including national accounts, price index, foreign trades, fixed asset investments, currency and interest rates, under three scenarios, namely "Basic Scenario", "Optimistic Scenario" and "Pessimistic Scenario". The forecasts, after evaluation and confirmation by economic experts and senior management of the Bank, are used in asset impairment model. The macro scenario settings and the rationality of the weightings are reviewed and adjusted quarterly, based on changes in the internal and external economic environment.

In 2020, The Group forecasts the 2021 year-on-year growth rate of GDP to be 8.2% in the Basic Scenario, 9.00% in the Optimistic Scenario and 6.00% in the Pessimistic Scenario. The Group fully considered the uncertainty caused by COVID-19 in 2020 when evaluating the forecast information used in the impairment model, and made prudential adjustments to the macro scenario settings.

Where impairment models could not be established due to lack of data support, the Group endeavoured to select appropriate methods in order to make prospective estimation. The Group made prospective adjustments to impairment calculation of overseas branches and subsidiaries regularly based on macro-forecast data from authoritative institutions (such as IMF and the World Bank). For asset portfolios not covered by impairment models, expected loss rate was set by referring to that of similar asset portfolios with impairment models available.

When the management believed that the model forecast could not fully reflect recent credit or economic events, management overlay adjustments could be used to supplement ECL allowances. In 2020, the Group increased ECL allowances as management overlay adjustments for loans under the government's relief policy and financial instruments affected by the default events in bond markets.The amount of management overlay adjustments in total did not have a significant impact on the Group's ECL allowance.

Grouping of instruments with similar credit risk characteristics

To calculate the relevance between ECL allowance and macro-economic indicators, a grouping of exposure is performed for assets with similar credit risk characteristics. In performing this grouping, the Group has obtained sufficient information to ensure the data reliability for statistical purposes. Where sufficient information is not available internally, the Group has leveraged supplementary data from both internal and external environments to help establish impairment model. Non-retail assets of the Group are mainly grouped according to industries, while retail assets are mainly grouped based on product types, repayment methods and so on.

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3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.2 Expected credit loss ("ECL") *(Continued)*

Description of parameters, assumptions and estimation techniques (Continued)

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 2020	As at 31 December 2019
Corporate loans	337	468
Personal loans	96	29
Debt investments at amortise cost and fair value through other comprehensive income	10	21

If the optimistic scenario weighting increases by 10%, and the basic scenario weighting decreases by 10%, the impairment allowance of loans and advances will decrease by RMB484 million (31 December 2019: RMB419 million), and the impairment allowance of debt investments at amortise cost and fair value through other comprehensive income will decrease by RMB 6 million (31 December 2019: RMB14 million). If the Pessimistic scenario weighting increases by 10%, and the Basic scenario weighting decreases by 10%, the impairment allowance of loans and advances will increase by RMB1,402 million (31 December 2019: RMB917 million), and the impairment allowance of debt investments at amortise cost and fair value through other comprehensive income will increase by RMB23 million (31 December 2019: RMB34 million).

3.1.3 Maximum exposure to credit risk

3.1.3.1 Maximum exposure to credit risk – financial instruments included in impairment assessment

The Group categorises asset risk characteristics based on the quality of the assets, differentiating financial instruments that are likely to incur expected credit losses calculation as "Low risk", "Medium risk", "High risk" and "Impaired". "Low risk" refers to counterparty with strong repayment ability, low probability of impairment in the future, and minor effect of adverse external factors. "Medium risk" refers to counterparty with certain repayment ability, but business, finance, and economic conditions that are continuously unstable and worsening will potentially cause its repayment ability to descend; "High risk" refers to counterparty with adverse factors that are likely to impact its repayment ability significantly or with high probability of impairment in the future. And "Impaired" refers to the assets met the Group's definition of credit-impaired.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.3 Maximum exposure to credit risk *(Continued)*

3.1.3.1 Maximum exposure to credit risk – financial instruments included in impairment assessment (Continued)

The table below analyses exposure to credit risk of financial instruments included in expected credit losses assessment. The balance of financial instruments below is the maximum exposure to credit risk of these instruments in the Group.

As at 31 December 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	1,936,199	26,277	793	465	1,963,734	58,845	2,022,579	(3,050)	2,019,529
Stage 1	1,936,199	20,930	–	–	1,957,129	56,207	2,013,336	(1,844)	2,011,492
Stage 2	–	5,347	793	–	6,140	2,309	8,449	(682)	7,767
Stage 3	–	–	–	465	465	329	794	(524)	270
Debt investments at FVOCI	291,786	2,515	–	–	294,301	429,572	723,873	–	723,873
Stage 1	291,786	2,515	–	–	294,301	429,222	723,523	–	723,523
Stage 2	–	–	–	–	–	278	278	–	278
Stage 3	–	–	–	–	–	72	72	–	72
Other financial assets at amortised cost	14,624	8,560	127	3,842	27,153	13,908	41,061	(4,088)	36,973
Stage 1	14,455	8,353	–	–	22,808	13,838	36,646	(166)	36,480
Stage 2	45	83	28	10	166	–	166	(115)	51
Stage 3	124	124	99	3,832	4,179	70	4,249	(3,807)	442
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

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3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.3 Maximum exposure to credit risk *(Continued)*

3.1.3.1 Maximum exposure to credit risk – financial instruments included in impairment assessment (Continued)

As at 31 December 2019	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)	729,859	–	–	–	729,859	15,845	745,704	–	745,704
Loans and advances to customers									
(Corporate)									
– at amortised cost	1,501,665	1,103,396	106,046	56,508	2,767,615	546,481	3,314,096	(105,170)	3,208,926
Stage 1	1,500,753	1,074,724	2,796	–	2,578,273	536,706	3,114,979	(23,125)	3,091,854
Stage 2	912	28,672	103,250	–	132,834	6,867	139,701	(39,960)	99,741
Stage 3	–	–	–	56,508	56,508	2,908	59,416	(42,085)	17,331
– at FVOCI	113,994	113,800	7,567	53	235,414	–	235,414	–	235,414
Stage 1	113,994	112,323	2,640	–	228,957	–	228,957	–	228,957
Stage 2	–	1,477	4,927	–	6,404	–	6,404	–	6,404
Stage 3	–	–	–	53	53	–	53	–	53
Loans and advances to customers									
(Personal)									
– at amortised cost	1,030,543	645,992	19,533	18,357	1,714,425	40,340	1,754,765	(27,549)	1,727,216
Stage 1	1,030,197	644,783	12,138	–	1,687,118	39,988	1,727,106	(8,394)	1,718,712
Stage 2	346	1,209	7,395	–	8,950	135	9,085	(3,193)	5,892
Stage 3	–	–	–	18,357	18,357	217	18,574	(15,962)	2,612
Due from and placements with banks									
and other financial institutions									
(Stage 1)	395,742	1,005	–	–	396,747	252,800	649,547	(1,059)	648,488
Financial investments at amortised cost	1,853,796	29,868	793	1,064	1,885,521	47,431	1,932,952	(3,263)	1,929,689
Stage 1	1,853,796	29,868	–	–	1,883,664	46,408	1,930,072	(2,455)	1,927,617
Stage 2	–	–	793	–	793	704	1,497	(178)	1,319
Stage 3	–	–	–	1,064	1,064	319	1,383	(630)	753
Debt investments at FVOCI	263,029	2,054	–	–	265,083	395,628	660,711	–	660,711
Stage 1	263,029	2,054	–	–	265,083	395,628	660,711	–	660,711
Stage 2	–	–	–	–	–	–	–	–	–
Stage 3	–	–	–	–	–	–	–	–	–
Other financial assets at amortised cost	18,259	7,910	182	3,179	29,530	15,147	44,677	(3,437)	41,240
Stage 1	18,079	7,697	–	–	25,776	14,937	40,713	(143)	40,570
Stage 2	57	95	51	243	446	–	446	(287)	159
Stage 3	123	118	131	2,936	3,308	210	3,518	(3,007)	511
On-balance sheet total	5,906,887	1,904,025	134,121	79,161	8,024,194	1,313,672	9,337,866	(140,478)	9,197,388
Credit related commitments and									
financial guarantees									
Stage 1	970,178	420,254	977	–	1,391,409	67,906	1,459,315	(5,358)	1,453,957
Stage 2	–	2,465	9,792	–	12,257	598	12,855	(974)	11,881
Off-balance sheet total	970,178	422,719	10,769	–	1,403,666	68,504	1,472,170	(6,332)	1,465,838
Total	6,877,065	2,326,744	144,890	79,161	9,427,860	1,382,176	10,810,036	(146,810)	10,663,226

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.3 Maximum exposure to credit risk *(Continued)*

3.1.3.2 Maximum exposure to credit risk – financial instruments not included in impairment assessment

The analysis of credit risk exposure of those financial assets which are not included in the impairment assessment are as follows:

	Maximum exposure to credit risk	
	31 December 2020	31 December 2019
Financial assets at fair value through profit or loss		
Derivative financial instruments	**54,212**	20,937
Debt securities	**153,034**	134,950
Fund investments and other asset management products	**252,098**	170,435
Precious metal contracts	**19,975**	51,396
Total	**479,319**	377,718

3.1.3.3 Collaterals and other credit enhancements

The Group manages, limits and controls concentrations of credit risk wherever they are identified, in particular, to individual counterparty, groups, industry segments and geographical regions.

The Group optimises its credit risk structure by placing limits in relation to one borrower, or group of borrowers. Such risks are monitored by the Group on a regular basis and subject to annual or more frequent review, whenever necessary.

The exposure to any single borrower including banks and brokers is further restricted by sub-limits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. The Group monitors the actual credit risk exposure and credit limits on a daily basis.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet principal and interest repayment obligations. The Group will change their lending limits when appropriate based on the analysis.

Some other specific control and risk mitigation measures are outlined below.

(a) Collaterals

The Group employs a range of policies and practices to mitigate credit risk. The most common practice is to accept collaterals or pledges. The Group implements guidelines on the acceptability of specific classes of collaterals and pledges. The principal types of collaterals and pledges for loans and advances to customers are:

- Residential properties;
- Business assets such as premises, inventory and receivables;
- Financial instruments such as debt securities and stocks.

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3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.3 Maximum exposure to credit risk *(Continued)*

3.1.3.3 Collaterals and other credit enhancements (Continued)

(a) Collaterals *(Continued)*

The value of collaterals at the time of loan origination is subject to loan-to-value ratio limits based on collateral types. The principal types of collaterals for corporate loans and personal loans are as follows:

Collaterals	**Maximum loan-to-value ratio**
Cash deposits with the Group	90%
PRC treasury bonds	90%
Financial institution bonds	90%
Publicly traded stocks	60%
Rights to collect fees or right of management	65%
Properties	70%
Land use rights	70%
Vehicles	50%

Long-term loans and advances to corporate and individual customers are generally secured, while revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss the Group will seek additional collaterals and pledges from the counterparties as soon as impairment indicators are noted for the personal loans and advances.

For loans guaranteed by a third-party guarantor, the Group will assess the financial condition, credit history and ability to meet obligations of the guarantor.

Collaterals and pledges held as security for financial assets other than loans and advances to customers are determined by the nature of the instrument. Debt securities, PRC treasury bonds and the PBOC bills are generally unsecured, with the exception of asset-backed securities, which are secured by portfolios of financial instruments.

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3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.3 Maximum exposure to credit risk *(Continued)*

3.1.3.3 Collaterals and other credit enhancements (Continued)

(a) Collaterals *(Continued)*

The Group closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Group will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held
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**	**–**

	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held
As at 31 December 2019				
Credit-impaired assets				
Loans and advances to customers				
Loans and advances to customers at amortised cost	77,990	(58,047)	19,943	29,345
Loans and advances to customers at fair value through other comprehensive income	53	–	53	53
Financial investments				
Financial investments at amortised cost	1,383	(630)	753	1,043

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3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.3 Maximum exposure to credit risk *(Continued)*

3.1.3.3 Collaterals and other credit enhancements (Continued)

(b) Master netting arrangements

The Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of assets and liabilities in the statement of financial position, as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Group's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as each transaction subject to the arrangement affects credit risk.

3.1.4 Derivative instruments

The Group undertakes its transactions in foreign exchange, commodity, interest rate and other derivative contracts with other financial institutions and customers. The management has established limits for these contracts based on counterparties, industry sectors and countries. Actual credit risk exposures are regularly monitored and controlled by the management.

Credit risk-weighted amounts

	As at 31 December 2020	As at 31 December 2019
Counterparty credit risk-weighted amount	50,052	36,175

The credit risk-weighted amounts are the amounts calculated with reference to the guidelines issued by the CBIRC and are dependent on, amongst other factors, the creditworthiness of the counterparty and the maturity of each type of contract.

The credit risk-weighted amounts stated above have not taken the effects of netting arrangements into account.

3.1.5 Foreclosed assets

	As at 31 December 2020	As at 31 December 2019
Buildings	1,085	873
Land use rights	10	20
Others	14	14
Gross	1,109	907
Less: Impairment allowances	(142)	(148)
Net	967	759

Foreclosed assets are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness. The Group does not generally occupy foreclosed assets for its own business use. Foreclosed assets are classified as other assets in the statement of financial position.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.6 Concentration risk analysis for financial assets with credit risk exposure

The Group mainly manages concentration risk for loans and advances to customers by industry sectors and also manages concentration risk for financial assets by geographical sectors.

Geographical sectors

	Mainland China	Hong Kong	Others	Total
As at 31 December 2020				
Financial assets				
Balances with central banks	733,895	33,431	34,562	801,888
Due from and placements with banks and other financial institutions	365,731	113,071	92,328	571,130
Derivative financial assets	42,150	9,617	2,445	54,212
Financial investments at FVPL	375,566	7,813	41,729	425,108
Loans and advances to customers	5,362,745	194,300	163,523	5,720,568
Debt investments at FVOCI	373,966	120,315	229,592	723,873
Financial investments at amortised cost	1,967,344	6,195	45,990	2,019,529
Other financial assets	28,229	15,436	2,772	46,437
	9,249,626	500,178	612,941	10,362,745
Off-balance sheet exposures				
Guarantees, acceptances and letters of credit	796,707	9,979	9,151	815,837
Loan commitments and other credit related commitments	825,973	25,552	9,350	860,875
	1,622,680	35,531	18,501	1,676,712

	Mainland China	Hong Kong	Others	Total
As at 31 December 2019				
Financial assets				
Balances with central banks	732,414	1,027	11,972	745,413
Due from and placements with banks and other financial institutions	546,171	30,082	72,235	648,488
Derivative financial assets	15,636	4,295	1,006	20,937
Financial investments at FVPL	321,366	10,064	25,351	356,781
Loans and advances to customers	4,792,758	218,575	172,320	5,183,653
Financial investments at FVOCI	347,311	112,537	200,863	660,711
Financial investments at amortised cost	1,915,749	4,181	9,759	1,929,689
Other financial assets	37,301	15,414	2,513	55,228
	8,708,706	396,175	496,019	9,600,900
Off-balance sheet exposures				
Guarantees, acceptances and letters of credit	652,860	13,761	13,646	680,267
Loan commitments and other credit related commitments	750,807	30,572	10,524	791,903
	1,403,667	44,333	24,170	1,472,170

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3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.6 Concentration risk analysis for financial assets with credit risk exposure (Continued)

(a) Geographical risk concentration for loans and advances to customers

	As at 31 December 2020		As at 31 December 2019	
		%		%
Yangtze River Delta	**1,576,465**	**26.96**	1,434,280	27.04
Pearl River Delta	**701,865**	**12.00**	572,226	10.79
Bohai Rim Economic Zone	**831,454**	**14.22**	740,248	13.96
Central China	**958,527**	**16.39**	827,110	15.59
Western China	**680,088**	**11.63**	585,712	11.04
North Eastern China	**232,864**	**3.98**	212,871	4.01
Overseas	**359,368**	**6.14**	391,517	7.38
Head Office	**507,793**	**8.68**	540,311	10.19
Gross amount of loans and advances to customers	**5,848,424**	**100.00**	5,304,275	100.00

Note: The definitions of geographical operating segments are set out in Note 48.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.6 Concentration risk analysis for financial assets with credit risk exposure *(Continued)*

(b) *Industry analysis for loans and advances to customers*

	As at 31 December 2020	%	As at 31 December 2019	%
Corporate loans				
Mining	125,367	2.14	117,555	2.22
Manufacturing				
– Petroleum and chemical	*118,387*	*2.02*	*106,108*	*2.00*
– Electronics	*130,836*	*2.24*	*95,736*	*1.80*
– Steel	*41,680*	*0.71*	*35,156*	*0.66*
– Machinery	*100,571*	*1.72*	*93,393*	*1.76*
– Textile and clothing	*27,057*	*0.46*	*27,049*	*0.51*
– Other manufacturing	*239,672*	*4.10*	*243,701*	*4.60*
Production and supply of power, heat, gas and water	221,313	3.78	215,642	4.07
Construction	135,732	2.32	135,998	2.56
Transportation, storage and postal service	708,649	12.12	637,943	12.03
Information transmission, software and IT services	41,148	0.70	28,346	0.53
Wholesale and retail	204,856	3.50	221,381	4.17
Accommodation and catering	34,886	0.60	32,259	0.61
Finance	118,702	2.03	107,865	2.03
Real estate	348,185	5.95	264,495	4.99
Leasing and commercial services	577,500	9.87	508,863	9.59
Water conservancy, environmental and other public services	334,399	5.72	284,797	5.37
Education, science, culture and public health	112,961	1.93	96,875	1.83
Others	85,570	1.48	93,314	1.76
Discounted bills	160,071	2.74	203,034	3.83
Total corporate loans	3,867,542	66.13	3,549,510	66.92
Personal loans				
Mortgages	1,293,773	22.12	1,135,428	21.41
Credit cards	464,110	7.94	467,387	8.81
Others	222,999	3.81	151,950	2.86
Total Personal loans	1,980,882	33.87	1,754,765	33.08
Gross amount of loans and advances before impairment allowances	5,848,424	100.00	5,304,275	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 2020
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk

3.2.1 Overview

Market risk is risk of loss on the Group's on balance sheet and off balance sheet businesses, which is originated from the unfavourable changes and fluctuations in interest rates, foreign exchange rates, commodity price and equity product price. Market risk consists of interest rate risk, foreign exchange rate risk, equity product price risk and commodity price risk. The market risk of the Group mainly comprises interest rate risk and foreign exchange rate risk.

The Group established an integrated market risk management system, formed a market risk management structure with the separation of front and middle-end platforms and specified the responsibilities, the division of labor and the reporting route of the Board of Directors, Board of Supervisors, Senior Management, Special Committees and other relevant departments to ensure the compliance and effectiveness of market risk management.

In accordance with the requirements of the CBIRC, the Group's financial instrument positions are divided into trading book and banking book. The trading book consists of financial instruments held either for trading intent or economic hedging against risks of the trading book. The banking book consists of all financial instruments other than those included in trading book. The Group recognises, measures, monitors and controls the market risks in trading book and banking book according to their nature and characteristics.

With regard to the exchange rate risk and the interest rate risk of trading book, the Group established an effective limit management system by implementing Net Position, Risk Sensitivity, Value at Risk ("VaR") and other indicators. Meanwhile, with regard to the interest risk of banking book, net interest income simulation and gap analysis are the major tools used by the Group to monitor the interest risk of its overall businesses. In addition, through adequate repricing management and structure adjustment of assets and liabilities, the Group strives to maximise its rate of return while keeping its risks under control.

The Group has continuously improved the management system of market risk. The Group conducted stress tests on historical scenarios and hypothetical scenarios in the consideration of the Group's major market risk factors. The Group has realised daily automatic collection of trading data and market data in the system. The Group conducted the management of risk capital and VaR quota, and formulated the quota allocation plans.

The Group also applies sensitivity analysis to assess and measure the market risk of trading book and banking book. Sensitivity analysis indicates the impact on the relevant market risk assuming that only a single variable changes. As any risk variable rarely changes isolatedly, and the correlation between variables will have a significant effect on the final impact amount of the change of a risk variable, the results of sensitivity analysis can only provide limited market risk information.

The major measurement techniques used to measure and control market risk are outlined below:

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.2 VaR

VaR refers to the maximum loss that an investment portfolio may incur at a given confidence level and holding period caused by the changes in market price factors such as interest rates and exchange rates etc. The Group adopted the historical simulation method to calculate daily VaR (99% confidence interval, the holding period of one day).

A summary of VaR by risk type including foreign exchange rate risk and interest rate risk of the trading book of the Group's portfolios is as follows:

Items		Year ended 31 December 2020		
	31 December 2020	Average	Maximum	Minimum
VaR	594	501	617	423
Including: Interest rate risk	268	296	472	127
Foreign exchange risk	464	485	555	417

Items		Year ended 31 December 2019		
	31 December 2019	Average	Maximum	Minimum
VaR	464	586	788	462
Including: Interest rate risk	167	171	209	112
Foreign exchange risk	500	632	846	492

3.2.3 Sensitivity analysis

Interest rate sensitivity analysis

The table below illustrates the impact on net profit of the Group for the following year based on the structure of financial assets and liabilities as at the date of statement of financial position, resulting from a parallel upward or downward shift of 100 basis points in related yield curves.

	Changes in net profit	
	As at 31 December 2020	As at 31 December 2019
+100 basis points parallel shift in yield curves	13,551	15,794
-100 basis points parallel shift in yield curves	(13,551)	(15,794)

The table below illustrates the impact on other comprehensive income of the Group for the following year based on the structure of financial assets and liabilities as at the date of statement of financial position, resulting from a parallel upward or downward shift of 100 basis points in related yield curves.

	Changes in other comprehensive income	
	As at 31 December 2020	As at 31 December 2019
+100 basis points parallel shift in yield curves	(11,882)	(11,748)
-100 basis points parallel shift in yield curves	12,363	11,570

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.3 Sensitivity analysis *(Continued)*

The above-mentioned impact on other comprehensive income arises from the changes in the fair value of fixed-interest-rate bonds at fair value through other comprehensive income, and loans and advances to customers at fair value through other comprehensive income.

The results of the interest rate sensitivity analysis set out in the table above are illustrative only and are based on simplified scenarios. The figures represent the projected impact to the net profit and other comprehensive income caused by the projected movement of current interest risk structure yield curves. This effect, however, does not take into account actions that would be taken by the Group to mitigate the impact of interest rate changes. The projections above also assume that interest rates of all maturities excluding demand deposits move by the same amount and, therefore, do not reflect the potential impact on net profit due to changes in certain rates while others remain unchanged. The projections are based on other simplified assumptions as well, including that all positions are to be held to maturity. There will be changes to the projection if positions are not held to maturity but it is not expected that the changes would be material.

The Group believes the assumption does not represent the Group's policy on use of funds and interest rate risk management. As a result, the above impact may differ from the actual situation.

Foreign exchange sensitivity analysis
The table below illustrates the impact of a concurrent appreciation or depreciation of RMB spot and forward rates against HKD and USD by 5% on the Group's net profit:

	Changes in net profit	
	As at 31 December 2020	As at 31 December 2019
5% appreciation of RMB	**(1,662)**	(1,758)
5% depreciation of RMB	**1,662**	1,758

The table below illustrates the impact of a concurrent appreciation or depreciation of RMB spot and forward rates against HKD and USD by 5% on the Group's other comprehensive income:

	Changes in other comprehensive income	
	As at 31 December 2020	As at 31 December 2019
5% appreciation of RMB	**(1,397)**	(954)
5% depreciation of RMB	**1,397**	954

The impact on net profit arises from the influences of RMB exchange rate fluctuation on the net position of monetary assets (excluding other book value other than amortised cost of monetary assets at fair value through other comprehensive income) and liabilities denominated in foreign currencies, the net position of non-monetary financial assets (excluding non-monetary items denominated in foreign currencies measured at fair value through other comprehensive income) and liabilities denominated in foreign currencies measured at fair value, and the fair value of currency derivatives denominated in RMB.

The impact on other comprehensive income arises from the influences of RMB exchange rate fluctuation on the differences on translation of foreign currency financial statements of foreign operators, the overseas investment portion of monetary assets denominated in foreign currencies, other book value other than amortised cost of the non-monetary items denominated in foreign currencies measured at fair value through other comprehensive income (such as stock) and monetary items at fair value through other comprehensive income.

The above impact on net profit is based on the assumption that the sensitive position of the Group's year-end exchange rate and currency derivatives denominated in RMB remain unchanged around the year. While in practice, the Group will, based on its judgement on the trend of exchange rate, actively adjust the foreign currency position and use appropriate derivative instruments to mitigate the impact of the foreign currency risk. Therefore, the above impact might differ from the actual situation.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.4 Interest rate risk

The Group's interest rate risk mainly arises from interest rate repricing and maturity mismatching of assets and liabilities, and the fluctuation of market interest rates, as well as from the adjustments in the interest rate policies made by the People's Bank of China (the "PBOC"). On 20 July 2013, the PBOC cancelled the lower limit of benchmark interest rates of loans dominated in RMB, allowing financial institutions to determine the loan interest rates independently based on commercial principles. The PBOC cancelled the upper limit of the benchmark interest rates for deposits on 24 October 2015 and established RMB Loan Prime Rate (LPR) as a new pricing benchmark of new loans in 2019. The Group conducts most of its domestic deposit businesses at benchmark interest rates for deposits and conducts most of its domestic loan businesses at LPR published by the PBOC.

Following the financial crisis, the reform of London Interbank-Offered Rate (LIBOR) has become a priority for global regulators. In March 2021, the Financial Conduct Authority (FCA) announced that after 2021, libors in sterling, euro, Swiss franc and Japanese yen, as well as one week and two month libors in US dollars will be stopped, and the remaining term libors in US dollars will cease to be provided in the middle of 2023. Regulatory authorities and working groups on benchmark interest rate reform of all nations are actively promoting LIBOR reform. On 31 August 2020, PBOC has published the White Paper of 'Participating in International Benchmark Interest Rate Reform and Improving China's Benchmark Interest Rate System'. Based on the general idea of drawing on international consensus and best practices, China is, in line with the progress of the reform of international benchmark interest rates, simultaneously promoting the design and application of new benchmark contracts and the transition of benchmark interest rates of legacy LIBOR contracts, so as to promote the transition of international benchmark interest rates in a steady and orderly manner. The alternative benchmark for USD will be replaced by SOFR. The major difference between USD LIBOR and the alternative rate SOFR is that the former, as a term rate, which means that it is published for a borrowing period, and it is "forward-looking" as USD LIBOR is published at the beginning of the borrowing period. Alternative interest rate SOFR is "backward-looking" rate, it's based on overnight rates from actual transactions, and are published on the next trade day. In addition, the alternative benchmark SOFR is risk-free, while LIBOR includes a credit spread over the risk-free rate. Therefore, the USD LIBOR reform will bring about great changes to the interest rate rules of various financial products. The balance of the LIBOR-referenced contracts of the Group, mainly on the USD LIBOR, take a relatively small proportion in the total assets, whose risk exposure is generally controllable. The Group has established a task force consisting of key finance, risk, information technology, treasury, business, legal and compliance personnel and representatives of overseas branches, to speed up the implementation of the Group's LIBOR reform. The Group has put in place a reform implementing scheme, covering multiple aspects such as exposure monitoring, system updates, contract amendments, data procurement, risk management, model optimisation, internal training, client communication and accounting issues etc., so as to ensure an orderly transition to the new benchmark interest rate and to minimise the risks arising from transition. Overall, the reform progress of the Group is basically consistent with the market.

The Group has initially established a relatively complete interest rate risk monitoring system. By using the gap analysis system, the Group regularly monitors the repricing maturity gap of interest rate-sensitive assets and liabilities throughout the Group, takes the initiative to adjust the proportion of interest-bearing assets at floating interest rates and fixed interest rates, and adjusts the repricing term structure of interest rate and manages interest rate risk by applying appropriate derivatives such as interest rate swaps based on allocation strategy of assets and liabilities. Consequently, the Group is less vulnerable to interest rate risk.

During the reporting period, the Group closely monitored the interest rate trend for RMB and foreign currencies, conducted specific management of risk limits, and strengthened comprehensive operations and limit monitoring. In addition, the Group, by rationally adjusting the loan repricing strategies, reinforced the specific management of price negotiation to maximise its rate of return while keeping its risks under control.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.4 Interest rate risk *(Continued)*

At the date of statement of financial position, the Group's assets and liabilities categorised by the repricing date or maturity date (whichever is earlier) are as follows:

	Up to 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)	(6,340)	(6,985)	(134)	–	(9,529)	(29,279)
Derivative financial liabilities	–	–	–	–	–	(55,942)	(55,942)
Due to customers	(3,515,457)	(552,070)	(924,291)	(1,529,725)	(2)	(85,785)	(6,607,330)
Other liabilities	(90,687)	(214,973)	(366,449)	(329,911)	(192,715)	(144,211)	(1,338,946)
Total liabilities	(4,526,315)	(1,038,456)	(1,835,457)	(1,907,047)	(205,898)	(305,815)	(9,818,988)
Total interest sensitivity gap	(1,631,024)	14,729	1,124,687	(326,763)	966,326	730,673	878,628

	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Non-interest bearing	Total
As at 31 December 2019							
Assets							
Cash and balances with central banks	729,335	–	–	–	–	30,850	760,185
Due from and placements with banks and other financial institutions	217,899	94,206	262,663	57,535	10,639	5,546	648,488
Derivative financial assets	–	–	–	–	–	20,937	20,937
Financial investments at FVPL	24,970	27,425	49,446	39,634	35,329	229,694	406,498
Loans and advances to customers	2,422,040	475,631	1,695,459	190,829	91,463	308,231	5,183,653
Financial investments at FVOCI	61,795	152,393	87,723	243,110	109,231	15,404	669,656
Financial investments at amortised cost	21,782	39,197	249,195	1,027,815	562,411	29,289	1,929,689
Other assets	493	–	–	–	–	286,001	286,494
Total assets	3,478,314	788,852	2,344,486	1,558,923	809,073	925,952	9,905,600
Liabilities							
Due to and placements from banks and other financial institutions	(720,024)	(273,836)	(837,746)	(39,236)	(19,803)	(13,437)	(1,904,082)
Financial liabilities at FVPL	(4,103)	(6,006)	(6,779)	(8,190)	–	(1,902)	(26,980)
Derivative financial liabilities	–	–	–	–	–	(26,424)	(26,424)
Due to customers	(3,188,008)	(668,974)	(998,242)	(1,102,269)	(26,026)	(89,389)	(6,072,908)
Other liabilities	(47,541)	(123,654)	(391,494)	(241,821)	(136,354)	(133,430)	(1,074,294)
Total liabilities	(3,959,676)	(1,072,470)	(2,234,261)	(1,391,516)	(182,183)	(264,582)	(9,104,688)
Total interest sensitivity gap	(481,362)	(283,618)	110,225	167,407	626,890	661,370	800,912

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.5 Foreign exchange risk

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

As at 31 December 2020, the exchange rates for US dollar and HK dollar are 1 US dollar to RMB6.5249 (31 December 2019: RMB6.9762) and 1 HK dollar to RMB0.8416 (31 December 2019: RMB0.8958), respectively.

Carrying amounts of the Group's total assets and liabilities categorised by the original currency as at the date of statement of financial position are as follows:

	RMB	USD (RMB 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

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(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 2019					
Assets					
Cash and balances with central banks	730,031	17,082	1,874	11,198	760,185
Due from and placements with banks and other financial institutions	296,047	308,665	22,958	20,818	648,488
Derivative financial assets	17,991	1,503	1,206	237	20,937
Financial investments at FVPL	336,039	43,167	2,947	24,345	406,498
Loans and advances to customers	4,664,589	282,461	162,892	73,711	5,183,653
Financial investments at FVOCI	277,710	282,552	55,646	53,748	669,656
Financial investments at amortised cost	1,910,731	16,213	–	2,745	1,929,689
Other assets	142,776	132,093	10,646	979	286,494
Total assets	8,375,914	1,083,736	258,169	187,781	9,905,600
Liabilities					
Due to and placements from banks and other financial institutions	(1,489,552)	(354,673)	(7,031)	(52,826)	(1,904,082)
Financial liabilities at FVPL	(2,273)	(1,882)	(10,963)	(11,862)	(26,980)
Derivative financial liabilities	(21,149)	(3,058)	(1,815)	(402)	(26,424)
Due to customers	(5,403,579)	(391,803)	(241,714)	(35,812)	(6,072,908)
Other liabilities	(844,270)	(187,717)	(22,048)	(20,259)	(1,074,294)
Total liabilities	(7,760,823)	(939,133)	(283,571)	(121,161)	(9,104,688)
Net position	615,091	144,603	(25,402)	66,620	800,912
Credit related commitments and financial guarantees	1,327,987	110,286	18,482	15,415	1,472,170

3.2.6 *Other price risk*

The Group is exposed to other price risk arising from financial assets such as equity investments and derivatives linked to commodity price. The equity investments arise from the proprietary trading of the Group's subsidiaries which hold the qualification of securities dealing and brokerage as well. As for the proprietary trading exposure, the Group enforces strict management of the risk exposure limit and the balance is insignificant to the Group's financial assets. The Group considers the exposure to the other price risk to be insignificant.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk

3.3.1 Overview

Liquidity risk is the risk that occurs when the Group cannot obtain sufficient funds in time and at a reasonable cost to repay debts when they are due, fulfill other payment obligations, or meet other funding needs in the normal course of business. The Group's liquidity risk mainly comes from depositors' early or centralised withdrawals, borrowers' deferred repayment of loans, the amount of assets and liabilities and maturity mismatches.

3.3.2 Liquidity risk management process

The Group implements centralised management of liquidity risk and, on the basis of forecasting liquidity requirements, formulates corresponding liquidity management plans and actively manages the liquidity of the Bank. The specific measures mainly include:

- Pay close attention to changes in the macroeconomic situation, central bank monetary policy, capital market dynamics, etc.

- Enhance weighting of core deposits as a percentage of liabilities, so as to improve the stability of liabilities;

- Monitor and manage liquidity position bank-wide by implementing a series of indicators and restrictions;

- Liquidity position management and cash utilisation functions are centralised by the Head offices;

- Maintain an appropriate level of central bank reserves, overnight inter-bank transactions, highly liquid debt investment, actively involve in capital management through open market, monetary market and bond market in order to ensure optimal financing capability at market places;

- Minimise liquidity risk by proper management of asset maturity structures and multi-level liquidity portfolios.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.3 Non-derivative financial instruments cash flows

The table below presents the structural analysis by contracted maturities on non-derivative financial assets and liabilities of the Group at the balance sheet date. The amount of financial assets and liabilities for each period is the amount of undiscounted cash flows The Group's expected cash flows on these financial instruments may vary significantly from the following analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance although they have been classified as repayable on demand in the following tables.

	Overdue	Undated	On Demand	Up to 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	–	–	(2,199)	(6,323)	(5,778)	(15,352)	(137)	–	(29,789)
Due to customers	–	–	(2,826,645)	(720,090)	(564,855)	(961,376)	(1,633,891)	(2)	(6,706,859)
Certificates of deposit issued	–	–	–	(88,752)	(209,113)	(315,930)	(27,036)	(42)	(640,873)
Debt securities issued	–	–	–	(2,459)	(7,700)	(65,629)	(327,846)	(165,290)	(568,924)
Other financial liabilities	–	–	(50,017)	(173)	(783)	(1,675)	(20,363)	(55,710)	(128,721)
Total liabilities (contractual maturity dates)	–	–	(3,543,344)	(1,067,232)	(1,060,534)	(1,915,345)	(2,060,827)	(234,581)	(9,881,863)
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	(3,211,070)	(307,780)	(498,014)	186,289	1,223,216	4,977,048	3,388,539

(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 2019									
Liabilities									
Due to and placements from banks and other financial institutions	–	–	(409,571)	(312,459)	(279,062)	(861,415)	(41,653)	(24,479)	(1,928,639)
Financial liabilities at FVPL	–	–	(1,087)	(4,129)	(6,110)	(7,644)	(8,370)	–	(27,340)
Due to customers	–	–	(2,608,940)	(620,749)	(687,767)	(1,032,419)	(1,184,740)	(26,470)	(6,161,085)
Certificates of deposit issued	–	–	–	(47,583)	(112,660)	(326,884)	(19,723)	(104)	(506,954)
Debt securities issued	–	–	–	(356)	(11,595)	(83,202)	(246,898)	(124,044)	(466,095)
Other financial liabilities	–	–	(62,915)	(157)	(980)	(2,364)	(13,368)	(45,291)	(125,075)
Total liabilities (contractual maturity dates)	–	–	(3,082,513)	(985,433)	(1,098,174)	(2,313,928)	(1,514,752)	(220,388)	(9,215,188)
Assets									
Cash and balances with central banks	–	669,268	90,626	–	291	–	–	–	760,185
Due from and placements with banks and other financial institutions	–	–	68,990	150,526	96,100	271,267	60,169	13,316	660,368
Financial investments at FVPL	–	221,829	7,455	5,633	17,275	53,313	68,842	53,129	427,476
Loans and advances to customers	41,983	–	–	662,690	350,205	1,349,166	1,675,654	3,135,246	7,214,944
Financial investments at FVOCI	–	8,945	–	11,356	37,795	124,191	422,104	127,664	732,055
Financial investments at amortised cost	740	–	–	22,301	39,748	303,842	1,206,797	628,632	2,202,060
Other financial assets	4,524	–	45,990	–	–	–	–	–	50,514
Assets held for managing liquidity risk (contractual maturity dates)	47,247	900,042	213,061	852,506	541,414	2,101,779	3,433,566	3,957,987	12,047,602
Net position	47,247	900,042	(2,869,452)	(132,927)	(556,760)	(212,149)	1,918,814	3,737,599	2,832,414

Assets available to repay all of the liabilities and fulfill loan commitments include cash, balances with central banks, due from and placements with banks and other financial institutions, financial investment at fair value through profit or loss, etc. In the normal course of business, a majority of matured deposits will not be withdrew immediately on the maturity date but will continue to be kept by the Group. In addition, financial investments at fair value through other comprehensive income can also be disposed of when necessary to obtain funds for repayment of matured debts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.4 Derivative financial instruments cash flows

The Group's derivative financial instruments are either settled on a net basis or a gross basis.

(a) Derivative settled on a net basis

The Group's derivative financial instruments that will be settled on a net basis include foreign exchange contracts, commodity contracts, interest rate contracts and others.

The table below analyses the undiscounted cash flows of the Group's derivative financial instruments which will be settled on a net basis and are classified based on the remaining contractual period from the balance sheet date to maturity date.

	Up to 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)

	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
As at 31 December 2019						
Assets						
Derivative financial instruments						
– Foreign exchange and commodity contracts	–	–	–	–	–	–
– Interest rate contracts and others	163	315	1,148	2,547	208	4,381
Total	163	315	1,148	2,547	208	4,381
Liabilities						
Derivative financial instruments						
– Foreign exchange and commodity contracts	(203)	(728)	(1,545)	–	–	(2,476)
– Interest rate contracts and others	(178)	(396)	(1,387)	(3,720)	(526)	(6,207)
Total	(381)	(1,124)	(2,932)	(3,720)	(526)	(8,683)

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.4 *Derivative financial instruments cash flows* *(Continued)*

(b) Derivative settled on a gross basis

The Group's derivative financial instruments that will be settled on a gross basis mainly include foreign exchange and commodity derivatives.The table below analyses the undiscounted cash flows of the Group's derivative financial instruments which will be settled on a gross basis and are classified based on the remaining contractual period from the balance sheet date to maturity date.

	Up to 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						
– Outflow	**(775,033)**	**(567,895)**	**(979,175)**	**(86,979)**	**(5,464)**	**(2,414,546)**
– Inflow	**776,108**	**567,520**	**981,843**	**88,209**	**7,732**	**2,421,412**
Total	**1,075**	**(375)**	**2,668**	**1,230**	**2,268**	**6,866**

	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
As at 31 December 2019						
Derivative financial instruments settled on a gross basis						
– Outflow	(652,146)	(611,954)	(1,031,667)	(96,867)	(1,451)	(2,394,085)
– Inflow	652,036	610,048	1,028,315	96,800	3,443	2,390,642
Total	(110)	(1,906)	(3,352)	(67)	1,992	(3,443)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.5 Maturity analysis

The table below analyses the Group's assets and liabilities into relevant maturity groupings based on the remaining period at the end of reporting date to the contractual maturity date..

	On demand	Up to 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	(2,199)	(6,291)	(5,722)	(14,933)	(134)	–	–	–	(29,279)
Derivative financial liabilities	–	(8,357)	(10,798)	(20,858)	(12,210)	(3,719)	–	–	(55,942)
Due to customers	(2,826,643)	(716,981)	(560,281)	(942,581)	(1,560,842)	(2)	–	–	(6,607,330)
Other liabilities	(68,467)	(94,306)	(235,723)	(374,652)	(367,189)	(198,609)	–	–	(1,338,946)
Total liabilities	(3,561,792)	(1,073,402)	(1,081,228)	(1,897,848)	(1,989,120)	(215,598)	–	–	(9,818,988)
Net amount on liquidity gap	(3,209,550)	(324,542)	(550,093)	40,931	528,940	3,192,666	36,729	1,163,547	878,628

(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 2019									
Assets									
Cash and balances with central banks	90,626	–	291	–	–	–	–	669,268	760,185
Due from and placements with banks and other financial institutions	68,990	149,937	95,479	265,628	57,812	10,642	–	–	648,488
Derivative financial assets	–	3,350	4,941	7,339	3,971	1,336	–	–	20,937
Financial investments at FVPL	7,455	5,468	16,748	50,326	58,460	47,292	–	220,749	406,498
Loans and advances to customers	–	645,176	316,350	1,217,899	1,168,046	1,802,390	33,792	–	5,183,653
Financial investments at FVOCI	–	11,231	36,586	112,932	386,254	113,708	–	8,945	669,656
Financial investments at amortised cost	–	21,690	36,753	267,765	1,040,314	562,427	740	–	1,929,689
Other assets	61,712	5	15	7,807	20,326	3,802	4,524	188,303	286,494
Total assets	228,783	836,857	507,163	1,929,696	2,735,183	2,541,597	39,056	1,087,265	9,905,600
Liabilities									
Due to and placements from banks and other financial institutions	(409,571)	(312,213)	(276,142)	(846,554)	(39,762)	(19,840)	–	–	(1,904,082)
Financial liabilities at FVPL	(1,087)	(4,103)	(6,026)	(7,453)	(8,311)	–	–	–	(26,980)
Derivative financial liabilities	–	(3,494)	(5,876)	(10,477)	(5,121)	(1,456)	–	–	(26,424)
Due to customers	(2,608,492)	(616,996)	(680,301)	(1,018,114)	(1,122,574)	(26,431)	–	–	(6,072,908)
Other liabilities	(60,594)	(50,219)	(145,757)	(398,664)	(277,546)	(141,514)	–	–	(1,074,294)
Total liabilities	(3,079,744)	(987,025)	(1,114,102)	(2,281,262)	(1,453,314)	(189,241)	–	–	(9,104,688)
Net amount on liquidity gap	(2,850,961)	(150,168)	(606,939)	(351,566)	1,281,869	2,352,356	39,056	1,087,265	800,912

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 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**
As at 31 December 2019				
Loan commitments and other credit related commitments	761,484	22,389	8,030	791,903
Guarantees, acceptances and letters of credit	570,426	104,593	5,248	680,267
Total	1,331,910	126,982	13,278	1,472,170

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For the year ended 31 December 2020
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.4 Fair value of financial assets and liabilities

(a) Determination of fair value and valuation techniques

Certain financial assets and liabilities of the Group are measured at fair value or with fair value disclosed for financial reporting purposes. The fair value has been determined using appropriate valuation techniques and inputs for fair value measurements. The appropriateness of the valuation techniques and the inputs to the fair value measurements are reviewed by the Board of Directors periodically.

Fair value measurements are categorised into level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

(1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

(2) Level 2 inputs are inputs, other than quoted prices included within level 1, that are observable for the asset or liability, either directly or indirectly; and

(3) Level 3 inputs are unobservable inputs for the asset or liability.

The fair value of financial instruments with unadjusted quoted prices for identical instruments in active markets is determined by the open market quotations. These instruments are classified as level 1.

The Group uses valuation techniques to determine the fair value of financial instruments when an open market quotation in active markets is not obtainable.

If the key parameters used in valuation techniques for financial instruments are substantially observable and obtainable from active open market, the instruments are classified as level 2. The second hierarchy of financial instruments held by the Group mainly includes derivatives, debt securities, certificates of deposit without quotations from active market, loans and advances to customers carried at FVOCI, precious metals, debt securities issued and restricted shares. The fair value of RMB denominated bonds is mainly valued based on the yield curves of the bonds from China Central Depository & Clearing Co., Ltd., while the fair value of the foreign currency denominated bonds is determined based on the valuation results published by Bloomberg. The fair value of foreign currency forwards, swaps, interest rate swaps, foreign currency options is estimated by the discounted cash flow method and Black-Scholes model; the fair value of precious metal contract is mainly determined in accordance with the closing prices of the Shanghai Gold Exchange or the settlement prices of the Shanghai Futures Exchange. The main parameters used in discounted cash flow model include recent market prices, the relevant yield curve, exchange rates and counterparty's credit spread. Main parameters used in Black-Scholes model include the relevant yield curve, exchange rate, level of volatilities and counterparty's credit spread, etc. All parameters used in valuation techniques are substantially observable and obtainable from active open market.

For loans and advances to customers at fair value through other comprehensive income, trust and asset management plan at fair value through profit or loss, the fair value is determined based on discounted cash flow model using unobservable discount rates that reflect credit risk. These financial instruments are classified as level 3.

For convertible bonds, unlisted equities, unlisted funds and equity derivatives held by the Group, the fair value of these financial instruments are determined with reference to certain unobservable inputs, and therefore the instruments have been classified by the Group as level 3. The management determines the fair value of these financial instruments using a variety of techniques, including using valuation models that incorporate and take into account unobservable inputs such as Discount for Lack of Marketability (DLOM). The Group has established internal control procedures to monitor the Group's exposure to such financial instruments.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.4 Fair value of financial assets and liabilities *(Continued)*

(b) Financial instruments not measured at fair value

The table below summarises the carrying amount and fair value of those financial assets and liabilities that are not presented at fair value as at the date of statement of financial position. Financial assets and liabilities with carrying amount approximate to fair value, such as cash and balances with central banks, due from and placements with banks and other financial institutions, loans and advances to customers at amortised cost, due to and placements from banks and other financial institutions, and due to customers, are not included in the table below.

	As at 31 December 2020		As at 31 December 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Financial investments at amortised cost	2,019,529	2,031,222	1,929,689	1,954,341
Financial liabilities				
Debt securities issued	(484,382)	(485,175)	(383,481)	(388,177)

Fair value hierarchy of financial instruments not measured at fair value

	Level 1	Level 2	Level 3	Total
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)

	Level 1	Level 2	Level 3	Total
As at 31 December 2019				
Financial assets				
Financial investments at amortised cost	7,655	1,806,199	140,487	1,954,341
Financial liabilities				
Debt securities issued	–	(388,177)	–	(388,177)

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.

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3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.4 Fair value of financial assets and liabilities *(Continued)*

(c) Financial assets and financial liabilities measured at fair value on a recurring basis

The financial assets and liabilities measured at fair value on a recurring basis by the three levels are analysed below:

	Level 1	Level 2	Level 3	Total
As at 31 December 2020				
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)

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.4 Fair value of financial assets and liabilities *(Continued)*

(c) ***Financial assets and financial liabilities measured at fair value on a recurring basis*** *(Continued)*

	Level 1	Level 2	Level 3	Total
As at 31 December 2019				
At fair value through profit or loss				
Debt securities				
– Governments and central banks	4,220	3,382	–	7,602
– Public sector entities	–	2,000	–	2,000
– Banks and other financial institutions	8,757	79,922	104	88,783
– Corporate entities	4,625	28,178	3,762	36,565
Fund investments and other asset management products	56	158,698	11,681	170,435
Equity securities and others	2,576	–	47,141	49,717
Precious metal contracts	–	39,532	–	39,532
Placements with banks and other financial institutions	–	11,864	–	11,864
Derivative financial instruments				
– Foreign exchange and commodity contracts	–	15,784	–	15,784
– Interest rate contracts and others	–	4,145	1,008	5,153
	20,234	343,505	63,696	427,435
At fair value through other comprehensive income				
Debt Investments at FVOCI				
– Governments and central banks	57,694	201,265	–	258,959
– Public sector entities	136	1,972	–	2,108
– Banks and other financial institutions	134,110	195,593	–	329,703
– Corporate entities	39,804	29,299	838	69,941
Investments in equity instruments designated at FVOCI	1,895	421	6,629	8,945
Loans and advances to customers at FVOCI	–	235,361	53	235,414
	233,639	663,911	7,520	905,070
Total assets	253,873	1,007,416	71,216	1,332,505
Financial liabilities at FVPL				
– Certificates of deposits issued	–	(13,392)	–	(13,392)
– Financial liabilities related to precious metal contracts	–	(12,950)	–	(12,950)
– Notes issued	–	(638)	–	(638)
Derivative financial instruments				
– Foreign exchange and commodity contracts	–	(20,423)	–	(20,423)
– Interest rate contracts and others	–	(6,001)	–	(6,001)
Debt securities issued	–	(20,437)	–	(20,437)
Total liabilities	–	(73,841)	–	(73,841)

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3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.4 Fair value of financial assets and liabilities *(Continued)*

(c) Financial assets and financial liabilities measured at fair value on a recurring basis *(Continued)*

Reconciliation of Level 3 items

	Financial assets at 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)

	Financial assets at FVPL	Financial assets at FVOCI
Balance at 1 January 2019	21,050	5,698
Total gains or losses		
– Net gains arising from trading activities	1,120	64
– Other comprehensive income	–	(429)
Additions	53,632	3,235
Disposals and settlement	(9,891)	(941)
Transfer to other levels	(2,215)	(107)
Balance at 31 December 2019	63,696	7,520
Total gains/(losses) for the year ended 31 December 2019		
– Realised gains/(losses)	974	68
– Unrealised gains/(losses)	104	(435)

These financial instruments with fair values determined based on unobservable inputs are primarily convertible bonds, unlisted equities, unlisted funds, part of the trust and asset management plan, equity derivatives and part of loans and advances to customers. The fair value of these financial instruments is determined primarily using discounted cash flow method and market comparison method. These valuation methods involve inputs from various unobservable assumptions such as cash flow, risk-adjusted discount rate, price to book value ratio, price to earning ratio and liquidity discounts.

3.5 Offsetting financial assets and financial liabilities

Certain financial assets and financial liabilities of the Group are subject to enforceable master netting arrangements or similar agreements. The agreement between the Group and the counterparty generally allows for net settlement of the relevant financial assets and financial liabilities when both elect to settle on a net basis. In the absence of such a mutual consent, financial assets and financial liabilities will be settled on a gross basis. However, each party to the master netting arrangements or similar agreements will have the option to settle all such amounts on a net basis in the event of default of the other party. These financial assets and financial liabilities of the Group are not offset in accordance with IFRSs.

As at 31 December 2020, the amount of the financial assets and financial liabilities subject to enforceable master netting arrangements or similar agreements is not material to the Group.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.6 Capital management

The "capital" in capital management is a broader concept than "shareholders' equity" on the statement of financial position. The Group's objectives in capital management are:

- To comply with the capital requirements set by the regulators of the markets where the Group operates;
- To ensure the Group's ability to maintain a stable operation so as to continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

The Group management adopts administrative measures issued by the CBIRC, which was developed based on guideline issued by the Basel Committee, in monitoring its capital adequacy ratio and the usage of regulatory capital on a quarterly basis. The quarterly monitored information is then submitted to CBIRC.

The Administrative Measures for the Capital of Commercial Banks (Provisional) specified the regulatory requirements for minimum capital, capital conservation buffer, additional capital surcharge for systemically important banks, countercyclical buffer and Pillar II capital as follows:

- Minimum regulatory requirements for core tier-1 capital adequacy ratio, tier-1 capital adequacy ratio and capital adequacy ratio are 5%, 6% and 8%, respectively;
- Capital conservation buffer requires additional 2.5% on core tier-1 capital adequacy ratio;
- Additional capital surcharge for systemically important banks requires additional 1% on core tier-1 capital adequacy ratio;
- Should the regulators require countercyclical buffer under particular circumstances or regulators impose additional Pillar II capital requirements for specific banks, these requirements shall be met within the specified time limits.

The Group's capital as monitored by its Planning and Finance Department consists of the following:

- Core tier-1 capital, including ordinary shares, eligible portion of capital surplus, statutory reserve, statutory general reserve, retained earnings, eligible portion of non-controlling interests and translation reserve on foreign operations;
- Additional tier-1 capital, including Additional tier-1 capital instruments issued and related premium and eligible portion of non-controlling interests;
- Tier-2 capital, including tier-2 capital instruments issued and related premium, excess loan loss provisions and eligible portion of non-controlling interests.

The Group's deductible items from core tier-1 capital include: Goodwill, other intangible assets (except land use rights), investments in core tier-1 capital of financial institutions with controlling interests but outside the scope of regulatory consolidation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.6 Capital management *(Continued)*

In April 2014, the CBIRC officially approved the implementation of the advanced approach of capital management adopted by the Group. In this approach, the Group elected to use elementary internal rating based ("IRB") approach for corporate risk exposure, IRB approach for retail risk exposure, internal models approach for market risk and standardised approach for operational risk exposure which is compliant with regulatory requirements. For risk exposures not covered by the advanced approaches, the corresponding portion shall be calculated by adopting non-advanced approaches. The capital ratios calculated based on Administrative Measures for the Capital of Commercial Banks (Provisional) are as follows:

Item	As at 31 December 2020	As at 31 December 2019
Core tier-1 capital adequacy ratio (%)	10.87	11.22
Tier-1 capital adequacy ratio (%)	12.88	12.85
Capital adequacy ratio (%)	15.25	14.83
Core tier-1 capital	732,863	695,084
Core tier-1 capital deductions	(5,252)	(5,595)
Net core tier-1 capital	727,611	689,489
Additional tier-1 capital	134,610	100,057
Net tier-1 capital	862,221	789,546
Tier-2 capital	159,025	121,710
Net Capital	1,021,246	911,256
Risk-weighted asset	6,695,462	6,144,459

4 NET INTEREST INCOME

	Year ended 31 December 2020	2019
Interest income		
Loans and advances to customers	251,468	242,948
Financial investments	90,683	88,647
Due from and placements with banks and other financial institutions	16,180	24,167
Balances with central banks	10,770	11,691
	369,101	367,453
Interest expense		
Due to customers	(139,142)	(139,153)
Due to and placements from banks and other financial institutions	(46,653)	(57,650)
Certificates of deposit issued	(15,404)	(15,048)
Debt securities issued	(14,566)	(11,519)
	(215,765)	(223,370)
Net interest income	153,336	144,083
Including:		
Interest income on impaired financial assets	1,369	1,467

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

5 FEE AND COMMISSION INCOME

	Year ended 31 December	
	2020	2019
Bank cards	**20,107**	21,050
Management services	**16,889**	14,400
Investment banking	**3,706**	4,337
Agency services	**4,200**	3,098
Guarantee and commitment	**2,617**	2,520
Settlement services	**1,531**	2,024
Others	**248**	240
	49,298	47,669

	Year ended 31 December	
	2020	2019
Fee income, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading or designated at FVPL	**1,342**	943
Fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers	**3,458**	3,541

6 FEE AND COMMISSION EXPENSE

	Year ended 31 December	
	2020	2019
Bank card business	**2,473**	2,884
Settlement services	**1,321**	821
Others	**418**	339
	4,212	4,044

	Year ended 31 December	
	2020	2019
Fee expense, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading or designated at FVPL	**–**	7

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020
(All amounts expressed in millions of RMB unless otherwise stated)

7 NET GAINS ARISING FROM TRADING ACTIVITIES

	Year ended 31 December	
	2020	2019
Financial instruments at FVPL	**14,277**	13,415
Foreign exchange	**1,100**	2,629
Interest rate instruments and others	**(1,533)**	(108)
	13,844	15,936

Net gains or losses on foreign exchange include trading gains or losses and fair value changes of derivative instruments such as spot and forward contracts, currency swaps, cross currency interest rate swaps, currency options and the translation of foreign currency monetary assets and liabilities into RMB.

Net gains or losses on interest rate instruments and others include trading gains or losses and fair value changes of interest rate swaps, interest rate options, commodity and other derivatives.

Net gains arising from trading activities for the year ended 31 December 2020 included a loss of RMB184 million (for the year ended 31 December 2019: a loss of RMB56 million) in relation to changes in the fair value of financial liabilities designated at fair value through profit or loss.

8 INSURANCE BUSINESS INCOME

	Year ended 31 December	
	2020	2019
Premiums earned	**15,731**	12,268
Less: Premiums ceded	**(561)**	(581)
	15,170	11,687

9 OTHER OPERATING INCOME

	Year ended 31 December	
	2020	2019
Leasing income	**13,436**	12,821
Income from sales of precious metal merchandise	**1,848**	1,370
Revaluation of investment properties	**180**	31
Net gain on the disposal of fixed and foreclosed assets	**166**	287
Other miscellaneous income	**2,259**	2,290
	17,889	16,799

Other miscellaneous income mainly includes income arising from miscellaneous banking services provided to the Group's customers.

10 CREDIT IMPAIRMENT LOSSES

	Year ended 31 December	
	2020	2019
Due from and placements with banks and other financial institutions	**225**	(731)
Loans and advances to customers at amortised cost	**55,303**	49,749
Loans and advances to customers at FVOCI	**(12)**	(346)
Credit related commitments and financial guarantees	**4,874**	1,434
Financial investments at amortised cost	**(129)**	(120)
Debt investments at FVOCI	**316**	(160)
Other receivables	**855**	1,610
Others	**627**	518
	62,059	51,954

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

11 OTHER ASSETS IMPAIRMENT LOSSES

	Year ended 31 December	
	2020	2019
Impairment losses on operating lease assets	**485**	233
Impairment losses on foreclosed assets	**(1)**	37
	484	270

12 INSURANCE BUSINESS EXPENSE

	Year ended 31 December	
	2020	2019
Change in insurance reserves	**13,282**	9,054
Less: Change in insurance reserves recovered from reinsurers	**(401)**	(343)
Surrenders	**2,288**	2,410
Others	**560**	311
	15,729	11,432

13 OTHER OPERATING EXPENSES

	Year ended 31 December	
	2020	2019
Staff costs and benefits (Note 14)	**32,467**	33,285
General operating and administrative expenses	**25,649**	25,170
Depreciation and amortisation	**7,888**	8,105
Costs of operating lease business	**9,518**	8,934
Tax and surcharges	**2,823**	2,697
Provision for outstanding litigations	**32**	50
Others	**3,650**	2,760
	82,027	81,001

Since the presentation of “Staff costs and benefits” and “General operating and administrative expenses” has been changed, we have restated the comparative information of the year before.

14 STAFF COSTS AND BENEFITS

	Year ended 31 December	
	2020	2019
Salaries, bonuses, allowances and subsidies	**22,638**	22,291
Post-employment benefit (a)	**3,062**	4,208
Other social security and benefit costs	**6,767**	6,786
	32,467	33,285

(a) Post-employment benefit

Defined contribution plans

The Group participates in various defined contribution retirement benefit plans organised by municipal and provincial governments in Mainland China, under which it is required to make monthly contributions to these plans at rates ranging from 10% to 27% of the employees’ basic salary for the year. The Group’s contributions to these pension plans are charged to profit or loss and other comprehensive income in the year to which they relate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020
(All amounts expressed in millions of RMB unless otherwise stated)

14 STAFF COSTS AND BENEFITS *(Continued)*

(a) Post-employment benefit *(Continued)*

Defined contribution plans *(Continued)*

Employees who retire at or after 1 January 2009 can voluntarily participate in an Annuity Plan. The Bank contributes to the Annuity Plan based on certain percentage of the employees' gross salary which is recognised in profit or loss as incurred.

The amount recognised in profit or loss is as follows:

	Year ended 31 December	
	2020	2019
Expenses incurred for retirement benefit plans and unemployment insurance	**1,577**	2,331
Expenses incurred for annuity plan	**1,468**	1,855
Total	**3,045**	4,186

The amount payable at the end of the year is as follows:

	As at 31 December 2020	As at 31 December 2019
Expenses incurred for retirement benefit plans and unemployment insurance	**69**	65
Expenses incurred for annuity plan	**73**	966
Total	**142**	1,031

Defined benefit plans

The Group pays supplementary retirement benefits to employees in Mainland China, who retired at or before 31 December 2008. The Group's obligations in respect of supplementary retirement benefits are calculated by estimating the amount of future benefits that the Group is committed to pay to the employees after their retirement using actuarial techniques. Such benefits, which are estimated by using key parameters such as inflation rate and mortality ratio, are discounted to their present values. The discount rate is the yield on government bonds at the end of reporting date, the maturity dates of which approximate to the terms of the Group's obligations. Actuarial gains or losses and changes in actuarial assumptions are recognised in other comprehensive income, and amendments to pension plan are recognised in profit or loss in the period of a plan amendment. The amounts recognised in the statement of financial position represent the present value of unfunded obligations.

The Group's retirement benefit obligations in locations other than Mainland China are immaterial and are made in accordance with the relevant local policies and regulations.

	As at 31 December 2020	As at 31 December 2019
Statement of financial position		
– Obligations for pension benefits	**467**	399

Amounts recognised in comprehensive income in respect of the supplementary retirement benefits are as follows:

	Year ended 31 December	
	2020	2019
Components of defined benefit costs recognised in profit or loss	**17**	22
Components of defined benefit costs recognised in other comprehensive income	**132**	20
Total	**149**	42

Past service cost and interest expense are recognised in other operating expenses in the income statement.

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

14 STAFF COSTS AND BENEFITS *(Continued)*

(a) Post-employment benefit *(Continued)*

Defined benefit plan *(Continued)*

Movements in the unfunded obligations over the year are as follows:

	Year ended 31 December	
	2020	2019
Present value of unfunded obligations at the beginning of the year	**399**	408
Retirement benefits paid during the year	**(81)**	(51)
Interest expense	**14**	20
Past service cost	**3**	2
Net actuarial losses recognised in the current year	**132**	20
Present value of unfunded obligations at the end of the year	**467**	399

The average duration of the supplementary retirement benefits plan at 31 December 2020 is 13.20 years (31 December 2019: 10.21 years).

The Group expects to make a contribution of RMB40 million (2019: RMB40 million) to the defined benefit plan during the next financial year.

The supplementary retirement benefits plan exposes the Group to actuarial risks such as interest risk, longevity risk and inflation risk. A decrease in the government bond yield will increase the present value of unfunded obligations. The present value of unfunded obligations is calculated by reference to the best estimate of the mortality of plan participants. An increase in the life expectancy of the plan participants will increase the plan's liability. The present value of unfunded obligations is also measured by future payment standards, which are determined by inflation rate. Hence, an increase in inflation rate will increase the present value of the unfunded obligations.

The principal actuarial assumptions regarding interest risk and inflation risk used by the Group are discount rate and inflation rate, which were 3.51% (31 December 2019: 3.22%) and 2.87% (31 December 2019: 2.68%) respectively as at 31 December 2020. In the meantime, assumptions regarding future mortality rate are set based on published statistics by China Banking and Insurance Regulatory Commission. As at 31 December 2020, an average longevity of a pensioner after retirement at age 60 for male is 23.13 years (31 December 2019: 19.70 years) while a pensioner after retirement at age 55 for female is 33.13 years (31 December 2019: 28.70 years).

Significant actuarial assumptions for the determination of the unfunded obligation are discount rate, inflation rate and mortality. The sensitivity analysis below is based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

(1) If the discount rate is 100 basis points higher (lower), the defined benefit obligation would decrease by RMB35 million (increase by RMB40 million).

(2) If the expected inflation rate increases (decreases) by 1%, the defined benefit obligation would increase by RMB39 million (decrease by RMB35 million).

(3) If the life expectancy increases (decreases) by one year for men and women, the defined benefit obligation would increase by RMB29 million (decrease by RMB30 million).

The sensitivity analysis above may not be representative of the actual change in the unfunded obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

In presenting the above sensitivity analysis, the present value at the end of the reporting period of the unfunded obligation has been calculated in the same method as that applied in calculating the unfunded obligation liability recognised in the statement of financial position.

There was no change in the methods and assumptions used in preparing the sensitivity analysis in prior years.

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15 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(a) Directors', supervisors' and senior management's emoluments before taxation

(in thousands of RMB)	Year ended 31 December 2020			
Name	Emoluments	Remuneration	Other benefits	Total
Executive directors				
Mr. Ren, Deqi	–	619	161	780
Mr. Liu, Jun	–	361	93	454
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	4,512	790	6,271
Former directors and supervisors				
Mr. Hou, Weidong	-	186	52	238
Mr. Wang, Taiyin	-	444	75	519
Mr. Song, Guobin	-	574	101	675
Ms. Li, Jian	291	-	-	291
Mr. Liu, Li	211	-	-	211
Ms. Tang, Xinyu	-	-	-	-
Ms. Chen, Qing	-	569	91	660
Mr. Wang, Xuewu	-	921	167	1,088
Total	502	2,694	486	3,682

15 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(Continued)*

(a) Directors', supervisors' and senior management's emoluments before taxation *(Continued)*

(in thousands of RMB)	Year ended 31 December 2019			
Name	Emoluments	Remuneration	Other benefits	Total
Executive directors				
Mr. Ren, Deqi	–	579	200	779
Mr. Hou, Weidong	–	521	183	704
Non-executive directors				
Mr. Wang, Taiyin	–	672	178	850
Mr. Song, Guobin	–	672	191	863
Mr. He, Zhaobin	–	672	191	863
Mr. Chan Siu Chung	–	–	–	–
Mr. Song, Hongjun	–	–	–	–
Mr. Chen, Junkui	–	–	–	–
Mr. Liu, Haoyang	–	–	–	–
Ms. Li, Jian	292	–	–	292
Mr. Liu, Li	292	–	–	292
Mr. Jason Yeung Chi Wai	282	–	–	282
Mr. Raymond Woo Chin Wan	282	–	–	282
Mr. Cai, Haoyi	–	–	–	–
Mr. Shi, Lei	6	–	–	6
Supervisors				
Mr. Zhang, Minsheng	–	–	–	–
Mr. Wang, Xueqing	–	–	–	–
Ms. Tang, Xinyu	–	–	–	–
Ms. Xia, Zhihua	–	–	–	–
Mr. Li, Yao	–	232	–	232
Mr. Chen, Hanwen	–	137	–	137
Ms. Chen, Qing	–	853	169	1,022
Mr. Du, Yarong	–	841	169	1,010
Mr. Guan, Xingshe	–	800	169	969
Mr. Wang, Xuewu	–	408	86	494
Total	1,154	6,387	1,536	9,077
Former directors and supervisors				
Mr. Peng, Chun	–	145	45	190
Mr. Peter Wong Tung Shun	–	–	–	–
Mr. Wu, Wei	–	304	105	409
Ms. Helen Wong Pik Kuen	–	–	–	–
Mr. Liu, Hanxing	–	–	–	–
Mr. Luo, Mingde	–	–	–	–
Mr. Yu,Yongshun	–	–	–	–
Mr. Song, Shuguang	–	48	17	65
Mr. Gu, Huizhong	–	–	–	–
Mr. Zhao, Yuguo	–	–	–	–
Mr. Liu, Mingxing	–	–	–	–
Ms. Zhang, Lili	–	–	–	–
Mr. Fen, Xiaodong	–	–	–	–
Mr. Xu, Ming	–	417	83	500
Total	–	914	250	1,164

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15 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(Continued)*

(a) Directors', supervisors' and senior management's emoluments before taxation *(Continued)*

(1) The total compensation package for directors and supervisors for the year ended 31 December 2020 has not yet been finalised in accordance with regulations of the relevant national authorities. The amount of the compensation not provided for is not expected to have significant impact to the Group's financial statements for the year ended 31 December 2020.. The final compensation will be disclosed in a separate announcement when determined. The final total compensation for the year ended 31 December 2019 was disclosed in the Information on the Second Extraordinary General Meeting of Shareholders in 2020 issued on 29 October 2020.

(2) Employee supervisors Mr. Du, Yarong, Mr. Guan, Xingshe, Ms. Lin Zhihong and Ms. Feng Bing received compensation according to their positions as employees of the Bank and did not receive additional compensation as employee supervisors.

(3) During 2020 and 2019, there was no arrangement under which a director or a supervisor waived or agreed to waive any remuneration.

(4) Other benefits include social insurance, housing allowances, enterprise annuity paid by the Bank.

(5) Mr. Wang Linping and Mr. Chang Baosheng begin to assume office on the 8 January 2021.

(b) Five highest paid individuals

The five highest paid individuals in the Group for the related years are as follows:

	Year ended 31 December	
	2020	2019
Salary	**14**	14
Discretionary bonuses	**15**	14
Employer's contribution to pension scheme and other benefits	**2**	2
Total	**31**	30

Emoluments of the above five highest paid individuals in the Group are within the following bands:

	Number of individuals As at 31 December	
	2020	2019
HKD4,500,001 - 5,000,000	**2**	3
HKD5,000,001 - 5,500,000	**2**	1
HKD5,500,001 - 6,000,000	**–**	–
HKD6,000,001 - 6,500,000	**–**	–
HKD6,500,001 - 7,000,000	**–**	–
HKD7,000,001 - 7,500,000	**–**	–
HKD7,500,001 - 8,000,000	**–**	–
HKD8,000,001 - 8,500,000	**–**	–
HKD8,500,001 - 9,000,000	**–**	–
HKD9,000,001 - 9,500,000	**–**	–
HKD9,500,001 - 10,000,000	**–**	–
HKD10,000,001 - 10,500,000	**–**	1
HKD10,500,001 - 11,000,000	**–**	–
HKD11,000,001 - 11,500,000	**1**	–
	5	5

During 2020 and 2019, no emolument was paid by the Group to any of the directors, supervisors and the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

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

16 INCOME TAX

	Year ended 31 December	
	2020	2019
Current income tax		
– Mainland China enterprise income tax	**8,247**	11,789
– Hong Kong profits tax	**630**	1,059
– Income tax arising in Macao, Taiwan and other countries or regions	**577**	680
Subtotal	**9,454**	13,528
Deferred income tax (Note 27)	**(2,599)**	(3,390)
Total	**6,855**	10,138

The provision for enterprise income tax in Mainland China is calculated based on the statutory rate of 25% (2019: 25%) of the assessable income of the Bank and each of the subsidiary established in Mainland China. Taxation arising in other jurisdictions (including Hong Kong) is calculated at the rates prevailing in the relevant jurisdictions, the shortfall arising from the differential in tax rates of overseas branches as compared with the Mainland China tax rate shall be reported and paid by head office.

The actual taxation on the Group differs from the theoretical amount calculated using the Group's profit before tax at the tax rate of 25% (2019: 25%). The major reconciliation items are as follows:

	Year ended 31 December	
	2020	2019
Profit before tax	**86,425**	88,200
Tax calculated at statutory rate of 25%	**21,606**	22,050
Effects of different tax rates prevailing in Hong Kong, Macao, Taiwan and other countries or regions	**(152)**	(206)
Effects of non-deductible expenses (1)	**3,644**	3,094
Effects of non-taxable income (2)	**(17,393)**	(15,231)
Adjustments for income tax of prior years	**(430)**	431
Others	**(420)**	–
Income tax	**6,855**	10,138

(1) Non-deductible expenses primarily represent non-deductible write-offs.

(2) Non-taxable income primarily represents interest income from PRC treasury bonds and municipal government bonds and fund investment income gained in Mainland China.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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17 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit attributable to shareholders of the Bank by the weighted average number of ordinary shares in issue during the period.

	Year ended 31 December	
	2020	2019
Net profit attributable to shareholders of the Bank	**78,274**	77,281
Less: Dividends paid to preference shareholders	**(2,714)**	(2,671)
Interest paid to perpetual bond holders	**(1,680)**	–
Net profit attributable to ordinary shareholders of the Bank	**73,880**	74,610
Weighted average number of ordinary shares in issue (expressed in millions) at the end of the year	**74,263**	74,263
Basic and diluted earnings per share (expressed in RMB per share)	**0.99**	1.00

For the purpose of calculating basic earnings per share, a cash dividend of RMB2,714 million on non-cumulative preference shares declared for the period was deducted from the amounts attributable to shareholders of the Bank. The conversion feature of preference shares may lead to the possible existence of contingently issuable ordinary shares. The triggering events of conversion did not occur for the year ended 31 December 2020, and therefore the conversion feature of preference shares has no effect on the calculation of the basic and diluted earnings per share.

For the calculation of basic earnings per share, distributions on non-cumulative perpetual bonds declared for the period was deducted from the amounts attributable to shareholders of the Bank. The Bank has declared an interest of RMB1,680 million on perpetual bonds during the year ended 31 December 2020.

18 CASH AND BALANCES WITH CENTRAL BANKS

	As at 31 December 2020	As at 31 December 2019
Cash	**15,353**	14,481
Mandatory reserve deposits	**634,239**	653,190
Excess reserve deposits	**160,863**	76,145
Fiscal deposits and others	**6,786**	16,078
Accrued interest	**320**	291
	817,561	760,185

The Group places mandatory reserves with the PBOC and several other central banks of overseas countries and regions. Such mandatory reserves are not available for use by the Group in its day-to-day operations.

The Bank's domestic mandatory deposit reserve rates as at the balance sheet date are as follows:

	As at 31 December 2020 %	As at 31 December 2019 %
Domestic mandatory reserve rate for deposits denominated in RMB	**11.00**	12.50
Domestic mandatory reserve rate for deposits denominated in foreign currencies	**5.00**	5.00

Reserve rate for deposits denominated in RMB of the Group's subsidiaries in Mainland China is subject to relevant regulations of the PBOC.

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

18 CASH AND BALANCES WITH CENTRAL BANKS *(Continued)*

Mandatory reserve rate for deposits with central banks of overseas countries and regions is subject to regulations of local regulatory bodies.

Excess reserve deposits with central banks are mainly used for capital settlement, financial institution transfer, etc.

19 DUE FROM AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 December 2020	As at 31 December 2019
Due from banks and other financial institutions		
– Banks and other financial institutions operating in Mainland China	**90,965**	96,489
– Banks and other financial institutions operating outside Mainland China	**68,274**	39,783
Accrued interest	**196**	559
Less: Allowance for impairment losses	**(265)**	(176)
Financial assets purchased under resale agreements		
Securities		
– Governments	**6,332**	4,787
– Policy banks	**3,657**	950
– Financial institutions	**27,905**	9,030
– Corporates	**–**	450
Bills	**3,670**	329
Accrued interest	**26**	20
Less: Allowance for impairment losses	**(34)**	(11)
Placements with and loans to banks		
– Banks operating in Mainland China	**113,890**	100,074
– Banks operating outside Mainland China	**95,886**	55,132
Placements with and loans to other financial institutions		
– Placements with and loans to other financial institutions in Mainland China	**118,172**	262,885
– Placements with and loans to other financial institutions outside Mainland China	**40,515**	74,080
Accrued interest	**2,890**	4,979
Less: Allowance for impairment losses	**(949)**	(872)
	571,130	648,488

As at 31 December 2020, placements and bonds purchased under resale agreements sponsored by the group upon certain unconsolidated wealth management products had been matured and the amounts had been fully repaid (31 December 2019: RMB4,500 million). The average exposure of the above transactions for the year ended 31 December 2020 was RMB102 million and the weighted average outstanding period was 1.05 days (The average exposure during 2019 was RMB47,930 million and the weighted average outstanding period was 2.42 days). The Group were not contractually obliged to make such arrangements. The maximum exposure to loss of those transactions approximated the carrying amount of the placements and bonds purchased under resale agreements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

20 FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December 2020	As at 31 December 2019
Government bonds		
– Listed in Hong Kong	2,370	2,829
– Listed outside Hong Kong (a)	3,043	3,176
– Unlisted	1,121	1,597
Other debt securities		
– Listed in Hong Kong	23,853	21,244
– Listed outside Hong Kong (a)	109,422	100,680
– Unlisted – corporate entities	4,445	3,869
– Unlisted – banks	8,780	1,555
Equity securities and others		
– Listed in Hong Kong	1,419	820
– Listed outside Hong Kong	7,956	1,756
– Unlisted	48,106	47,141
Fund investments and other asset management products		
– Listed outside Hong Kong	474	92
– Unlisted	251,624	170,343
Precious metal contracts	19,975	51,396
Total	482,588	406,498

(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 2020	As at 31 December 2019
– Banks and other financial institutions	99,671	88,783
– Corporate entities	45,244	36,565
– Governments and central banks	6,534	7,602
– Public sector entities	1,585	2,000
	153,034	134,950

The financial investments at fair value through profit or loss include financial assets held for trading and financial assets that cannot pass the ‘SPPI test’.

21 DERIVATIVE FINANCIAL INSTRUMENTS

The following derivative financial instruments are utilised by the Group for trading or hedging purposes:

Currency and commodity forwards are contracts between two parties to buy or sell certain currencies or commodities at a specified future date at a predetermined price. The party agreeing to buy the underlying currency or commodities in the future assumes a long position, and the party agreeing to sell the currency or commodities in the future assumes a short position. The price agreed upon is called the delivery price, which is equal to the forward price at the time the contract is entered into.

Currency, commodity and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies, commodities or interest rates (i.e. fixed-for-floating swaps) or a combination of these (i.e. cross-currency interest rate swaps). The Group’s credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

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

21 DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

Currency, commodity and interest rate options are contractual agreements under which the seller (writer) grants the buyer (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) on or before a set date or during a set period, a specific amount of a currency or commodity at a predetermined price or to receive an interest payment based on a variable interest rate and pay at a fixed interest rate or vice versa. The seller receives a premium from the buyer in consideration for assuming foreign exchange, interest rate risk or commodity price fluctuations. Options may be either exchange-traded or negotiated between the Group and a customer (over the counter market).

The notional amounts of certain types of financial instruments provide a reference of the amounts recognised in the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative financial instruments may become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates, foreign exchange rates or commodity price relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The fair values of derivative financial instruments held are set out in the following tables.

	Contractual/ Notional	Fair values	
	Amount	Assets	Liabilities
As at 31 December 2020			
Foreign exchange and commodity contracts	**2,435,423**	**44,435**	**(40,914)**
Interest rate contracts and others	**3,101,818**	**9,777**	**(15,028)**
Total amount of derivative financial instruments recognised	**5,537,241**	**54,212**	**(55,942)**

	Contractual/ Notional	Fair values	
	Amount	Assets	Liabilities
As at 31 December 2019			
Foreign exchange and commodity contracts	2,173,598	15,784	(20,423)
Interest rate contracts and others	3,826,987	5,153	(6,001)
Total amount of derivative financial instruments recognised	6,000,585	20,937	(26,424)

The tables above provide a breakdown of the contractual or notional amounts and the fair values of the Group's derivative financial instruments outstanding at year end. These instruments, comprising foreign exchange, interest rate and commodity derivatives allow the Group and its customers to transfer, mitigate or reduce their foreign exchange, interest rate and commodity price fluctuation risks.

The Group undertakes its transactions in foreign exchange, interest rates and commodity contracts with other financial institutions and customers. Management has established limits for these contracts based on counterpart types, industry sectors and countries. Related risks are regularly monitored and controlled by management.

Notional amounts of derivative financial instruments by original currency:

	As at 31 December 2020	As at 31 December 2019
RMB	**3,772,066**	4,442,337
USD	**1,387,805**	1,209,161
HKD	**247,659**	204,007
Others	**129,711**	145,080
Total	**5,537,241**	6,000,585

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For the year ended 31 December 2020
(All amounts expressed in millions of RMB unless otherwise stated)

21 DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

Hedge accounting

The above derivative financial instruments including those designated as hedging instruments by the Group are as follows:

	Contractual/ Notional Amount	Fair values Assets	Fair values Liabilities
As at 31 December 2020			
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)**

	Contractual/ Notional Amount	Fair values Assets	Fair values Liabilities
As at 31 December 2019			
Derivative financial instruments designated as hedging instruments in fair value hedges	121,791	295	(1,794)
Derivative financial instruments designated as hedging instruments in cash flow hedges	29,379	130	(168)
Total	151,170	425	(1,962)

(a) Fair value hedge

The Group uses interest rate swaps to hedge against changes in fair value arising from changes in interest rates. Some purchased interest rate swap contracts are designated as hedging instruments, whose terms are identical with those of the corresponding hedged items regarding interest rate, maturity and currency. The Group uses regression analysis to evaluate the effectiveness of hedging. With the support of testing results, the Group's management considers the hedging relationship to be highly effective. The hedged items include due from and placements with banks and other financial institutions, debt investments at FVOCI, due to and placements from banks and other financial institutions, loans and advances to customers and certificates of deposits issued.

The following table shows the profit or loss effects of the fair value hedges:

	Year ended 31 December 2020	Year ended 31 December 2019
Net gains/(losses) from fair value hedges:		
Hedging instruments	**(4,314)**	(2,504)
Hedged items attributable to the hedged risk	**4,462**	2,250
Total	**148**	(254)

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

21 DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

Hedge accounting *(Continued)*

(b) Cash flow hedge

The Group uses foreign exchange contracts to hedge against exposures to cash flow variability primarily resulting from foreign exchange risks, and uses interest rate swaps to hedge against exposures to cash flow variability primarily resulting from interest rate risks. The hedged items include debt investments at FVOCI, due from and placements with banks and other financial institutions, debt securities issued, loans and advances to customers, due to and placements from banks and other financial institutions and certificates of deposits issued. The Group mainly uses regression analysis to evaluate the effectiveness of hedging. With the supporting of testing results, the Group's management considers the hedging relationship to be highly effective.

For the year ended 31 December 2020, the Group recognised a loss of RMB1,761 million (31 December 2019: a loss of RMB210 million) from effective portion of cash flow hedge in other comprehensive income. The Group reclassifies a profit of RMB1,085 million from other comprehensive income to profit or loss (31 December 2019: a profit of RMB196 million). Gains or losses arising from ineffective portion of cash flow hedge were immaterial. There were no transactions for which cash flow hedge accounting had to be ceased as a result of the highly probable cash flows no longer being expected to occur.

(c) Effect of IBOR reform on Hedge accounting

During the transition period of interest rate benchmark reform, interest rate benchmarks are assumed to continue being unaltered for the purposes of hedge accounting until such time as the uncertainty is resolved.

Significant judgement will be required in determining when uncertainty is expected to be resolved and therefore when the temporary exceptions will cease to apply. However, the Group has determined that the uncertainty continued to exist at 31 December 2020 and so the temporary exceptions apply to all of the Group's hedge accounting relationships that are subject to benchmark reform.

22 LOANS AND ADVANCES TO CUSTOMERS

22.1 Loans and advances to customers

	As at 31 December 2020	As at 31 December 2019
Loans and advances to customers		
– Carried at amortised cost	5,637,932	5,068,861
– Carried at FVOCI	210,492	235,414
Less: Allowance for impairment losses	(139,274)	(132,719)
Accrued interest	12,980	14,648
Less: Allowance for impairment losses of accrued interest	(1,562)	(2,551)
	5,720,568	5,183,653

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020
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22 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

22.2 Movements of gross carrying amount and ECL allowance

Movements of gross carrying amount – Corporate loan at amortised cost:

	Stage 1	Stage 2	Stage 3	Total
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	–
Transfer between Stage 1 and Stage 2, net	*(131,542)*	*131,542*	*–*	*–*
Transfer between Stage 1 and Stage 3, net	*(22,255)*	*–*	*22,255*	*–*
Transfer between Stage 2 and Stage 3, net	*–*	*(42,127)*	*42,127*	*–*
Exchange differences	(8,536)	(123)	(317)	(8,976)
As at 31 December 2020	3,419,530	158,690	78,830	3,657,050

	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2019	2,848,956	127,820	57,147	3,033,923
Addition, net	365,202	(58,842)	(5,046)	301,314
Written-offs and disposals	–	(217)	(27,330)	(27,547)
Transfers:	(105,437)	70,823	34,614	–
Transfer between Stage 1 and Stage 2, net	*(95,474)*	*95,474*	*–*	*–*
Transfer between Stage 1 and Stage 3, net	*(9,963)*	*–*	*9,963*	*–*
Transfer between Stage 2 and Stage 3, net	*–*	*(24,651)*	*24,651*	*–*
Exchange differences	6,258	117	31	6,406
As at 31 December 2019	3,114,979	139,701	59,416	3,314,096

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

22 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

22.2 Movements of gross carrying amount and ECL allowance *(Continued)*

Movements of ECL allowance – Corporate loan at amortised cost:

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	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)
Transfer in	–	686	–	686
Written-offs and disposals	–	–	(33,214)	(33,214)
Transfers:	(838)	(15,668)	16,506	–
Transfer between Stage 1 and Stage 2, net	*(762)*	*762*	–	–
Transfer between Stage 1 and Stage 3, net	*(76)*	–	*76*	–
Transfer between Stage 2 and Stage 3, net	–	*(16,430)*	*16,430*	–
Remeasurement	2,805	11,452	28,208	42,465
Recoveries of loans written-off in previous years	–	–	3,340	3,340
Unwind of discount	–	–	(1,138)	(1,138)
Exchange differences	(151)	(38)	(97)	(286)
As at 31 December 2020	27,418	29,034	47,973	104,425

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
As at 1 January 2019	23,323	42,503	36,577	102,403
Addition/(Reversal), net	3,443	(3,596)	(4,142)	(4,295)
Transfer in/(out)	(51)	189	–	138
Written-offs and disposals	–	(217)	(27,330)	(27,547)
Transfers:	844	(13,068)	12,224	–
Transfer between Stage 1 and Stage 2, net	*1,148*	*(1,148)*	–	–
Transfer between Stage 1 and Stage 3, net	*(304)*	–	*304*	–
Transfer between Stage 2 and Stage 3, net	–	*(11,920)*	*11,920*	–
Remeasurement	(4,459)	14,145	24,560	34,246
Recoveries of loans written-off in previous years	–	–	1,464	1,464
Unwind of discount	–	–	(1,292)	(1,292)
Exchange differences	25	4	24	53
As at 31 December 2019	23,125	39,960	42,085	105,170

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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22 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

22.2 Movements of gross carrying amount and ECL allowance *(Continued)*

Movements of principal gross carrying amount – Personal loan at amortised cost:

	Stage 1	Stage 2	Stage 3	Total
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**	**–**
Transfer between Stage 1 and Stage 2, net	***(6,125)***	***6,125***	***–***	***–***
Transfer between Stage 1 and Stage 3, net	***(18,932)***	***–***	***18,932***	***–***
Transfer between Stage 2 and Stage 3, net	***–***	***(4,797)***	***4,797***	***–***
Exchange differences	**(2,638)**	**(12)**	**(7)**	**(2,657)**
As at 31 December 2020	**1,953,764**	**8,345**	**18,773**	**1,980,882**

	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2019	1,612,415	7,872	15,340	1,635,627
Addition, net	138,887	(1,906)	(4,226)	132,755
Written-offs and disposals	–	–	(14,436)	(14,436)
Transfers:	(25,008)	3,116	21,892	–
Transfer between Stage 1 and Stage 2, net	*(7,504)*	*7,504*	*–*	*–*
Transfer between Stage 1 and Stage 3, net	*(17,504)*	*–*	*17,504*	*–*
Transfer between Stage 2 and Stage 3, net	*–*	*(4,388)*	*4,388*	*–*
Exchange differences	812	3	4	819
As at 31 December 2019	1,727,106	9,085	18,574	1,754,765

Movements of ECL allowance – Personal loan at amortised cost:

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	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**	**–**
Transfer between Stage 1 and Stage 2, net	***378***	***(378)***	***–***	***–***
Transfer between Stage 1 and Stage 3, net	***(108)***	***–***	***108***	***–***
Transfer between Stage 2 and Stage 3, net	***–***	***(700)***	***700***	***–***
Remeasurement	**5,349**	**1,823**	**18,443**	**25,615**
Recoveries of loans written-off in previous years	**–**	**–**	**1,712**	**1,712**
Unwind of discount	**–**	**–**	**(231)**	**(231)**
Exchange differences	**(6)**	**(2)**	**(7)**	**(15)**
As at 31 December 2020	**16,008**	**3,836**	**15,005**	**34,849**

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

22 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

22.2 Movements of gross carrying amount and ECL allowance *(Continued)*

Movements of ECL allowance – Personal loan at amortised cost: *(Continued)*

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
As at 1 January 2019	7,710	2,302	11,446	21,458
Addition/(Reversal), net	909	(225)	(1,219)	(535)
Written-offs and disposals	–	–	(14,436)	(14,436)
Transfers:	380	(686)	306	–
Transfer between Stage 1 and Stage 2, net	*295*	*(295)*	–	–
Transfer between Stage 1 and Stage 3, net	*85*	–	*(85)*	–
Transfer between Stage 2 and Stage 3, net	–	*(391)*	*391*	–
Remeasurement	(605)	1,800	18,816	20,011
Recoveries of loans written-off in previous years	–	–	1,224	1,224
Unwind of discount	–	–	(175)	(175)
Exchange differences	–	2	–	2
As at 31 December 2019	8,394	3,193	15,962	27,549

Movements of gross carrying amount – Loans and advances to customers at fair value through other comprehensive income

	Stage 1	Stage 2	Stage 3	Total
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**	**–**
Transfer between Stage 1 and Stage 2, net	***(6,763)***	***6,763***	**–**	**–**
Transfer between Stage 1 and Stage 3, net	***(70)***	**–**	***70***	**–**
Transfer between Stage 2 and Stage 3, net	**–**	***(160)***	***160***	**–**
Changes in the fair value	**(45)**	**(107)**	**(20)**	**(172)**
As at 31 December 2020	**203,706**	**6,691**	**95**	**210,492**

	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2019	178,874	6,731	258	185,863
Addition, net	56,345	(6,597)	(310)	49,438
Transfers:	(6,506)	6,404	102	–
Transfer between Stage 1 and Stage 2, net	*(6,404)*	*6,404*	–	–
Transfer between Stage 1 and Stage 3, net	*(102)*	–	*102*	–
Changes in the fair value	244	(134)	3	113
As at 31 December 2019	228,957	6,404	53	235,414

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22 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

22.2 Movements of gross carrying amount and ECL allowance *(Continued)*

Movements of ECL allowance – Loans and advances to customers at fair value through other comprehensive income:

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
As at 1 January 2020	839	205	289	1,333
Addition/(Reversal), net	(10)	(121)	(32)	(163)
Written-offs and disposals	–	–	(34)	(34)
Transfers:	(114)	(42)	156	–
Transfer between Stage 1 and Stage 2, net	*(75)*	*75*	*–*	*–*
Transfer between Stage 1 and Stage 3, net	*(39)*	*–*	*39*	*–*
Transfer between Stage 2 and Stage 3, net	*–*	*(117)*	*117*	*–*
Remeasurement	163	5	(17)	151
As at 31 December 2020	878	47	362	1,287

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
As at 1 January 2019	1,163	283	233	1,679
Addition/(Reversal), net	(171)	(283)	49	(405)
Transfers:	(208)	205	3	–
Transfer between Stage 1 and Stage 2, net	*(205)*	*205*	*–*	*–*
Transfer between Stage 1 and Stage 3, net	*(3)*	*–*	*3*	*–*
Remeasurement	55	–	4	59
As at 31 December 2019	839	205	289	1,333

22.3 Loans and advances to customers analysed by security type

	As at 31 December 2020	As at 31 December 2019
Unsecured loans	1,812,785	1,844,304
Guaranteed loans	990,248	943,076
Collateralised and other secured loans	3,045,391	2,516,895
Including: Loans secured by collateral	*2,191,847*	*1,926,508*
Pledged loans	*853,544*	*590,387*
Total	5,848,424	5,304,275

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

22 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

22.4 Overdue loans analysed by security type

	As at 31 December 2020				
	Overdue within three months	Overdue between three months and one year	Overdue between one year and three years	Overdue over three years	Total
Unsecured loans	8,850	13,686	694	217	23,447
Guaranteed loans	5,867	8,904	12,222	1,415	28,408
Collateralised and other secured loans	10,763	11,555	13,000	3,030	38,348
Including: Loans secured by collateral	*8,640*	*9,825*	*10,661*	*2,856*	*31,982*
Pledged loans	*2,123*	*1,730*	*2,339*	*174*	*6,366*
Total	25,480	34,145	25,916	4,662	90,203

	As at 31 December 2019				
	Overdue within three months	Overdue between three months and one year	Overdue between one year and three years	Overdue over three years	Total
Unsecured loans	10,622	12,014	1,009	299	23,944
Guaranteed loans	4,983	7,781	11,294	3,893	27,951
Collateralised and other secured loans	13,318	8,823	11,358	5,126	38,625
Including: Loans secured by collateral	*11,805*	*7,934*	*9,505*	*4,695*	*33,939*
Pledged loans	*1,513*	*889*	*1,853*	*431*	*4,686*
Total	28,923	28,618	23,661	9,318	90,520

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23 FINANCIAL INVESTMENTS

	As at 31 December 2020	As at 31 December 2019
Financial investments at amortised cost		
– Listed in Hong Kong	7,743	7,427
– Listed outside Hong Kong	1,864,919	1,747,791
– Unlisted	121,740	149,170
Accrued interest	28,177	28,564
Less: Allowance for impairment losses	(3,050)	(3,263)
Total	2,019,529	1,929,689
Debt investments at FVOCI		
– Listed in Hong Kong	161,286	155,781
– Listed outside Hong Kong	435,675	382,695
– Unlisted	120,306	115,776
Accrued interest	6,606	6,459
Subtotal	723,873	660,711
Equity investments at FVOCI		
– Listed in Hong Kong	158	677
– Listed outside Hong Kong	3,473	1,639
– Unlisted	7,716	6,629
Subtotal	11,347	8,945
Total	735,220	669,656

The Group designates part of non-trading equity investments as financial investments measured at FVOCI.

For the year ended 31 December 2020, the Group's cash dividends received from equity investments at FVOCI was RMB49 million (for the year ended 31 December 2019: RMB67 million).

Debt securities analysed by issuer are as follows:

	As at 31 December 2020	As at 31 December 2019
Debt investments at FVOCI		
– Governments and central banks	340,723	258,959
– Public sector entities	3,376	2,108
– Banks and other financial institutions	304,690	329,703
– Corporate entities	75,084	69,941
Total	723,873	660,711
Bond investments at amortised cost		
– Governments and central banks	1,710,428	1,521,473
– Public sector entities	21,979	25,689
– Banks and other financial institutions	148,404	215,817
– Corporate entities	29,983	27,038
Total	1,910,794	1,790,017

(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 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	–	–
Transfer between Stage 1 and Stage 2, net	*(6,956)*	*6,956*	–	–
Transfer between Stage 1 and Stage 3, net	–	–	–	–
Transfer between Stage 2 and Stage 3, net	–	–	–	–
Changes in accrual interest	(414)	1	26	(387)
Exchange differences	(996)	–	–	(996)
As at 31 December 2020	2,013,336	8,449	794	2,022,579

	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2019	2,002,789	–	1,085	2,003,874
New financial assets originated or purchased	289,477	–	–	289,477
Financial assets derecognised during the year	(360,855)	–	(21)	(360,876)
Transfers:	(1,816)	1,497	319	–
Transfer between Stage 1 and Stage 2, net	*(1,497)*	*1,497*	–	–
Transfer between Stage 1 and Stage 3, net	*(319)*	–	*319*	–
Transfer between Stage 2 and Stage 3, net	–	–	–	–
Changes in accrual interest	(536)	–	–	(536)
Exchange differences	1,013	–	–	1,013
As at 31 December 2019	1,930,072	1,497	1,383	1,932,952

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For the year ended 31 December 2020
(All amounts expressed in millions of RMB unless otherwise stated)

23 FINANCIAL INVESTMENTS *(Continued)*

The movements in the gross carrying amount of debt investments at FVOCI are summarised as follows:

	Stage 1	Stage 2	Stage 3	Total
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**	**–**
Transfer between Stage 1 and Stage 2, net	***(278)***	***278***	**–**	**–**
Transfer between Stage 1 and Stage 3, net	***(72)***	**–**	***72***	**–**
Transfer between Stage 2 and Stage 3, net	**–**	**–**	**–**	**–**
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**

	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2019	437,630	–	–	437,630
New financial assets originated or purchased	415,485	–	–	415,485
Financial assets derecognised during the year	(205,700)	–	–	(205,700)
Transfers:	–	–	–	–
Transfer between Stage 1 and Stage 2, net	–	–	–	–
Transfer between Stage 1 and Stage 3, net	–	–	–	–
Transfer between Stage 2 and Stage 3, net	–	–	–	–
Changes in accrual interest	2,582	–	–	2,582
Exchange differences	5,822	–	–	5,822
Changes in fair value	4,892	–	–	4,892
As at 31 December 2019	660,711	–	–	660,711

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

23 FINANCIAL INVESTMENTS *(Continued)*

The movements in allowance for impairment losses of financial investments at amortised cost are summarised as follows:

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	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**	**–**	**–**
Transfer between Stage 1 and Stage 2, net	***(191)***	***191***	**–**	**–**
Transfer between Stage 1 and Stage 3, net	**–**	**–**	**–**	**–**
Transfer between Stage 2 and Stage 3, net	**–**	**–**	**–**	**–**
Remeasurement	**183**	**313**	**3**	**499**
Exchange differences	**(1)**	**–**	**–**	**(1)**
As at 31 December 2020	**1,844**	**682**	**524**	**3,050**

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
As at 1 January 2019	2,884	–	485	3,369
Addition/(Reversal), net	(148)	–	(13)	(161)
Written-offs	–	–	–	–
Recovery after written-offs	–	–	13	13
Transfers:	(56)	52	4	–
Transfer between Stage 1 and Stage 2, net	*(52)*	*52*	–	–
Transfer between Stage 1 and Stage 3, net	*(4)*	–	*4*	–
Transfer between Stage 2 and Stage 3, net	–	–	–	–
Remeasurement	(226)	126	141	41
Exchange differences	1	–	–	1
As at 31 December 2019	2,455	178	630	3,263

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For the year ended 31 December 2020
(All amounts expressed in millions of RMB unless otherwise stated)

23 FINANCIAL INVESTMENTS *(Continued)*

The movements in allowance for impairment losses of debt investments at FVOCI are summarised as follows:

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	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	–
Transfer between Stage 1 and Stage 2, net	*(3)*	*3*	–	–
Transfer between Stage 1 and Stage 3, net	*(25)*	–	*25*	–
Transfer between Stage 2 and Stage 3, net	–	–	–	–
Remeasurement	31	8	193	232
Exchange differences	(77)	–	(21)	(98)
As at 31 December 2020	670	11	563	1,244

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
As at 1 January 2019	718	–	467	1,185
Addition/(Reversal), net	114	–	(81)	33
Written-offs	–	–	–	–
Recovery after written-offs	–	–	–	–
Transfers:	–	–	–	–
Transfer between Stage 1 and Stage 2, net	–	–	–	–
Transfer between Stage 1 and Stage 3, net	–	–	–	–
Transfer between Stage 2 and Stage 3, net	–	–	–	–
Remeasurement	(193)	–	–	(193)
Exchange differences	21	–	7	28
As at 31 December 2019	660	–	393	1,053

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

24 PRINCIPAL SUBSIDIARIES

24.1 Details of the principal subsidiaries

Name of subsidiaries	Place of incorporation and operation	Date of incorporation	Issued and fully paid up share capital	Proportion of ownership interest and voting power held by the Group (%)	Principal activities
Bank of Communications Financial Leasing Co., Ltd.	Mainland China	20 Dec. 2007	RMB14,000,000,000	100.00	Financial leasing
Bank of Communications International Trust Co., Ltd.	Mainland China	18 Oct. 2007	RMB5,764,705,882	85.00	Trust investment
Bank of Communications Schroder Fund Management Co., Ltd.	Mainland China	4 Aug. 2005	RMB200,000,000	65.00	Fund management
BoCommlife Insurance Company Limited	Mainland China	27 Jan. 2010	RMB5,100,000,000	62.50	Life Insurance
BoCom International Holdings Company Limited (formerly known as BoCom Securities Company Limited)	Hong Kong China	2 May. 2007	HKD2,734,392,000	73.14	Securities dealing and brokerage
China BoCom Insurance Co., Ltd. (formerly known as China Communications Insurance Company Limited)	Hong Kong China	1 Nov. 2000	HKD400,000,000	100.00	General insurance and reinsurance
Dayi BoCom Xingmin Rural Bank Ltd.	Mainland China	15 Aug. 2008	RMB230,000,000	97.29	Commercial banking
Zhejiang Anji BoCom Rural Bank Ltd.	Mainland China	18 Mar. 2010	RMB180,000,000	51.00	Commercial banking
Xinjiang Shihezi BoCom Rural Bank Company Ltd.	Mainland China	13 Apr. 2011	RMB150,000,000	51.00	Commercial banking
Qingdao Laoshan BoCom Rural Bank Company Ltd.	Mainland China	16 Aug. 2012	RMB150,000,000	51.00	Commercial banking
Bank of Communications (Luxemburg) Limited	Luxembourg	7 May. 2015	EUR350,000,000	100.00	Commercial banking
Bank of Communications Financial Assets Investment Co., Ltd.	Mainland China	29 Dec. 2017	RMB10,000,000,000	100.00	Debt-to-equity swaps
Bank of Communications (Hong Kong) Limited	Hong Kong China	29 Jan.2018	HKD37,900,000,000	100.00	Commercial banking
BOCOM Wealth Management Co., Ltd.	Mainland China	6 June. 2019	RMB8,000,000,000	100.00	Financial products issuing and financial consulting
BoCom Brazil Holding Company Ltda	Brazil	11 Mar. 2016	BRL533,377,877	100.00	Investment
BANCO Bocom BBM S.A.	Brazil	30 Nov. 2016	BRL313,686,111	80.00	Commercial banking

As at 31 December 2020, the amount of non-controlling interests of these subsidiaries is insignificant to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020
(All amounts expressed in millions of RMB unless otherwise stated)

24 PRINCIPAL SUBSIDIARIES *(Continued)*

24.2 Changes of principal subsidiaries

(1) In March 2020, the Bank increased the capital of Bank of Communications Financial Leasing Co., Ltd. by RMB5.50 billion. As at 31 December 2020, the Bank held 100% of Bank of Communications Financial Leasing Co., Ltd.

(2) In December 2020, the Bank increased the capital of Dayi BoCom Xingmin Rural Bank Ltd. by RMB170.00 million. As at 31 December 2020, the Bank held 97.29% of Dayi BoCom Xingmin Rural Bank Ltd.

(3) In 2020, the Bank increased the capital of Bank of Communications (Luxemburg) Limited by EUR250.00 million. As at 31 December 2020, the Bank held 100% of Bank of Communications (Luxemburg) Limited.

(4) In 2020, the Bank increased the capital of Bank of Communications (Hong Kong) Limited by HKD12.00 billion and RMB6.98 billion. As at 31 December 2020, the Bank held 100% of Bank of Communications (Hong Kong) Limited.

24.3 Auditors of subsidiaries

For the year ended 31 December 2020, PricewaterhouseCoopers Limited was the auditor of all principal subsidiaries incorporated in Hong Kong (for the year ended 31 December 2019: PricewaterhouseCoopers).

For the year ended 31 December 2020, PricewaterhouseCoopers ZhongTian LLP was the auditor of all principal subsidiaries incorporated in PRC (for the year ended 31 December 2019: PricewaterhouseCoopers ZhongTian Certified Public Accountants LLP).

For the year ended 31 December 2020, Bank of Communications (Luxemburg) Limited was audited by PricewaterhouseCoopers, Société coopérative (for the year ended 31 December 2019: PricewaterhouseCoopers, Société coopérative).

For the year ended 31 December 2020, BoCom Brazil Holding Company Ltda and BANCO Bocom BBM S.A. were audited by PricewaterhouseCoopers LLP(for the year ended 31 December 2019: PricewaterhouseCoopers LLP).

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

25 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	As at 31 December 2020	As at 31 December 2019
Investments in associates		
Investment cost	**3,312**	3,506
Share of net profit of associates for the year	**1,328**	1,080
Share of other equity changes of associates for the year	**77**	71
Dividend income	**(147)**	(93)
Subtotal	**4,570**	4,564
Investments in joint ventures	**111**	36
Total	**4,681**	4,600

The Group's investments in associates mainly include the investments in Jiangsu Changshu Rural Commercial Bank Co., Ltd. and Bank of Tibet Co., Ltd.

Jiangsu Changshu Rural Commercial Bank Co., Ltd. was incorporated in Changshu City, Jiangsu Province on 3 December 2001. The registered capital of the entity is RMB2,741 million, and the principal activities of the entity are banking activities. The Group held 9.01% of equity interest in this associate as at 31 December 2020 (31 December 2019: 9.01%).

There are 14 directors at the Board of Directors of Jiangsu Changshu Rural Commercial Bank Co., Ltd., of which 3 directors were nominated by the Group. Accordingly, the Group is able to exert significant influence on such company, so such company is accounted for as an associate.

Bank of Tibet Co., Ltd. was incorporated in Tibet Autonomous Region, PRC on 30 December 2011. The registered capital of the entity is RMB3,320 million, and the principal activities of the entity are banking activities. The Group held 10.60% of equity interest in this associate as at 31 December 2020 (31 December 2019: 10.60%).

There are 12 directors at the Board of Directors of Bank of Tibet Co., Ltd., of which 3 directors were nominated by the Group. Accordingly, the Group is able to exert significant influence on such company, so such company is accounted for as an associate.

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26 PROPERTY AND EQUIPMENT

	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	–	–	–	–	–	–
Exchange differences and other movements	–	–	–	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

As at 31 December 2020, the net book value of the aircrafts and vessels used as collateral for borrowings was RMB58,496 million (31 December 2019: RMB59,957 million).

As at 31 December 2020, the property and equipment with re-registration procedure not completed amounted to RMB198 million (31 December 2019: RMB198 million). However, this registration process does not affect the rights of the Bank to these assets.

For the year ended 31 December 2020
(All amounts expressed in millions of RMB unless otherwise stated)

26 PROPERTY AND EQUIPMENT *(Continued)*

	Buildings	Construction in progress	Equipment And Transportation equipment	Aircraft and vessels	Property improvement	Total
Cost						
As at 1 January 2019	61,594	2,407	26,235	107,841	9,133	207,210
Additions	173	965	2,121	28,157	103	31,519
Disposals	(468)	–	(2,322)	(2,242)	(124)	(5,156)
Construction in progress transfer in/(out)	326	(731)	–	–	405	–
Other transfers in/(out)	139	(16)	–	–	(139)	(16)
As at 31 December 2019	61,764	2,625	26,034	133,756	9,378	233,557
Accumulated depreciation						
As at 1 January 2019	(16,860)	–	(20,726)	(11,102)	(5,103)	(53,791)
Charge for the year	(1,975)	–	(2,095)	(5,878)	(822)	(10,770)
Disposals	157	–	2,177	104	101	2,539
As at 31 December 2019	(18,678)	–	(20,644)	(16,876)	(5,824)	(62,022)
Allowance for impairment losses						
As at 1 January 2019	–	(16)	–	(117)	–	(133)
Provision for impairment	–	–	–	(233)	–	(233)
Decrease	–	–	–	10	–	10
As at 31 December 2019	–	(16)	–	(340)	–	(356)
Net book value						
As at 31 December 2019	43,086	2,609	5,390	116,540	3,554	171,179

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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27 DEFERRED INCOME TAX

Deferred income taxes for transactions in PRC are calculated on all temporary differences using an effective tax rate of 25% for the year ended 31 December 2020 (for the year ended 31 December 2019: 25%). Deferred income taxes for transactions in Hong Kong are calculated on all temporary differences using an effective tax rate of 16.5% (for the year ended 31 December 2019: 16.5%).

The movements in the deferred income tax account are as follows:

	Allowance for impairment losses	Provisions	Changes in fair value of financial assets at FVOCI	Changes in fair value of derivative instruments	Changes in fair value of investment properties	Changes in fair value of financial investments and financial liabilities at FVPL	Others	Total
As at 1 January 2020	21,078	1,840	(530)	1,371	(680)	(1,574)	1,642	23,147
Recognised in profit or loss	3,725	328	(766)	(1,408)	(26)	643	103	2,599
Recognised in other comprehensive income	32	–	801	129	(3)	–	–	959
As at 31 December 2020	24,835	2,168	(495)	92	(709)	(931)	1,745	26,705

	Allowance for impairment losses	Provisions	Changes in fair value of financial assets at FVOCI	Changes in fair value of derivative instruments	Changes in fair value of investment properties	Changes in fair value of financial investments and financial liabilities at FVPL	Others	Total
As at 1 January 2019	18,947	1,516	484	(412)	(584)	(538)	1,964	21,377
Recognised in profit or loss	2,742	324	–	1,778	(96)	(1,036)	(322)	3,390
Recognised in other comprehensive income	(611)	–	(1,014)	5	–	–	–	(1,620)
As at 31 December 2019	21,078	1,840	(530)	1,371	(680)	(1,574)	1,642	23,147

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

27 DEFERRED INCOME TAX *(Continued)*

Deferred income tax assets and liabilities are attributable to the following items:

	As at 31 December 2020		As at 31 December 2019	
	Deductible/ (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	(6,272)	(1,568)	(4,632)	(1,158)
Changes in fair value of financial assets and liabilities at FVPL	(3,724)	(931)	(8,272)	(2,068)
Changes in fair value of derivative instruments	(54,212)	(13,648)	(20,937)	(5,235)
Changes in fair value of investment properties	(2,836)	(709)	(2,720)	(680)
Others	(876)	(219)	(2,408)	(602)
	(67,920)	(17,075)	(38,969)	(9,743)
Deferred income tax assets				
Allowance for impairment of assets	99,340	24,835	84,312	21,078
Provisions	8,672	2,168	7,361	1,840
Changes in fair value of financial assets and liabilities at FVPL	–	–	1,976	494
Changes in fair value of financial assets at FVOCI	4,292	1,073	2,512	628
Changes in fair value of derivative instruments	55,942	13,740	26,424	6,606
Others	7,855	1,964	8,979	2,244
	176,101	43,780	131,564	32,890
Net deferred income tax assets	108,181	26,705	92,595	23,147

The above net deferred income tax assets are disclosed separately on the statements of financial position based on different taxation authorities and entities:

	As at 31 December 2020	As at 31 December 2019
Deferred income tax assets	27,991	24,065
Deferred income tax liabilities	(1,286)	(918)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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28 OTHER ASSETS

	As at 31 December 2020	As at 31 December 2019
Accounts receivable and temporary payments	44,950	46,798
Less: Allowance for impairment losses (a)	(2,764)	(2,717)
Advance payments	11,865	10,517
Investment properties (b)	7,353	7,894
Right-of-use assets(c)	6,669	6,521
Interest receivable [1]	3,784	3,827
Land use rights and others	2,057	1,936
Intangible assets (d)	1,550	1,368
Long-term deferred expenses	599	714
Foreclosed assets	967	759
Goodwill (e)	401	430
Refundable deposits	466	493
Unsettled assets	33	33
Others	16,735	8,077
	94,665	86,650

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 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)
Total	(2,717)	(1,972)	1,117	929	–	(107)	(14)	(2,764)

	As at 1 January 2019	Amounts accrued	Reversal	Written-offs	Transfers (in)/out	Recoveries after written-offs	Exchange differences	As at 31 December 2019
Other receivables and prepayments	(2,152)	(2,134)	524	1,140	(13)	(80)	(2)	(2,717)
Total	(2,152)	(2,134)	524	1,140	(13)	(80)	(2)	(2,717)

(b) Investment properties

	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

	As at 1 January 2019	Increases/ (Decreases) of the year	Gains on property revaluation	Exchange differences	As at 31 December 2019
Investment properties	7,899	–	31	(36)	7,894

The Group’s investment properties are located in active real estate markets. The external appraisers make reasonable estimation of fair value using market prices of the similar properties.

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

28 OTHER ASSETS *(Continued)*

(b) Investment properties *(Continued)*

As at 31 December 2020, fair value hierarchies of the investment properties of the Group are as follows:

	Level 1	Level 2	Level 3	As at 31 December 2019
Commercial property units located in Hong Kong	–	–	988	988
Commercial property units located outside Hong Kong	–	–	6,365	6,365

The valuation of investment properties was performed by independent qualified professional valuers not connected to the Group. Valuation methodologies include "Rental Income Approach" and "Direct Comparison Approach". The inputs to these models mainly include growth rate of rental, capitalisation rate and unit price.

(c) Right-of-use assets

	As at 31 December 2020	As at 31 December 2019
Cost		
Opening balance	13,513	14,493
Additions	3,030	2,124
Decreases	(2,850)	(3,104)
Balance at the end of the year	13,693	13,513
Accumulated depreciation:		
Opening balance	(6,992)	(7,372)
Additions	(2,445)	(2,550)
Decreases	2,413	2,930
Balance at the end of the year	(7,024)	(6,992)
Net book value	6,669	6,521
Lease liabilities	6,532	6,344

As at 31 December 2020, committed by leases but not yet commenced amount to RMB136 million (as at 31 December 2019: RMB195 million).

The Group's right-of-use assets include the above assets and land use rights.

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28 OTHER ASSETS *(Continued)*

(d) Intangible assets

	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

	Software
Cost	
As at 1 January 2019	3,028
Additions	365
Transfers in	–
Disposals	(7)
As at 31 December 2019	3,386
Accumulated amortisation	
As at 1 January 2019	(1,719)
Amortisation expense	(305)
Transfers in	–
Disposals	6
As at 31 December 2019	(2,018)
Net book value	1,368

(e) Goodwill

	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
BoCommLife Insurance Company Limited	122	–	–	–	122
BANCO Bocom BBM S.A.	108	–	–	(29)	79
Total	430	–	–	(29)	401

	As at 1 January 2019	Addition during the year	Decrease during the year	Exchange differences	As at 31 December 2019
Bank of Communications International Trust Co., Ltd.	200	–	–	–	200
BoCommLife Insurance Company Limited	122	–	–	–	122
BANCO Bocom BBM S.A.	115	–	–	(7)	108
Total	437	–	–	(7)	430

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

28 OTHER ASSETS *(Continued)*

(e) Goodwill *(Continued)*

At each end of year, the Group performed impairment tests on goodwill. In the test, the Group compares the book value of cash-generating unit (CGU) or CGUs (including goodwill) with the recoverable amount. If the recoverable amount is less than the book value, the related difference is recognised in profit or loss.

The Group calculates the recoverable amount of CGU and CGUs using cash flow models based on the management's approved financial forecasts and fixed growth rates afterwards.

As indicated by the impairment tests, goodwill arising from business combinations is not impaired and therefore, no impairment loss is recognised.

29 DUE TO AND PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 December 2020	As at 31 December 2019
Borrowing from central banks	472,460	456,314
Accrued interest	6,285	6,619
Due to banks		
– Banks operating in Mainland China	200,025	284,254
– Banks operating outside Mainland China	28,084	14,213
Due to other financial institutions		
– Other financial institutions operating in Mainland China	664,299	602,870
– Other financial institutions operating outside Mainland China	9,548	14,645
Accrued interest	3,002	5,672
Placements from banks		
– Banks operating in Mainland China	164,583	154,740
– Banks operating outside Mainland China	153,341	245,877
Placements from other financial institutions		
– Other financial institutions operating in Mainland China	2,500	701
– Other financial institutions operating outside Mainland China	9,124	10,303
Accrued interest	1,019	1,016
Financial assets sold under repurchase agreements		
Securities		
– Governments	9,706	4,505
– Policy banks	3,283	4,325
– Financial institutions	25,515	21,704
– Corporates	9,312	3,642
Bills	25,363	72,553
Accrued interest	42	129
Total	1,787,491	1,904,082

30 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December 2020	As at 31 December 2019
Certificates of deposit issued	7,868	13,392
Financial liabilities related to precious metal contracts	16,104	12,950
Notes issued	417	638
Others	4,890	–
Total	29,279	26,980

Except for certificates of deposit issued by branch in Hong Kong, notes issued by BoCom International Holdings Company Limited and shares of consolidated structured entities held by other parties rather than the Group which are designated at fair value through profit or loss, financial liabilities at fair value through profit or loss are financial liabilities held for trading.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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30 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS *(Continued)*

Financial liabilities designated at fair value through profit or loss

	As at 31 December 2020	As at 31 December 2019
Difference between carrying amount and maturity amount		
Fair values	**13,175**	14,030
Amount payable at maturity	**12,962**	13,976
	213	54

For the year ended 31 December 2020 and the year ended 31 December 2019, there were no significant changes in the fair value of the Group's financial liabilities designated at fair value through profit or loss that were attributable to the changes in credit risk.

31 DUE TO CUSTOMERS

	As at 31 December 2020	As at 31 December 2019
Corporate demand deposits	**2,005,934**	1,835,688
Corporate time deposits	**2,335,590**	2,196,096
Personal demand deposits	**812,534**	762,669
Personal time deposits	**1,379,697**	1,207,253
Other deposits	**5,499**	3,364
Due to customers	**6,539,254**	6,005,070
Accrued interest	**68,076**	67,838
Total	**6,607,330**	6,072,908
Including:		
Deposits pledged as collateral	**229,546**	246,727

32 CERTIFICATES OF DEPOSITS ISSUED

Certificates of deposits at year end were issued by the Bank's domestic branches, branches in Macau, Hong Kong, Taipei, New York, Tokyo, Singapore, Seoul, Sydney, London and Luxembourg, and BANCO Bocom BBM S.A., which were measured at amortised cost.

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

33 DEBT SECURITIES ISSUED

		As at 31 December 2020	As at 31 December 2019
Carried at amortised cost:			
Subordinated bonds	33.1	25,950	25,950
Tier-2 capital bonds	33.2		
The Bank		113,945	73,843
Subsidiaries		1,995	1,994
Bonds			
The Bank	33.3	251,580	194,422
Subsidiaries	33.3	85,767	83,688
Accrued interest		5,145	3,584
Subtotal		484,382	383,481
Carried at fair value:			
Bonds	33.3		
The Bank		13,373	20,437
Total		497,755	403,918

Note1: Debt securities issued are designated as fair value through profit or loss upon initiation as the Hong Kong branch of the Bank considers such designation could eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise result from measuring the corresponding derivative assets or recognising the gains or losses on them on different basis. Accordingly, the debts are designated as fair value through profit or loss with changes in fair values charged to profit and loss account. For the year ended 31 December 2020 and the year ended 31 December 2019, there were no significant changes that were attributable to the Group's changes in credit risks.

33.1 Subordinated bonds

Detailed information of subordinated bonds is disclosed as follows:

	Currency	Issue place	Coupon 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	25,950
Total								25,950	25,950

(a) The Group has an option to redeem 11 BoComm 01 on 24 October 2021. The bonds bear a fixed coupon rate of 5.75%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

33 DEBT SECURITIES ISSUED *(Continued)*

33.2 Tier-2 capital bonds

Detailed information of tier-2 capital bonds is disclosed as follows:

	Currency	Issue place	Coupon rate %	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	3,883
17 BoComm	RMB	Mainland China	4.50	30,000	2017/04/11	10 years	(b)	29,973	29,960
19 BoComm 01	RMB	Mainland China	4.10	30,000	2019/08/14	10 years	(c)	29,993	30,000
19 BoComm 02	RMB	Mainland China	4.49	10,000	2019/08/14	15 years	(d)	9,999	10,000
20 BoComm	RMB	Mainland China	3.24	40,000	2020/05/19	10 years	(e)	39,996	–
Subtotal								113,945	73,843
Subsidiaries									
18 Leasing 02	RMB	Mainland China	5.15	2,000	2018/09/18	10 years	(f)	1,995	1,994
Subtotal								1,995	1,994
Total								115,940	75,837

(a) The Group has an option to redeem 14 BoComm 01-Euro as a whole on 3 October 2021. If the issuer does not exercise the redemption right by 3 October 2021, the interest rate will be readjusted based on the median of 5-year Euro swap rate plus 300 basis points initial rate differential.

(b) The Group has an option to redeem 17 BoComm at the par value partially or as a whole on 13 April 2022, the first day upon the end of the fifth interest-bearing year, provided that the CBIRC's permission is acquired in advance and the Group's capital structure fulfills the CBIRC requirements on capital if the redemption is exercised.

(c) The Group has an option to redeem 19 BoComm 01 at the par value partially or as a whole on 16 August 2024, the last day of the interest-bearing year with early redemption option embedded, provided that the CBIRC's permission is acquired in advance and the Group's capital structure fulfills the CBIRC requirements on capital if the redemption is exercised.

(d) The Group has an option to redeem 19 BoComm 02 at the par value partially or as a whole on 16 August 2029, the last day of the interest-bearing year with early redemption option embedded, provided that the CBIRC's permission is acquired in advance and the Group's capital structure fulfills the CBIRC requirements on capital if the redemption is exercised.

(e) The Group has an option to redeem 20 BoComm at the par value partially or as a whole on 21 May 2025, the last day of the interest-bearing year with early redemption option embedded, provided that the CBIRC's permission is acquired in advance and the Group's capital structure fulfills the CBIRC requirements on capital if the redemption is exercised.

(f) The Group has an option to redeem 18 Leasing 02 at the par value partially or as a whole on 20 September 2023, the first day upon the end of the fifth interest-bearing year, provided that the CBIRC's permission is acquired in advance and the Group's capital structure fulfills the CBIRC requirements on capital if the redemption is exercised.

These tier-2 capital bonds have the write-down feature, which allows the Group to write down the entire principals of the bonds when regulatory triggering events as stipulated in the offering documents occur and any accumulated unpaid interest would become not payable. These bonds are regarded as tier-2 capital without any guarantees provided and the proceeds of the debts cannot be used for compensating daily operating loss of the Group.

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

33 DEBT SECURITIES ISSUED *(Continued)*

33.3 Bonds

Detailed information of bonds held at amortised cost is as follows:

	Currency	Issue place	Coupon rate %	Par value (CCY)	Issue date	Maturity	Ending balance	Opening balance
The Bank								
15 BoComm	RMB	Mainland China	3.45	30,000	2015/12/17	5 years	–	30,000
16 BoComm Green Financial bond 02	RMB	Mainland China	3.25	20,000	2016/11/18	5 years	20,000	20,000
17 BoComm Green Financial bond	RMB	Mainland China	4.29	20,000	2017/10/26	3 years	–	20,000
18 Bocom Micro Small Enterprises Bond	RMB	Mainland China	3.79	10,000	2018/11/28	3 years	10,000	10,000
19 Bocomm 01	RMB	Mainland China	3.35	50,000	2019/11/25	3 years	50,000	50,000
19 Bocomm 02	RMB	Mainland China	3.35	40,000	2019/12/11	3 years	40,000	40,000
20 Bocomm 01	RMB	Mainland China	3.18	50,000	2020/08/05	3 years	50,000	–
20 Bocomm 02	RMB	Mainland China	3.50	40,000	2020/11/11	3 years	40,000	–
14 Formosa Bond C	RMB	Taiwan China	4.15	500	2014/06/23	7 years	500	498
17 medium-term notes 01	USD	Hong Kong China	3MLibor+0.78	700	2017/05/15	3 years	–	4,886
17 medium-term notes 02	USD	Hong Kong China	3MLibor+0.88	300	2017/05/15	5 years	1,957	2,094
17 medium-term notes 03	USD	Hong Kong China	3MLibor+0.80	400	2017/12/04	3 years	–	2,792
17 medium-term notes 04	USD	Hong Kong China	3MLibor+0.90	600	2017/12/04	5 years	3,915	4,188
18 medium-term notes 01	USD	Hong Kong China	3MLibor+0.75	600	2018/05/17	3 years	3,915	4,188
18 medium-term notes 02	USD	Hong Kong China	3MLibor+0.85	700	2018/05/17	5 years	4,567	4,886
20 Hong Kong medium-term notes 01	HKD	Hong Kong China	2.25	2,800	2020/01/22	2 years	2,357	–
20 Hong Kong medium-term notes 02	USD	Hong Kong China	3MLibor+0.58	1,300	2020/01/22	3 years	8,482	–
20 Hong Kong medium-term notes 04	USD	Hong Kong China	3MLibor+0.75	100	2020/06/05	3 years	651	–
20 Hong Kong medium-term notes 05	USD	Hong Kong China	3MLibor+0.80	650	2020/07/20	3 years	4,241	–
20 Hong Kong medium-term notes 06	USD	Hong Kong China	3MLibor+0.90	400	2020/07/20	5 years	2,610	–
20 Hong Kong medium-term notes 07	USD	Hong Kong China	1.20	800	2020/09/10	5 years	5,199	–
20 Hong Kong medium-term notes 08	USD	Hong Kong China	3MLibor+0.80	350	2020/09/10	3 years	2,284	–
P14JHTP1C	RMB	Taiwan China	3.90	700	2014/12/04	7 years	702	692
P14JHTP1D	RMB	Taiwan China	4.00	200	2014/12/04	10 years	200	198
Sub-total							251,580	194,422
Subsidiaries								
13 Azure Orbit	USD	Hong Kong China	3.75	500	2013/03/06	10 years	3,260	3,484
5 Year medium-term notes	USD	Hong Kong China	3.125	385	2015/08/18	5 years	–	2,497
5 Year USD bond	USD	Hong Kong China	2.625	600	2016/03/15	5 years	3,914	4,179
3 Year USD bond	USD	Hong Kong China	3.50	300	2018/01/25	3 years	1,957	2,090
5 Year USD bond	USD	Hong Kong China	3.75	950	2018/01/25	5 years	6,179	6,592
10 Year USD bond	USD	Hong Kong China	4.00	250	2018/01/25	10 years	1,614	1,727
19 Brazil bonds	BRL	Brazil	110%SELIC	200	2019/01/30	5 years	48	66
16 Leasing 03	RMB	Mainland China	3.25	500	2016/09/07	5 years	449	449
17 Leasing 01	RMB	Mainland China	4.53	2,000	2017/07/18	3 years	–	1,949
17 Leasing 02	RMB	Mainland China	4.60	3,000	2017/08/22	3 years	–	2,398
17 Leasing 03	RMB	Mainland China	4.70	3,000	2017/10/18	3 years	–	2,398
18 Leasing 01	RMB	Mainland China	4.53	4,000	2018/07/05	3 years	3,998	3,994
18 Leasing 02	RMB	Mainland China	4.14	4,000	2018/10/22	3 years	3,997	3,993
19 Leasing 01	RMB	Mainland China	3.68	5,000	2019/05/20	3 years	4,994	4,550
19 Leasing 02	RMB	Mainland China	3.65	5,000	2019/07/08	3 years	4,994	4,990
19 Leasing 03	RMB	Mainland China	3.49	3,500	2019/10/22	3 years	3,495	3,492
20 Leasing 01	RMB	Mainland China	3.65	3,000	2020/11/05	3 years	2,915	–
Azure Nova	USD	Hong Kong China	2.625	1,000	2016/10/25	5 years	6,514	6,956
Azure Nova	USD	Hong Kong China	3.00	700	2017/03/21	3 years	–	4,882
Azure Nova	USD	Hong Kong China	3.50	1,050	2017/03/21	5 years	6,843	7,308
Azure Nova	USD	Hong Kong China	4.25	250	2017/03/21	10 years	1,626	1,737
19 USD medium-term notes 01	USD	Hong Kong China	4.00	800	2019/01/22	3 years	3,726	4,134
19 USD medium-term notes 02	USD	Hong Kong China	4.375	700	2019/01/22	5 years	2,713	3,139
19 USD medium-term notes 03	USD	Hong Kong China	3MLibor+1.20	120	2019/04/12	3 years	783	837
19 USD medium-term notes 04	USD	Hong Kong China	3MLibor+1.175	400	2019/09/05	5 years	1,319	1,408
19 USD medium-term notes 05	USD	Hong Kong China	2.625	200	2019/09/05	5 years	767	914
19 USD medium-term notes 06	USD	Hong Kong China	3MLibor+1.05	180	2019/10/25	3 years	1,174	1,256
19 USD medium-term notes 07	USD	Hong Kong China	3MLibor+1.075	600	2019/12/10	5 years	1,773	2,269
20 USD medium-term notes 01	USD	Hong Kong China	3MLibor+0.95	500	2020/03/02	5 years	2,021	–
20 USD medium-term notes 02	USD	Hong Kong China	3MLibor+0.83	300	2020/03/02	3 years	1,602	–
20 USD medium-term notes 03	USD	Hong Kong China	1.750	350	2020/07/08	3 years	1,650	–
20 USD medium-term notes 04	USD	Hong Kong China	3MLibor+1.70	450	2020/07/08	5 years	1,457	–
20 Financial Investing 01	RMB	Mainland China	2.70	3,000	2020/03/11	3 years	2,997	–
20 Financial Investing 02	RMB	Mainland China	2.80	7,000	2020/03/11	5 years	6,988	–
Sub-total							85,767	83,688
Total							337,347	278,110

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33 DEBT SECURITIES ISSUED *(Continued)*

33.3 Bonds *(Continued)*

Detailed information of bonds held at fair value is as follows:

	Currency	Issue place	Coupon rate %	Par value (CCY)	Issue date	Maturity	Fair value at the end of the year	Fair value at the beginning of the year
14 Hong Kong bond	HKD	Hong Kong China	4.00	500	2014/02/14	7 years	428	462
17 Hong Kong USD medium-term notes	USD	Hong Kong China	3MLibor+0.78	850	2017/02/21	3 years	–	5,931
18 Hong Kong medium-term notes	HKD	Hong Kong China	2.95	3,000	2018/05/18	2 years	–	2,743
19 Hong Kong RMB medium-term notes	RMB	Hong Kong China	3.40	2,500	2019/03/21	2 years	2,526	2,526
19 Hong Kong medium-term notes	HKD	Hong Kong China	2.85	3,500	2019/03/21	5 years	3,157	3,186
19 Hong Kong USD medium-term notes	USD	Hong Kong China	3MLibor+0.78	800	2019/03/21	3 years	5,226	5,589
20 Hong Kong medium-term notes 03	RMB	Hong Kong China	3.15	2,000	2020/01/22	2 years	2,036	–
Total							13,373	20,437

34 OTHER LIABILITIES

	As at 31 December 2020	As at 31 December 2019
Insurance liabilities	**58,842**	43,347
Clearing and settlement	**31,482**	28,065
Temporary receipts	**23,212**	19,275
Staff compensation payable	**11,591**	11,118
Deposits received for finance lease	**6,893**	7,661
Lease liabilities	**6,532**	6,344
Provision for outstanding litigations (a)	**1,032**	1,029
Expected credit impairment allowance of credit related commitments and financial guarantees (b)	**10,500**	6,332
VAT and other taxes payable	**4,208**	4,536
Special purpose funding	**2,571**	2,845
Dividends payable	**124**	87
Others	**44,835**	32,742
Total	**201,822**	163,381

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

34 OTHER LIABILITIES *(Continued)*

(a) Movements in the provision for outstanding litigations

	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**

	As at 1 January 2019	Amounts accrued during the year	Amounts settled during the year	Amounts reversed during the year	Exchange differences	As at 31 December 2019
Provision for outstanding litigations	982	421	(3)	(371)	–	1,029

(b) Movements in the expected credit impairment allowance of credit related commitments and financial guarantees

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	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**	**–**	**–**
Transfer between Stage 1 and Stage 2, net	***(928)***	***928***	**–**	**–**
Remeasurement	**1,037**	**133**	**–**	**1,170**
Exchange differences	**(17)**	**(3)**	**–**	**(20)**
As at 31 December 2020	**6,858**	**3,642**	**–**	**10,500**

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
As at 1 January 2019	4,741	340	–	5,081
Addition	1,068	917	–	1,985
Transfer out	(7)	(182)	–	(189)
Transfers:	(8)	8	–	–
Transfer between Stage 1 and Stage 2, net	*(8)*	*8*	–	–
Remeasurement	(442)	(109)	–	(551)
Exchange differences	6	–	–	6
As at 31 December 2019	5,358	974	–	6,332

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35 SHARE CAPITAL AND CAPITAL SURPLUS

	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

	Number of shares (in millions)	Ordinary shares of RMB1 each	Capital surplus
As at 1 January 2019	74,263	74,263	113,663
As at 31 December 2019	74,263	74,263	113,663

As at 31 December 2020 and 31 December 2019, the number of A shares of the Group was 39,251 million, and the number of H shares of the Group was 35,012 million, both with par value of RMB1 per share.

As at 31 December 2020 and 31 December 2019, the Group's capital surplus is listed as follows:

	As at 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

	As at 1 January 2019	Additions	Reductions	As at 31 December 2019
Share premium	113,005	–	–	113,005
Other capital reserve	658	–	–	658
Total	113,663	–	–	113,663

The Bank redeemed the USD2.45 billion Offshore Preference Shares in whole on 29 July 2020. The difference between the redemption price of the Offshore Preference Shares and the book value of the corresponding other equity instruments was recognised in "capital surplus – share premium".

36 OTHER EQUITY INSTRUMENTS

36.1 Preference shares

36.1.1 Preference shares outstanding at the end of the year

	Issue date	Accounting classification	Dividend rate %	Issue price	Amount in shares	In original currency (in millions)	In RMB (in millions)	Maturity	Conversion condition	Conversion
Domestic preference shares										
Preference shares in RMB	2 September 2016	Equity	3.90	RMB100/share	450,000,000	45,000	45,000	No maturity date	Mandatory	No conversion during the year
					Total		45,000			
					Less: Issuance fees		(48)			
					Carrying amount		44,952			

36.1.2 Movements of preference shares issued

	As at 1 January 2020	Movements: Additions	Movements: Decreases	As at 31 December 2020
Offshore preference shares				
Amount (shares)	122,500,000	–	(122,500,000)	–
In RMB (millions)	14,924	–	(14,924)	–
Domestic preference shares				
Amount (shares)	450,000,000	–	–	450,000,000
In RMB (millions)	44,952	–	–	44,952

Pursuant to the terms and conditions of the Offshore Preference Shares and the reply letter from the China Banking and Insurance Regulation Commission where no objections were raised for the Bank's redeeming the Offshore Preference Shares, the Bank redeemed the USD2.45 billion Offshore Preference Shares in whole on 29 July 2020.

36.1.3 Main clauses

Offshore preference shares

(a) Dividend

The offshore preference shares will accrue dividends on their issue price at the relevant dividend rate below:

(1) From and including the issue date to but excluding the first reset date, at the rate of 5.00% per annum; and

(2) The dividend rate will be re-priced every five years thereafter with reference to the five-year US treasury bonds yield plus a fixed premium of 3.344%. As authorised by the shareholders' annual general meeting, the Board of Directors has the sole discretion to declare and distribute dividends on offshore preference shares.

The dividend for offshore preference shares is non-cumulative. Where the Bank determines to cancel the dividend for offshore preference shares in whole or in part, the omitted dividend will not be carried forward and claimed in the future period. After receiving dividends at the agreed dividend rate, offshore preference shareholders of the Bank will not participate in the distribution of residual profits with ordinary shareholders. Domestic preference shares issued by the Bank have the same dividend distribution order as the offshore preference shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

36 OTHER EQUITY INSTRUMENTS *(Continued)*

36.1 Preference shares *(Continued)*

36.1.3 Main clauses *(Continued)*

Offshore preference shares (Continued)

(b) Conditions to distribution of dividends

The Bank could pay dividends while the Bank still has distributable after-tax profit after making up previous years' losses, contributing to the statutory reserve and making general provisions, and the Bank's capital adequacy ratio meets regulatory requirements. Offshore preference shareholders of the Bank are senior to the ordinary shareholders on the right to dividends.

Subject to a resolution to be passed at a shareholders' general meeting of the Bank on each such occasion, the Bank may elect to cancel (in whole or in part) any dividend. The Bank shall not distribute any dividends to its ordinary shareholders before it declares such dividends to preference shareholders for the relevant periods.

(c) Mandatory conversion triggering events

Upon occurrence of the triggering events as stipulated by the offering documents and subject to regulatory approval, offshore preference share shall be mandatorily converted into ordinary H Shares of the Bank (as converted into Hong Kong dollars at the fixed exchange rate of USD1.00 to HKD7.7555), partially or entirely. The initial mandatory convertible price is HKD6.51 per share. To balance the interest between preference shareholders and ordinary shareholders, the mandatory conversion price of the preference shares will be cumulatively adjusted in sequence where certain events occur including issuances of bonus shares, capitalisation of reserves, new issuances of ordinary shares at a price lower than the market price (excluding equity increases due to exercise of convertible financing instruments that can be converted into ordinary shares) and rights issues, subject to terms and formulas provided for in the offering documents. Appropriation of dividends to ordinary shareholders is not triggering event for price adjustment.

(d) Order of distribution and liquidation method

On winding-up of the Bank, distribution to offshore preference shareholders is made after all debts of the Bank (including subordinated debts) and obligations that are issued or guaranteed by the Bank and specifically stated to be distributed prior to the offshore preference shares; all offshore preference shareholders are ranked the same in the distribution sequence without priority among them and have the same repayment sequence rights as holders of obligations with equivalent rights. In addition, distribution is made to offshore preference shareholders prior to ordinary shareholders.

On winding-up of the Bank, any remaining assets of the Bank shall, after the distributions in accordance with the terms and conditions of the offshore preference shares have been made, be applied to the claims of the offshore preference shareholders equally in all respects with the claims of holders of any parity obligations (which term, for the avoidance of doubt, includes the domestic preference shares and any other preference shares of the Bank issued from time to time to investors outside the PRC) and in priority to the claims of the holders of ordinary shares.

The distribution amount obtained by the offshore preference shareholders shall be the total par value of the issued and outstanding preference shares plus dividends declared but not paid in the current period; if the distribution amount is insufficient, domestic and offshore preference shareholders will share the distribution amount on a proportional basis.

(e) Redemption

The offshore preference shares are perpetual and have no maturity date. The Bank may, subject to obtaining the CBIRC approval and in compliance with the redemption preconditions, redeem all or some of the offshore preference shares on 29 July 2020 and on any dividend payment date thereafter. The redemption period ends at the date when shares are fully converted or redeemed.

36 OTHER EQUITY INSTRUMENTS *(Continued)*

36.1 Preference shares *(Continued)*

36.1.3 Main clauses *(Continued)*

Domestic preference shares

(a) Dividend

The domestic preference shares will accrue dividends on their issue price at the relevant dividend rate below:

(1) From and including the issue date to but excluding the first reset date, at the rate of 3.90% per annum; and

(2) The dividend rate will be re-priced every five years thereafter with reference to the arithmetic average value (rounding off to 0.01%) of five-year Chinese treasury bonds yield at the date which is 20 transaction days before the reset date (excluding the date) plus a fixed premium of 1.37%. As authorised by the shareholders' annual general meeting, the Board of Directors has the sole discretion to declare and distribute dividends on domestic preference shares.

The dividend for domestic preference shares is non-cumulative. Where the Bank determines to cancel the dividend for domestic preference shares in whole or in part, the omitted dividend will not be carried forward and claimed in the future period. After receiving dividends at the agreed dividend rate, domestic preference shareholders of the Bank will not participate in the distribution of residual profits with ordinary shareholders. Domestic preference shares issued by the Bank have the same dividend distribution order as the offshore preference shares.

(b) Conditions to distribution of dividends

The Bank could pay dividends while the Bank still has distributable after-tax profit after making up previous years' losses, contributing to the statutory reserve and making general provisions, and the Bank's capital adequacy ratio meets regulatory requirements. Domestic preference shareholders of the Bank are senior to the ordinary shareholders on the right to dividends.

Subject to a resolution to be passed at a shareholders' general meeting of the Bank on each such occasion, the Bank may elect to cancel (in whole or in part) any preference share dividend. The Bank shall not distribute any dividends to its ordinary shareholders before it declares such dividends to preference shareholders for the relevant periods.

(c) Mandatory conversion trigger events

Upon occurrence of the triggering events as stipulated by the offering documents and subject to regulatory approval, domestic preference shares shall be mandatorily converted into ordinary A Shares of the Bank, partially or entirely. The initial mandatory conversion price is RMB6.25 per share. To balance the interest between preference shareholders and ordinary shareholders, the mandatory conversion price of the preference shares will be cumulatively adjusted in sequence where certain events occur including issuances of bonus shares, capitalisation of reserves, new issuances of ordinary shares at a price lower than the market price (excluding equity increased due to exercise of convertible financing instruments that can be converted into ordinary shares) and rights issues, subject to terms and formulas provided for in the offering documents. Appropriation of dividends to ordinary shareholders is not trigger event for price adjustment.

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36 OTHER EQUITY INSTRUMENTS *(Continued)*

36.1 Preference shares *(Continued)*

36.1.3Main clauses *(Continued)*

Domestic preference shares (Continued)

(d) Order of distribution and liquidation method

On winding-up of the Bank, distribution to domestic preference shareholders is made after all debts of the Bank (including subordinated debts) and obligations that are issued or guaranteed by the Bank and specifically stated to be distributed prior to the domestic preference shares; all domestic preference shareholders are ranked at the same in the distribution sequence without priority among them and have the same repayment sequence rights as holders of obligations with equivalent rights. In addition, distribution is made to domestic preference shareholders prior to ordinary shareholders.

On winding-up of the Bank, any remaining assets of the Bank shall, after the distributions in accordance with the terms and conditions of the domestic preference shares have been made, be applied to the claims of the domestic preference shareholders equally in all respects with the claims of holders of any parity obligations (which term, for the avoidance of doubt, includes the domestic preference shares and any other preference shares of the Bank issued from time to time to investors outside the PRC) and in priority to the claims of the holders of ordinary shares.

The distribution amount obtained by the domestic preference shareholders shall be the total par value of the issued and outstanding preference shares plus dividends declared but not paid in the current period; if the distribution amount is insufficient, domestic and offshore preference shareholders will share the distribution amount on a proportional basis.

(e) Redemption

The domestic preference shares are perpetual and have no maturity date. The Bank may, subject to obtaining the CBIRC approval and in compliance with the redemption preconditions, redeem all or some of the domestic preference shares on 2 September 2021 and on any preference share dividend payment date thereafter. The redemption period ends at the date when shares are fully converted or redeemed.

36.2 Perpetual bonds

36.2.1Perpetual bonds outstanding at the end of the year

	Issue date	Accounting classification	Original interest rate %	Issue price	Amount in shares	In original currency (in millions)	In RMB (in millions)	Maturity
Perpetual bonds in RMB(1)	20 September 2019	Equity	4.20	RMB100/bond	400,000,000	40,000	40,000	No fixed maturity date
Perpetual bonds in RMB(2)	25 September 2020	Equity	4.59	RMB100/bond	300,000,000	30,000	30,000	No fixed maturity date
Perpetual bonds in USD(3)	18 November2020	Equity	3.80	USD200,000/bond	14,000	2,800	18,366	No fixed maturity date
					Total		88,366	
					Less: Issuance fees		(26)	
					Carrying amount		88,340	

36 OTHER EQUITY INSTRUMENTS *(Continued)*

36.2 Perpetual bonds *(Continued)*

36.2.2 Main clauses

(1) With the approvals by relevant regulatory authorities, the Bank issued RMB40.0 billion undated capital bonds in China's National Inter-Bank Bond Market on 18 September 2019, and the issuance was completed on 20 September 2019. The denomination of the bonds is RMB100 each and coupon rate of 4.20%. The bonds adopt a coupon rate adjusted on a stage-by-stage basis and a coupon rate adjustment period for every five years during which interests will be paid at the agreed coupon rate.

The perpetual bonds will continue to be outstanding so long as the Bank's business continues to operate. The bonds have set forth terms regarding the Bank's redemption with pre-conditions, by which the Bank is entitled to redeem the bonds after five years since the issue date in whole or in part on the annual interest payment date (including the interest payment date of the fifth year after the issue date). If, after the issuance, the perpetual bonds no longer qualify as additional tier-1 capital as a result of an unforeseeable change or amendment to relevant provisions of supervisory regulations, the Bank may redeem the whole but not part of the perpetual bonds.

The claims in respect of the perpetual bonds are subordinated to the claims of depositors, general creditors, and subordinated indebtedness that rank senior to the perpetual bonds; and will rank in priority to all classes of equity shares held by the Bank's shareholders and rank pari passu with the claims in respect of any other additional tier-1 capital instruments of the Bank that rank pari passu with the perpetual bonds.

Upon the occurrence of Additional tier-1 capital trigger event, namely, the Bank's core tier-1 capital adequacy ratio having fallen to 5.125% (or below), the Bank has the right, subject to the approval of the CBIRC but without the need for the consent of the bondholders, to write down whole or part of the aggregate amount of the perpetual bonds then issued and outstanding, in order to restore the core tier-1 capital adequacy ratio to above 5.125%. Upon the occurrence of a Non-Viability Triggering Event, the Bank has the right to write down all the above perpetual bond issued and existing at that time in accordance with the total par value without the consent of the bondholders.

The distributions on the perpetual bonds are non-cumulative, and the Bank shall have the right to cancel, in whole or in part, distributions on the bonds and any such cancellation shall not constitute an event of default. The Bank may, at its sole discretion, use the proceeds from the cancelled distributions to meet other obligations as they fall due. Cancellation of any distributions on the bonds, no matter in whole or in part, will not impose any other restriction on the Bank, except in relation to dividend distributions to ordinary shares.

Investors have no right to redeem their subscription from the Bank. The net proceeds from the Bank's issuance of the above bonds, after deducting offering related expenses, will be used to replenish the Additional tier-1 capital of the Bank.

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36 OTHER EQUITY INSTRUMENTS *(Continued)*

36.2 Perpetual bonds *(Continued)*

36.2.2Main clauses *(Continued)*

(2) With the approvals by relevant regulatory authorities, the Bank issued RMB30.0 billion undated capital bonds in China's National Inter-Bank Bond Market on 23 September 2020, and the issuance was completed on 25 September 2020. The denomination of the Bonds is RMB100 each and coupon rate of 4.59%. The Bonds adopt a coupon rate adjusted on a stage-by-stage basis and a coupon rate adjustment period for every five years during which interests will be paid at the agreed coupon rate.

The perpetual bonds will continue to be outstanding so long as the Bank's business continues to operate. The bonds have set forth terms regarding the Bank's redemption with pre-conditions, by which the Bank is entitled to redeem the bonds after five years since the issue date in whole or in part on the annual interest payment date (including the interest payment date of the fifth year after the issue date). If, after the issuance, the perpetual bonds no longer qualify as additional tier-1 capital as a result of an unforeseeable change or amendment to relevant provisions of supervisory regulations, the Bank may redeem the whole but not part of the perpetual bonds.

The claims in respect of the perpetual bonds are subordinated to the claims of depositors, general creditors, and subordinated indebtedness that rank senior to the perpetual bonds; and will rank in priority to all classes of equity shares held by the Bank's shareholders and rank pari passu with the claims in respect of any other additional tier-1 capital instruments of the Bank that rank pari passu with the perpetual bonds.

Upon the occurrence of a Non-Viability Triggering Event, the Bank has the right to write down/write off in whole or in part, without the need for the consent of the holders of the bonds, the principal amount of the bonds.

The distributions on the perpetual bonds are non-cumulative, and the Bank shall have the right to cancel, in whole or in part, distributions on the bonds and any such cancellation shall not constitute an event of default. The Bank may, at its sole discretion, use the proceeds from the cancelled distributions to meet other obligations as they fall due. Cancellation of any distributions on the bonds, no matter in whole or in part, will not impose any other restriction on the Bank, except in relation to dividend distributions to ordinary shares.

Investors have no right to redeem their subscription from the Bank. The net proceeds from the Bank's issuance of the above bonds, after deducting offering related expenses, will be used to replenish the additional tier-1 capital of the Bank.

(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)*

(3) With the approvals by relevant regulatory authorities, the Bank has completed the issuance of the USD2.8 billion undated capital bonds in the offshore market on 18 November 2020. The coupon rate of the bonds is 3.80%. The bonds adopt a coupon rate adjusted on a stage-by-stage basis and a coupon rate adjustment period for every five years during which interests will be paid at the agreed coupon rate.

The perpetual bonds will continue to be outstanding so long as the Bank's business continues to operate. The bonds have set forth terms regarding the Bank's redemption with pre-conditions. Subject to the satisfaction of the redemption conditions and having obtained the prior approval of the CBIRC, the bank is entitled to redeem the Bonds after five years since the issue date in whole or in part on the annual interest payment date (including the interest payment date of the fifth year after the issue date). If, after the issuance, the perpetual bonds no longer qualify as additional tier-1 capital as a result of an unforeseeable change or amendment to relevant provisions of supervisory regulations, the Bank may redeem the whole but not part of the perpetual bonds.

The claims in respect of the perpetual bonds are subordinated to the claims of depositors, general creditors, and subordinated indebtedness that rank senior to the perpetual bonds; and will rank in priority to all classes of equity shares held by the Bank's shareholders and rank pari passu with the claims in respect of any other additional tier-1 capital instruments of the Bank that rank pari passu with the perpetual bonds.

Upon the occurrence of a Non-Viability Triggering Event, the Bank has the right to write down/write off in whole or in part, without the need for the consent of the holders of the bonds, the principal amount of the Bonds.Once the principal amount of the Bonds (in whole or in part) has been written-off, such relevant written-off portion of the bonds will not be restored or become payable again (whether in whole or in part) in any circumstances (including where the relevant Non-Viability Triggering Event ceases to continue), and any accrued but unpaid distribution in respect of such relevant written-off portion of the bonds shall cease to be payable. In addition, there will be no compensation in any form to remedy the loss of the bondholders.

The distributions on the perpetual bonds are non-cumulative, and the Bank shall have the right to cancel, in whole or in part, distributions on the bonds and any such cancellation shall not constitute an event of default. The Bank may, at its sole discretion, use the proceeds from the cancelled distributions to meet other obligations as they fall due. Cancellation of any distributions on the bonds, no matter in whole or in part, will not impose any other restriction on the Bank, except in relation to dividend distributions to ordinary shares.

Investors have no right to redeem their subscription from the Bank. The net proceeds from the Bank's issuance of the above bonds, after deducting offering related expenses, will be used to replenish the additional tier-1 capital of the Bank.

36.3 Interests attributable to holders of other equity instruments

	As at 31 December 2020	As at 31 December 2019
Total equity attributable to equity holders of the parent company	866,607	793,247
Equity attributable to ordinary shareholders of the parent company	733,315	693,377
Equity attributable to preference shareholders of the parent company	44,952	59,876
Equity attributable to perpetual bond holders of the parent company	88,340	39,994
Total equity attributable to non-controlling interests	12,021	7,665
Equity attributable to non-controlling interests of ordinary shares	8,763	7,665
Equity attributable to non-controlling interests of Non-cumulative Subordinated Additional Tier 1 Capital Securities (Note 39)	3,258	–

Dividends paid to preference shareholders and interest paid to perpetual bond holders for the year ended 31 December 2020 are disclosed in Note 38.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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37 RESERVES AND RETAINED EARNINGS

Pursuant to the relevant PRC regulations, the appropriation of profits to the statutory general reserve, the discretionary reserve and the distribution of dividends in each year are based on the recommendations of the directors and are subject to the resolutions to be passed at the General Meeting of Shareholders.

Pursuant to relevant PRC regulations, the Bank appropriated 10% of its net profit for the year under CAS to the statutory surplus reserve until the reserve balance reaches 50% of the Bank's registered capital. The statutory surplus reserve can be used to compensate losses or to increase share capital upon approval. The Bank appropriate RMB7,075 million to the statutory surplus upon approval from the 2019 Annual General Meeting of Shareholders held on 30 June 2020.

	1 January 2020	Appropriate	Decrease	31 December 2020
Statutory reserve	64,897	7,534	–	**72,431**
Discretionary reserve	139,853	77	–	**139,930**
Total	204,750	7,611	–	**212,361**

Pursuant to relevant PRC banking regulations, since 1 July 2012, the Bank made statutory general reserve from net profit through profit appropriation according to Administrative Measures for the Provisioning of Financial Enterprises (Cai Jin [2012] No. 20). The proportion is determined based on several factors including the Bank's overall exposure to risk, normally no lower than 1.5% of the ending balance of risk assets. The statutory general reserve is an integral part of shareholders' equity but not subject to dividend distribution. The Bank's subsidiaries and overseas branches, if required by local regulation requirements, also need to make such general reserve. The 2019 Annual General Meeting of Shareholders, held on 30 June 2020, considered and adopted the 2019 profit distribution scheme, which stipulates as follows:

	1 January 2020	Appropriate	Decrease	31 December 2020
Statutory general reserve	117,567	5,596	–	**123,163**

The Bank appropriated RMB4,454 million to the statutory general reserve upon approval from the 2019 Annual General Meeting of Shareholders held on 30 June 2020. Overseas branches of the Bank appropriated RMB11 million to statutory general reserve according to the requirement of local regulatory authorities.

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

37 RESERVES AND RETAINED EARNINGS *(Continued)*

Revaluation reserve

The movements of revaluation reserve are set out below:

As at 31 December 2019	**3,421**
Changes in fair value recorded in equity	**(2,452)**
Changes in fair value recognised in profit or loss	**(1,344)**
Tax effects arising from components of other comprehensive income	**858**
Transferred from other comprehensive income	**(27)**
As at 31 December 2020	**456**
As at 31 December 2018	1,397
Changes in fair value recorded in equity	4,681
Changes in fair value recognised in profit or loss	(1,031)
Tax effects arising from components of other comprehensive income	(1,637)
Transferred from other comprehensive income	11
As at 31 December 2019	3,421

Retained earnings

The movements of retained earnings are set out below:

As at 1 January 2020	**177,141**
Profit for the year	**78,274**
Appropriation to statutory reserve	**(7,534)**
Appropriation to general reserve	**(5,596)**
Appropriation to discretionary reserve	**(77)**
Dividends payable to ordinary shareholders	**(23,393)**
Dividends payable to preference shareholders	**(2,714)**
Interest to perpetual bond holders of the Bank	**(1,680)**
Others	**27**
As at 31 December 2020	**214,448**
As at 31 December 2018	129,161
Impact from adoption of IFRS 16	(616)
Opening balance under IFRS 16 (restated)	128,545
Profit for the year	77,281
Appropriation to statutory reserve	(381)
Appropriation to general reserve	(3,286)
Appropriation to discretionary reserve	(57)
Dividends payable to ordinary shareholders	(22,279)
Dividends payable to preference shareholders	(2,671)
Others	(11)
As at 31 December 2019	177,141

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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38 DIVIDENDS

	Year ended 31 December	
	2020	2019
Dividends to ordinary shareholders of the Bank	**23,393**	22,279
Dividends to preference shareholders of the Bank	**2,714**	2,671

Under PRC Company Law and the Bank's Articles of Association, the net profit after tax as reported in the PRC statutory financial statements can only be distributed as dividends after allowances for the following:

(1) Making up cumulative losses from prior years, if any;

(2) Allocations to the non-distributable statutory reserve of 10% of the net profit of the Bank as determined under the relevant PRC accounting standards;

(3) Allocations to statutory general reserve;

(4) Allocations to the discretionary reserve upon approval by the Annual General Meeting of Shareholders. These funds form part of the shareholders' equity.

The cash dividends are recognised in the consolidated statement of financial position upon approval by the shareholders at Annual General Meeting.

Pursuant to the approval by the Board meeting on 27 March 2020, the Bank appropriated overseas preference dividends on 29 July 2020 with a dividend yield of 5% (the actual dividend yield obtained by the preference shareholders) with total amount of USD136 million. The Bank also appropriated domestic preference dividends on 7 September 2020 with a dividend yield of 3.9% (the actual dividend yield obtained by the preference shareholders), with total amount of RMB1,755 million.

Pursuant to the approval by the Annual General Meeting of Shareholders on 30 June 2020, It was resolved that a cash dividend of RMB0.315 (before tax) for each ordinary share, with total amount of RMB23,393 million, calculated based on 74,263 million shares outstanding (RMB1 per share) as at 31 December 2019, will be distributed to ordinary shareholders.

The Bank distributed the interest on the 2019 Undated Additional Tier 1 Capital Bonds amounting to RMB1,680 million on 20 September 2020.

On 26 March 2021, the Board of Directors of the Bank proposed to appropriate RMB6,897 million to the statutory reserve and RMB6,432 million to the statutory general reserve. A cash dividend of RMB0.317 (tax inclusive) for each share, totalling RMB23,541 million, calculated based on the total number of shares outstanding of 74,263 million shares (RMB1 per share) as at 31 December 2020 was also proposed. The proposal will be subject to the approval by the General Meeting of Shareholders.

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39 NON-CONTROLLING INTERESTS

Non-controlling interests of the Group include equity attributable to non-controlling interests of ordinary shares and equity attributable to non-controlling interests of other equity instruments. As at 31 December 2020, equity attributable to other equity instruments holders was RMB3,258 million. Other equity instruments were non-cumulative subordinated additional tier-1 capital securities issued by Bank of Communications (Hong Kong) Limited on 3 March 2020.

Issue Date	3 March 2020
Face Value	USD500 million
First Call Date	3 March 2025
Distribution Rate	(i) from the issue date to the first call date, 3.725% per annum (ii) for every five calendar years after the first call date, the then-prevailing US Treasury Rate plus 2.525% per annum
Frequency of distribution payments	Semi-annually

Bank of Communications (Hong Kong) Limited may determine the policies of distribution payments and whether to redeem the bonds. Therefore, the Group recognised the bonds as equity instruments.

Pursuant to the terms and conditions of the Non-Cumulative Subordinated Additional Tier 1 Capital Securities, Bank of Communications (Hong Kong) Limited has paid a total distribution of RMB65 million during the year ended 31 December 2020.

40 CREDIT RELATED COMMITMENTS AND FINANCIAL GUARANTEES, OTHER COMMITMENTS AND CONTINGENT LIABILITIES

Credit related commitments and financial guarantees

The following tables provide the contractual amounts of the Group's credit related commitments and financial guarantees which the Group has committed to its customers:

	As at 31 December 2020	As at 31 December 2019
Letters of guarantee	**333,610**	268,812
Letters of credit commitments	**163,151**	139,948
Acceptance bills	**319,076**	271,507
Credit card commitments	**800,441**	736,039
Loan commitments		
– Under 1 year	**5,111**	20,459
– 1 year and above	**55,323**	35,405
	1,676,712	1,472,170

Capital expenditure commitments

	As at 31 December 2020	As at 31 December 2019
Contracted but not provided for	**62,224**	60,310

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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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 2020	As at 31 December 2019
Within 1 year (inclusive)	**13,074**	13,496
Beyond 1 year but no more than 2 years (inclusive)	**12,622**	12,818
Beyond 2 years but no more than 3 years (inclusive)	**12,220**	12,176
Beyond 3 years but no more than 5 years (inclusive)	**22,062**	22,920
More than 5 years	**36,562**	42,024
	96,540	103,434

Commitments on security underwriting and bond acceptance

The Group is entrusted by the Ministry of Finance ('MOF') to underwrite certain Certificated Bonds and Savings Bonds. The investors of Certificated Bonds and Savings Bonds have early redemption right while the Group has the obligation to buy back those Certificated Bonds and Savings Bonds. The redemption price is the principal value of the Certificated Bonds or Savings Bonds plus unpaid interest till redemption date. As at 31 December 2020, the principal value of the certain Certificated Bonds and Savings Bonds that the Group had the obligation to buy back amounted to RMB81,548 million (31 December 2019: RMB83,777 million). The MOF will not provide funding for the early redemption of these Certificated Bonds and Savings Bonds on a back-to-back basis but will pay interest and principal at maturity. The Group expects the amount of redemption before the maturity dates of these bonds through the Group will not be material.

The original maturities of these bonds vary from 1 to 5 years.

As at 31 December 2020, the Group had no announced but unfulfilled irrevocable commitment on security underwriting (31 December 2019: Nil).

Legal proceedings

The Group has been involved as defendants in certain lawsuits arising from its normal business operations. Management of the Group believes, based on legal advice, the final result of these lawsuits will not have a material impact on the financial position or operations of the Group. Provision for litigation losses as advised by in-house or external legal professionals is disclosed in Note 34. The total outstanding claims against the Group (as defendant) by a number of third parties at the end of the year are summarised as follows:

	As at 31 December 2020	As at 31 December 2019
Outstanding litigations	**3,876**	5,011
Provision for outstanding litigation (Note 34)	**1,032**	1,029

(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 2020	As at 31 December 2019	**As at 31 December 2020**	As at 31 December 2019
Investment securities	**520,254**	468,085	**456,210**	387,547
Bills	**28,854**	78,041	**28,854**	78,041
Total	**549,108**	546,126	**485,064**	465,588

Financial assets sold under repurchase agreements included certain transactions under which the title of the pledged securities has been transferred to counterparties. These transactions have been disclosed in Note 46 transfers of financial assets.

(2) Collateral accepted

The Group conducts resale agreements under usual and customary terms of placements, and holds collateral for these transactions. As at 31 December 2020 and 31 December 2019, the Group did not hold any collateral for resale agreements which was permitted to sell or repledge in the absence of default for the transactions. All pledges are conducted under standard and normal business terms. As at 31 December 2020 and 31 December 2019, the Group did not sell or repledge any collaterals received.

42 OTHER COMPREHENSIVE INCOME

	Year ended 31 December 2020		
	Before tax amount	Tax effect	Net of tax amount
Other comprehensive income			
Loans and advances to customers – carried at FVOCI	(218)	54	(164)
Amount recognised in equity	*26*	*(7)*	*19*
Amount reclassified to profit or loss	*(244)*	*61*	*(183)*
Debt investments at FVOCI	(2,122)	377	(1,745)
Amount recognised in equity	*(1,022)*	*102*	*(920)*
Amount reclassified to profit or loss	*(1,100)*	*275*	*(825)*
Effective portion of gains or losses on hedging instruments in cash flow hedges	(676)	129	(547)
Amount recognised in equity	*(1,761)*	*399*	*(1,362)*
Amount reclassified to profit or loss	*1,085*	*(270)*	*815*
Translation difference on foreign operations	(4,776)	–	(4,776)
Changes in fair value of equity investments designated at FVOCI	(1,606)	402	(1,204)
Changes in fair value attributable to changes in the credit risk of financial liabilities designated at FVPL	7	–	7
Actuarial gains on pension benefits	(132)	–	(132)
Others	15	(3)	12
Other comprehensive income for the year	(9,508)	959	(8,549)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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42 OTHER COMPREHENSIVE INCOME *(Continued)*

	Year ended 31 December 2019		
	Before tax amount	Tax effect	Net of tax amount
Other comprehensive income			
Loans and advances to customers – carried at FVOCI	(391)	(322)	(713)
Amount recognised in equity	*113*	*(448)*	*(335)*
Amount reclassified to profit or loss	*(504)*	*126*	*(378)*
Debt investments at FVOCI	4,807	(1,487)	3,320
Amount recognised in equity	*5,334*	*(1,619)*	*3,715*
Amount reclassified to profit or loss	*(527)*	*132*	*(395)*
Effective portion of gains or losses on hedging instruments in cash flow hedges	(14)	5	(9)
Amount recognised in equity	*(210)*	*54*	*(156)*
Amount reclassified to profit or loss	*196*	*(49)*	*147*
Translation difference on foreign operations	1,141	–	1,141
Changes in fair value of equity investments designated at FVOCI	(748)	188	(560)
Changes in fair value attributable to changes in the credit risk of financial liabilities designated at FVPL	25	–	25
Actuarial gains on pension benefits	(20)	–	(20)
Others	18	–	18
Other comprehensive income for the year	4,818	(1,616)	3,202

43 NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

Analysis of the balance of cash and cash equivalents

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise the following balances with maturities of less than or equal to 90 days from date of purchase and used for the purpose of meeting short-term cash commitments:

	As at 31 December 2020	As at 31 December 2019
Cash and balances with central banks	**171,950**	85,246
Due from and placements with banks and other financial institutions	**135,170**	82,489
	307,120	167,735

44 CONSOLIDATED STRUCTURED ENTITIES

Structured entities consolidated by the Group include certain trust investment plans, funds, and securitisation products issued, managed and invested by the Group. The Group controls these entities because the Group has power over, is exposed to, or has right to, variable returns from its involvement with these entities and has the ability to use its power over these entities to affect the amount of the Group's returns. As at 31 December 2020, the consolidated structured entities amounted to RMB36,716 million (As at 31 December 2019, the consolidated structured entities amounted to RMB21,129 million).

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

45 UNCONSOLIDATED STRUCTURED ENTITIES

The Group has been involved in other structured entities through investments in structured entities or acting as sponsors of structured entities that provide specialised investment opportunities to investors. These structured entities generally finance the purchase of assets by issuing units of the products. The Group does not control these structured entities and therefore, these structured entities are not consolidated.

As at 31 December 2020, those structured entities sponsored by the Group consist primarily of funds, trusts, asset management products, Limited partnerships, wealth management products with principals not guaranteed by the Group and securitisation products. The Group earns commission income by providing management services to the investors of these structured entities. In addition, the Group is also involved in certain structured entities sponsored by the Group or third parties through direct investments. These investments are recognised as financial investments at fair value through profit or loss, financial investments at fair value through other comprehensive income, and financial investments at amortised cost.

As at 31 December 2020, the balance of the non-principal guaranteed wealth management products set up by the Group amounted to RMB1,211,959 million (As at 31 December 2019: RMB1,003,226 million), the balance of trusts established by the Group amounted to RMB569,841 million, the balance of funds issued by the Group amounted to RMB339,871 million and the balance of asset management plans and others sponsored by the Group amounted to RMB273,699 million(As at 31 December 2019: the balance of trusts established by the Group amounted to RMB741,361 million, the balance of funds issued by the Group amounted to RMB225,643 million and the balance of asset management plans and others sponsored by the Group amounted to RMB284,598 million).

For the year ended 31 December 2020, the Group's commission income from providing services to the investors of the structured entities managed by the Group was RMB6,363 million (For the year ended 31 December 2019: RMB3,948 million), and interest income from placements and repurchase transactions with those unconsolidated wealth management products was RMB1 million (For the year ended 31 December 2019: RMB1,204 million).

As at 31 December 2020 and 31 December 2019, the carrying amount of interests in unconsolidated structured entities held by the Group through investment was set out as follows:

	As at 31 December 2020 Carrying amount				
	Financial investments at FVPL	Financial investments at FVOCI	Financial investments at amortised cost	Maximum exposure to loss	Type of income
Funds	243,980	–	–	243,980	Net gains arising from trading activities
Trusts and asset management products	3,956	–	101,599	105,555	Net interest income, net gains arising from trading activities
Limited partnerships	2,729	619	–	3,348	Net gains arising from trading activities, net gains arising from financial investments
Securitisation products	–	–	134	134	Net interest income
Total	250,665	619	101,733	353,017	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

45 UNCONSOLIDATED STRUCTURED ENTITIES *(Continued)*

The information of total size of the unconsolidated structured entities listed above is not readily available from the public domain.

	As at 31 December 2019				
	Carrying amount				
	Financial investments at FVPL	Financial investments at FVOCI	Financial investments at amortised cost	Maximum exposure to loss	Type of income
Funds	160,522	–	–	160,522	Net gains arising from trading activities
Trusts and asset management products	8,207	–	139,302	147,509	Net interest income, net gains arising from trading activities
Wealth management products	320	–	–	320	Net gains arising from trading activities
Limited partnerships	798	584	–	1,382	Net gains arising from trading activities, net gains arising from financial investments
Securitisation products	–	–	15	15	Net interest income
Total	169,847	584	139,317	309,748	

The information of total size of the unconsolidated structured entities listed above is not readily available from the public domain.

46 TRANSFERS OF FINANCIAL ASSETS

46.1 Financial assets sold under repurchase agreements

Sales and repurchase agreements are transactions in which the Group sells a security and simultaneously agrees to repurchase it (or an asset that is substantially the same) at a fixed price on a future date. Since the repurchase prices are fixed, the Group is still exposed to substantially all the credit risks and market risks and rewards of those securities sold. These securities, which the Group does not have the ability to use during the term of the arrangements, are not derecognised from the financial statements but regarded as "collateral" for the secured lending. In addition, the Group recognises a financial liability for cash received.

As at 31 December 2020 and 31 December 2019, the Group entered into repurchase agreements with certain counterparties. The proceeds from selling such securities are presented as "financial assets sold under repurchase agreements" (Note 29).

The following table provides a summary of carrying amounts related to the transferred financial assets that are not derecognised and the associated liabilities:

	Collaterals		Associated liabilities	
	As at 31 December 2020	As at 31 December 2019	**As at 31 December 2020**	As at 31 December 2019
Investment securities	**2,020**	10,582	**1,806**	9,828

46 TRANSFERS OF FINANCIAL ASSETS *(Continued)*

46.2 Securities lending transactions

Transferred financial assets that do not qualify for de-recognition mainly include debt securities lent to counterparties under securities lending agreements. The counterparties are allowed to sell or repledge those securities lent under agreements to repurchase in the absence of default by the Group, but has an obligation to return the securities at the maturity of the contract. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. As at 31 December 2020, the carrying value of debt securities lent to counterparties was RMB12,640 million (31 December 2019: RMB6,620 million).

46.3 Asset securitisation

The Group enters into securitisation transactions in the normal course of business by which it transfers credit assets to special purpose trusts which issue asset-backed securities to investors.

The Group may retain interests in the form of subordinated tranches which may give rise to the Group's continuing involvement in the transferred assets. Those financial assets are recognised on the consolidated statement of financial position to the extent of the Group's continuing involvement, while the rest are derecognised. The extent of the Group's continuing involvement is the extent of risk the Group faces due to changes in the value of the transferred assets.

As at 31 December 2020, loans with an original value of RMB53,492 million and carrying amount of RMB41,600 million (31 December 2019: RMB55,702 million and RMB55,144 million) have been securitised by the Group and the Bank. For the year ended 31 December 2020, the Group transferred financial assets amounted to RMB15,272 million through assets backed securitization transactions, and all have met the requirement of derecognition (For the year ended 31 December 2019, the Group transferred financial assets amounted to RMB1,128 million through assets backed securitization transactions, all have met the requirement of derecognition).

As at 31 December 2020, the Group and the Bank retained their continued involvement in securitised credit assets by holding subordinated securities. The value of the assets that the Group and the Bank continued to recognise was RMB4,275 million (31 December 2019: RMB4,864 million).

46.4 Package disposal of non-performing loans and advances to customers

The Group disposes non-performing loans and advances to customers through transferring to third parties in the normal course of business. For the year ended 31 December 2020, the Group had transferred non-performing loans and advances to customers with a gross carrying amount of RMB18,533 million (31 December 2019: RMB13,132 million) and collected cash totalling RMB8,517 million (31 December 2019: RMB4,733 million) from the transfer. The difference between the gross carrying amount and the cash collected had been written off. The Group derecognised the non-performing loans and advances to customers from the Group's financial statements at the time of disposal.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020
(All amounts expressed in millions of RMB unless otherwise stated)

47 RELATED PARTY TRANSACTIONS

(a) Transactions with the MOF

As at 31 December 2020, the MOF held 17,732 million (31 December 2019: 17,732 million) ordinary shares of Bank of Communications Co., Ltd. which represented 23.88% (31 December 2019: 23.88%) of the total share capital.

The MOF is a Chinese government ministry, primarily responsible for managing state fiscal revenue and expenditures, and establishing and enforcing taxation policies. The Group enters into banking transactions with the MOF under normal commercial terms and at market rates. These transactions mainly include the purchase and redemption of financial investments issued by the MOF.

Details of transaction volumes and outstanding balances are summarised below:

	As at 31 December 2020	As at 31 December 2019
Bonds issued by the MOF	801,187	656,917

	Year ended 31 December	
	2020	2019
Interest income	22,081	18,828
Net gains arising from trading activities	129	104

The interest rates of the transactions between the Group and MOF are summarised below:

	Year ended 31 December	
	2020 %	2019 %
Bonds issued by the MOF	0.13~5.32	0.13~5.41

(b) Transactions with the National Council for Social Security Fund

As at 31 December 2020, the National Council for Social Security Fund held 12,160 million (31 December 2019: 12,909 million) ordinary shares of Bank of Communications Co., Ltd. which represented 16.37% (31 December 2019: 17.38%) of the total share capital. The Group enters into transactions with the National Council for Social Security Fund in the normal course of business and they mainly include deposits which are carried out under normal commercial terms and paid at market rates.

Details of transaction volumes and outstanding balances are summarised below:

	As at 31 December 2020	As at 31 December 2019
Due to customers	87,356	71,314

	Year ended 31 December	
	2020	2019
Interest expense	(3,523)	(1,031)

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

47 RELATED PARTY TRANSACTIONS *(Continued)*

(b) Transactions with the National Council for Social Security Fund *(Continued)*

The interest rates of the transactions between the Group and the National Council for Social Security Fund are summarised below:

	Year ended 31 December 2020 %	2019 %
Due to customers	3.85~5.30	3.85~6.10

(c) Transactions with the Hongkong and Shanghai Banking Corporation Limited ("HSBC") Group and its joint ventures

As at 31 December 2020, HSBC held 13,886 million (31 December 2019: 13,886 million) ordinary shares of the Bank of Communications Co., Ltd. which represented 18.70% (31 December 2019: 18.70%) of the total share capital. Transactions between the Group and HSBC are carried out under normal commercial terms and paid at market rates.

Details of transaction volumes and outstanding balances are summarised below:

	As at 31 December 2020	As at 31 December 2019
On-balance sheet items		
Due from and placements with banks and other financial institutions	11,328	1,302
Derivative financial assets	2,370	798
Financial investments at FVPL	2,709	1,323
Financial investments at amortised cost	432	230
Financial investments at FVOCI	3,354	4,634
Due to and placements from banks and other financial institutions	8,261	10,373
Financial liabilities at FVPL	212	2,424
Derivative financial liabilities	2,963	979
Off-balance sheet items		
Notional principal of derivative financial instruments	192,032	161,086

	Year ended 31 December 2020	2019
Interest income	203	231
Interest expense	(202)	(403)
Fee and commission income	52	56
Fee and commission expense	(8)	(8)
Net losses from trading activities	(264)	(305)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020
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47 RELATED PARTY TRANSACTIONS *(Continued)*

(c) Transactions with the Hongkong and Shanghai Banking Corporation Limited ("HSBC") Group and its joint ventures *(Continued)*

The interest rates of the transactions between the Group and HSBC are summarised below:

	Year ended 31 December	
	2020	2019
	%	%
Due from and placements with banks and other financial institutions	**0.01~3.42**	0.01~3.10
Financial investments at FVPL	**1.49~6.00**	3.30~4.13
Financial investments at amortised cost	**3.26~4.74**	3.26~4.74
Financial investments at FVOCI	**0.002~4.95**	1.50~4.75
Due to and placements from banks and other financial institutions	**(0.24)~4.12**	(0.24)~3.80
Financial liabilities at FVPL	**0.50~0.70**	0.36~0.75

(d) Transactions with state-owned entities in PRC

The Group operates in an economic environment predominated by enterprises directly or indirectly owned and/or controlled by the government through its authorities, affiliates or other organisations (collectively the "state-owned entities"). During the period, the Group entered into extensive banking transactions with these state-owned entities including, but not limited to, the provision of credit and guarantees, deposits, foreign exchange, derivatives transactions, agency business, underwriting and distribution of bonds issued by the government as well as trading and redemption of securities issued by the government.

Management considers that transactions with state-owned entities are activities conducted in the ordinary course of business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and these state-owned entities are ultimately controlled or owned by the government. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are state-owned entities.

(e) Transactions with subsidiaries

Transactions between the Bank and its subsidiaries are carried out under normal commercial terms and paid at market rates. These transactions are eliminated on consolidation.

Details of transaction volumes and outstanding balances are summarised below:

The Bank	**As at 31 December 2020**	As at 31 December 2019
Due from and placements with banks and other financial institutions	**141,231**	91,645
Loans and advances to customers	**521**	1,296
Financial investments at FVPL	**891**	1,915
Financial investments at amortised cost	**1,240**	2,266
Financial investments at FVOCI	**8,986**	13,055
Derivative financial assets	**1,736**	429
Other assets	**808**	137
Due to and placements from banks and other financial institutions	**16,236**	19,896
Derivative financial liabilities	**429**	543
Due to customers	**14,873**	3,544
Debt securities issued	**51**	51
Other liabilities	**97**	36

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

47 RELATED PARTY TRANSACTIONS *(Continued)*

(e) Transactions with subsidiaries *(Continued)*

The Bank	Year ended 31 December 2020	2019
Sale of financial investments at FVPL to subsidiaries	27	10,327
Sale of financial investments at FVOCI to subsidiaries	–	28,312

The Bank	Year ended 31 December 2020	2019
Interest income	2,024	2,531
Interest expense	(377)	(458)
Fee and commission income	1,251	943
Fee and commission expense	(191)	(97)
Other operating income	570	562
Other operating expense	(184)	(214)
Net gains arising from trading activities	138	755

The interest rates of the transactions between the Bank and its subsidiaries are summarised below:

The Bank	Year ended 31 December 2020 %	2019 %
Due from and placements with banks and other financial institutions	0.01~5.69	(0.10)~5.40
Financial investments at FVPL	1.97~4.38	2.63~4.38
Financial investments at amortised cost	1.18~4.70	0.76~4.70
Financial investments at FVOCI	0.95~4.38	1.00~4.38
Loans and advances to customers	1.61~3.97	2.18~3.97
Due to and placements from banks and other financial institutions	0.01~4.50	(0.10)~ 9.15
Due to customers	0.70~4.18	1.50~3.03
Debt securities issued	5.75	5.75

(f) Transactions with directors, supervisors and senior management

Transactions with directors, supervisors, senior management, their close relatives and entities that are controlled, jointly controlled or significantly influenced by either such directors, supervisors and senior management or their close relatives mainly include loans and deposits and are carried out under normal commercial terms and paid at market rates.

Details of transaction volumes and outstanding balances are summarised below:

	As at 31 December 2020	As at 31 December 2019
Due to customers	6	18
Loans and advances to customers	1	3

Compensations of directors and senior management are disclosed in Note 15.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

47 RELATED PARTY TRANSACTIONS *(Continued)*

(g) Transactions with associates and joint ventures

Transactions between the Group and its associates and joint ventures are carried out under normal commercial terms and paid at market rates.

Details of transaction volumes and outstanding balances are summarised below:

	As at 31 December 2020	As at 31 December 2019
On-balance sheet items		
Due from and placements with banks and other financial institutions	100	–
Derivative financial assets	7	4
Loans and advances to customers	4,767	3,371
Due to and placements from banks and other financial institutions	44	52
Derivative financial liabilities	16	3
Due to customers	–	3
Off-balance sheet items		
Notional principal of derivative financial instruments	2,094	5,193
Credit related commitments (Guarantees, acceptances and letters of credit)	10,337	9,288

	Year ended 31 December	
	2020	2019
Interest income	195	165
Interest expense	(2)	(2)
Net (losses)/gains from trading activities	(14)	1

The interest rates of the transactions between the Group and its associates and joint ventures are summarised below:

	Year ended 31 December	
	2020 %	2019 %
Due from and placements with banks and other financial institutions	0.30~3.05	0.35~3.88
Loans and advances to customers	2.95~5.39	3.92~4.90
Due to and placements from banks and other financial institutions	0.01~1.55	0.01~5.50
Due to customers	0.30~1.89	0.30~1.35

(h) Transactions with other related parties

Details of transaction volumes and outstanding balances are summarised below:

	As at 31 December 2020	As at 31 December 2019
Loans and advances to customers	744	2,355
Financial investments at amortised cost	204	204
Due to and placements from banks and other financial institutions	92	1,871
Due to customers	42,313	48,118

	Year ended 31 December	
	2020	2019
Interest income	45	74
Interest expense	(1,593)	(1,507)

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

47 RELATED PARTY TRANSACTIONS *(Continued)*

(h) Transactions with other related parties *(Continued)*

The interest rates of the transactions between the Group and other related parties are summarised below:

	Year ended 31 December	
	2020	2019
	%	%
Loans and advances to customers	**0.30~5.06**	0.30~6.31
Financial investments at amortised cost	**3.19~3.78**	3.19~3.78
Due to and placements from banks and other financial institutions	**0.30~3.15**	2.70~5.80
Due to customers	**0.30~4.18**	1.10~4.18

48 SEGMENTAL ANALYSIS

The Group's Board of Directors and senior management reviews the Group's operation by the particular economic areas in which the Group's branches and subsidiaries provide products or services. The Group's geographical operating segments are decided based upon location of the assets, as the Group's branches and subsidiaries mainly serve local customers.

The reportable geographical operating segments derive their revenue primarily from commercial banking services and investing activities, including deposits, loans, bills, trade financing, money market placements and takings, and securities investments, etc.

The Group's geographical operating segments include provincial and directly managed branches and subsidiaries (if any) in relevant regions, as follows:

(1) Yangtze River Delta: including Shanghai (excluding Head Office), Jiangsu Province, Zhejiang Province, and Anhui Province;

(2) Pearl River Delta: including Fujian Province and Guangdong Province;

(3) Bohai Rim Economic Zone: including Beijing, Tianjin, Hebei Province, and Shandong Province;

(4) Central China: including Shanxi Province, Jiangxi Province, Henan Province, Hubei Province, Hunan Province, Hainan Province and Guangxi Zhuang Autonomous Region;

(5) Western China: including Chongqing, Sichuan Province, Guizhou Province, Yunnan Province, Shanxi Province, Gansu Province, Qinghai Province, Inner Mongolia Autonomous Region, Ningxia Autonomous Region, and Xinjiang Uyghur Autonomous Region;

(6) Northeastern China: including Liaoning Province, Jilin Province and Heilongjiang Province;

(7) Overseas: including Hong Kong, New York, Tokyo, Singapore, Seoul, Frankfurt, Macau, Ho Chi Minh City, San Francisco, Sydney, Taipei, London, Luxembourg, Brisbane, Paris, Rome, Brazil, Melbourne, Toronto, Prague, Johannesburg.

(8) Head Office, including the Pacific Credit Card Centre

The revenue from external parties is reported to the Board of Directors and the senior management in a manner consistent with that in the consolidated statement of profit or loss and other comprehensive income.

As the Group's major revenue is derived from interest, and the Board of Directors and the senior management relies primarily on net interest income to assess the performance of segments, the interest income and expenses for all reportable segments are presented on a net basis.

The Group's Board of Directors and senior management reviews the segment performance on the basis of profit before tax. Funds are ordinarily allocated between segments. Costs of these funds are charged at the Group's cost of capital and disclosed in inter-segment net interest income. There are no other material items of income or expenses between the segments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020
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48 SEGMENTAL ANALYSIS *(Continued)*

Geographical operating segment information

	Year ended 31 December 2020								
	Yangtze River Delta	Pearl River Delta	Bohai Rim Economic Zone	Central China	Western China	North Eastern China	Overseas	Head Office	Total
External interest income	71,200	29,851	34,229	43,754	29,300	9,248	23,605	127,914	369,101
External interest expense	(48,338)	(19,692)	(34,843)	(23,729)	(15,170)	(9,089)	(14,820)	(50,084)	(215,765)
Inter-segment net interest income/(expense)	22,627	6,175	21,372	7,612	2,313	5,166	19	(65,284)	–
Net interest income	45,489	16,334	20,758	27,637	16,443	5,325	8,804	12,546	153,336
Fee and commission income	11,988	3,127	4,963	5,355	2,799	1,067	2,802	17,197	49,298
Fee and commission expense	(2,157)	(47)	(71)	(69)	(25)	(19)	(226)	(1,598)	(4,212)
Net fee and commission income	9,831	3,080	4,892	5,286	2,774	1,048	2,576	15,599	45,086
Net gains arising from trading activities	3,067	171	253	485	57	16	(346)	10,141	13,844
Net gains arising from financial investments	507	–	–	–	–	–	2,420	(1,750)	1,177
Insurance business income	15,103	–	–	–	–	–	67	–	15,170
Share of profits of associates and joint ventures	–	–	–	–	–	–	50	172	222
Other operating income	14,345	484	1,209	627	497	174	285	268	17,889
Total operating income -net	88,342	20,069	27,112	34,035	19,771	6,563	13,856	36,976	246,724
Credit impairment losses	(8,368)	(4,245)	(7,200)	(9,483)	(1,673)	(3,028)	(1,156)	(26,906)	(62,059)
Other assets impairment losses	(486)	–	1	–	–	(4)	5	–	(484)
Insurance business expense	(15,699)	–	–	–	–	–	(30)	–	(15,729)
Other operating expense	(25,853)	(6,376)	(8,188)	(8,471)	(5,882)	(3,248)	(4,222)	(19,787)	(82,027)
Profit before tax	37,936	9,448	11,725	16,081	12,216	283	8,453	(9,717)	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)

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

48 SEGMENTAL ANALYSIS *(Continued)*

Geographical operating segment information *(Continued)*

	Year ended 31 December 2019								
	Yangtze River Delta	Pearl River Delta	Bohai Rim Economic Zone	Central China	Western China	North Eastern China	Overseas	Head Office	Total
External interest income	67,117	25,271	31,944	38,731	26,227	8,829	33,580	135,754	367,453
External interest expense	(47,749)	(18,260)	(33,178)	(21,794)	(15,761)	(8,710)	(24,203)	(53,715)	(223,370)
Inter-segment net interest income/ (expense)	21,262	7,711	19,642	8,294	5,474	4,799	(370)	(66,812)	–
Net interest income	40,630	14,722	18,408	25,231	15,940	4,918	9,007	15,227	144,083
Fee and commission income	10,136	2,952	4,208	5,043	2,703	1,056	3,166	18,405	47,669
Fee and commission expense	(1,320)	(66)	(65)	(44)	(32)	(16)	(328)	(2,173)	(4,044)
Net fee and commission income	8,816	2,886	4,143	4,999	2,671	1,040	2,838	16,232	43,625
Net gains arising from trading activities	2,416	28	341	388	87	50	342	12,284	15,936
Net gains arising from financial investments	114	–	–	–	–	–	487	(288)	313
Insurance business income	11,647	–	–	–	–	–	40	–	11,687
Share of profits of associates and joint ventures	–	–	–	–	–	–	134	280	414
Other operating income	12,306	280	1,205	463	604	169	1,710	62	16,799
Total operating income -net	75,929	17,916	24,097	31,081	19,302	6,177	14,558	43,797	232,857
Credit impairment losses	(6,224)	(1,911)	(7,576)	(7,630)	(4,807)	(4,882)	(86)	(18,838)	(51,954)
Other assets impairment losses	(230)	1	–	(11)	(15)	1	(16)	–	(270)
Insurance business expense	(11,424)	–	–	–	–	–	(8)	–	(11,432)
Other operating expense	(23,682)	(5,801)	(8,370)	(8,308)	(6,373)	(3,298)	(5,516)	(19,653)	(81,001)
Profit before tax	34,369	10,205	8,151	15,132	8,107	(2,002)	8,932	5,306	88,200
Income tax									(10,138)
Net profit for the year									78,062
Depreciation and amortisation	(1,675)	(917)	(1,188)	(1,123)	(965)	(495)	(608)	(1,134)	(8,105)
Capital expenditure	(29,082)	(450)	(419)	(664)	(407)	(263)	(281)	(810)	(32,376)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

48 SEGMENTAL ANALYSIS *(Continued)*

Geographical operating segment information *(Continued)*

	As at 31 December 2020									
	Yangtze River Delta	Pearl River Delta	Bohai Rim Economic Zone	Central China	Western China	North Eastern China	Overseas	Head Office	Eliminations	Total
Segment assets	2,641,386	920,887	1,543,501	1,194,919	822,759	384,627	1,114,676	4,187,998	(2,141,128)	10,669,625
Including:										
Investments in associates and joint ventures	*4*	*–*	*–*	*6*	*–*	*–*	*203*	*4,468*	*–*	*4,681*
Unallocated assets										27,991
Total assets										10,697,616
Segment liabilities	(2,437,106)	(908,645)	(1,524,423)	(1,162,723)	(808,702)	(385,778)	(1,057,224)	(3,674,229)	2,141,128	(9,817,702)
Unallocated liabilities										(1,286)
Total liabilities										(9,818,988)

	As at 31 December 2019									
	Yangtze River Delta	Pearl River Delta	Bohai Rim Economic Zone	Central China	Western China	North Eastern China	Overseas	Head Office	Eliminations	Total
Segment assets	2,293,215	778,331	1,350,485	1,080,193	759,509	344,260	1,100,225	4,029,095	(1,853,778)	9,881,535
Including:										
Investments in associates and joint ventures	*4*	*–*	*–*	*6*	*–*	*–*	*431*	*4,159*	*–*	*4,600*
Unallocated assets										24,065
Total assets										9,905,600
Segment liabilities	(2,127,221)	(766,612)	(1,336,459)	(1,052,611)	(748,795)	(346,410)	(1,067,199)	(3,512,241)	1,853,778	(9,103,770)
Unallocated liabilities										(918)
Total liabilities										(9,104,688)

Given the adjustment to the standards of dividing segments and evaluation guidelines of income allocation within segment, the comparative figures were stated under existing standards

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

48 SEGMENTAL ANALYSIS *(Continued)*

Business Information

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

The business information of the Group is summarised as follows:

	Year ended 31 December 2020				
	Corporate Banking Business	Personal Banking Business	Treasury Business	Other Business	Total
External net interest income	61,605	49,328	42,341	62	153,336
Inter-segment net interest income/(expense)	20,409	16,782	(37,191)	–	–
Net interest income	82,014	66,110	5,150	62	153,336
Net fee and commission income	15,571	28,044	1,314	157	45,086
Net gains arising from trading activities	3,585	1,964	8,218	77	13,844
Net gains arising from financial investments	–	–	1,177	–	1,177
Share of profits of associates and joint ventures	–	–	–	222	222
Insurance business income	32	15,138	–	–	15,170
Other operating income	14,128	2,474	33	1,254	17,889
Total operating income – net	115,330	113,730	15,892	1,772	246,724
Credit impairment losses	(33,129)	(28,215)	(714)	(1)	(62,059)
Other assets impairment losses	(485)	–	–	1	(484)
Insurance business expense	(30)	(15,699)	–	–	(15,729)
Other operating expense					
– Depreciation and amortisation	(2,949)	(4,433)	(407)	(99)	(7,888)
– Others	(33,427)	(36,438)	(2,979)	(1,295)	(74,139)
Profit before tax	45,310	28,945	11,792	378	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 2020
(All amounts expressed in millions of RMB unless otherwise stated)

48 SEGMENTAL ANALYSIS *(Continued)*

Business Information *(Continued)*

	Year ended 31 December 2019				
	Corporate Banking Business	Personal Banking Business	Treasury Business	Other Business	Total
External net interest income	54,603	47,152	42,315	13	144,083
Inter-segment net interest income/(expense)	19,915	15,277	(35,192)	–	–
Net interest income	74,518	62,429	7,123	13	144,083
Net fee and commission income	16,710	26,114	620	181	43,625
Net gains arising from trading activities	2,795	1,135	11,852	154	15,936
Net gains arising from financial investments	–	–	313	–	313
Share of profits of associates and joint ventures	–	–	–	414	414
Insurance business income	2	11,685	–	–	11,687
Other operating income	13,591	2,268	–	940	16,799
Total operating income – net	107,616	103,631	19,908	1,702	232,857
Credit impairment losses	(31,794)	(21,134)	975	(1)	(51,954)
Other assets impairment losses	(233)	–	(10)	(27)	(270)
Insurance business expense	(8)	(11,424)	–	–	(11,432)
Other operating expense					
– Depreciation and amortisation	(2,917)	(4,347)	(406)	(435)	(8,105)
– Others	(32,487)	(36,293)	(2,930)	(1,186)	(72,896)
Profit before tax	40,177	30,433	17,537	53	88,200
Income tax					(10,138)
Net profit for the year					78,062
Depreciation and amortisation	(2,917)	(4,347)	(406)	(435)	(8,105)
Capital expenditure	(11,650)	(17,366)	(1,623)	(1,737)	(32,376)

The comparative information was restated in accordance with the current categorisation since the business segment categorisation of some subsidiaries has been changed.

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

48 SEGMENTAL ANALYSIS *(Continued)*

Business Information *(Continued)*

	As at 31 December 2020				
	Corporate Banking Business	Personal Banking Business	Treasury Business	Other Business	Total
Segment assets	**4,192,292**	**2,067,778**	**4,346,218**	**63,337**	**10,669,625**
Including:					
Investments in associates and joint ventures	**–**	**–**	**–**	***4,681***	***4,681***
Unallocated assets					**27,991**
Total assets					**10,697,616**
Segment liabilities	**(4,834,361)**	**(2,313,457)**	**(2,599,201)**	**(70,683)**	**(9,817,702)**
Unallocated liabilities					**(1,286)**
Total liabilities					**(9,818,988)**

	As at 31 December 2019				
	Corporate Banking Business	Personal Banking Business	Treasury Business	Other Business	Total
Segment assets	3,524,914	1,829,595	4,429,717	97,309	9,881,535
Including:					
Investments in associates and joint ventures	–	–	–	*4,600*	*4,600*
Unallocated assets					24,065
Total assets					9,905,600
Segment liabilities	(4,340,472)	(2,004,467)	(2,719,447)	(39,384)	(9,103,770)
Unallocated liabilities					(918)
Total liabilities					(9,104,688)

There were no significant transactions with a single external customer that the Group mainly relied on.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020
(All amounts expressed in millions of RMB unless otherwise stated)

49 FINANCIAL STATEMENTS OF THE BANK

(a) Statement of financial position of the Bank

	As at 31 December 2020	As at 31 December 2019
ASSETS		
Cash and balances with central banks	807,383	756,179
Due from and placements with banks and other financial institutions	670,148	719,284
Derivative financial assets	54,494	19,960
Loans and advances to customers	5,441,506	4,971,617
Financial investments at fair value through profit or loss	391,648	337,752
Financial investments at amortised cost	1,980,248	1,905,492
Financial investments at fair value through other comprehensive income	555,787	548,454
Investments in associates and joint ventures	4,178	4,055
Investments in subsidiaries	79,272	54,167
Property and equipment	50,500	50,795
Deferred income tax assets	26,262	22,571
Other assets	69,219	61,539
Total assets	10,130,645	9,451,865
Liabilities		
Due to banks and other financial institutions	1,672,012	1,809,364
Financial liabilities at FVPL	23,972	26,342
Derivative financial liabilities	54,311	26,076
Due to customers	6,404,997	5,914,089
Certificates of deposits issued	627,011	493,873
Current income tax liabilities	2,643	5,524
Deferred income tax liabilities	58	102
Debt securities issued	408,906	317,205
Other liabilities	107,985	97,535
Total liabilities	9,301,895	8,690,110
Equity		
Share capital	74,263	74,263
Other equity investments	133,292	99,870
Including: Preference shares	*44,952*	*59,876*
Perpetual bonds	*88,340*	*39,994*
Capital surplus	111,226	113,427
Other reserves	324,383	318,251
Retained earnings	185,586	155,944
Total equity	828,750	761,755
Total equity and liabilities	10,130,645	9,451,865

The financial statements of the Bank were approved and authorised for issuance by the Board of Directors on 26 March 2021 and signed on its behalf by:

Chairman and Executive Director: Ren Deqi

Vice Chairman, Executive Director and President: Liu Jun

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

49 FINANCIAL STATEMENTS OF THE BANK *(Continued)*

(b) Statement of changes in equity of the Bank

					Other reserves										
	Share capital	Preference shares	Perpetual bonds	Capital surplus	Statutory reserve	Discretionary reserve	Statutory general reserve	Revaluation reserve for financial assets measured at designated 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	Total
As at 1 January 2020	74,263	59,876	39,994	113,427	63,072	139,764	111,455	2,327	5	(18)	293	(10)	1,363	155,944	761,755
Net profit for the year	-	-	-	-	-	-	-	-	-	-	-	-	-	68,969	68,969
Other comprehensive income	-	-	-	-	-	-	-	(3,096)	7	58	(2,257)	(132)	12	-	(5,408)
Total comprehensive income	-	-	-	-	-	-	-	(3,096)	7	58	(2,257)	(132)	12	68,969	63,561
Capital contribution by holders of other equity instruments	-	(14,924)	48,346	(2,201)	-	-	-	-	-	-	-	-	-	-	31,221
Dividends paid to ordinary shareholders	-	-	-	-	-	-	-	-	-	-	-	-	-	(23,393)	(23,393)
Dividends paid to preference shareholders	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,714)	(2,714)
Interest paid to perpetual bond holders	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,680)	(1,680)
Transfer to reserves	-	-	-	-	7,075	-	4,465	-	-	-	-	-	-	(11,540)	-
As at 31 December 2020	74,263	44,952	88,340	111,226	70,147	139,764	115,920	(769)	12	40	(1,964)	(142)	1,375	185,586	828,750
As at 31 December 2018	74,263	59,876	–	113,427	63,072	139,764	108,717	1,247	(20)	29	(404)	10	1,345	113,491	674,817
Impact from adoption of IFRS 16	–	–	–	–	–	–	–	–	–	–	–	–	–	(609)	(609)
As at 1 January 2019	74,263	59,876	–	113,427	63,072	139,764	108,717	1,247	(20)	29	(404)	10	1,345	112,882	674,208
Net profit for the year	–	–	–	–	–	–	–	–	–	–	–	–	–	70,752	70,752
Other comprehensive income	–	–	–	–	–	–	–	1,078	25	(47)	697	(20)	18	–	1,751
Total comprehensive income	–	–	–	–	–	–	–	1,078	25	(47)	697	(20)	18	70,752	72,503
Capital contribution by holders of other equity instruments	–	–	39,994	–	–	–	–	–	–	–	–	–	–	–	39,994
Dividends paid to ordinary shareholders	–	–	–	–	–	–	–	–	–	–	–	–	–	(22,279)	(22,279)
Dividends paid to preference shareholders	–	–	–	–	–	–	–	–	–	–	–	–	–	(2,671)	(2,671)
Transfer to reserves	–	–	–	–	–	–	2,738	–	–	–	–	–	–	(2,738)	–
Transfer from other comprehensive income to retained earnings	–	–	–	–	–	–	–	2	–	–	–	–	–	(2)	–
As at 31 December 2019	74,263	59,876	39,994	113,427	63,072	139,764	111,455	2,327	5	(18)	293	(10)	1,363	155,944	761,755

50 COMPARATIVE FIGURES

Certain comparative figures have been adjusted to conform with changes in disclosures in current year.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

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

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

1 CURRENCY CONCENTRATIONS

	USD	HKD	Others	Total
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

	USD	HKD	Others	Total
As at 31 December 2019				
Spot assets	962,162	240,381	182,878	1,385,421
Spot liabilities	(935,924)	(281,692)	(120,743)	(1,338,359)
Forward purchases	1,009,056	184,437	88,332	1,281,825
Forward sales	(1,082,162)	(116,658)	(131,152)	(1,329,972)
Net option position	(9,379)	(1)	(506)	(9,886)
Net long/(short) position	(56,247)	26,467	18,809	(10,971)
Net structural position	123,773	18,922	5,175	147,870

The net options position is calculated using the approach set out by the CBIRC in the regulatory report. The net structural position of the Group includes the structural positions of the Group's overseas branches, banking subsidiaries and other subsidiaries substantially involved in foreign exchange. Structural assets and liabilities include:

- Investments in fixed assets and properties, net of depreciation charges;
- Capital and statutory reserve of overseas branches;
- Investments in overseas subsidiaries and related companies; and
- Loan capital

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

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

2 INTERNATIONAL CLAIMS

International claims are the sum of cross-border claims in all currencies and local claims in foreign currencies.The Group is principally engaged in business operations within Mainland China.

In respect of this unaudited supplementary financial information, Mainland China excludes Hong Kong Special Administrative Region of the PRC ("Hong Kong"), Macau Special Administrative Region of the PRC ("Macau") and Taiwan.

International claims include loans and advances to customers, due from and placements with banks and other financial institutions, holdings of trade bills and certificates of deposits and investment securities.

International claims have been disclosed by country or region. A country or region is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfers are only made if risk exposure is transferred to other counterparty by risk resolving methods. Exposure to credit risk is also mitigated through methods of guarantees, collaterals and credit derivatives.

As at 31 December 2020	**Bank**	**Official sector**	**Non-bank private sector**	**Others**	**Total**
Asia Pacific	**509,860**	**53,881**	**568,620**	**–**	**1,132,361**
Of which attributed to Hong Kong	***129,213***	***23,119***	***299,229***	**–**	***451,561***
North and South America	**41,818**	**28,597**	**70,286**	**–**	**140,701**
Africa	**575**	**613**	**–**	**–**	**1,188**
Europe	**42,235**	**2,727**	**31,132**	**–**	**76,094**
	594,488	**85,818**	**670,038**	**–**	**1,350,344**

As at 31 December 2019	Bank	Official sector	Non-bank private sector	Others	Total
Asia Pacific	438,418	34,641	623,377	–	1,096,436
Of which attributed to Hong Kong	*119,731*	*16,732*	*256,174*	–	*392,637*
North and South America	50,069	32,202	74,282	–	156,553
Africa	737	594	–	–	1,331
Europe	27,956	211	32,787	–	60,954
	517,180	67,648	730,446	–	1,315,274

(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 2020	As at 31 December 2019
Loans and advances to customers which have been overdue for:		
– Less than 3 months	**25,480**	28,923
– 3 to 6 months	**10,884**	9,694
– 6 to 12 months	**23,261**	18,924
– Over 12 months	**30,578**	32,979
	90,203	90,520
Percentage (%):		
– Less than 3 months	**0.44**	0.55
– 3 to 6 months	**0.19**	0.17
– 6 to 12 months	**0.40**	0.36
– Over 12 months	**0.51**	0.63
	1.54	1.71

3.2 Overdue and restructured loans

	As at 31 December 2020	As at 31 December 2019
Total restructured loans and advances to customers	**8,299**	7,634
Including: Restructured loans and advances to customers overdue above 3 months	***2,394***	*1,949*
Percentage of restructured loans and advances to customers overdue above 3 months in total loans	**0.04**	0.04

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

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

4 SEGMENTAL INFORMATION OF LOANS

4.1 Impaired loans and advances to customers by geographical area

	As at 31 December 2020		As at 31 December 2019	
	Impaired loans and advances to customers	Allowance for impairment losses	Impaired loans and advances to customers	Allowance for impairment losses
PRC domestic regions				
– Yangtze River Delta	20,932	(11,747)	12,836	(8,356)
– Pearl River Delta	7,332	(4,050)	6,056	(3,557)
– Bohai Rim Economic Zone	17,058	(12,068)	9,646	(7,585)
– Central China	18,005	(9,808)	11,369	(7,914)
– Western China	9,220	(6,105)	11,951	(8,844)
– North Eastern China	10,998	(7,891)	13,826	(9,625)
– Head Office	10,567	(10,466)	11,146	(11,514)
Subtotal	94,112	(62,135)	76,830	(57,395)
Overseas	3,586	(843)	1,213	(652)
Total	97,698	(62,978)	78,043	(58,047)

4.2 Overdue loans and advances to customers by geographical area

	As at 31 December 2020		As at 31 December 2019	
	Overdue loans	Allowance for impairment losses	Overdue loans	Allowance for impairment losses
PRC domestic regions				
– Yangtze River Delta	16,505	(10,996)	14,289	(7,156)
– Pearl River Delta	6,167	(3,208)	5,267	(3,013)
– Bohai Rim Economic Zone	14,517	(10,140)	10,603	(7,998)
– Central China	13,622	(8,252)	13,405	(7,334)
– Western China	7,312	(4,748)	10,017	(7,369)
– North Eastern China	10,283	(7,194)	15,384	(9,270)
– Head Office	18,251	(13,048)	20,582	(13,877)
Subtotal	86,657	(57,586)	89,547	(56,017)
Overseas	3,546	(976)	973	(710)
Total	90,203	(58,562)	90,520	(56,727)
Fair value of collaterals	44,069	Not applicable	44,293	Not applicable

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

5 LOANS AND ADVANCES TO CUSTOMERS

5.1 The risk concentration analysis for loans and advances to customers by industry sectors (gross)

	As at 31 December 2020			As at 31 December 2019		
Hong Kong		%	Amount covered by collaterals		%	Amount covered by collaterals
Corporate loans						
Manufacturing						
– Petroleum and chemical	*1,325*	*0.68*	*–*	*957*	*0.44*	*–*
– Electronics	*4,441*	*2.28*	*21*	*863*	*0.39*	*316*
– Textile and clothing	*312*	*0.16*	*6*	*3,079*	*1.40*	*636*
– Other manufacturing	*15,599*	*8.02*	*5,401*	*30,300*	*13.81*	*4,736*
Production and supply of power, heat, gas and water	861	0.44	365	1,529	0.70	400
Construction	4,469	2.30	1,009	11,125	5.07	1,012
Transportation, storage and postal service	14,550	7.48	2,540	16,682	7.61	4,040
Information transmission, software and IT services	3,257	1.67	8	1,059	0.48	31
Wholesale and retail	15,912	8.18	3,657	37,106	16.92	3,438
Finance	5,339	2.74	594	10,405	4.74	2,354
Real estate	55,315	28.43	16,532	24,510	11.17	10,677
Leasing and commercial services	6,636	3.41	2,903	8,840	4.03	3,152
Others	29,347	15.09	5,640	41,297	18.84	5,932
Total corporate loans	157,363	80.88	38,676	187,752	85.60	36,724
Personal loans						
Mortgage	23,621	12.14	23,616	17,496	7.98	17,479
Credit cards	97	0.05	–	146	0.07	–
Others	13,492	6.93	12,745	13,936	6.35	12,876
Total Personal loans	37,210	19.12	36,361	31,578	14.40	30,355
Gross amount of loans and advances to customers before impairment allowance	194,573	100.00	75,037	219,330	100.00	67,079
Outside Hong Kong	5,653,851			5,084,945		

Note: The classification of industries is consistent with the latest national standards for industry classification (Industrial Classification for National Economic Activities (GB/T 4754-2017) issued by SAC and AQSIQ in 2017).

The risk concentration analysis for loans and advances to customers by industry sectors is based on the Group's internal classification system.

The ratio of collateral loans to the total loans of the Group was 52% as at 31 December 2020 (31 December 2019: 47%).

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

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

5 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

5.2 Allowance on loans and advances to customers by type of loan

	As at 31 December 2020		As at 31 December 2019	
	Impaired loans	Allowance for impairment losses	Impaired loans	Allowance for impairment losses
Corporates	78,925	(47,973)	59,469	(42,085)
Individuals	18,773	(15,005)	18,574	(15,962)
	97,698	(62,978)	78,043	(58,047)
Fair value of collaterals	46,359	Not applicable	29,398	Not applicable

Collaterals held against such loans mainly include cash deposits and mortgages over properties.

The amount of new provisions charged to statement of profit or loss, and the amount of loans and advances written off during the years are disclosed below:

	Year ended 31 December 2020			Year ended 31 December 2019		
	New provisions	Loans and advances written off as uncollectible	Recoveries of loans and advances written off in previous years	New provisions	Loans and advances written off as uncollectible	Recoveries of loans and advances written off in previous years
Corporates	29,855	(33,248)	3,340	29,605	(27,547)	1,464
Individuals	26,414	(20,580)	1,712	19,476	(14,436)	1,224
	56,269	(53,828)	5,052	49,081	(41,983)	2,688

SUPPLEMENTARY INFORMATION ON LEVERAGE RATIO, LIQUIDITY COVERAGE RATIO AND NET STABLE FUNDING RATIO

APPENDIX 1: INFORMATION RELATED TO LEVERAGE RATIO

Reconciliation of Regulatory Consolidation and Accounting Consolidation

(in millions of RMB)

Serial Number	Item	31 December 2020
1	Total consolidated assets	**10,697,615**
2	Adjustments of consolidation	**(70,282)**
3	Adjustments item of customer's assets	**0**
4	Adjustments of derivatives	**33,616**
5	Adjustments of securities financing transactions	**2,022**
6	Adjustments of off-balance-sheet item	**844,885**
7	Other Adjustments	**(5,252)**
8	**Balance of adjusted on-and-off-balance-sheet assets**	**11,502,604**

Leverage Ratio Information

(in millions of RMB unless otherwise stated)

SN	Item	31 December 2020
1	On-balance-sheet assets (excluding derivatives and securities financing transactions)	**10,495,090**
2	Less: Deduction of Tier 1 Capital	**(5,252)**
3	Balance of adjusted on-balance-sheet assets (excluding derivatives and securities financing transactions)	**10,489,838**
4	Replacement costs of derivatives (less eligible margin)	**54,236**
5	Potential risk exposure of derivatives	**33,616**
6	Sum of collaterals deducted from the balance sheet	**0**
7	Less: Assets receivable from providing eligible margin	**0**
8	Less: Derivative assets resulting from the transactions with central counterparties in providing clearing settlement services for customers	**0**
9	Notional principal of sold credit derivatives	**0**
10	Less: Deductible balance of sold credit derivatives	**0**
11	Derivative asset balance	**87,852**
12	Accounting asset balance of securities financing transactions	**78,007**
13	Less: Balance of deductible securities financing transaction assets	**0**
14	Counterparty credit risk exposure of securities financing transactions	**2,022**
15	Balance of securities financing transaction assets from acting for securities financing transactions	**0**
16	Securities financing assets balance	**80,029**
17	Balance of off-balance-sheet items	**2,007,150**
18	Less: Balance of off-balance-sheet items arising from the reduction of credit transfer	**(1,162,265)**
19	**Adjusted off-balance-sheet items balance**	**844,885**
20	Net Tier 1 Capital	**862,221**
21	Adjusted balance of on-and-off-balance-sheet assets	**11,502,604**
22	**Leverage ratio (%)**	**7.50**

Note: Information disclosed in Appendix 1 is disclosed based on the requirements of the Administrative Measures for the Leverage Ratio of Commercial Banks (Revised) issued by CBIRC.

SUPPLEMENTARY INFORMATION ON LEVERAGE RATIO, LIQUIDITY COVERAGE RATIO AND NET STABLE FUNDING RATIO (CONTINUED)

APPENDIX 2: THE DAILY AVERAGE LIQUIDITY COVERAGE RATIO AND ITS DETAILS OF THE GROUP IN THE FORTH QUARTER OF 2020

(in millions of RMB unless otherwise stated)

Serial Number		Amount before conversion	Amount after conversion
The qualified high-quality liquid assets			
1	The qualified high-quality liquid assets		**2,072,221**
Cash Outflow			
2	Retail deposits, small business deposits, including:	**1,946,900**	**184,124**
3	Stable deposit	**209,062**	**10,340**
4	Less stable deposit	**1,737,838**	**173,784**
5	Unsecured wholesale funding, including:	**4,406,513**	**1,806,414**
6	Business relationship deposit (excluding agency business)	**2,602,551**	**649,188**
7	Non-business relationship deposit (including all counterparties)	**1,785,359**	**1,138,623**
8	Unsecured debts	**18,603**	**18,603**
9	Secured funding		**9,378**
10	Other items, including:	**1,710,544**	**862,424**
11	Cash outflow relates to derivatives and other collateral/ pledged assets	**839,840**	**813,889**
12	Cash outflow relates to loss of funding on asset-blocked securities	**155**	**155**
13	Committed credit and liquidity facilities	**870,549**	**48,380**
14	Other contractual obligation to extend funds	**103,965**	**103,942**
15	Contingent funding obligations	**1,442,250**	**51,078**
16	Total expected cash outflow		**3,017,360**
Cash Inflow			
17	Secured lending (including reverse repos and securities borrowing)	**72,687**	**72,434**
18	Inflows from fully performing exposure	**896,117**	**552,217**
19	Other cash inflow	**850,806**	**830,207**
20	Total expected cash inflow	**1,819,610**	**1,454,858**
			Amount after adjustment
21	The qualified high-quality liquid assets		**2,072,221**
22	Net cash outflow		**1,562,502**
23	Liquidity Coverage Ratio (%)		**132.33**

APPENDIX 3: NET STABLE FUNDING RATIO AND ITEMS FOR THE THIRD QUARTER OF 2020

(in millions of RMB unless otherwise stated)

Serial Number		Unweighted value No maturity	Less than 6 months	6-12 months	Over 1 year	Weighted value
Available Stable Funding Item						
1	Capital	828,643	–	–	127,331	955,974
2	Regulatory Capital	828,643	–	–	113,931	942,574
3	Other capital instruments	–	–	–	13,400	13,400
4	Retail deposits and deposits from small enterprises	896,613	1,283,476	25,572	1,219	1,997,994
5	Stable deposits	230,798	1,787	1,034	869	222,807
6	Less stable deposits	665,814	1,281,689	24,538	350	1,775,188
7	Wholesale funding	2,479,375	3,269,053	684,329	495,337	2,931,991
8	Operational deposits	2,445,959	112,782	48,424	5,446	1,309,029
9	Other wholesale funding	33,416	3,156,271	635,906	489,890	1,622,963
10	Liabilities with matching interdependent assets	–	–	–	–	–
11	Other liabilities	49,486	271,594	9,627	306,372	304,806
12	Net stable funding ratio derivative liabilities				45,615	
13	All other liabilities and equities not included in the above categories	49,486	271,594	9,627	260,757	304,806
14	Total available stable funding					6,190,765
Required Stable Funding Item						
15	Total net stable funding ratio high-quality liquid assets					348,325
16	Business relationship deposits held at other financial institutions for business relationship	164,809	–	–	1,120	83,524
17	Loans and securities	50,092	1,789,846	957,730	4,120,032	4,758,179
18	Loans to financial institutions secured by Level 1 assets	–	45,672	304	161	7,147
19	Loans to financial institutions secured by non-Level 1 assets or unsecured	–	395,853	169,020	1115,292	259,179
20	Loans to retail and small business customers, non-financial institutions, sovereigns, central banks and public sector entities.	1	1,323,207	746,618	2,354,942	3,030,823
21	Including: with a risk weight less than or equal to 35%	–	20,744	3,128	30,111	31,508
22	Residential mortgages	–	588	696	1,203,897	1,023,954
23	Including: with a risk weight less than or equal to 35%	–	–	–	–	–
24	Securities that are not in default and do not qualify as high-quality liquid assets, including exchange-traded equities	50,091	24,526	41,093	445,741	437,075
25	Assets with matching interdependent liabilities	–	–	–	–	–
26	Other assets	166,691	84,112	11,252	150,582	372,309
27	Physical traded commodities (including gold)	32,151				27,328
28	Assets posted as initial margin for derivative contracts and contributions to default funds of central counterparties				7,747	6,585
29	Net stable funding ratio derivative assets				39,780	–
30	Net stable funding ratio derivative liabilities with additional requirements				45,615	9,123
31	All other assets not included in the above	134,540	84,112	11,252	103,056	329,273
32	Off-balance-sheet items				2,749,952	116,593
33	Total required stable funding					5,678,931
34	Net stable funding ratio (%)					109.01

Notes:

1. Items to be reported in the “no maturity” bucket include, but are not limited to, capital with perpetual maturity, non-maturity (demand) deposits, short positions, open maturity positions, non-high-quality liquid assets equities, and physical traded commodities.
2. The unweighted value of item 30 “Net stable funding ratio derivative liabilities with additional requirements” is the net stable funding ratio derivative liabilities before the deduction of the variation margin, without differentiation of maturity, and not included in the unweighted value of item 26 “Other assets”.

SUPPLEMENTARY INFORMATION ON LEVERAGE RATIO, LIQUIDITY COVERAGE RATIO AND NET STABLE FUNDING RATIO (CONTINUED)

APPENDIX 4: NET STABLE FUNDING RATIO AND ITEMS FOR THE FOURTH QUARTER OF 2020

(in millions of RMB unless otherwise stated)

Serial Number		Unweighted value				Weighted value
		No maturity	Less than 6 months	6-12 months	Over 1 year	
Available Stable Funding Item						
1	Capital	868,669	–	–	127,345	997,013
2	Regulatory Capital	868,669	–	–	113,945	983,613
3	Other capital instruments	–	–	–	13,400	13,400
4	Retail deposits and deposits from small enterprises	863,768	1,381,344	23,554	948	2,053,067
5	Stable deposits	204,306	1,100	1,001	723	196,809
6	Less stable deposits	659,462	1,380,244	22,552	225	1,856,258
7	Wholesale funding	2,612,633	2,974,829	614,024	535,167	2,928,040
8	Operational deposits	2,587,592	105,537	35,375	12,443	1,376,694
9	Other wholesale funding	25,041	2,869,292	578,650	552,725	1,551,346
10	Liabilities with matching interdependent assets	–	–	–	–	–
11	Other liabilities	45,705	210,000	51,420	317,123	319,556
12	Net stable funding ratio derivative liabilities				55,934	
13	All other liabilities and equities not included in the above categories	45,705	210,000	51,420	261,188	319,556
14	Total available stable funding					6,297,677
Required Stable Funding Item						
15	Total net stable funding ratio high-quality liquid assets					377,107
16	Business relationship deposits held at other financial institutions	138,425	–	–	2,000	71,213
17	Loans and securities	43,112	1,706,434	869,925	4,178,899	4,755,081
18	Loans to financial institutions secured by Level 1 assets	–	9,768	–	–	1,465
19	Loans to financial institutions secured by non-Level 1 assets or unsecured	–	327,729	141,093	110,047	229,753
20	Loans to retail and small business customers, non-financial institutions, sovereigns, central banks and public sector entities.	–	1,332,562	697,844	2,393,281	3,044,017
21	Including: with a risk weight less than or equal to 35%	–	22,544	1,920	28,396	30,690
22	Residential mortgages	–	573	690	1,255,332	1,067,664
23	Including: with a risk weight less than or equal to 35%	–	–	–	–	–
24	Securities that are not in default and do not qualify as high-quality liquid assets, including exchange-traded equities	43,112	35,803	30,297	420,239	412,182
25	Assets with matching interdependent liabilities	–	–	–	–	–
26	Other assets	165,293	72,072	5,379	184,012	376.069
27	Physical traded commodities (including gold)					25,715
28	Assets posted as initial margin for derivative contracts and contributions to default funds of central counterparties	30,253			8,291	7,047
29	Net stable funding ratio derivative assets				54,236	–
30	Net stable funding ratio derivative liabilities with additional requirements				55,934	11,187
31	All other assets not included in the above	135,040	72,072	5,379	121,486	332,120
32	Off-balance-sheet items				2,705,133	114,747
33	Total required stable funding					5,694,217
34	Net stable funding ratio (%)					110.60

Notes

1. Items to be reported in the “no maturity” bucket include, but are not limited to, capital with perpetual maturity, non-maturity (demand) deposits, short positions, open maturity positions, non-high-quality liquid assets equities, and physical traded commodities.
2. The unweighted value of item 30 “Net stable funding ratio derivative liabilities with additional requirements” is the net stable funding ratio derivative liabilities before the deduction of the variation margin, without differentiation of maturity, and not included in the unweighted value of item 26 “Other assets”.

交通銀行
BANK OF COMMUNICATIONS

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

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