

Notes to the Condensed Consolidated Interim Financial Information for the six month period ended 30 June 2020

(Amounts in millions of Renminbi, unless otherwise stated)

I BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial information for the six month period ended 30 June 2020 has been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34") and should be read in conjunction with the annual financial statements for the year ended 31 December 2019.

Except as described below, the principal accounting policies adopted in the preparation of the unaudited condensed consolidated interim financial information are consistent with those used in the Group's annual financial statements for the year ended 31 December 2019.

1 Standards, amendments and interpretations effective in 2020

On 1 January 2020, the Group adopted the following new standards, amendments and interpretations.

IFRS 3 Amendments	<i>Definition of a Business</i>
IAS 1 and IAS 8 Amendments	<i>Definition of Material</i>
IFRS 9, IAS 39 and IFRS 7 Amendments	<i>Interest Rate Benchmark Reform</i>
IFRS 16 Amendment	<i>COVID-19-Related Rent Concessions</i>

IFRS 3 Amendments clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business.

I BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

1 Standards, amendments and interpretations effective in 2020 (Continued)

Amendments to IAS 1 and IAS 8 provide a new definition of materiality. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions made by the primary users of general purpose financial statements based on those financial statements. The amendments clarify that materiality depends on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

The amendments to IFRS 9, IAS 39 and IFRS 7 modify some specific hedge accounting requirements. During the period of uncertainty arising from phasing-out of interest-rate benchmarks with an alternative nearly risk-free interest rate ("RFR"), the entities that apply these hedge accounting requirements can assume that the interest rate benchmarks on which the hedged cash flows and cash flows of the hedging instrument are based are not altered as a result of interest rate benchmark reform. The amendments must be applied retrospectively.

IFRS 16 Amendment provides for rent relief during COVID-19, which provides an exemption for lessees. For lease payments due before June 2021, lessees are not required to apply the guidance on accounting treatment of lease changes in IFRS 16 for rent relief granted due to the impact of COVID-19. The amendment is applicable for annual reporting periods beginning on or after 1 June 2020, and earlier adoption is permitted. The Group has adopted the amendments from 1 January 2020.

The adoption of the above standards, amendments and interpretations does not have any significant impact on the operating results, financial position and comprehensive income of the Group.

(Amounts in millions of Renminbi, unless otherwise stated)

I BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)**2 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2020**

		Effective for annual periods beginning on or after
IFRS 3 Amendments	<i>Reference to the Conceptual Framework</i>	1 January 2022
IAS 16 Amendments	<i>Property, Plant and Equipment: Proceeds before Intended Use</i>	1 January 2022
IAS 37 Amendments	<i>Onerous Contracts — Cost of Fulfilling a Contract</i>	1 January 2022
IAS 1 Amendments	<i>Classification of Liabilities as Current or Non-current</i>	1 January 2023
IFRS 17 and Amendments	<i>Insurance Contracts</i>	1 January 2023
IFRS 10 and IAS 28 Amendments	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	Effective date has been deferred indefinitely
Annual Improvements to IFRSs 2018–2020 Cycle (issued in May 2020)		1 January 2022

The Group is considering the impact of IFRS 17 on the consolidated financial statements. Except for IFRS 17, the adoption of the above standards and amendments will have no material impact on the financial statements.

II CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The nature and assumptions related to the Group's accounting estimates are consistent with those adopted in the Group's financial statements for the year ended 31 December 2019.

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1 Net interest income

	For the six month period ended 30 June	
	2020	2019
Interest income		
Loans and advances to customers	268,880	253,135
Financial investments ⁽¹⁾	76,475	76,251
Due from and placements with and loans to banks and other financial institutions and central banks	30,575	35,978
Subtotal	375,930	365,364
Interest expense		
Due to customers	(132,966)	(134,919)
Due to and placements from banks and other financial institutions	(28,621)	(33,442)
Bonds issued and other	(17,448)	(15,319)
Subtotal	(179,035)	(183,680)
Net interest income	196,895	181,684
Interest income accrued on impaired financial assets (included within interest income)	642	790

(1) Interest income on “Financial investments” is principally derived from debt securities listed in the domestic interbank bond market and unlisted debt securities in Hong Kong, Macao, Taiwan and other countries and regions.

2 Net fee and commission income

	For the six month period ended 30 June	
	2020	2019
Bank card fees	16,020	16,805
Agency commissions	13,440	12,066
Settlement and clearing fees	7,925	8,337
Credit commitment fees	6,617	6,967
Consultancy and advisory fees	3,269	3,295
Spread income from foreign exchange business	3,134	3,549
Custodian and other fiduciary service fees	2,254	2,299
Other	4,362	4,147
Fee and commission income	57,021	57,465
Fee and commission expense	(6,679)	(6,901)
Net fee and commission income	50,342	50,564

(Amounts in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

3 Net trading gains

	For the six month period ended 30 June	
	2020	2019
Net gains from foreign exchange and foreign exchange products	4,630	3,875
Net gains from interest rate products	3,376	7,041
Net gains from fund investments and equity products	1,218	2,670
Net (losses)/gains from commodity products	(7,051)	998
Total ⁽¹⁾	2,173	14,584

- (1) Included in "Net trading gains" above for the six month period ended 30 June 2020 were gains of RMB1,171 million in relation to financial assets and financial liabilities designated as at fair value through profit or loss (for the six month period ended 30 June 2019: gains of RMB2,666 million).

4 Net gains on transfers of financial asset

	For the six month period ended 30 June	
	2020	2019
Net gains on derecognition of financial assets at fair value through other comprehensive income	6,095	2,741
Net gains on derecognition of financial assets at amortised cost ⁽¹⁾	1,528	503
Total	7,623	3,244

- (1) All the net gains on the derecognition of financial assets at amortised cost resulted from disposals during the six month period ended 30 June 2020.

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

5 Other operating income

	For the six month period ended 30 June	
	2020	2019
Insurance premiums		
— Life insurance contracts	10,839	10,234
— Non-life insurance contracts	3,000	3,143
Aircraft leasing income	6,251	5,640
Revenue from sale of precious metal products	4,457	4,057
Dividend income ⁽¹⁾	2,792	938
Changes in fair value of investment properties (Note III.19)	(470)	529
Gains on disposal of property and equipment, intangible assets and other assets	988	295
Gains on disposal of subsidiaries, associates and joint ventures	114	—
Other ⁽²⁾	1,979	1,776
Total	29,950	26,612

(1) For equity instruments classified as financial assets at fair value through other comprehensive income, RMB126 million of dividend income was recognised for the six month period ended 30 June 2020 (for the six month period ended 30 June 2019: RMB120 million).

(2) For the six month period ended 30 June 2020, the government subsidy income from operating activities, as part of other operating income, was RMB141 million (for the six month period ended 30 June 2019: RMB143 million).

6 Operating expenses

	For the six month period ended 30 June	
	2020	2019
Staff costs (Note III.7)	40,959	42,829
General operating and administrative expenses ⁽¹⁾	14,620	15,506
Insurance benefits and claims		
— Life insurance contracts	10,959	11,405
— Non-life insurance contracts	1,956	1,971
Depreciation and amortisation	11,297	9,837
Cost of sales of precious metal products	4,195	3,537
Taxes and surcharges	2,880	2,638
Other	4,080	3,407
Total⁽²⁾	90,946	91,130

(1) For the six month period ended 30 June 2020, included in the "General operating and administrative expenses" were lease expenses related to short-term leases and leases of low-value assets of RMB560 million (for the six month period ended 30 June 2019: RMB885 million).

(2) For the six month period ended 30 June 2020, included in the "Operating expenses" were premises and equipment-related expenses (mainly comprised of property management and building maintenance expenses and taxes) of RMB5,038 million (for the six month period ended 30 June 2019: RMB5,090 million).

(Amounts in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

7 Staff costs

	For the six month period ended 30 June	
	2020	2019
Salary, bonus and subsidy	30,552	30,576
Staff welfare	1,094	1,042
Retirement benefits	27	27
Social insurance		
— Medical	1,202	1,596
— Pension	1,855	3,306
— Annuity	1,069	1,039
— Unemployment	60	102
— Injury at work	24	39
— Maternity insurance	65	128
Housing funds	2,310	2,221
Labour union fee and staff education fee	999	1,054
Reimbursement for cancellation of labour contract	15	8
Other	1,687	1,691
Total	40,959	42,829

8 Impairment losses on assets

	For the six month period ended 30 June	
	2020	2019
Loans and advances		
— Loans and advances at amortised cost	60,726	35,691
— Loans and advances at fair value through other comprehensive income	2	30
Subtotal	60,728	35,721
Financial investments		
— Financial assets at amortised cost	1,685	(10)
— Financial assets at fair value through other comprehensive income	4,255	251
Subtotal	5,940	241
Credit commitments	(1,700)	(2,728)
Other	1,438	409
Subtotal of impairment losses on credit	66,406	33,643
Other impairment losses on assets	78	27
Total	66,484	33,670

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

9 Income tax expense

	For the six month period ended 30 June	
	2020	2019
Current income tax		
— Chinese mainland income tax	23,138	21,803
— Hong Kong profits tax	2,889	2,718
— Macao, Taiwan and other countries and regions taxation	2,362	2,648
Adjustments in respect of current income tax of prior years	1,696	4,201
Subtotal	30,085	31,370
Deferred income tax (Note III.23.3)	(8,281)	(254)
Total	21,804	31,116

The provision for Chinese mainland income tax includes income tax based on the statutory tax rate of 25% of the taxable income of the Bank and each of its subsidiaries established in the Chinese mainland, and supplementary PRC tax on overseas operations as determined in accordance with the relevant PRC income tax rules and regulations.

Taxation on profits of Hong Kong, Macao, Taiwan and other countries and regions has been calculated on the estimated assessable profits in accordance with local tax regulations at the rates of taxation prevailing in the countries or regions in which the Group operates.

The tax rate on the Group's profit before tax differs from the theoretical amount that would arise using the basic Chinese mainland tax rate of the Bank as follows:

	For the six month period ended 30 June	
	2020	2019
Profit before income tax	129,616	152,558
Tax calculated at the applicable statutory tax rate	32,404	38,140
Effect of different tax rates for Hong Kong, Macao, Taiwan and other countries and regions	(2,294)	(2,519)
Supplementary PRC tax on overseas income	1,253	1,542
Income not subject to tax ⁽¹⁾	(14,296)	(14,287)
Items not deductible for tax purposes ⁽²⁾	6,262	3,912
Other	(1,525)	4,328
Income tax expense	21,804	31,116

(1) Income not subject to tax is mainly comprised of interest income from PRC Treasury bonds and local government bonds, and the tax-free income recognised by the overseas entities in accordance with the local tax law.

(2) Non-deductible items primarily include non-deductible losses resulting from write-off of certain non-performing loans, and marketing and entertainment expenses in excess of the relevant deductible threshold under the relevant PRC tax regulations.

(Amounts in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

10 Earnings per share (basic and diluted)

Basic earnings per share was computed by dividing the profit attributable to the ordinary shareholders of the Bank by the weighted average number of ordinary shares in issue during the period.

Diluted earnings per share was computed by dividing the adjusted profit attributable to the ordinary shareholders of the Bank based on assuming conversion of all potentially dilutive shares for the six month period by the adjusted weighted average number of ordinary shares in issue. There was no difference between basic and diluted earnings per share as there were no potentially dilutive shares outstanding for the six month period ended 30 June 2020 and 30 June 2019.

	For the six month period ended 30 June	
	2020	2019
Profit attributable to equity holders of the Bank	100,917	114,048
Less: dividends/interest on preference shares/ perpetual bonds declared	(7,800)	(1,540)
Profit attributable to ordinary shareholders of the Bank	93,117	112,508
Weighted average number of ordinary shares in issue (in million shares)	294,381	294,375
Basic and diluted earnings per share (in RMB)	0.32	0.38

Weighted average number of ordinary shares in issue (in million shares)

	For the six month period ended 30 June	
	2020	2019
Issued ordinary shares as at 1 January	294,388	294,388
Less: weighted average number of treasury shares	(7)	(13)
Weighted average number of ordinary shares in issue	294,381	294,375

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

11 Other comprehensive income

Accrual amount of other comprehensive income:

	For the six month period ended 30 June	
	2020	2019
Items that will not be reclassified to profit or loss		
Actuarial (losses)/gains on defined benefit plans	(79)	14
Changes in fair value on investments in equity instruments designated at fair value through other comprehensive income	(571)	1,840
Less: related income tax impact	(62)	(442)
Other	39	(41)
Subtotal	(673)	1,371
Items that may be reclassified subsequently to profit or loss		
Changes in fair value on investments in debt instruments measured at fair value through other comprehensive income	13,109	8,884
Less: related income tax impact	(2,899)	(2,044)
Amount transferred to the income statement	(5,855)	(2,794)
Less: related income tax impact	1,234	614
	5,589	4,660
Allowance for credit losses on investments in debt instruments measured at fair value through other comprehensive income	4,261	285
Less: related income tax impact	(1,053)	(68)
	3,208	217
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(63)	(409)
Less: related income tax impact	16	96
	(47)	(313)
Exchange differences from the translation of foreign operations	4,722	1,544
Less: net amount transferred to the income statement from other comprehensive income	(372)	(374)
	4,350	1,170
Other	(350)	191
Subtotal	12,750	5,925
Total	12,077	7,296

(Amounts in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

11 Other comprehensive income (Continued)

Other comprehensive income attributable to equity holders of the Bank in the consolidated statement of financial position:

	Gains on financial assets at fair value through other comprehensive income	Exchange differences from the translation of foreign operations	Other	Total
As at 1 January 2019	9,395	(10,959)	2,981	1,417
Changes in amount for the previous year	13,139	4,787	270	18,196
As at 1 January 2020	22,534	(6,172)	3,251	19,613
Changes in amount for the period	8,341	2,271	(228)	10,384
As at 30 June 2020	30,875	(3,901)	3,023	29,997

12 Cash and due from banks and other financial institutions

	As at 30 June 2020	As at 31 December 2019
Cash	69,681	64,907
Due from banks in Chinese mainland	491,044	361,232
Due from other financial institutions in Chinese mainland	7,775	8,043
Due from banks in Hong Kong, Macao, Taiwan and other countries and regions	168,498	128,312
Due from other financial institutions in Hong Kong, Macao, Taiwan and other countries and regions	546	461
Subtotal ⁽¹⁾	667,863	498,048
Accrued interest	3,653	3,060
Less: allowance for impairment losses ⁽¹⁾	(1,227)	(548)
Subtotal	670,289	500,560
Total	739,970	565,467

(1) As at 30 June 2020 and 31 December 2019, the Group included all due from banks and other financial institutions in Stage 1, and measured the impairment losses based on expected credit losses in the next 12 months.

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

13 Balances with central banks

	As at 30 June 2020	As at 31 December 2019
Mandatory reserves ⁽¹⁾	1,408,500	1,498,666
Surplus reserves ⁽²⁾	112,198	132,247
Other ⁽³⁾	588,510	447,048
Subtotal	2,109,208	2,077,961
Accrued interest	646	848
Total	2,109,854	2,078,809

- (1) The Group places mandatory reserve funds with the People's Bank of China (the "PBOC") and the central banks of Hong Kong, Macao, Taiwan and other countries and regions where it has operations. As at 30 June 2020, mandatory reserve funds placed with the PBOC were calculated at 11.0% (31 December 2019: 12.5%) and 5.0% (31 December 2019: 5.0%) of qualified RMB deposits and foreign currency deposits from customers of branches in Chinese mainland of the Bank respectively. The mandatory reserve funds placed with the central bank of domestic subsidiaries of the Group are determined by the PBOC. The amounts of mandatory reserve funds placed with the central banks of other jurisdictions are determined by local regulations.
- (2) This primarily represented the surplus reserve funds placed with the PBOC by branches in Chinese mainland and other funds.
- (3) This mainly represented balances other than mandatory reserves and surplus reserves placed with the PBOC and the central banks in Hong Kong, Macao, Taiwan and other countries and regions.

(Amounts in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

14 Placements with and loans to banks and other financial institutions

	As at 30 June 2020	As at 31 December 2019
Placements with and loans to:		
Banks in Chinese mainland	288,212	134,671
Other financial institutions in Chinese mainland	712,437	601,525
Banks in Hong Kong, Macao, Taiwan and other countries and regions	197,105	139,744
Other financial institutions in Hong Kong, Macao, Taiwan and other countries and regions	25,261	19,667
Subtotal ^{(1) (2)}	1,223,015	895,607
Accrued interest	2,650	4,090
Less: allowance for impairment losses ⁽²⁾	(492)	(738)
Total	1,225,173	898,959

- (1) "Placements with and loans to banks and other financial institutions" include balances arising from reverse repo agreements and collateralised financing agreements. They are presented by collateral type as follows:

	As at 30 June 2020	As at 31 December 2019
Debt securities		
— Governments	148,859	37,435
— Policy banks	220,171	93,364
— Financial institutions	18,245	23,588
— Corporates	7,617	—
Subtotal	394,892	154,387
Bills	5,076	—
Total	399,968	154,387
Less: allowance for impairment losses	(1)	—
Net	399,967	154,387

- (2) As at 30 June 2020 and 31 December 2019, the Group included the predominant majority of its placements with and loans to banks and other financial institutions in Stage 1, and measured the impairment losses based on expected credit losses in the next 12 months.

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

15 Derivative financial instruments

The Group enters into foreign currency exchange rate, interest rate, equity, credit or precious metals and other commodity-related derivative financial instruments for trading, hedging, asset and liability management and on behalf of customers.

The contractual/notional amounts and fair values of derivative instruments held by the Group are set out in the following tables. The contractual/notional amounts of derivative financial instruments provide a basis for comparison with the fair values of instruments recognised in the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or market risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates, foreign currency exchange rates, credit spreads, or equity/commodity prices relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

	As at 30 June 2020			As at 31 December 2019		
	Contractual/ notional amount	Fair value		Contractual/ notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Exchange rate derivatives						
Currency forwards and swaps, and cross-currency interest rate swaps ⁽¹⁾	6,448,948	50,129	(41,441)	6,469,750	65,477	(52,598)
Currency options	389,362	2,401	(2,727)	333,559	1,835	(2,019)
Currency futures	2,067	5	(7)	1,894	10	(6)
Subtotal	6,840,377	52,535	(44,175)	6,805,203	67,322	(54,623)
Interest rate derivatives						
Interest rate swaps	4,045,772	44,741	(59,655)	3,454,898	18,252	(23,188)
Interest rate options	56,926	19	(23)	17,729	31	(29)
Interest rate futures	1,530	1	(3)	2,400	3	(27)
Subtotal	4,104,228	44,761	(59,681)	3,475,027	18,286	(23,244)
Equity derivatives	12,837	337	(340)	9,219	137	(184)
Commodity derivatives and other	452,392	17,223	(19,075)	347,655	7,590	(12,009)
Total ⁽²⁾	11,409,834	114,856	(123,271)	10,637,104	93,335	(90,060)

(1) These exchange rate derivatives primarily include foreign exchange transactions with customers, foreign exchange transactions to manage foreign currency exchange risks arising from customers, and foreign currency exchange transactions entered into as part of the asset and liability management and funding requirements.

(2) The derivative financial instruments above include those designated as hedging instruments by the Group.

(Amounts in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

16 Loans and advances to customers

16.1 Analysis of loans and advances to customers by measurement category

	As at 30 June 2020	As at 31 December 2019
Measured at amortised cost		
— Corporate loans and advances	8,265,439	7,644,359
— Personal loans	5,344,510	5,047,809
— Discounted bills	1,753	2,334
Measured at fair value through other comprehensive income ⁽¹⁾		
— Discounted bills	384,991	335,583
Subtotal	13,996,693	13,030,085
Measured at fair value through profit or loss ⁽²⁾		
— Corporate loans and advances	4,064	4,104
Total	14,000,757	13,034,189
Accrued interest	39,408	34,596
Total loans and advances	14,040,165	13,068,785
Less: allowance for loans at amortised cost	(369,345)	(325,360)
Loans and advances to customers, net	13,670,820	12,743,425

(1) As at 30 June 2020 and 31 December 2019, loans at fair value through other comprehensive income of the Group were discounted bills. The allowance for impairment losses amounted to RMB567 million and RMB563 million respectively and was credited to other comprehensive income.

(2) There was no significant change for the six month period ended 30 June 2020 and the year ended 31 December 2019, or cumulatively, in the fair value of the loans that was attributable to changes in the credit risk of the loans.

16.2 Analysis of loans and advances to customers (accrued interest excluded) by geographical area, industry, collateral type and analysis of overdue loans and advances to customers are presented in Note IV.1.1.

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

16 Loans and advances to customers (Continued)

16.3 Reconciliation of allowance for impairment losses on loans and advances to customers

(1) Allowance for loans at amortised cost:

	Six month period ended 30 June 2020			
	12-month ECL	Lifetime ECL		Total
	Stage 1	Stage 2	Stage 3	
As at 1 January	109,765	79,051	136,544	325,360
Transfers to Stage 1	2,719	(2,326)	(393)	–
Transfers to Stage 2	(524)	10,997	(10,473)	–
Transfers to Stage 3	(136)	(16,540)	16,676	–
Charge for the period ⁽ⁱ⁾	55,583	18,518	23,761	97,862
Reversal	(30,109)	(15,318)	(8,512)	(53,939)
Impairment (reversal)/losses due to stage transformation	(2,498)	3,664	15,637	16,803
Write-off and transfer out	–	–	(20,903)	(20,903)
Recovery of loans and advances written off	–	–	4,071	4,071
Unwinding of discount on allowance	–	–	(642)	(642)
Exchange differences and other	268	167	298	733
As at 30 June	135,068	78,213	156,064	369,345

	Year ended 31 December 2019			
	12-month ECL	Lifetime ECL		Total
	Stage 1	Stage 2	Stage 3	
As at 1 January	95,789	76,603	131,116	303,508
Transfers to Stage 1	5,590	(5,037)	(553)	–
Transfers to Stage 2	(717)	4,411	(3,694)	–
Transfers to Stage 3	(989)	(21,029)	22,018	–
Charge for the year ⁽ⁱ⁾	52,623	40,603	38,420	131,646
Reversal	(37,580)	(25,687)	(14,631)	(77,898)
Impairment (reversal)/losses due to stage transformation	(4,917)	8,664	40,988	44,735
Write-off and transfer out	(269)	–	(84,735)	(85,004)
Recovery of loans and advances written off	–	–	8,407	8,407
Unwinding of discount on allowance	–	–	(1,497)	(1,497)
Exchange differences and other	235	523	705	1,463
As at 31 December	109,765	79,051	136,544	325,360

(i) Charge for the period/year comprises the impairment losses from new loans, remaining loans without stage transformation, model/risk parameters adjustment, etc.

(Amounts in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

16 Loans and advances to customers (Continued)

16.3 Reconciliation of allowance for impairment losses on loans and advances to customers (Continued)

(2) Allowance for loans at fair value through other comprehensive income:

	Six month period ended 30 June 2020			
	12-month ECL	Lifetime ECL		Total
	Stage 1	Stage 2	Stage 3	
As at 1 January	547	16	–	563
Impairment losses for the period	428	35	–	463
Reversal	(446)	(15)	–	(461)
Exchange differences and other	2	–	–	2
As at 30 June	531	36	–	567

	Year ended 31 December 2019			
	12-month ECL	Lifetime ECL		Total
	Stage 1	Stage 2	Stage 3	
As at 1 January	234	39	–	273
Impairment losses for the year	503	16	–	519
Reversal	(192)	(39)	–	(231)
Exchange differences and other	2	–	–	2
As at 31 December	547	16	–	563

The Group performed the assessment of expected credit losses with the reference to forward-looking information and used a number of models and assumptions in the measurement of expected credit losses. These models and assumptions related to the future macroeconomic situation and the credit status of the borrowers (for example, the possibility of default by the customers and the corresponding loss). The Group assessed the expected credit losses as at 30 June 2020 and comprehensively considered the impacts of changes in current economic condition to expected credit losses, including: the operation and financial condition of the borrowers and the extent of impact of the COVID-19 pandemic, and the Group has made deferred repayment arrangement for the borrowers affected by COVID-19 pandemic but the deferred repayment arrangement will not be used as a judgment basis for automatically triggering a significant increase in the borrowers' credit risk; risks in specific industries affected by COVID-19 pandemic; performing forward-looking forecasts to key macroeconomic indicators with the combination of the impact of factors such as the COVID-19 pandemic on economic development trends.

As at 30 June 2020, the expected credit losses comprehensively reflected the Group's credit risk and the expectations for macroeconomic development of the management.

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

17 Financial investments

	As at 30 June 2020	As at 31 December 2019
Financial assets at fair value through profit or loss		
Financial assets held for trading and other financial assets at fair value through profit or loss		
Debt securities		
Issuers in Chinese mainland		
— Government	8,110	16,807
— Public sectors and quasi-governments	311	595
— Policy banks	25,986	40,005
— Financial institutions	134,345	169,477
— Corporate	41,711	44,629
Issuers in Hong Kong, Macao, Taiwan and other countries and regions		
— Governments	16,831	23,416
— Public sectors and quasi-governments	11	177
— Financial institutions	9,585	16,617
— Corporate	9,339	10,721
	246,229	322,444
Equity instruments	89,659	79,456
Fund investments and other	62,671	67,562
Total financial assets held for trading and other financial assets at fair value through profit or loss	398,559	469,462
Financial assets designated as at fair value through profit or loss		
Debt securities ⁽¹⁾		
Issuers in Chinese mainland		
— Government	7,025	8,797
— Policy banks	4,648	2,418
— Financial institutions	6,563	9,592
— Corporate	1,751	1,329
Issuers in Hong Kong, Macao, Taiwan and other countries and regions		
— Governments	5,969	9,712
— Public sectors and quasi-governments	1,668	1,603
— Financial institutions	11,978	7,159
— Corporate	12,494	8,178
Total financial assets designated as at fair value through profit or loss	52,096	48,788
Total financial assets at fair value through profit or loss	450,655	518,250

(Amounts in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

17 Financial investments (Continued)

	As at 30 June 2020	As at 31 December 2019
Financial assets at fair value through other comprehensive income		
Debt securities		
Issuers in Chinese mainland		
— Government	684,304	676,685
— Public sectors and quasi-governments	65,747	71,172
— Policy banks	259,514	299,599
— Financial institutions	198,506	315,779
— Corporate	131,351	153,617
Issuers in Hong Kong, Macao, Taiwan and other countries and regions		
— Governments	404,485	412,194
— Public sectors and quasi-governments	50,605	51,252
— Financial institutions	113,495	106,951
— Corporate	123,869	109,103
	2,031,876	2,196,352
Equity instruments and other	22,910	21,777
Total financial assets at fair value through other comprehensive income ⁽²⁾	2,054,786	2,218,129
Financial assets at amortised cost		
Debt securities		
Issuers in Chinese mainland		
— Government	2,284,056	2,168,725
— Public sectors and quasi-governments	34,422	39,425
— Policy banks	57,916	100,638
— Financial institutions	20,986	30,637
— Corporate	19,088	15,677
— China Orient Asset Management Corporation ⁽³⁾	152,433	152,433
Issuers in Hong Kong, Macao, Taiwan and other countries and regions		
— Governments	112,372	80,472
— Public sectors and quasi-governments	53,959	66,356
— Financial institutions	43,104	31,937
— Corporate	46,561	47,588
	2,824,897	2,733,888
Investment trusts, asset management plans and other	14,482	13,544
Accrued interest	37,969	37,037
Less: allowance for impairment losses	(8,488)	(6,786)
Total financial assets at amortised cost	2,868,860	2,777,683
Total financial investments⁽⁴⁾⁽⁶⁾	5,374,301	5,514,062

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

17 Financial investments (Continued)

	As at 30 June 2020	As at 31 December 2019
Analysed as follows:		
Financial assets at fair value through profit or loss		
— Listed in Hong Kong	52,609	46,731
— Listed outside Hong Kong ⁽⁷⁾	225,404	255,171
— Unlisted	172,642	216,348
Financial assets at fair value through other comprehensive income		
Debt securities		
— Listed in Hong Kong	152,616	130,743
— Listed outside Hong Kong ⁽⁷⁾	1,203,244	1,365,202
— Unlisted	676,016	700,407
Equity instruments and other		
— Listed in Hong Kong	7,007	7,083
— Listed outside Hong Kong ⁽⁷⁾	3,692	3,215
— Unlisted	12,211	11,479
Financial assets at amortised cost⁽⁵⁾		
— Listed in Hong Kong	52,129	31,896
— Listed outside Hong Kong ⁽⁷⁾	2,374,579	2,308,222
— Unlisted	442,152	437,565
Total	5,374,301	5,514,062
Listed in Hong Kong	264,361	216,453
Listed outside Hong Kong ⁽⁷⁾	3,806,047	3,931,810
Unlisted	1,303,893	1,365,799
Total	5,374,301	5,514,062

(Amounts in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

17 Financial investments (Continued)

- (1) In order to eliminate or significantly reduce accounting mismatches, certain debt securities are designated as financial assets at fair value through profit or loss.
- (2) The Group exercises its option irrevocably on certain unlisted equity investments, which are classified as financial assets at fair value through other comprehensive income.

The Group's accumulated impairment allowance for the debt securities at fair value through other comprehensive income as at 30 June 2020 amounted to RMB5,511 million (31 December 2019: RMB1,254 million).

- (3) The Bank transferred certain non-performing assets to China Orient Asset Management Corporation ("China Orient") in 1999 and 2000. On 1 July 2000, China Orient issued a ten-year bond ("Orient Bond") with a par value of RMB160,000 million and interest rate of 2.25% to the Bank as consideration. During the year ended 31 December 2010, the maturity of this bond was extended to 30 June 2020. In 2020, the Bank signed an extension agreement with China Orient Asset Management Co., Ltd., stipulating that the Orient Bond would be extended for five years beyond its maturity date on 30 June 2020 to 30 June 2025. Pursuant to the requirements of the MOF, as of 1 January 2020, the annual yield of this bond will be determined based on the average yield of the five-year Government Bond calculated for the previous year and the MOF shall continue to provide funding support for the principal and interest of the Orient Bond held by the Bank after the extension of the maturity date. As at 30 June 2020, the Bank had received early repayments amounting to RMB7,567 million cumulatively.
- (4) During the six month period ended 30 June 2020 and the year ended 31 December 2019, the Group did not reclassify any of its debt securities subsequent to their initial recognition.
- (5) The market values of the above listed debt securities at amortised cost are set out below:

	As at 30 June 2020		As at 31 December 2019	
	Carrying value	Market value	Carrying value	Market value
Debt securities at amortised cost				
— Listed in Hong Kong	52,129	55,718	31,896	32,847
— Listed outside Hong Kong ⁽⁷⁾	2,374,579	2,426,281	2,308,222	2,670,795

- (6) As at 30 June 2020, RMB1,562 million of debt securities of the Group was determined to be impaired and was included in Stage 3 (31 December 2019: RMB1,140 million), with the impairment allowance fully accrued (31 December 2019: RMB1,140 million); RMB228 million of debt securities was included in Stage 2 (31 December 2019: RMB479 million), with an impairment allowance of RMB1 million (31 December 2019: RMB5 million); and the remaining debt securities at fair value through other comprehensive income and debt securities at amortised cost were included in Stage 1, with impairment allowance measured based on 12-month expected credit losses.
- (7) Debt securities traded in the domestic interbank bond market are included in "Listed outside Hong Kong".

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

17 Financial investments (Continued)

Reconciliation of allowance for impairment losses on financial investments at amortised cost:

	Six month period ended 30 June 2020			
	12-month ECL	Lifetime ECL		Total
	Stage 1	Stage 2	Stage 3	
As at 1 January	383	1	6,402	6,786
Impairment losses for the period	1,045	–	640	1,685
Exchange differences and other	1	–	16	17
As at 30 June	1,429	1	7,058	8,488

	Year ended 31 December 2019			
	12-month ECL	Lifetime ECL		Total
	Stage 1	Stage 2	Stage 3	
As at 1 January	328	3	7,423	7,754
Impairment losses/(reversal) for the year	53	(2)	(238)	(187)
Write-off and transfer out	–	–	(800)	(800)
Exchange differences and other	2	–	17	19
As at 31 December	383	1	6,402	6,786

Reconciliation of allowance for impairment losses on financial investments at fair value through other comprehensive income:

	Six month period ended 30 June 2020			
	12-month ECL	Lifetime ECL		Total
	Stage 1	Stage 2	Stage 3	
As at 1 January	1,250	4	–	1,254
Transfers to Stage 3	(2)	(4)	6	–
Impairment losses for the period	3,761	–	–	3,761
Impairment losses due to stage transformation	–	–	494	494
Exchange differences and other	2	–	–	2
As at 30 June	5,011	–	500	5,511

	Year ended 31 December 2019			
	12-month ECL	Lifetime ECL		Total
	Stage 1	Stage 2	Stage 3	
As at 1 January	861	1	–	862
Impairment losses during the year	384	3	–	387
Exchange differences and other	5	–	–	5
As at 31 December	1,250	4	–	1,254

(Amounts in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

18 Property and equipment

	Six month period ended 30 June 2020				
	Buildings	Equipment and motor vehicles	Construction in progress	Aircraft	Total
Cost					
As at 1 January	119,077	77,656	32,905	131,821	361,459
Additions	48	972	9,854	6,946	17,820
Transfer from/(to) investment properties (Note III.19)	688	–	(700)	–	(12)
Construction in progress transfer in/(out)	1,419	348	(1,967)	200	–
Deductions	(449)	(1,850)	(3,126)	(1,359)	(6,784)
Exchange differences	317	183	335	1,840	2,675
As at 30 June	121,100	77,309	37,301	139,448	375,158
Accumulated depreciation					
As at 1 January	(40,401)	(60,758)	–	(14,762)	(115,921)
Additions	(1,942)	(3,320)	–	(2,301)	(7,563)
Deductions	273	1,793	–	294	2,360
Transfer to investment properties (Note III.19)	15	–	–	–	15
Exchange differences	(71)	(131)	–	(219)	(421)
As at 30 June	(42,126)	(62,416)	–	(16,988)	(121,530)
Allowance for impairment losses					
As at 1 January	(767)	–	(227)	(4)	(998)
Additions	–	–	–	(82)	(82)
Deductions	6	–	–	–	6
Exchange differences	3	–	–	–	3
As at 30 June	(758)	–	(227)	(86)	(1,071)
Net book value					
As at 1 January	77,909	16,898	32,678	117,055	244,540
As at 30 June	78,216	14,893	37,074	122,374	252,557

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

18 Property and equipment (Continued)

	Year ended 31 December 2019				
	Buildings	Equipment and motor vehicles	Construction in progress	Aircraft	Total
Cost					
As at 31 December of prior year	117,948	74,319	30,233	115,153	337,653
Additions	340	6,921	15,977	15,177	38,415
Transfer from/(to) investment properties (Note III.19)	356	–	(11)	–	345
Construction in progress transfer in/(out)	2,238	816	(11,208)	8,154	–
Deductions	(2,388)	(4,639)	(2,467)	(8,746)	(18,240)
Exchange differences	583	239	381	2,083	3,286
As at 31 December	119,077	77,656	32,905	131,821	361,459
Accumulated depreciation					
As at 31 December of prior year	(38,041)	(58,752)	–	(12,437)	(109,230)
Additions	(3,999)	(6,272)	–	(4,180)	(14,451)
Deductions	1,755	4,443	–	2,131	8,329
Transfer to investment properties (Note III.19)	9	–	–	–	9
Exchange differences	(125)	(177)	–	(276)	(578)
As at 31 December	(40,401)	(60,758)	–	(14,762)	(115,921)
Allowance for impairment losses					
As at 31 December of prior year	(770)	–	(217)	(42)	(1,029)
Additions	(7)	–	(10)	–	(17)
Deductions	14	–	–	39	53
Exchange differences	(4)	–	–	(1)	(5)
As at 31 December	(767)	–	(227)	(4)	(998)
Net book value					
As at 31 December of prior year	79,137	15,567	30,016	102,674	227,394
As at 31 December	77,909	16,898	32,678	117,055	244,540

(Amounts in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

19 Investment properties

	Six month period ended 30 June 2020	Year ended 31 December 2019
As at 1 January	23,108	22,086
Additions	181	468
Transfer to property and equipment, net (Note III.18)	(3)	(354)
Deductions	(5)	(11)
Fair value changes (Note III.5)	(470)	496
Exchange differences	305	423
As at 30 June/31 December	23,116	23,108

20 Other assets

	As at 30 June 2020	As at 31 December 2019
Accounts receivable and prepayments	138,392	107,124
Right-of-use assets ⁽¹⁾	22,489	22,822
Intangible assets	12,810	13,352
Land use rights	6,732	6,903
Long-term deferred expense	3,080	3,222
Goodwill ⁽²⁾	2,719	2,686
Reposessed assets ⁽³⁾	2,341	2,400
Interest receivable	1,070	1,878
Other	38,086	18,737
Total	227,719	179,124

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

20 Other assets (Continued)

(1) Right-of-use assets

	Six month period ended 30 June 2020		
	Buildings	Motor vehicles and other	Total
Cost			
As at 1 January	29,500	156	29,656
Additions	2,976	22	2,998
Deductions	(531)	(7)	(538)
Exchange differences	104	–	104
As at 30 June	32,049	171	32,220
Accumulated depreciation			
As at 1 January	(6,781)	(53)	(6,834)
Additions	(3,253)	(31)	(3,284)
Deductions	398	5	403
Exchange differences	(16)	–	(16)
As at 30 June	(9,652)	(79)	(9,731)
Net book value			
As at 1 January	22,719	103	22,822
As at 30 June	22,397	92	22,489

	Year ended 31 December 2019		
	Buildings	Motor vehicles and other	Total
Cost			
As at 1 January	22,652	120	22,772
Additions	7,341	38	7,379
Deductions	(624)	(3)	(627)
Exchange differences	131	1	132
As at 31 December	29,500	156	29,656
Accumulated depreciation			
As at 1 January	(209)	–	(209)
Additions	(6,632)	(53)	(6,685)
Deductions	81	–	81
Exchange differences	(21)	–	(21)
As at 31 December	(6,781)	(53)	(6,834)
Net book value			
As at 1 January	22,443	120	22,563
As at 31 December	22,719	103	22,822

(Amounts in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

20 Other assets (Continued)

(2) Goodwill

	Six month period ended 30 June 2020	Year ended 31 December 2019
As at 1 January	2,686	2,620
Addition through acquisition of subsidiaries	–	27
Exchange differences	33	39
As at 30 June/31 December	2,719	2,686

The goodwill mainly arose from the acquisition of BOC Aviation Limited in 2006 amounting to USD241 million (equivalent to RMB1,704 million).

(3) Repossessed assets

The Group obtained repossessed assets by taking possession of collateral held as security due to default. Such repossessed assets are as follows:

	As at 30 June 2020	As at 31 December 2019
Commercial properties	2,508	2,596
Residential properties	618	615
Other	159	159
Subtotal	3,285	3,370
Less: allowance for impairment	(944)	(970)
Repossessed assets, net	2,341	2,400

The total book value of the repossessed assets disposed of for the six month period ended 30 June 2020 amounted to RMB206 million (for the year ended 31 December 2019: RMB276 million). The Group plans to dispose of the repossessed assets held at 30 June 2020 by auction, bidding or transfer.

21 Financial liabilities held for trading

As at 30 June 2020 and 31 December 2019, financial liabilities held for trading mainly included short position in debt securities.

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

22 Due to customers

	As at 30 June 2020	As at 31 December 2019
Demand deposits		
— Corporate deposits	4,776,263	4,434,051
— Personal deposits	3,285,035	3,147,889
Subtotal	8,061,298	7,581,940
Time deposits		
— Corporate deposits	3,818,669	3,619,512
— Personal deposits	3,738,340	3,416,862
Subtotal	7,557,009	7,036,374
Structured deposits ⁽¹⁾		
— Corporate deposits	346,859	247,906
— Personal deposits	585,449	424,897
Subtotal	932,308	672,803
Certificates of deposit	272,681	283,193
Other deposits	96,081	75,063
Subtotal due to customers	16,919,377	15,649,373
Accrued interest	170,840	168,175
Total due to customers ⁽²⁾	17,090,217	15,817,548

(1) According to the risk management policy, in order to match derivatives and reduce market risk, the Group designates some structured deposits as financial liabilities at fair value through profit or loss. As at 30 June 2020, the carrying amount of the above-mentioned financial liabilities was RMB31,341 million (31 December 2019: RMB17,969 million). At the financial reporting date, the fair value of the above-mentioned financial liabilities was approximately the same as the amount that the Group would be contractually required to pay to the holders. During the six month period ended 30 June 2020 and the year ended 31 December 2019, there was no significant change in the Group's own credit risk for the above structured deposits, so the amount of change in fair value due to the change in the Group's own credit risk is not significant.

(2) Due to customers included margin deposits for security received by the Group as at 30 June 2020 of RMB341,103 million (31 December 2019: RMB290,076 million).

(Amounts in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

23 Deferred income taxes

23.1 Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes are related to the same fiscal authority. The table below includes the deferred income tax assets and liabilities of the Group after offsetting qualifying amounts and the related temporary differences.

	As at 30 June 2020		As at 31 December 2019	
	Temporary differences	Deferred tax assets/(liabilities)	Temporary differences	Deferred tax assets/(liabilities)
Deferred income tax assets	188,380	50,295	166,707	44,029
Deferred income tax liabilities	(36,549)	(6,240)	(30,773)	(5,452)
Net	151,831	44,055	135,934	38,577

23.2 Deferred income tax assets/liabilities and related temporary differences, before offsetting qualifying amounts, are attributable to the following items:

	As at 30 June 2020		As at 31 December 2019	
	Temporary differences	Deferred tax assets/(liabilities)	Temporary differences	Deferred tax assets/(liabilities)
Deferred income tax assets				
Asset impairment allowances	253,463	62,967	205,264	51,052
Pension, retirement benefits and salary payables	12,926	3,209	18,137	4,510
Financial instruments at fair value through profit or loss and derivative financial instruments	110,596	27,543	90,507	22,511
Financial assets at fair value through other comprehensive income	1,304	318	835	209
Other temporary differences	35,024	8,024	34,320	7,931
Subtotal	413,313	102,061	349,063	86,213
Deferred income tax liabilities				
Financial instruments at fair value through profit or loss and derivative financial instruments	(114,588)	(27,935)	(93,862)	(23,336)
Financial assets at fair value through other comprehensive income	(41,401)	(10,101)	(29,403)	(7,228)
Depreciation of property and equipment	(20,352)	(3,469)	(20,629)	(3,521)
Revaluation of property and investment properties	(9,129)	(1,742)	(8,986)	(1,712)
Other temporary differences	(76,012)	(14,759)	(60,249)	(11,839)
Subtotal	(261,482)	(58,006)	(213,129)	(47,636)
Net	151,831	44,055	135,934	38,577

As at 30 June 2020, deferred tax liabilities relating to temporary differences of RMB176,121 million associated with the Group's investments in subsidiaries have not been recognised (31 December 2019: RMB156,105 million).

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

23 Deferred income taxes (Continued)

23.3 The movements of the deferred income tax are as follows:

	Six month period ended 30 June 2020	Year ended 31 December 2019
As at 1 January	38,577	33,656
Credited to the income statement (Note III.9)	8,281	8,824
Charged to other comprehensive income	(2,866)	(4,180)
Other	63	277
As at 30 June/31 December	44,055	38,577

23.4 The deferred income tax credit in the condensed consolidated income statement comprises the following temporary differences:

	For the six month period ended 30 June	
	2020	2019
Asset impairment allowances	11,915	332
Financial instruments at fair value through profit or loss and derivative financial instruments	433	3,073
Pension, retirement benefits and salary payables	(1,301)	(1,176)
Other temporary differences	(2,766)	(1,975)
Total	8,281	254

24 Other liabilities

	As at 30 June 2020	As at 31 December 2019
Insurance liabilities		
— Life insurance contracts	126,623	113,742
— Non-life insurance contracts	10,758	10,169
Items in the process of clearance and settlement	95,699	66,628
Dividends payable	60,642	2
Salary and welfare payables	26,944	33,373
Provision		
— Allowance for credit commitments	21,961	23,597
— Allowance for litigation losses (Note III. 27.1)	860	872
Lease liabilities	21,513	21,590
Deferred income	11,586	10,476
Other	88,986	84,724
Total	465,572	365,173

(Amounts in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

25 Other equity instruments

For the six month period ended 30 June 2020, the movements of the Bank's other equity instruments were as follows:

	As at 1 January 2020		Increase/(Decrease)		As at 30 June 2020	
	Quantity (million shares)	Carrying amount	Quantity (million shares)	Carrying amount	Quantity (million shares)	Carrying amount
Preference Shares						
Domestic Preference Shares (First Tranche)	320.0	31,963	–	–	320.0	31,963
Domestic Preference Shares (Second Tranche)	280.0	27,969	–	–	280.0	27,969
Domestic Preference Shares (Third Tranche)	730.0	72,979	–	–	730.0	72,979
Domestic Preference Shares (Fourth Tranche)	270.0	26,990	–	–	270.0	26,990
Offshore Preference Shares (Second Tranche) ⁽¹⁾	–	–	197.9	19,581	197.9	19,581
Subtotal	1,600.0	159,901	197.9	19,581	1,797.9	179,482
Perpetual Bonds						
2019 Undated Capital Bonds (Series 1)	–	39,992	–	–	–	39,992
2020 Undated Capital Bonds (Series 1) ⁽²⁾	–	–	–	39,990	–	39,990
Subtotal	–	39,992	–	39,990	–	79,982
Total		199,893		59,571		259,464

- (1) With the approvals by the relevant regulatory authorities in China, the Bank issued the US Dollar settled non-cumulative Offshore Preference Shares on 4 March 2020. Each Offshore Preference Share has a par value of RMB100 and 197,865,300 Offshore Preference Shares were issued in total. The aggregate par value of the Offshore Preference Shares is USD2.820 billion as converted into USD using the fixed exchange rate (USD1.00 to RMB7.0168). The initial annual dividend rate is 3.60% and is subsequently subject to reset per agreement, but in no case shall exceed 12.15%. Dividends are calculated and paid out in US Dollars.

The Offshore Preference Shares have no maturity date. However, subject to the satisfaction of the redemption conditions and having obtained the prior approval of the China Banking and Insurance Regulatory Commission ("CBIRC"), the Bank may at its discretion redeem all or part of the Offshore Preference Shares on 4 March 2025 or any dividend payment date thereafter at the redemption price which is the sum of the par value of the Offshore Preference Shares and the dividends declared but not yet distributed, as calculated and paid out in US Dollars.

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

25 Other equity instruments (Continued)

Save for such dividend at the agreed dividend payout ratio, the holders of the above preference shares shall not be entitled to share in the distribution of the remaining profits of the Bank together with the holders of the ordinary shares. The above preference shares are paid by non-cumulative dividend. The Bank shall be entitled to cancel any dividend on the preference shares, and such cancellation shall not constitute a default. However, the Bank shall not distribute profits to ordinary shareholders until resumption of full payment of dividends on the preference shares. Upon the occurrence of a trigger event for the compulsory conversion of preference shares into ordinary shares per agreement, the Bank shall convert the preference shares into ordinary shares in whole or in part after reporting to CBIRC for its examination and approval decision.

Capital raised from the issuance of the above preference shares, after deduction of transaction costs, was wholly used to replenish the Bank's additional tier 1 capital and to increase its capital adequacy ratio.

- (2) With the approvals by the relevant regulatory authorities in China, the Bank issued RMB40 billion write-down undated capital bonds (the "Bonds") in the domestic interbank bond market on 28 April 2020 and completed the issuance on 30 April 2020. The denomination of the Bonds is RMB100 each, and the annual coupon rate of the Bonds for the first five years is 3.40%, which is reset every 5 years.

The duration of the Bonds is the same as the continuing operation of the Bank. Subject to the satisfaction of the redemption conditions and having obtained the prior approval of the CBIRC, the Bank may redeem the Bonds in whole or in part on each distribution payment date 5 years after the issuance date of the Bonds. Upon the occurrence of a trigger event for write-downs, with the consent of the CBIRC and without the consent of the bondholders, the Bank has the right to write down all or part of the above Bonds issued and existing at that time in accordance with the total par value. The claims of the holders of the Bonds will be subordinated to the claims of depositors, general creditors and subordinated creditors; and shall rank in priority to the claims of shareholders and will rank pari passu with the claims under any other additional tier 1 capital instruments of the Bank that rank pari passu with the Bonds.

The Bonds are paid by non-cumulative interest. The Bank shall have the right to cancel distributions on the Bonds in whole or in part and such cancellation shall not constitute a default. The Bank may at its discretion utilise the proceeds from the cancelled distributions to meet other obligations of maturing debts. But the Bank shall not distribute profits to ordinary shareholders until the resumption of full interest payment.

Capital raised from the issuance of the Bonds, after deduction of transaction costs, was wholly used to replenish the Bank's additional tier 1 capital and to increase its capital adequacy ratio.

26 Dividends

Dividends for Ordinary Shares

A dividend of RMB1.91 per ten ordinary shares (before tax) in respect of the profit for the year ended 31 December 2019 amounting to RMB56,228 million (before tax) was approved at the Annual General Meeting held on 30 June 2020. The undistributed portion of RMB56,228 million was recorded in other liabilities as at 30 June 2020. Such dividend was distributed on 15 July 2020 and 7 August 2020 after the appropriate withholding of individual and enterprise income taxes.

Dividends for Preference Shares

The dividend distribution of Domestic Preference Shares (Second Tranche) amounting to RMB1,540 million (before tax) was approved by the Board of Directors of the Bank at the Board Meeting held on 13 January 2020 and the dividend was distributed on 13 March 2020.

(Amounts in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

26 Dividends (Continued)

Dividends for Preference Shares (Continued)

The dividend distribution of Domestic Preference Shares (Third Tranche and Fourth Tranche) was approved by the Board of Directors of the Bank at the Board Meeting held on 29 April 2020. The dividend of Domestic Preference Shares (Third Tranche) amounting to RMB3,285 million (before tax) was distributed on 29 June 2020. And the dividend of Domestic Preference Shares (Fourth Tranche) amounting to RMB1,174.5 million (before tax) will be distributed on 31 August 2020.

Others

The Bank distributed the interest on the 2019 Undated Capital Bonds (Series 1) amounting to RMB1,800 million on 3 February 2020.

27 Contingent liabilities and commitments

27.1 Legal proceedings and arbitrations

As at 30 June 2020, the Group was involved in certain litigation and arbitration cases in the regular course of its business. In addition, in terms of the range and scale of its international operations, the Group may face a variety of legal proceedings within different jurisdictions. As at 30 June 2020, provisions of RMB860 million (31 December 2019: RMB872 million) were made based on court judgements or the advice of counsel (Note III.24). After consulting legal professionals, the senior management of the Group believes that at the current stage these legal proceedings and arbitrations will not have a material impact on the financial position or operations of the Group.

27.2 Assets pledged

Assets pledged by the Group as collateral mainly for placement, repurchase, short positions, derivative transactions with other banks and financial institutions and for local statutory requirements are set forth in the table below. These transactions are conducted under standard and normal business terms.

	As at 30 June 2020	As at 31 December 2019
Debt securities	684,877	787,929
Bills	119	387
Total	684,996	788,316

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

27 Contingent liabilities and commitments (Continued)

27.3 Collateral accepted

The Group accepts securities as collateral that are permitted to be sold or re-pledged in connection with reverse repurchase and derivative agreements with banks and other financial institutions. As at 30 June 2020, the fair value of collateral received from banks and other financial institutions accepted by the Group amounted to RMB32,716 million (31 December 2019: RMB22,067 million). As at 30 June 2020, the fair value of the collateral that the Group had sold or re-pledged, but was obligated to return, was RMB2,775 million (31 December 2019: RMB2,271 million). These transactions are conducted under standard terms in the normal course of business.

27.4 Capital commitments

	As at 30 June 2020	As at 31 December 2019
Property and equipment		
— Contracted but not provided for	68,065	53,752
— Authorised but not contracted for	1,433	1,215
Intangible assets		
— Contracted but not provided for	1,201	1,048
— Authorised but not contracted for	261	66
Investment properties		
— Contracted but not provided for	1,730	1,231
Total	72,690	57,312

27.5 Treasury bonds redemption commitments

The Bank is entrusted by the Ministry of Finance of the People's Republic of China (the "MOF") to underwrite certain Treasury bonds. The investors of these Treasury bonds have a right to redeem the bonds at any time prior to maturity and the Bank is committed to redeem these Treasury bonds. The MOF will not provide funding for the early redemption of these Treasury bonds on a back-to-back basis but will pay interest and repay the principal at maturity. The redemption price is the principal value of the bonds plus unpaid interest in accordance with the early redemption arrangement.

As at 30 June 2020, the outstanding principal value of the Treasury bonds sold by the Bank under obligation to redeem prior to maturity amounted to RMB53,611 million (31 December 2019: RMB59,746 million). The original maturities of these Treasury bonds vary from 3 to 5 years and management expects the amount of redemption through the Bank prior to the maturity dates of these bonds will not be material.

(Amounts in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

27 Contingent liabilities and commitments (Continued)

27.6 Credit commitments

	As at 30 June 2020	As at 31 December 2019
Loan commitments ⁽¹⁾		
— with an original maturity of less than 1 year	253,962	244,733
— with an original maturity of 1 year or above	1,330,002	1,360,065
Undrawn credit card limits	1,064,777	1,010,283
Letters of guarantee issued ⁽²⁾	1,024,375	1,049,629
Bank bill acceptance	287,269	259,373
Letters of credit issued	142,815	133,571
Accepted bills of exchange under letters of credit	87,435	92,440
Other	183,390	192,476
Total ⁽³⁾	4,374,025	4,342,570

(1) Loan commitments mainly represent undrawn loan facilities agreed and granted to customers. Unconditionally revocable loan commitments are not included in loan commitments. As at 30 June 2020, the unconditionally revocable loan commitments of the Group amounted to RMB341,099 million (31 December 2019: RMB299,556 million).

(2) Letters of guarantee issued mainly include financial guarantees and performance guarantees. These obligations on the Group to make payments are dependent on the outcome of a future event.

(3) Risk-weighted assets for credit risk of credit commitments

The risk-weighted assets for credit risk of the Group are calculated in accordance with the *Capital Rules for Commercial Banks (Provisional)* and other relevant regulations under the advanced capital measurement approaches. The amounts are determined based on the creditworthiness of the counterparties, the maturity characteristics of each type of contracts and other factors.

	As at 30 June 2020	As at 31 December 2019
Credit commitments	1,187,793	1,206,469

27.7 Underwriting obligations

As at 30 June 2020, the firm commitment in underwriting securities of the Group amounted to RMB1,000 million (31 December 2019: Nil).

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

28 Changes in consolidation

On 18 June 2020, the Bank set up a majority-owned subsidiary, BOC Financial Leasing Co., Ltd. ("BOCL"), which mainly engages in the financial leasing business. As at 30 June 2020, the Bank held 92.59% of the total capital of BOCL.

29 Note to the condensed consolidated statement of cash flows

For the purpose of the condensed consolidated statement of cash flows, cash and cash equivalents comprise the following balances with an original maturity of less than three months:

	As at 30 June 2020	As at 30 June 2019
Cash and due from banks and other financial institutions	375,854	316,066
Balances with central banks	591,528	490,207
Placements with and loans to banks and other financial institutions	680,996	670,102
Financial investments	71,391	43,491
Total	1,719,769	1,519,866

30 Related party transactions

30.1 China Investment Corporation ("CIC") was established on 29 September 2007 with registered capital of RMB1,550 billion. CIC is a wholly State-owned company engaging in foreign currency investment management. The Group is subject to the control of the State Council of the PRC Government through CIC and its wholly owned subsidiary, Central Huijin Investment Ltd. ("Huijin").

The Group entered into banking transactions with CIC in the normal course of its business on commercial terms.

(Amounts in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

30 Related party transactions (Continued)

30.2 Transactions with Huijin and companies under Huijin

(1) General information of Huijin

Central Huijin Investment Ltd.

Legal representative	PENG Chun
Registered capital	RMB828,209 million
Location of registration	Beijing
Capital shares in the Bank	64.02%
Voting rights in the Bank	64.02%
Nature	Wholly State-owned company
Principal activities	Investment in major State-owned financial institutions on behalf of the State Council; other related businesses approved by the State Council.
Unified social credit code	911000007109329615

(2) Transactions with Huijin

The Group enters into banking transactions with Huijin in the normal course of its business on commercial terms. Purchase of the bonds issued by Huijin was in the ordinary course of business and in compliance with the requirements of the related regulations and corporate governance.

Transaction balances

	As at 30 June 2020	As at 31 December 2019
Debt securities	27,422	24,963
Due to Huijin	(60)	(2,913)

Transaction amounts

	For the six month period ended 30 June	
	2020	2019
Interest income	389	453
Interest expense	(35)	(169)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

30 Related party transactions (Continued)

30.2 Transactions with Huijin and companies under Huijin (Continued)

(3) Transactions with companies under Huijin

Companies under Huijin include its equity interests in subsidiaries, associates and joint ventures in certain other bank and non-bank entities in the PRC. The Group enters into banking transactions with these companies in the normal course of business on commercial terms which include mainly purchase and sale of debt securities, money market transactions and derivative transactions.

In the ordinary course of the business, main transactions that the Group entered into with the affiliates of parent company are as follows:

Transaction balances

	As at 30 June 2020	As at 31 December 2019
Due from banks and other financial institutions	67,768	59,332
Placements with and loans to banks and other financial institutions	199,898	115,781
Financial investments	293,028	395,205
Derivative financial assets	8,197	7,655
Loans and advances to customers	76,477	45,646
Due to customers, banks and other financial institutions	(238,912)	(185,610)
Placements from banks and other financial institutions	(157,992)	(244,059)
Derivative financial liabilities	(3,455)	(5,459)
Credit commitments	29,600	14,502

Transaction amounts

	For the six month period ended 30 June	
	2020	2019
Interest income	6,487	8,129
Interest expense	(2,414)	(3,655)

(Amounts in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

30 Related party transactions (Continued)

30.3 Transactions with government authorities, agencies, affiliates and other State-controlled entities

The State Council of the PRC government directly and indirectly controls a significant number of entities through its government authorities, agencies, affiliates and other State-controlled entities. The Group enters into extensive banking transactions with these entities in the normal course of business on commercial terms.

Transactions conducted with government authorities, agencies, affiliates and other State-controlled entities include purchase and redemption of investment securities issued by government agencies, underwriting and distribution of Treasury bonds issued by government agencies, foreign exchange transactions and derivative transactions, lending, provision of credit and guarantees and deposit taking.

30.4 Transactions with associates and joint ventures

The Group enters into banking transactions with associates and joint ventures in the normal course of business on commercial terms. These include loans and advances, deposit taking and other normal banking businesses. In the ordinary course of the business, the main transactions that the Group entered into with associates and joint ventures are as follows:

Transaction balances

	As at 30 June 2020	As at 31 December 2019
Loans and advances to customers	1,210	1,373
Due to customers, banks and other financial institutions	(15,096)	(6,046)
Credit commitments	584	76

Transaction amounts

	For the six month period ended 30 June	
	2020	2019
Interest income	35	25
Interest expense	(141)	(99)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

30 Related party transactions (Continued)

30.5 Transactions with the Annuity Plan

Apart from the obligations for defined contributions to the Annuity Fund and normal banking transactions, no other transactions were conducted between the Group and the Annuity Fund for the six month period ended 30 June 2020 and the year ended 31 December 2019.

30.6 Transactions with key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including Directors and Executive Officers.

The Group enters into banking transactions with key management personnel in the normal course of business. During the six month period ended 30 June 2020 and the year ended 31 December 2019, there were no material transactions and balances with key management personnel on an individual basis.

30.7 Transactions with Connected Natural Persons

As at 30 June 2020, the Bank's balance of loans to the connected natural persons as defined in the *Administration of Connected Transactions between Commercial Banks and Their Insiders and Shareholders* and the *Administrative Measures for the Disclosure of Information of Listed Companies* totalled RMB379 million (31 December 2019: RMB410 million) and RMB19 million (31 December 2019: RMB23 million) respectively.

30.8 Transactions with subsidiaries

The main transactions with subsidiaries are as follows:

Transaction balances

	As at 30 June 2020	As at 31 December 2019
Due from banks and other financial institutions	44,621	21,908
Placements with and loans to banks and other financial institutions	136,453	152,839
Due to banks and other financial institutions	(110,746)	(88,195)
Placements from banks and other financial institutions	(59,522)	(52,285)

Transaction amounts

	For the six month period ended 30 June	
	2020	2019
Interest income	1,305	812
Interest expense	(639)	(1,251)

(Amounts in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

31 Segment reporting

The Group manages the business from both geographic and business perspectives. From the geographic perspective, the Group operates in three principal regions: Chinese mainland; Hong Kong, Macao and Taiwan; and other countries and regions. From the business perspective, the Group provides services through six main business segments: corporate banking, personal banking, treasury operations, investment banking, insurance and other operations.

Measurement of segment assets, liabilities, income, expenses, results and capital expenditure is based on the Group's accounting policies. The segment information presented includes items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Funding is provided to and from individual business segments through treasury operations as part of the asset and liability management process. The pricing of these transactions is based on market rates. The transfer price takes into account the specific features and maturities of the product. Internal transactions are eliminated on consolidation. The Group regularly examines the transfer price and adjusts the price to reflect current situation.

Geographical segments

Chinese mainland — Corporate banking, personal banking, treasury operations and insurance services, etc. are performed in Chinese mainland.

Hong Kong, Macao and Taiwan — Corporate banking, personal banking, treasury operations, investment banking and insurance services are performed in Hong Kong, Macao and Taiwan. The business of this segment is centralised in BOC Hong Kong (Group) Limited ("BOCHK Group").

Other countries and regions — Corporate and personal banking services are provided in other countries and regions. Significant locations include New York, London, Singapore and Tokyo.

Business segments

Corporate banking — Services to corporate customers, government authorities and financial institutions including current accounts, deposits, overdrafts, loans, trade-related products and other credit facilities, foreign currency, derivative products and wealth management products.

Personal banking — Services to retail customers including saving deposits, personal loans, credit cards and debit cards, payments and settlements, wealth management products and funds and insurance agency services.

Treasury operations — Consisting of foreign exchange transactions, customer-based interest rate and foreign exchange derivative transactions, money market transactions, proprietary trading and asset and liability management. The results of this segment include the inter-segment funding income and expenses, results from interest-bearing assets and liabilities; and foreign currency translation gains and losses.

Investment banking — Consisting of debt and equity underwriting and financial advisory, sales and trading of securities, stock brokerage, investment research and asset management services, and private equity investment services.

Insurance — Underwriting of general and life insurance business and insurance agency services.

Other — Other operations of the Group comprise investment holding and other miscellaneous activities, none of which constitutes a separately reportable segment.

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

31 Segment reporting (Continued)

As at and for the six month period ended 30 June 2020

	Hong Kong, Macao and Taiwan				Other countries and regions	Eliminations	Total
	Chinese mainland	BOCHK Group	Other	Subtotal			
Interest income	325,161	25,974	16,903	42,877	19,246	(11,354)	375,930
Interest expense	(156,042)	(9,187)	(13,671)	(22,858)	(11,489)	11,354	(179,035)
Net interest income	169,119	16,787	3,232	20,019	7,757	–	196,895
Fee and commission income	46,320	5,747	3,819	9,566	2,944	(1,809)	57,021
Fee and commission expense	(4,557)	(1,237)	(1,086)	(2,323)	(958)	1,159	(6,679)
Net fee and commission income	41,763	4,510	2,733	7,243	1,986	(650)	50,342
Net trading gains	(3,429)	2,259	2,599	4,858	744	–	2,173
Net gains on transfers of financial asset	4,819	2,331	114	2,445	359	–	7,623
Other operating income ⁽¹⁾	8,461	7,797	13,176	20,973	795	(279)	29,950
Operating income	220,733	33,684	21,854	55,538	11,641	(929)	286,983
Operating expenses ⁽¹⁾	(63,039)	(14,504)	(10,639)	(25,143)	(3,712)	948	(90,946)
Impairment losses on assets	(60,395)	(1,239)	(1,364)	(2,603)	(3,486)	–	(66,484)
Operating profit	97,299	17,941	9,851	27,792	4,443	19	129,553
Share of results of associates and joint ventures	(105)	(76)	244	168	–	–	63
Profit before income tax	97,194	17,865	10,095	27,960	4,443	19	129,616
Income tax expense							(21,804)
Profit for the period							107,812
Segment assets	18,816,795	2,902,545	1,672,288	4,574,833	2,332,629	(1,594,414)	24,129,843
Investments in associates and joint ventures	7,886	1,021	14,105	15,126	–	–	23,012
Total assets	18,824,681	2,903,566	1,686,393	4,589,959	2,332,629	(1,594,414)	24,152,855
Include: non-current assets ⁽²⁾	115,841	30,945	173,888	204,833	9,351	(3,115)	326,910
Segment liabilities	17,222,253	2,640,378	1,537,869	4,178,247	2,258,034	(1,594,292)	22,064,242
Other segment items:							
Intersegment net interest (expense)/income	(2,445)	345	4,112	4,457	(2,012)	–	–
Intersegment net fee and commission income/ (expense)	368	176	257	433	(151)	(650)	–
Capital expenditure	2,238	625	16,269	16,894	80	–	19,212
Depreciation and amortisation	9,438	988	3,001	3,989	391	(220)	13,598
Credit commitments	3,687,615	312,943	130,680	443,623	539,016	(296,229)	4,374,025

(Amounts in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

31 Segment reporting (Continued)

As at 31 December 2019 and for the six month period ended 30 June 2019

	Hong Kong, Macao and Taiwan				Other countries and regions	Eliminations	Total
	Chinese mainland	BOCHK Group	Other	Subtotal			
Interest income	310,968	28,046	19,932	47,978	25,931	(19,513)	365,364
Interest expense	(155,945)	(11,699)	(17,340)	(29,039)	(18,253)	19,557	(183,680)
Net interest income	155,023	16,347	2,592	18,939	7,678	44	181,684
Fee and commission income	45,862	6,736	3,624	10,360	3,129	(1,886)	57,465
Fee and commission expense	(4,221)	(1,790)	(1,000)	(2,790)	(1,028)	1,138	(6,901)
Net fee and commission income	41,641	4,946	2,624	7,570	2,101	(748)	50,564
Net trading gains	6,173	4,027	2,867	6,894	1,517	–	14,584
Net gains on transfers of financial asset	2,496	619	61	680	68	–	3,244
Other operating income ⁽¹⁾	7,690	9,654	9,793	19,447	47	(572)	26,612
Operating income	213,023	35,593	17,937	53,530	11,411	(1,276)	276,688
Operating expenses ⁽¹⁾	(64,078)	(16,062)	(8,666)	(24,728)	(3,282)	958	(91,130)
Impairment losses on assets	(34,270)	(618)	122	(496)	1,096	–	(33,670)
Operating profit	114,675	18,913	9,393	28,306	9,225	(318)	151,888
Share of results of associates and joint ventures	12	(5)	663	658	–	–	670
Profit before income tax	114,687	18,908	10,056	28,964	9,225	(318)	152,558
Income tax expense							(31,116)
Profit for the period							121,442
Segment assets	17,915,544	2,673,071	1,528,724	4,201,795	2,062,659	(1,433,464)	22,746,534
Investments in associates and joint ventures	7,992	1,076	14,142	15,218	–	–	23,210
Total assets	17,923,536	2,674,147	1,542,866	4,217,013	2,062,659	(1,433,464)	22,769,744
Include: non-current assets ⁽²⁾	119,684	30,670	162,255	192,925	9,788	(2,851)	319,546
Segment liabilities	16,413,115	2,428,157	1,397,456	3,825,613	1,987,643	(1,433,323)	20,793,048
Other segment items:							
Intersegment net interest (expense)/income	(3,563)	824	5,878	6,702	(3,183)	44	–
Intersegment net fee and commission income/ (expense)	86	46	803	849	(187)	(748)	–
Capital expenditure	2,499	1,053	12,815	13,868	220	–	16,587
Depreciation and amortisation	8,174	840	2,597	3,437	353	(121)	11,843
Credit commitments	3,675,635	313,084	131,772	444,856	528,004	(305,925)	4,342,570

(1) Other operating income includes insurance premium income earned, and operating expenses include insurance benefits and claims.

(2) Non-current assets include property and equipment, investment properties, right-of-use assets and other long-term assets.

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

31 Segment reporting (Continued)

As at and for the six month period ended 30 June 2020

	Corporate banking	Personal banking	Treasury operations	Investment banking	Insurance	Other	Eliminations	Total
Interest income	173,872	136,835	98,407	1,078	1,671	1,974	(37,907)	375,930
Interest expense	(81,647)	(55,434)	(75,926)	(266)	(42)	(3,796)	38,076	(179,035)
Net interest income/(expense)	92,225	81,401	22,481	812	1,629	(1,822)	169	196,895
Fee and commission income	19,269	28,156	7,773	2,428	1	1,040	(1,646)	57,021
Fee and commission expense	(637)	(3,336)	(1,312)	(666)	(2,110)	(83)	1,465	(6,679)
Net fee and commission income/(expense)	18,632	24,820	6,461	1,762	(2,109)	957	(181)	50,342
Net trading gains	1,205	526	(1,756)	(83)	414	1,995	(128)	2,173
Net gains on transfers of financial asset	1,051	41	6,407	1	120	3	–	7,623
Other operating income	417	4,679	646	186	14,917	10,045	(940)	29,950
Operating income	113,530	111,467	34,239	2,678	14,971	11,178	(1,080)	286,983
Operating expenses	(27,934)	(35,631)	(8,327)	(1,198)	(14,130)	(4,816)	1,090	(90,946)
Impairment losses on assets	(43,591)	(15,683)	(6,210)	(15)	(134)	(896)	45	(66,484)
Operating profit	42,005	60,153	19,702	1,465	707	5,466	55	129,553
Share of results of associates and joint ventures	–	–	–	210	(16)	(101)	(30)	63
Profit before income tax	42,005	60,153	19,702	1,675	691	5,365	25	129,616
Income tax expense								(21,804)
Profit for the period								107,812
Segment assets	9,163,736	5,390,652	8,801,840	100,199	198,705	599,270	(124,559)	24,129,843
Investments in associates and joint ventures	–	–	–	5,070	–	18,010	(68)	23,012
Total assets	9,163,736	5,390,652	8,801,840	105,269	198,705	617,280	(124,627)	24,152,855
Segment liabilities	10,231,884	7,217,648	4,101,840	72,417	180,667	384,167	(124,381)	22,064,242
Other segment items:								
Intersegment net interest income/(expense)	10,100	26,719	(36,501)	148	8	(643)	169	–
Intersegment net fee and commission income/(expense)	436	1,029	24	(253)	(1,197)	142	(181)	–
Capital expenditure	668	808	36	57	49	17,594	–	19,212
Depreciation and amortisation	4,030	4,960	1,237	192	141	2,807	231	13,598
Credit commitments	3,114,600	1,259,425	–	–	–	–	–	4,374,025

(Amounts in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

31 Segment reporting (Continued)

As at 31 December 2019 and for the six month period ended 30 June 2019

	Corporate banking	Personal banking	Treasury operations	Investment banking	Insurance	Other	Eliminations	Total
Interest income	177,105	120,777	104,369	938	1,459	1,920	(41,204)	365,364
Interest expense	(84,913)	(57,584)	(78,707)	(295)	(33)	(3,402)	41,254	(183,680)
Net interest income/(expense)	92,192	63,193	25,662	643	1,426	(1,482)	50	181,684
Fee and commission income	18,693	28,057	9,205	1,845	1	1,057	(1,393)	57,465
Fee and commission expense	(577)	(3,820)	(1,127)	(490)	(2,039)	(72)	1,224	(6,901)
Net fee and commission income/(expense)	18,116	24,237	8,078	1,355	(2,038)	985	(169)	50,564
Net trading gains	1,484	491	7,757	124	1,745	2,956	27	14,584
Net gains on transfers of financial asset	784	81	2,365	–	14	–	–	3,244
Other operating income	143	4,090	327	128	14,459	8,984	(1,519)	26,612
Operating income	112,719	92,092	44,189	2,250	15,606	11,443	(1,611)	276,688
Operating expenses	(28,748)	(34,783)	(9,106)	(1,085)	(14,731)	(4,287)	1,610	(91,130)
Impairment losses on assets	(26,435)	(6,696)	(427)	1	(72)	(41)	–	(33,670)
Operating profit	57,536	50,613	34,656	1,166	803	7,115	(1)	151,888
Share of results of associates and joint ventures	–	48	1	225	(12)	424	(16)	670
Profit before income tax	57,536	50,661	34,657	1,391	791	7,539	(17)	152,558
Income tax expense								(31,116)
Profit for the period								121,442
Segment assets	8,415,724	5,064,429	8,587,356	83,987	180,054	527,396	(112,412)	22,746,534
Investments in associates and joint ventures	–	–	–	4,870	–	18,406	(66)	23,210
Total assets	8,415,724	5,064,429	8,587,356	88,857	180,054	545,802	(112,478)	22,769,744
Segment liabilities	9,922,845	6,726,766	3,705,818	57,582	162,958	329,341	(112,262)	20,793,048
Other segment items:								
Intersegment net interest income/(expense)	15,450	24,504	(39,424)	174	21	(775)	50	–
Intersegment net fee and commission income/(expense)	443	774	14	(152)	(1,053)	143	(169)	–
Capital expenditure	812	944	43	40	32	14,716	–	16,587
Depreciation and amortisation	3,656	4,535	1,121	124	123	2,476	(192)	11,843
Credit commitments	3,157,694	1,184,876	–	–	–	–	–	4,342,570

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

32 Transfers of financial assets

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties or to special purpose entities. In some cases where these transferred financial assets qualify for derecognition, the transfers may give rise to full or partial derecognition of the financial assets concerned. In other cases where the transferred assets do not qualify for derecognition as the Group has retained substantially all the risks and rewards of these assets, the Group continued to recognise the transferred assets.

Repurchase agreements

Transferred financial assets that do not qualify for derecognition mainly include debt securities held by counterparties as collateral under repurchase agreements and securities lent to counterparties under securities lending agreements. The counterparties are allowed to sell or re-pledge those securities in the absence of default by the Group, but have an obligation to return the securities upon maturity of the contract. If the value of securities increases or decreases, the Group may in certain circumstances require or be required to pay additional cash collateral. The Group has determined that the Group retains substantially all the risks and rewards of these securities and therefore has not derecognised them. In addition, the Group recognises a financial liability for cash received as collateral.

The following table analyses the carrying amount of the above-mentioned financial assets transferred to third parties that did not qualify for derecognition and their associated financial liabilities:

	As at 30 June 2020		As at 31 December 2019	
	Carrying amount of transferred assets	Carrying amount of associated liabilities	Carrying amount of transferred assets	Carrying amount of associated liabilities
Repurchase agreements	47,443	47,497	528	503

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

32 Transfers of financial assets (Continued)

Credit asset transfers

The Group enters into credit asset transfers in the normal course of business during which it transfers credit assets to special purpose entities which in turn issue asset-backed securities or fund shares to investors. The Group may acquire some asset-backed securities and fund shares at the subordinated tranche level, and accordingly, may retain parts of the risks and rewards of the transferred credit assets. The Group would determine whether or not to derecognise the associated credit assets by evaluating the extent to which it retains the risks and rewards of the assets.

With respect to the credit assets that were securitised and qualified for derecognition, the Group derecognised the transferred credit assets in their entirety. The corresponding total carrying amount of asset-backed securities held by the Group in the securitisation transactions was RMB815 million as at 30 June 2020 (31 December 2019: RMB956 million), which also approximates the Group's maximum exposure to loss.

For those in which the Group has neither transferred nor retained substantially all the risks and rewards of the transferred credit assets, and retained control of the credit assets, the transferred credit assets are recognised in the statement of financial position to the extent of the Group's continuing involvement. For the six month period ended 30 June 2020, there was no new continuing involvement through acquiring tranches by the Group (for the six month period ended 30 June 2019, the carrying amount at the time of transfer of the original credit assets, which the Group determined that it has continuing involvement through acquiring some tranches, was RMB17,991 million) and the carrying amount of assets that the Group continues to recognise in the statement of financial position was RMB15,075 million as at 30 June 2020 (31 December 2019: RMB15,250 million).

33 Interests in the structured entities

The Group is principally involved with structured entities through financial investments, asset management and credit asset transfers. These structured entities generally finance the purchase of assets by issuing securities or by other means. The Group determines whether or not to consolidate these structured entities depending on whether the Group has control over them.

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

33 Interests in the structured entities (Continued)

33.1 Interests in the unconsolidated structured entities

The interests held by the Group in the unconsolidated structured entities are mainly set out below:

Structured entities sponsored by the Group

In conducting the asset management business in Chinese mainland, the Group established various structured entities to provide customers with specialised investment opportunities within narrow and well-defined objectives, including non-principal guaranteed wealth management products, publicly offered funds and asset management plans, and earned management fee, commission and custodian fee in return.

As at 30 June 2020, the balance of the above unconsolidated bank wealth management products sponsored by the Group amounted to RMB1,320,923 million (31 December 2019: RMB1,231,861 million). The balance of unconsolidated publicly offered funds and asset management plans sponsored by the Group amounted to RMB593,870 million (31 December 2019: RMB638,865 million).

For the six month period ended 30 June 2020, the above-mentioned commission, custodian fee and management fee amounted to RMB3,778 million (for the six month period ended 30 June 2019: RMB3,799 million).

As at 30 June 2020, the balance of interest and commission receivable held by the Group in the above-mentioned structured entities was not material. For the purpose of asset-liability management, wealth management products may require short-term financing from the Group and other banks. The Group is not contractually obliged to provide financing. After internal risk assessment, the Group may enter into repurchase and placement transactions with these wealth management products in accordance with market principles. For the six month period ended 30 June 2020, the maximum balance of such financing provided by the Group to the unconsolidated wealth management products was RMB132,205 million (for the six month period ended 30 June 2019: RMB180,050 million). Such financing provided by the Group was included in "Placements with and loans to banks and other financial institutions". As at 30 June 2020, the balance of the above transactions was RMB122,797 million (31 December 2019: RMB170,797 million). The maximum exposure to loss of those placements approximated to their carrying amount.

(Amounts in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

33 Interests in the structured entities (Continued)

33.1 Interests in the unconsolidated structured entities (Continued)

Structured entities sponsored by the Group (Continued)

In addition, there were no credit assets transferred by the Group into the unconsolidated structured entities during the six month period ended 30 June 2020 (for the six month period ended 30 June 2019: Nil). For the description of the portion of asset-backed securities issued by the above structured entities and held by the Group, refer to Note III.32.

Structured entities sponsored by other financial institutions

The interests held by the Group in the structured entities sponsored by other financial institutions through direct investments are set out below:

Structured entity type	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Financial assets at amortised cost	Total	Maximum exposure to loss
As at 30 June 2020					
Fund investments	51,537	–	–	51,537	51,537
Investment trusts and asset management plans	2,380	–	8,460	10,840	10,840
Asset-backed securitisations	128	63,282	41,921	105,331	105,331

Structured entity type	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Financial assets at amortised cost	Total	Maximum exposure to loss
As at 31 December 2019					
Fund investments	53,349	–	–	53,349	53,349
Investment trusts and asset management plans	2,396	–	8,163	10,559	10,559
Asset-backed securitisations	905	68,192	44,008	113,105	113,105

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

33 Interests in the structured entities (Continued)

33.2 Consolidated structured entities

The Group's consolidated structured entities mainly consist of open-end funds, private equity funds, trusts for asset-backed securities, and special-purpose companies. The Group controls these entities because the Group has power over, is exposed to, or has rights 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. Except for providing financial guarantees for the companies established solely for financing purposes, the Group does not provide financial or other support to the other consolidated structured entities.

34 Events after the financial reporting date

Dividend distribution plan of Domestic Preference Shares (First Tranche and Second Tranche)

The dividend distribution of Domestic Preference Shares (First Tranche and Second Tranche) was approved by the Board of Directors of the Bank on 30 August 2020. The annual dividend for the Domestic Preference Shares (First Tranche) amounting to RMB1,920 million (before tax) is scheduled to be paid on 23 November 2020 at a dividend rate of 6.00% (before tax). The annual dividend for the Domestic Preference Shares (Second Tranche) amounting to RMB1,540 million (before tax) is scheduled to be paid on 15 March 2021 at a dividend rate of 5.50% (before tax). The dividend payable was not reflected in liabilities of the financial statements.

(Amounts in millions of Renminbi, unless otherwise stated)

IV FINANCIAL RISK MANAGEMENT

1 Credit risk

1.1 Loans and advances

(1) Concentrations of risk for loans and advances to customers

(i) Analysis of loans and advances to customers by geographical area

Group

	As at 30 June 2020		As at 31 December 2019	
	Amount	% of total	Amount	% of total
Chinese mainland	10,983,505	78.45%	10,302,408	79.04%
Hong Kong, Macao and Taiwan	1,862,638	13.30%	1,697,434	13.02%
Other countries and regions	1,154,614	8.25%	1,034,347	7.94%
Total	14,000,757	100.00%	13,034,189	100.00%

Chinese mainland

	As at 30 June 2020		As at 31 December 2019	
	Amount	% of total	Amount	% of total
Northern China	1,607,658	14.64%	1,573,127	15.27%
Northeastern China	504,062	4.59%	494,186	4.80%
Eastern China	4,344,199	39.55%	4,016,742	38.99%
Central and Southern China	3,084,120	28.08%	2,875,436	27.91%
Western China	1,443,466	13.14%	1,342,917	13.03%
Total	10,983,505	100.00%	10,302,408	100.00%

(ii) Analysis of loans and advances to customers by customer type

	Chinese mainland	Hong Kong, Macao and Taiwan	Other countries and regions	Total
As at 30 June 2020				
Corporate loans and advances				
— Trade bills	1,054,674	112,398	133,811	1,300,883
— Other	5,212,352	1,181,032	961,980	7,355,364
Personal loans	4,716,479	569,208	58,823	5,344,510
Total	10,983,505	1,862,638	1,154,614	14,000,757
As at 31 December 2019				
Corporate loans and advances				
— Trade bills	996,845	108,177	127,170	1,232,192
— Other	4,853,846	1,051,188	849,154	6,754,188
Personal loans	4,451,717	538,069	58,023	5,047,809
Total	10,302,408	1,697,434	1,034,347	13,034,189

IV FINANCIAL RISK MANAGEMENT (Continued)

1 Credit risk (Continued)

1.1 Loans and advances (Continued)

(1) Concentrations of risk for loans and advances to customers (Continued)

(iii) Analysis of loans and advances to customers by industry

Group

	As at 30 June 2020		As at 31 December 2019	
	Amount	% of total	Amount	% of total
Corporate loans and advances				
Commerce and services	1,852,515	13.23%	1,706,650	13.09%
Manufacturing	1,814,064	12.96%	1,679,202	12.88%
Transportation, storage and postal services	1,368,992	9.78%	1,294,922	9.93%
Real estate	1,166,328	8.33%	1,042,664	8.00%
Production and supply of electricity, heating, gas and water	669,862	4.78%	649,289	4.98%
Financial services	633,808	4.53%	565,333	4.34%
Mining	295,132	2.11%	293,375	2.25%
Construction	288,731	2.06%	255,160	1.96%
Water, environment and public utility management	233,679	1.67%	199,376	1.53%
Public utilities	159,844	1.14%	149,855	1.15%
Other	173,292	1.24%	150,554	1.16%
Subtotal	8,656,247	61.83%	7,986,380	61.27%
Personal loans				
Mortgages	4,225,922	30.18%	3,993,271	30.64%
Credit cards	481,916	3.44%	476,743	3.66%
Other	636,672	4.55%	577,795	4.43%
Subtotal	5,344,510	38.17%	5,047,809	38.73%
Total	14,000,757	100.00%	13,034,189	100.00%

(Amounts in millions of Renminbi, unless otherwise stated)

IV FINANCIAL RISK MANAGEMENT (Continued)

1 Credit risk (Continued)

1.1 Loans and advances (Continued)

(1) Concentrations of risk for loans and advances to customers (Continued)

(iii) Analysis of loans and advances to customers by industry (Continued)

Chinese mainland

	As at 30 June 2020		As at 31 December 2019	
	Amount	% of total	Amount	% of total
Corporate loans and advances				
Commerce and services	1,400,959	12.75%	1,269,121	12.32%
Manufacturing	1,340,742	12.21%	1,285,438	12.48%
Transportation, storage and postal services	1,188,165	10.82%	1,129,091	10.96%
Real estate	621,989	5.66%	553,951	5.38%
Production and supply of electricity, heating, gas and water	482,426	4.39%	489,086	4.75%
Financial services	435,005	3.96%	398,095	3.86%
Mining	170,387	1.55%	165,218	1.60%
Construction	233,756	2.13%	214,351	2.08%
Water, environment and public utility management	224,042	2.04%	188,387	1.83%
Public utilities	129,172	1.18%	120,595	1.17%
Other	40,383	0.37%	37,358	0.36%
Subtotal	6,267,026	57.06%	5,850,691	56.79%
Personal loans				
Mortgages	3,794,760	34.55%	3,582,138	34.77%
Credit cards	469,520	4.27%	462,150	4.49%
Other	452,199	4.12%	407,429	3.95%
Subtotal	4,716,479	42.94%	4,451,717	43.21%
Total	10,983,505	100.00%	10,302,408	100.00%

IV FINANCIAL RISK MANAGEMENT (Continued)

1 Credit risk (Continued)

1.1 Loans and advances (Continued)

(1) Concentrations of risk for loans and advances to customers (Continued)

(iv) Analysis of loans and advances to customers by collateral type

Group

	As at 30 June 2020		As at 31 December 2019	
	Amount	% of total	Amount	% of total
Unsecured loans	4,468,057	31.91%	4,151,941	31.86%
Guaranteed loans	1,737,072	12.41%	1,572,146	12.06%
Collateralised and other secured loans	7,795,628	55.68%	7,310,102	56.08%
Total	14,000,757	100.00%	13,034,189	100.00%

Chinese mainland

	As at 30 June 2020		As at 31 December 2019	
	Amount	% of total	Amount	% of total
Unsecured loans	3,050,041	27.77%	2,923,150	28.37%
Guaranteed loans	1,347,913	12.27%	1,211,994	11.77%
Collateralised and other secured loans	6,585,551	59.96%	6,167,264	59.86%
Total	10,983,505	100.00%	10,302,408	100.00%

(2) Analysis of impaired loans and advances to customers

(i) Impaired loans and advances by geographical area

Group

	As at 30 June 2020			As at 31 December 2019		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Chinese mainland	181,383	91.43%	1.65%	169,951	95.35%	1.65%
Hong Kong, Macao and Taiwan	4,458	2.25%	0.24%	3,842	2.16%	0.23%
Other countries and regions	12,541	6.32%	1.09%	4,442	2.49%	0.43%
Total	198,382	100.00%	1.42%	178,235	100.00%	1.37%

(Amounts in millions of Renminbi, unless otherwise stated)

IV FINANCIAL RISK MANAGEMENT (Continued)

1 Credit risk (Continued)

1.1 Loans and advances (Continued)

(2) Analysis of impaired loans and advances to customers (Continued)

(i) Impaired loans and advances by geographical area (Continued)

Chinese mainland

	As at 30 June 2020			As at 31 December 2019		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Northern China	22,787	12.56%	1.42%	31,762	18.69%	2.02%
Northeastern China	21,020	11.59%	4.17%	22,123	13.02%	4.48%
Eastern China	60,006	33.08%	1.38%	59,764	35.17%	1.49%
Central and Southern China	62,816	34.63%	2.04%	39,060	22.98%	1.36%
Western China	14,754	8.14%	1.02%	17,242	10.14%	1.28%
Total	181,383	100.00%	1.65%	169,951	100.00%	1.65%

(ii) Impaired loans and advances by customer type

Group

	As at 30 June 2020			As at 31 December 2019		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Corporate loans and advances	164,954	83.15%	1.91%	149,427	83.84%	1.87%
Personal loans	33,428	16.85%	0.63%	28,808	16.16%	0.57%
Total	198,382	100.00%	1.42%	178,235	100.00%	1.37%

Chinese mainland

	As at 30 June 2020			As at 31 December 2019		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Corporate loans and advances	148,925	82.11%	2.38%	141,978	83.54%	2.43%
Personal loans	32,458	17.89%	0.69%	27,973	16.46%	0.63%
Total	181,383	100.00%	1.65%	169,951	100.00%	1.65%

IV FINANCIAL RISK MANAGEMENT (Continued)

1 Credit risk (Continued)

1.1 Loans and advances (Continued)

(2) Analysis of impaired loans and advances to customers (Continued)

(iii) Impaired loans and advances by geographical area and industry

	As at 30 June 2020			As at 31 December 2019		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Chinese mainland						
Corporate loans and advances						
Commerce and services	45,939	23.16%	3.28%	45,104	25.31%	3.55%
Manufacturing	69,574	35.07%	5.19%	59,646	33.46%	4.64%
Transportation, storage and postal services	12,822	6.46%	1.08%	8,276	4.64%	0.73%
Real estate	2,578	1.30%	0.41%	2,936	1.65%	0.53%
Production and supply of electricity, heating, gas and water	1,902	0.96%	0.39%	10,954	6.15%	2.24%
Financial services	1,068	0.54%	0.25%	225	0.13%	0.06%
Mining	4,865	2.45%	2.86%	4,946	2.77%	2.99%
Construction	4,141	2.09%	1.77%	3,561	2.00%	1.66%
Water, environment and public utility management	1,418	0.71%	0.63%	1,594	0.89%	0.85%
Public utilities	794	0.40%	0.61%	877	0.49%	0.73%
Other	3,824	1.93%	9.47%	3,859	2.17%	10.33%
Subtotal	148,925	75.07%	2.38%	141,978	79.66%	2.43%
Personal loans						
Mortgages	12,719	6.41%	0.34%	10,463	5.87%	0.29%
Credit cards	12,051	6.07%	2.57%	10,269	5.76%	2.22%
Other	7,688	3.88%	1.70%	7,241	4.06%	1.78%
Subtotal	32,458	16.36%	0.69%	27,973	15.69%	0.63%
Total for Chinese mainland	181,383	91.43%	1.65%	169,951	95.35%	1.65%
Hong Kong, Macao, Taiwan and other countries and regions	16,999	8.57%	0.56%	8,284	4.65%	0.30%
Total	198,382	100.00%	1.42%	178,235	100.00%	1.37%

(Amounts in millions of Renminbi, unless otherwise stated)

IV FINANCIAL RISK MANAGEMENT (Continued)

1 Credit risk (Continued)

1.1 Loans and advances (Continued)

(2) Analysis of impaired loans and advances to customers (Continued)

(iv) Impaired loans and advances and related allowance by geographical area

	Impaired loans	Allowance for impairment losses	Net
As at 30 June 2020			
Chinese mainland	181,383	(146,153)	35,230
Hong Kong, Macao and Taiwan	4,458	(2,853)	1,605
Other countries and regions	12,541	(7,058)	5,483
Total	198,382	(156,064)	42,318
As at 31 December 2019			
Chinese mainland	169,951	(131,307)	38,644
Hong Kong, Macao and Taiwan	3,842	(2,462)	1,380
Other countries and regions	4,442	(2,775)	1,667
Total	178,235	(136,544)	41,691

(3) Loans and advances rescheduled

Rescheduling is a voluntary or, to a limited extent, court-supervised procedure, through which the Group and a borrower and/or its guarantor, if any, rescheduled credit terms as a result of deterioration in the borrower's financial condition or of the borrower's inability to make payments when due. The Group reschedules a non-performing loan only if the borrower has good prospects. In addition, prior to approving the rescheduling of loans, the Group typically requires additional guarantees, pledges and/or collateral, or the assumption of the loan by a borrower with better repayment ability.

Rescheduled loans are subject to a surveillance period of six months. During the surveillance period, rescheduled loans remain as non-performing loans and the Group monitors the borrower's business operations and loan repayment patterns. After the surveillance period, rescheduled loans may be upgraded to "Special-mention" upon review if certain criteria are met. If the rescheduled loans fall overdue or if the borrower is unable to demonstrate its repayment ability, these loans will be reclassified to "Doubtful" or below. All rescheduled loans within the surveillance period were determined to be impaired as at 30 June 2020 and 31 December 2019.

As at 30 June 2020 and 31 December 2019, within impaired loans and advances, rescheduled loans and advances that were overdue for 90 days or less were insignificant.

IV FINANCIAL RISK MANAGEMENT (Continued)

1 Credit risk (Continued)

1.1 Loans and advances (Continued)

(4) Overdue loans and advances to customers

Analysis of overdue loans and advances by geographical area:

	As at 30 June 2020	As at 31 December 2019
Chinese mainland	168,492	149,978
Hong Kong, Macao and Taiwan	9,834	7,171
Other countries and regions	11,419	5,480
Subtotal	189,745	162,629
Percentage	1.36%	1.25%
Less: total loans and advances to customers which have been overdue for less than 3 months	(59,306)	(62,838)
Total loans and advances to customers which have been overdue for more than 3 months	130,439	99,791

(5) Loans and advances three-staging exposure

Loans and advances to customers by five-tier loan classification and three-staging are analysed as follows:

	12-month ECL	Lifetime ECL		Total
	Stage 1	Stage 2	Stage 3	
As at 30 June 2020				
Pass	13,484,743	42,770	–	13,527,513
Special-mention	–	270,798	–	270,798
Substandard	–	–	108,492	108,492
Doubtful	–	–	37,014	37,014
Loss	–	–	52,876	52,876
Total	13,484,743	313,568	198,382	13,996,693
As at 31 December 2019				
Pass	12,514,948	47,588	–	12,562,536
Special-mention	–	289,314	–	289,314
Substandard	–	–	77,459	77,459
Doubtful	–	–	51,804	51,804
Loss	–	–	48,972	48,972
Total	12,514,948	336,902	178,235	13,030,085

As at 30 June 2020 and 31 December 2019, loans and advances by five-tier loan classification and three-staging did not include loans and advances to customers measured at fair value through profit or loss.

(Amounts in millions of Renminbi, unless otherwise stated)

IV FINANCIAL RISK MANAGEMENT (Continued)

1 Credit risk (Continued)

1.2 Debt securities

The Group adopted a credit rating approach to manage the credit risk of the debt securities by referring to both internal and external credit rating. The carrying amounts (accrued interest excluded) of the debt investments analysed by external credit ratings at the financial reporting date are as follows:

	Unrated	A to AAA	Lower than A	Total
As at 30 June 2020				
Issuers in Chinese mainland				
— Government	11,055	2,961,623	–	2,972,678
— Public sectors and quasi-governments	99,070	–	–	99,070
— Policy banks	–	343,321	–	343,321
— Financial institutions	68,777	172,002	116,121	356,900
— Corporate	57,176	108,031	26,486	191,693
— China Orient Asset Management Corporation	152,433	–	–	152,433
Subtotal	388,511	3,584,977	142,607	4,116,095
Issuers in Hong Kong, Macao, Taiwan and other countries and regions				
— Governments	6,250	514,725	17,811	538,786
— Public sectors and quasi-governments	57,326	48,256	–	105,582
— Financial institutions	17,733	124,718	33,697	176,148
— Corporate	15,794	132,833	41,913	190,540
Subtotal	97,103	820,532	93,421	1,011,056
Total	485,614	4,405,509	236,028	5,127,151
As at 31 December 2019				
Issuers in Chinese mainland				
— Government	12,997	2,848,409	350	2,861,756
— Public sectors and quasi-governments	109,923	–	–	109,923
— Policy banks	–	435,212	–	435,212
— Financial institutions	86,765	219,640	214,672	521,077
— Corporate	64,457	121,200	26,852	212,509
— China Orient Asset Management Corporation	152,433	–	–	152,433
Subtotal	426,575	3,624,461	241,874	4,292,910
Issuers in Hong Kong, Macao, Taiwan and other countries and regions				
— Governments	2,364	506,421	16,089	524,874
— Public sectors and quasi-governments	60,332	58,889	–	119,221
— Financial institutions	5,675	123,249	31,916	160,840
— Corporate	11,957	127,515	34,663	174,135
Subtotal	80,328	816,074	82,668	979,070
Total	506,903	4,440,535	324,542	5,271,980

IV FINANCIAL RISK MANAGEMENT (Continued)

1 Credit risk (Continued)

1.3 Derivatives

The risk-weighted assets for counterparty credit risk ("CCR") of derivatives of the Group are calculated in accordance with the *Capital Rules for Commercial Banks (Provisional)* and other relevant regulations under the advanced capital measurement approaches. For derivative transactions, risk-weighted assets for CCR include the risk-weighted assets for default risk, the risk-weighted assets for credit valuation adjustment ("CVA") and the risk-weighted assets for central counterparties ("CCPs").

The risk-weighted assets for CCR of derivatives of the Group are calculated in accordance with the *Assets Measurement Rules for Counterparty Default Risks of Derivatives* since 1 January 2019.

The risk-weighted assets for CCR of derivatives are as follows:

	As at 30 June 2020	As at 31 December 2019
Risk-weighted assets for default risk		
Currency derivatives	64,809	62,076
Interest rate derivatives	18,805	10,442
Equity derivatives	745	338
Commodity derivatives and other	23,451	12,135
	107,810	84,991
Risk-weighted assets for CVA	110,541	79,954
Risk-weighted assets for CCPs	10,946	6,095
Total	229,297	171,040

1.4 Repossessed assets

The Group obtains assets by taking possession of collateral held as security. Detailed information of such repossessed assets of the Group is disclosed in Note III.20.

2 Market risk

2.1 Market risk measurement techniques and limits

(1) Trading book

For the purpose of market risk management in the trading book, the Group monitors trading book Value at Risk (VaR) limits, stress testing results and exposure limits and tracks each trading desk and dealer's observance of each limit on a daily basis.

VaR is used to estimate the largest potential loss arising from adverse market movements in a specific holding period and within a certain confidence level.

(Amounts in millions of Renminbi, unless otherwise stated)

IV FINANCIAL RISK MANAGEMENT (Continued)

2 Market risk (Continued)

2.1 Market risk measurement techniques and limits (Continued)

(1) Trading book (Continued)

VaR is performed separately by the Bank and its major subsidiaries that are exposed to market risk, Bank of China Hong Kong (Holdings) Limited ("BOCHK (Holdings)") and BOC International Holdings Limited ("BOCI"). The Bank, BOCHK (Holdings) and BOCI used a 99% level of confidence (therefore, statistical probability of 1% that actual losses could be greater than the VaR estimate) and a historical simulation model to calculate the VaR estimate. The holding period of the VaR calculations is one day. To enhance the Group's market risk management, the Group has established the market risk data mart, which enabled a group level trading book VaR calculation on a daily basis.

The accuracy and reliability of the VaR model is verified by daily back-testing of the VaR results in the trading book. The back-testing results are regularly reported to senior management.

The Group utilises stress testing as an effective supplement to the trading book VaR analysis. Stress testing scenarios are performed based on the characteristics of trading transactions to simulate and estimate losses in adverse and exceptional market conditions. To address changes in the financial markets, the Group enhances its market risk identification capabilities by continuously modifying and improving the trading book stress testing scenarios and measurement methodologies in order to capture the potential impact to transaction market prices stemming from changes in market prices and volatility.

The table below shows the VaR of the trading book by type of risk for the six month period ended 30 June 2020 and 2019:

Unit: USD million

	Six month period ended 30 June					
	2020			2019		
	Average	High	Low	Average	High	Low
The Bank's trading VaR						
Interest rate risk	14.05	17.87	9.40	17.68	21.46	13.24
Foreign exchange risk	24.01	35.33	11.83	14.77	20.84	9.80
Volatility risk	0.75	1.95	0.18	0.43	0.78	0.17
Commodity risk	6.63	13.76	3.04	1.12	1.54	0.75
Total of the Bank's trading VaR	27.74	38.68	16.18	20.76	26.64	17.11

The reporting of risk in relation to bullion is included in foreign exchange risk above.

IV FINANCIAL RISK MANAGEMENT (Continued)

2 Market risk (Continued)

2.1 Market risk measurement techniques and limits (Continued)

(1) Trading book (Continued)

Unit: USD million

	Six month period ended 30 June					
	2020			2019		
	Average	High	Low	Average	High	Low
BOCHK (Holdings)'s trading VaR						
Interest rate risk	3.19	4.58	1.71	2.24	3.12	1.26
Foreign exchange risk	1.91	3.78	0.84	1.86	2.69	0.98
Equity risk	0.10	0.38	0.03	0.07	0.32	0.03
Commodity risk	0.08	0.32	0.00	2.83	5.39	1.32
Total BOCHK (Holdings)'s trading VaR	3.95	5.69	2.25	3.89	6.16	2.96
BOCI's trading VaR⁽ⁱ⁾						
Equity derivatives unit	0.87	1.81	0.34	0.60	1.13	0.38
Fixed income unit	1.08	1.67	0.41	0.66	0.97	0.50
Global commodity unit	0.19	0.29	0.15	0.18	0.27	0.10
Total BOCI's trading VaR	2.15	3.04	1.57	1.43	2.21	1.17

- (i) BOCI monitors its trading VaR for equity derivatives unit, fixed income unit and global commodity unit separately, which include equity risk, interest rate risk, foreign exchange risk and commodity risk.

VaR for each risk factor is the independently derived largest potential loss in a specific holding period and within a certain confidence level due to fluctuations solely in that risk factor. The individual VaRs were not added up to the total VaR as there was a diversification effect due to correlation amongst the risk factors.

(2) Banking book

The banking book is exposed to interest rate risk arising from mismatches in repricing periods and inconsistent adjustments between the benchmark interest rates of assets and liabilities. The Group assesses interest rate risk in the banking book primarily through an interest rate repricing gap analysis. The interest rate gap analysis is set out in Note IV.2.2 and also covers the trading book.

(Amounts in millions of Renminbi, unless otherwise stated)

IV FINANCIAL RISK MANAGEMENT (Continued)

2 Market risk (Continued)

2.2 GAP analysis

The tables below summarise the Group's exposure to interest rate risks. It includes the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	As at 30 June 2020						Total
	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Non- interest bearing	
Assets							
Cash and due from banks and other financial institutions	327,619	107,875	227,513	3,876	–	73,087	739,970
Balances with central banks	1,904,999	3,912	460	353	–	200,130	2,109,854
Placements with and loans to banks and other financial institutions	706,897	213,303	253,732	44,194	–	7,047	1,225,173
Derivative financial assets	–	–	–	–	–	114,856	114,856
Loans and advances to customers, net	2,900,038	2,491,969	7,425,474	214,215	82,473	556,651	13,670,820
Financial investments							
— financial assets at fair value through profit or loss	11,263	34,705	49,058	51,329	151,875	152,425	450,655
— financial assets at fair value through other comprehensive income	137,775	257,398	289,653	844,039	480,636	45,285	2,054,786
— financial assets at amortised cost	50,795	79,720	473,931	1,234,314	991,198	38,902	2,868,860
Other	23,074	–	–	–	12,737	882,070	917,881
Total assets	6,062,460	3,188,882	8,719,821	2,392,320	1,718,919	2,070,453	24,152,855
Liabilities							
Due to banks and other financial institutions	1,020,622	226,970	164,147	5,781	–	194,463	1,611,983
Due to central banks	381,087	96,406	381,437	20,775	–	8,922	888,627
Placements from banks and other financial institutions	335,480	91,133	109,031	123	–	1,599	537,366
Derivative financial liabilities	–	–	–	–	–	123,271	123,271
Due to customers	9,749,983	1,493,492	2,685,852	2,686,214	1,203	473,473	17,090,217
Bonds issued	121,916	249,044	279,108	400,561	27,601	9,676	1,087,906
Other	21,327	21,862	4,539	10,624	24,927	641,593	724,872
Total liabilities	11,630,415	2,178,907	3,624,114	3,124,078	53,731	1,452,997	22,064,242
Total interest repricing gap	(5,567,955)	1,009,975	5,095,707	(731,758)	1,665,188	617,456	2,088,613

IV FINANCIAL RISK MANAGEMENT (Continued)

2 Market risk (Continued)

2.2 GAP analysis (Continued)

	As at 31 December 2019						
	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Non- interest bearing	Total
Assets							
Cash and due from banks and							
other financial institutions	326,312	52,603	116,321	2,845	129	67,257	565,467
Balances with central banks	1,848,825	2,289	594	–	–	227,101	2,078,809
Placements with and loans to banks and							
other financial institutions	427,786	195,628	230,922	40,489	–	4,134	898,959
Derivative financial assets	–	–	–	–	–	93,335	93,335
Loans and advances to customers, net	3,317,026	2,369,401	6,291,477	207,511	82,221	475,789	12,743,425
Financial investments							
— financial assets at fair value through profit or loss	17,516	53,982	97,306	54,269	148,855	146,322	518,250
— financial assets at fair value through other comprehensive income	188,302	287,412	366,595	837,429	492,120	46,271	2,218,129
— financial assets at amortised cost	33,368	45,578	487,744	1,331,541	841,101	38,351	2,777,683
Other	4,897	–	–	–	12,737	858,053	875,687
Total assets	6,164,032	3,006,893	7,590,959	2,474,084	1,577,163	1,956,613	22,769,744
Liabilities							
Due to banks and other financial institutions	988,433	371,241	130,006	3,617	–	174,749	1,668,046
Due to central banks	251,446	72,048	510,594	3,570	–	8,619	846,277
Placements from banks and							
other financial institutions	495,927	71,468	69,079	1,363	14	1,824	639,675
Derivative financial liabilities	–	–	–	–	–	90,060	90,060
Due to customers	9,117,294	1,540,251	2,488,155	2,296,955	339	374,554	15,817,548
Bonds issued	57,441	192,462	404,780	402,772	32,451	6,181	1,096,087
Other	23,693	19,255	10,006	10,847	20,832	550,722	635,355
Total liabilities	10,934,234	2,266,725	3,612,620	2,719,124	53,636	1,206,709	20,793,048
Total interest repricing gap	(4,770,202)	740,168	3,978,339	(245,040)	1,523,527	749,904	1,976,696

(Amounts in millions of Renminbi, unless otherwise stated)

IV FINANCIAL RISK MANAGEMENT (Continued)

2 Market risk (Continued)

2.3 Foreign currency risk

The tables below summarise the Group's exposure to foreign currency exchange rate risk as at 30 June 2020 and 31 December 2019. The Group's exposure to RMB is provided in the tables below for comparison purposes. Included in the tables are the carrying amounts of the assets and liabilities of the Group along with off-balance sheet positions and credit commitments in RMB equivalent, categorised by the original currencies. Derivative financial instruments are included in net off-balance sheet position using notional amounts.

	As at 30 June 2020							
	RMB	USD	HKD	EURO	JPY	GBP	Other	Total
Assets								
Cash and due from banks and other financial institutions	456,468	197,895	24,360	35,264	5,279	1,918	18,786	739,970
Balances with central banks	1,471,035	295,418	119,626	75,341	49,627	69,076	29,731	2,109,854
Placements with and loans to banks and other financial institutions	923,802	210,726	26,936	14,500	–	1,273	47,936	1,225,173
Derivative financial assets	31,769	46,011	24,083	615	10	7,578	4,790	114,856
Loans and advances to customers, net	10,470,568	1,319,129	1,119,302	289,368	11,857	66,672	393,924	13,670,820
Financial investments								
— financial assets at fair value through profit or loss	279,732	78,820	82,434	9,293	329	16	31	450,655
— financial assets at fair value through other comprehensive income	1,211,624	478,644	169,942	26,639	81,390	3,197	83,350	2,054,786
— financial assets at amortised cost	2,580,645	237,168	2,238	6,904	4,427	3,182	34,296	2,868,860
Other	296,127	191,755	216,352	1,080	1,667	2,558	208,342	917,881
Total assets	17,721,770	3,055,566	1,785,273	459,004	154,586	155,470	821,186	24,152,855
Liabilities								
Due to banks and other financial institutions	879,990	429,740	27,720	47,460	16,793	7,711	202,569	1,611,983
Due to central banks	595,425	261,311	14,043	11,471	–	211	6,166	888,627
Placements from banks and other financial institutions	73,999	349,694	78,772	14,084	11,913	4,486	4,418	537,366
Derivative financial liabilities	28,306	61,739	19,619	784	96	7,328	5,399	123,271
Due to customers	12,922,471	1,925,937	1,391,594	250,363	40,865	72,330	486,657	17,090,217
Bonds issued	756,195	246,359	13,114	48,963	1,972	5,748	15,555	1,087,906
Other	299,037	104,133	304,848	2,226	364	1,087	13,177	724,872
Total liabilities	15,555,423	3,378,913	1,849,710	375,351	72,003	98,901	733,941	22,064,242
Net on-balance sheet position	2,166,347	(323,347)	(64,437)	83,653	82,583	56,569	87,245	2,088,613
Net off-balance sheet position	(378,500)	335,996	276,360	(72,984)	(81,988)	(54,365)	(10,470)	14,049
Credit commitments	3,006,647	810,997	261,328	125,867	10,369	46,230	112,587	4,374,025

IV FINANCIAL RISK MANAGEMENT (Continued)

2 Market risk (Continued)

2.3 Foreign currency risk (Continued)

	As at 31 December 2019							
	RMB	USD	HKD	EURO	JPY	GBP	Other	Total
Assets								
Cash and due from banks and other financial institutions	370,569	140,513	18,368	10,977	7,833	1,691	15,516	565,467
Balances with central banks	1,583,469	265,682	57,599	59,456	49,422	34,133	29,048	2,078,809
Placements with and loans to banks and other financial institutions	652,817	149,463	33,441	6,050	141	2,435	54,612	898,959
Derivative financial assets	42,558	13,694	26,586	446	20	6,348	3,683	93,335
Loans and advances to customers, net	9,870,244	1,170,630	1,027,104	250,730	11,194	69,423	344,100	12,743,425
Financial investments								
— financial assets at fair value through profit or loss	346,644	78,848	83,199	2,540	6,925	16	78	518,250
— financial assets at fair value through other comprehensive income	1,354,391	489,432	150,486	32,292	103,797	2,610	85,121	2,218,129
— financial assets at amortised cost	2,525,349	219,495	3,319	4,802	770	954	22,994	2,777,683
Other	268,436	162,203	198,398	1,357	1,465	2,691	241,137	875,687
Total assets	17,014,477	2,689,960	1,598,500	368,650	181,567	120,301	796,289	22,769,744
Liabilities								
Due to banks and other financial institutions	1,009,086	391,869	27,167	43,826	21,193	7,374	167,531	1,668,046
Due to central banks	570,675	247,096	19,979	5,920	—	258	2,349	846,277
Placements from banks and other financial institutions	298,497	213,662	76,294	17,161	25,330	3,745	4,986	639,675
Derivative financial liabilities	36,135	19,811	22,813	707	52	6,112	4,430	90,060
Due to customers	11,925,923	1,836,997	1,255,663	254,485	56,683	55,672	432,125	15,817,548
Bonds issued	766,816	258,893	11,868	38,794	1,920	2,744	15,052	1,096,087
Other	254,949	91,825	267,607	3,131	351	1,863	15,629	635,355
Total liabilities	14,862,081	3,060,153	1,681,391	364,024	105,529	77,768	642,102	20,793,048
Net on-balance sheet position	2,152,396	(370,193)	(82,891)	4,626	76,038	42,533	154,187	1,976,696
Net off-balance sheet position	(463,297)	378,515	283,483	5,828	(75,754)	(40,620)	(74,643)	13,512
Credit commitments	2,959,323	836,835	257,229	124,696	9,841	49,401	105,245	4,342,570

(Amounts in millions of Renminbi, unless otherwise stated)

IV FINANCIAL RISK MANAGEMENT (Continued)

3 Liquidity risk

The tables below analyse the Group's assets and liabilities into relevant maturity groupings based on the remaining period from the financial reporting date to the contractual maturity date.

	As at 30 June 2020							
	Overdue/ Undated	On demand	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Total
Assets								
Cash and due from banks and other financial institutions	21	290,754	107,225	109,033	229,061	3,876	–	739,970
Balances with central banks	1,486,493	541,732	52,199	7,106	21,251	1,073	–	2,109,854
Placements with and loans to banks and other financial institutions	36	–	693,921	204,374	260,890	65,952	–	1,225,173
Derivative financial assets	–	13,623	13,241	10,993	28,714	35,822	12,463	114,856
Loans and advances to customers, net	47,841	219,851	508,612	1,268,487	3,036,980	3,559,381	5,029,668	13,670,820
Financial investments								
— financial assets at fair value through profit or loss	148,520	–	11,219	32,376	48,971	55,922	153,647	450,655
— financial assets at fair value through other comprehensive income	23,203	–	91,665	207,911	315,991	907,271	508,745	2,054,786
— financial assets at amortised cost	2,993	–	56,739	93,720	326,691	1,394,303	994,414	2,868,860
Other	348,654	384,781	37,665	17,241	26,625	74,021	28,894	917,881
Total assets	2,057,761	1,450,741	1,572,486	1,951,241	4,295,174	6,097,621	6,727,831	24,152,855
Liabilities								
Due to banks and other financial institutions	–	1,101,785	106,013	224,847	172,472	6,290	576	1,611,983
Due to central banks	–	241,992	139,316	96,941	389,440	20,938	–	888,627
Placements from banks and other financial institutions	–	–	332,607	87,577	111,286	5,896	–	537,366
Derivative financial liabilities	–	9,840	11,475	11,784	26,323	44,895	18,954	123,271
Due to customers	–	8,370,173	1,713,150	1,504,224	2,747,127	2,749,333	6,210	17,090,217
Bonds issued	–	–	89,745	203,028	311,418	456,114	27,601	1,087,906
Other	–	292,737	133,011	30,320	93,529	98,977	76,298	724,872
Total liabilities	–	10,016,527	2,525,317	2,158,721	3,851,595	3,382,443	129,639	22,064,242
Net liquidity gap	2,057,761	(8,565,786)	(952,831)	(207,480)	443,579	2,715,178	6,598,192	2,088,613

IV FINANCIAL RISK MANAGEMENT (Continued)

3 Liquidity risk (Continued)

	As at 31 December 2019							
	Overdue/ Undated	On demand	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Total
Assets								
Cash and due from banks and other financial institutions	21	204,121	183,170	55,805	119,376	2,845	129	565,467
Balances with central banks	1,513,473	527,657	16,242	8,293	12,441	703	–	2,078,809
Placements with and loans to banks and other financial institutions	44	–	417,352	185,843	241,024	54,696	–	898,959
Derivative financial assets	–	10,697	14,983	20,855	24,869	16,610	5,321	93,335
Loans and advances to customers, net	51,073	188,916	458,233	1,216,882	2,716,777	3,221,650	4,889,894	12,743,425
Financial investments								
— financial assets at fair value through profit or loss	143,255	–	16,394	49,949	98,245	58,537	151,870	518,250
— financial assets at fair value through other comprehensive income	22,067	–	142,122	234,297	396,998	912,932	509,713	2,218,129
— financial assets at amortised cost	1,767	–	35,141	53,375	506,346	1,337,456	843,598	2,777,683
Other	345,309	381,978	24,301	12,827	23,308	60,436	27,528	875,687
Total assets	2,077,009	1,313,369	1,307,938	1,838,126	4,139,384	5,665,865	6,428,053	22,769,744
Liabilities								
Due to banks and other financial institutions	–	1,036,810	125,011	324,062	175,301	6,779	83	1,668,046
Due to central banks	–	180,113	70,832	72,898	518,864	3,570	–	846,277
Placements from banks and other financial institutions	–	–	492,657	70,924	69,694	6,386	14	639,675
Derivative financial liabilities	–	8,780	11,165	15,936	26,652	20,482	7,045	90,060
Due to customers	–	7,843,084	1,541,342	1,540,159	2,541,528	2,343,527	7,908	15,817,548
Bonds issued	–	–	23,985	150,073	416,192	470,942	34,895	1,096,087
Other	–	280,526	53,662	12,895	121,693	92,907	73,672	635,355
Total liabilities	–	9,349,313	2,318,654	2,186,947	3,869,924	2,944,593	123,617	20,793,048
Net liquidity gap	2,077,009	(8,035,944)	(1,010,716)	(348,821)	269,460	2,721,272	6,304,436	1,976,696

IV FINANCIAL RISK MANAGEMENT (Continued)

4 Fair value

4.1 Financial instruments measured at fair value

Financial instruments measured at fair value are classified into the following three levels:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities, including equity securities listed on exchanges or debt instruments issued by certain governments and certain exchange-traded derivative contracts.
- Level 2: Valuation technique for which all inputs that have a significant effect on the recorded fair value other than quoted prices included within Level 1 are observable for the asset or liability, either directly or indirectly. This level includes the majority of the over-the-counter (“OTC”) derivative contracts, debt securities for which quotations are available from pricing service providers, discounted bills, etc.
- Level 3: Valuation technique using inputs which have a significant effect on the recorded fair value for the asset or liability are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

The Group’s policy is to recognise transfers between levels of the fair value hierarchy as at the end of the reporting period in which they occur.

The Group uses valuation techniques or counterparty quotations to determine the fair value when it is unable to obtain open market quotation in active markets.

The main parameters used in valuation techniques include bond prices, interest rates, foreign exchange rates, equity and stock prices, volatilities, correlations, early repayment rates, counterparty credit spreads and others, which are all observable and obtainable from the open market.

For certain illiquid debt securities (mainly asset-backed securities), unlisted equity (private equity), OTC structured derivative transactions and unlisted funds held by the Group, management obtains valuation quotations from counterparties or uses valuation techniques to determine the fair value, including the discounted cash flow analysis, net asset value and market comparison approach, etc. The fair value of these financial instruments may be based on unobservable inputs which may have a significant impact on the valuation of these financial instruments, and therefore, these assets and liabilities have been classified by the Group as Level 3. Management determines whether to make necessary adjustments to the fair value for the Group’s Level 3 financial instruments by assessing the impact of changes in macro-economic factors, valuations by external valuation agencies and other inputs, including loss coverage ratios. The Group has established internal control procedures to control the Group’s exposure to such financial instruments.

IV FINANCIAL RISK MANAGEMENT (Continued)

4 Fair value (Continued)

4.1 Financial instruments measured at fair value (Continued)

	As at 30 June 2020			
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Derivative financial assets	16,379	98,477	–	114,856
Loans and advances to customers at fair value	–	389,055	–	389,055
Financial assets at fair value through profit or loss				
— Debt securities	4,181	279,111	15,033	298,325
— Equity instruments	9,455	12,657	67,547	89,659
— Fund investments and other	17,664	4,338	40,669	62,671
Financial assets at fair value through other comprehensive income				
— Debt securities	194,225	1,835,817	1,834	2,031,876
— Equity instruments and other	6,801	11,341	4,768	22,910
Financial liabilities measured at fair value				
Due to and placements from banks and other financial institutions at fair value	–	(7,859)	–	(7,859)
Due to customers at fair value	–	(31,341)	–	(31,341)
Bonds issued at fair value	–	(10,271)	–	(10,271)
Short position in debt securities	(2,191)	(10,319)	–	(12,510)
Derivative financial liabilities	(14,093)	(109,178)	–	(123,271)
	As at 31 December 2019			
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Derivative financial assets	11,635	81,690	10	93,335
Loans and advances to customers at fair value	–	339,687	–	339,687
Financial assets at fair value through profit or loss				
— Debt securities	9,988	345,296	15,948	371,232
— Equity instruments	6,586	1,154	71,716	79,456
— Fund investments and other	21,747	6,879	38,936	67,562
Financial assets at fair value through other comprehensive income				
— Debt securities	230,606	1,964,070	1,676	2,196,352
— Equity instruments and other	7,425	9,077	5,275	21,777
Financial liabilities measured at fair value				
Due to and placements from banks and other financial institutions at fair value	–	(14,767)	–	(14,767)
Due to customers at fair value	–	(17,969)	–	(17,969)
Bonds issued at fair value	–	(26,113)	–	(26,113)
Short position in debt securities	(2,158)	(17,317)	–	(19,475)
Derivative financial liabilities	(9,762)	(80,298)	–	(90,060)

(Amounts in millions of Renminbi, unless otherwise stated)

IV FINANCIAL RISK MANAGEMENT (Continued)

4 Fair value (Continued)

4.1 Financial instruments measured at fair value (Continued)

Reconciliation of Level 3 items

	Derivative financial assets	Financial assets at fair value through profit or loss			Financial assets at fair value through other comprehensive income	
		Debt Securities	Equity instruments	Fund investments and other	Debt securities	Equity instruments and other
As at 1 January 2020	10	15,948	71,716	38,936	1,676	5,275
Total gains and losses						
— profit	18	534	4,192	412	—	—
— other comprehensive income	—	—	—	—	126	371
Sales	—	(1,665)	(4,355)	(1,678)	(1)	—
Purchases	—	177	7,480	2,966	—	739
Settlements	—	(1)	—	—	—	—
Transfers out of Level 3, net	(28)	—	(11,486)	—	—	(1,617)
Other changes	—	40	—	33	33	—
As at 30 June 2020	—	15,033	67,547	40,669	1,834	4,768
Total gains for the period included in the income statement for assets/liabilities held as at 30 June 2020	—	534	2,594	372	—	—

IV FINANCIAL RISK MANAGEMENT (Continued)

4 Fair value (Continued)

4.1 Financial instruments measured at fair value (Continued)

Reconciliation of Level 3 items (Continued)

	Derivative financial assets	Financial assets at fair value through profit or loss			Financial assets at fair value through other comprehensive income	
		Debt securities	Equity instruments	Fund investments and other	Debt securities	Equity instruments and other
As at 1 January 2019	6	8,417	43,089	34,512	1,422	5,364
Total gains and losses						
— profit/(loss)	10	1,510	(689)	3,245	—	—
— other comprehensive income	—	—	—	—	223	(849)
Sales	—	(175)	(1,002)	(3,649)	(2)	(2)
Purchases	—	6,159	30,318	4,708	—	762
Settlements	—	—	—	—	—	—
Transfers (out)/in of Level 3, net	(6)	—	—	60	—	—
Other changes	—	37	—	60	33	—
As at 31 December 2019	10	15,948	71,716	38,936	1,676	5,275
Total gains/(losses) for the period included in the income statement for assets/liabilities held as at						
31 December 2019	10	1,510	(630)	3,235	—	—

Total gains or losses for the six month period ended 30 June 2020 and for the year ended 31 December 2019 included in the income statement as well as total gains or losses included in the income statement relating to financial instruments held as at 30 June 2020 and 31 December 2019 are presented in “Net trading gains”, “Net gains on transfers of financial asset” or “Impairment losses on assets” depending on the nature or category of the related financial instruments.

Gains or losses on Level 3 financial assets and liabilities included in the income statement comprise:

	For the six month period ended 30 June					
	2020			2019		
	Realised	Unrealised	Total	Realised	Unrealised	Total
Total gains/(losses) for the period	1,638	3,518	5,156	(48)	2,740	2,692

There were no significant transfers of the financial assets and liabilities measured at fair value between Level 1 and Level 2 during the six month period ended 30 June 2020.

(Amounts in millions of Renminbi, unless otherwise stated)

IV FINANCIAL RISK MANAGEMENT (Continued)

4 Fair value (Continued)

4.2 Financial instruments not measured at fair value

Financial assets and liabilities not presented at fair value in the statement of financial position mainly represent “Balances with central banks”, “Due from banks and other financial institutions”, “Placements with and loans to banks and other financial institutions”, “Due to central banks”, “Due to banks and other financial institutions”, “Loans and advances to customers measured at amortised cost”, “Financial investments measured at amortised cost”, “Placements from banks and other financial institutions at amortised cost”, “Due to customers at amortised cost”, “Bonds issued at amortised cost” and “lease liabilities”.

The tables below summarise the carrying amounts and fair values of “Debt securities at amortised cost” and “Bonds issued” not presented at fair value at the financial reporting date.

	As at 30 June 2020		As at 31 December 2019	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Debt securities at amortised cost ⁽¹⁾	2,860,280	2,919,084	2,769,400	2,774,641
Financial liabilities				
Bonds issued ⁽²⁾	1,077,635	1,082,180	1,069,974	1,069,309

(1) Debt securities at amortised cost

The China Orient Asset Management Corporation Bond and Special Purpose Treasury Bond held by the Bank are non-negotiable. As there are no observable market prices or yields reflecting arm's length transactions of a comparable size and tenor, the fair value is determined based on the stated interest rate of the instruments.

Fair values of other debt securities are based on market prices or broker/dealer price quotations. Where this information is not available, the Bank will perform valuation by referring to prices from valuation service providers or on the basis of discounted cash flow models. Valuation parameters include market interest rates, expected future default rates, prepayment rates and market liquidity. The fair values of RMB bonds are mainly determined based on the valuation results provided by China Central Depository & Clearing Co., Ltd..

(2) Bonds issued

The aggregate fair values are calculated based on quoted market prices. For those bonds where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

IV FINANCIAL RISK MANAGEMENT (Continued)

4 Fair value (Continued)

4.2 Financial instruments not measured at fair value (Continued)

The tables below summarise the fair values of three levels of “Debt securities at amortised cost” (excluding the China Orient Asset Management Corporation Bond and Special Purpose Treasury Bond), and “Bonds issued” not presented at fair value at the financial reporting date.

	As at 30 June 2020			
	Level 1	Level 2	Level 3	Total
Financial assets				
Debt securities at amortised cost	89,394	2,627,837	3,703	2,720,934
Financial liabilities				
Bonds issued	–	1,082,180	–	1,082,180

	As at 31 December 2019			
	Level 1	Level 2	Level 3	Total
Financial assets				
Debt securities at amortised cost	71,966	2,505,680	2,062	2,579,708
Financial liabilities				
Bonds issued	–	1,069,309	–	1,069,309

Other than the above, the difference between the carrying amounts and fair values of those financial assets and liabilities not presented at their fair value in the statement of financial position is insignificant. Fair value is measured using a discounted cash flow model.

IV FINANCIAL RISK MANAGEMENT (Continued)

5 Capital management

The Group follows the principles below with regard to capital management:

- Adequate capital and sustainable development. Follow the lead of the strategic planning of the Group development; and maintain the high quality and adequacy of capital as to meet regulation requirements, support business growth, and advance the sustainable development of the scale, quality and performance of the business in the Group.
- Allocation optimisation and benefit augmentation. Allocate capital properly by prioritising the asset businesses with low capital occupancy and high comprehensive income, and steadily improve the efficiency and return of capital, to achieve the reciprocal matchup and dynamic equilibrium among risks, assets and returns.
- Refined management and capital level improvement. Optimise the capital management system by sufficiently identifying, calculating, monitoring, mitigating, and controlling various types of risks; incorporate capital restraints into the whole process of product pricing, resource allocation, structural adjustments, performance evaluation, etc., ensuring that the capital employed is commensurate with the related risks and the level of risk management.

Capital adequacy and regulatory capital are monitored by the Group's management, employing techniques based on the guidelines developed by the Basel Committee, as implemented by the CBIRC, for supervisory purposes. The required information is filed with the CBIRC on a quarterly basis.

The Group's capital adequacy ratios are calculated in accordance with the *Capital Rules for Commercial Banks (Provisional)* and other relevant regulations. With the approval of the CBIRC, the Group adopts the advanced capital measurement approaches, which include Foundation Internal Ratings-based Approach for corporate exposures, Internal Ratings-based Approach for retail exposures, Internal Models Approach for market risk and Standardised Approach for operational risk. For risk exposures not covered by the advanced approaches, the corresponding portion shall be calculated adopting non-advanced approaches.

As a Systemically Important Bank, the Group's capital adequacy ratios are required to meet the lowest requirements of the CBIRC, that is, the common equity tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio should be no less than 8.50%, 9.50% and 11.50%, respectively.

The Group's regulatory capital is managed by its capital management related departments and consists of the following:

- Common equity tier 1 capital, including common shares, capital reserve, surplus reserve, general reserve, undistributed profits, eligible portion of minority interests and others;
- Additional tier 1 capital, including additional tier 1 capital instruments issued and related premium and eligible portion of minority interests;
- Tier 2 capital, including tier 2 capital instruments issued and related premium, excess loan loss provisions and eligible portion of minority interests.

Goodwill, other intangible assets (except land use rights), investments in common equity tier 1 capital of financial institutions with controlling interests but outside of the scope of regulatory consolidation, significant minority capital investment in tier 2 capital of financial institutions that are outside of the scope of regulatory consolidation and other deductible items are deducted from common equity tier 1 and tier 2 capital to derive at the regulatory capital.

IV FINANCIAL RISK MANAGEMENT (Continued)

5 Capital management (Continued)

The table below summarises the Group's common equity tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio⁽¹⁾ calculated in accordance with the *Capital Rules for Commercial Banks (Provisional)* and other relevant regulations.

	As at 30 June 2020	As at 31 December 2019
Common equity tier 1 capital adequacy ratio	11.01%	11.30%
Tier 1 capital adequacy ratio	12.82%	12.79%
Capital adequacy ratio	15.42%	15.59%
Composition of the Group's capital base		
Common equity tier 1 capital	1,664,681	1,620,563
Common shares	294,388	294,388
Capital reserve	134,269	134,269
Surplus reserve	174,128	173,832
General reserve	246,998	249,983
Undistributed profits	756,905	721,731
Eligible portion of minority interests	32,725	30,528
Other ⁽²⁾	25,268	15,832
Regulatory deductions	(24,112)	(24,185)
Of which:		
Goodwill	(182)	(182)
Other intangible assets (except land use rights)	(12,404)	(12,936)
Direct or indirect investments in own shares	(20)	(7)
Investments in common equity tier 1 capital of financial institutions with controlling interests but outside the scope of regulatory consolidation	(9,994)	(9,955)
Net common equity tier 1 capital	1,640,569	1,596,378
Additional tier 1 capital	270,095	210,057
Preference shares and related premium	179,482	159,901
Additional capital instruments and related premium	79,982	39,992
Eligible portion of minority interests	10,631	10,164
Net tier 1 capital	1,910,664	1,806,435
Tier 2 capital	388,182	394,843
Tier 2 capital instruments issued and related premium	263,954	280,092
Excess loan loss provisions	114,741	105,127
Eligible portion of minority interests	9,487	9,624
Net capital	2,298,846	2,201,278
Risk-weighted assets	14,904,162	14,123,915

(1) When calculating the capital adequacy ratios, Bank of China Group Investment Limited ("BOCG Investment"), Bank of China Insurance Company Limited ("BOC Insurance"), Bank of China Group Insurance Company Limited ("BOCG Insurance") and Bank of China Group Life Assurance Company Limited ("BOCG Life") were excluded from the scope of consolidation in accordance with requirements of the CBIRC.

(2) This mainly represented exchange differences from the translation of foreign operations and gains/(losses) on financial assets at fair value through other comprehensive income.