

# Notes to the Consolidated Financial Statements

(Amount in millions of Renminbi, unless otherwise stated)

## I GENERAL INFORMATION AND PRINCIPAL ACTIVITIES

Bank of China Limited (the “Bank”), formerly known as Bank of China, a State-owned joint stock commercial bank, was founded on 5 February 1912. From its formation until 1949, the Bank performed various functions of a central bank, foreign exchange bank and commercial bank specialising in trade finance. After 1949, the Bank was designated as the state-designated specialised foreign exchange and trade bank. Since 1994, the Bank has evolved into a State-owned commercial bank. In this regard, in accordance with the Master Implementation Plan for the Joint Stock Reform approved by the State Council of the PRC, the Bank was converted into a joint stock commercial bank on 26 August 2004 and its name was changed from Bank of China to Bank of China Limited. In 2006, the Bank listed on the Stock Exchange of Hong Kong Limited and the Shanghai Stock Exchange.

The Bank is licensed as a financial institution by the China Banking and Insurance Regulatory Commission (the “CBIRC”) No. B0003H111000001 and is issued the business license of legal enterprise with unified social credit code No. 911000001000013428 by the State Administration of Industry and Commerce of the PRC. The registered address is No.1, Fuxingmen Nei Dajie, Beijing, China.

The Bank and its subsidiaries (together the “Group”) provide a full range of corporate banking, personal banking, treasury operations, investment banking, insurance and other services to its customers in the Chinese mainland, Hong Kong, Macao, Taiwan and other major international financial centres.

The Bank’s principal regulator is the CBIRC. The operations in Hong Kong, Macao, Taiwan and other countries and regions of the Group are subject to the supervision of local regulators.

The parent company is Central Huijin Investment Limited (“Huijin”), a wholly owned subsidiary of China Investment Corporation (“CIC”).

These consolidated financial statements have been approved by the Board of Directors on 30 March 2021.

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

### 1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with IFRSs. In addition, the consolidated financial statements comply with the disclosure requirements of the Hong Kong Companies Ordinance.

Financial assets at fair value through other comprehensive income, financial assets and financial liabilities at fair value through profit or loss (including derivative financial instruments) and investment properties are measured at their fair values in the consolidated financial statements. Other accounting items are measured at their historical costs. Impairment allowance is recognised and measured as relevant policy.

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

## Notes to the Consolidated Financial Statements

**II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)****1 Basis of preparation (Continued)****1.1 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.

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 implications of the adoption of amendments on the Group are addressed in Note V.16.3.

IFRS 16 Amendment provides for rent concessions 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 modifications in IFRS 16 for qualifying rent concessions 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.

(Amount in millions of Renminbi, unless otherwise stated)

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### 1 Basis of preparation (Continued)

#### 1.2 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 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Amendments	<i>Interest Rate Benchmark Reform — Phase 2</i>	1 January 2021
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
IAS 1 and IFRS Practice Statement 2 Amendments	<i>Disclosure of Accounting Policies</i>	1 January 2023
IAS 8 Amendments	<i>Definition of Accounting Estimates</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 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 address the accounting issues that arise when financial instruments that reference Interbank Offered Rates (“IBOR”) transition to nearly risk-free rates (“RFRs”). The amendments include a practical expedient for modifications, which permits contractual changes, or changes to cash flows that are directly required by the IBOR reform, to be treated as changes to a floating interest rate. The amendments also permit changes required by IBOR reform to be made to hedge designations and hedge documentation under both IFRS 9 and IAS 39 without the hedging relationship being discontinued. In addition, while IFRS 9 and IAS 39 require that a risk component (or a designated portion) is “separately identifiable” to be eligible for hedge accounting, the amendments provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component. Disclose information about new risks arising from the reform and how it manages the transition to alternative benchmark rates is required by the amendments.

## Notes to the Consolidated Financial Statements

### II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

#### 1 Basis of preparation (Continued)

##### **1.2 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2020 (Continued)**

IFRS 3 Amendments add an exception to the recognition principle of IFRS 3 to avoid the issue of potential “day 2” gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date. At the same time, the amendments add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

IAS 16 Amendments prohibit entities from deducting from the cost of an item of property, plant and equipment, any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

IAS 37 Amendments specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a “directly related cost approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

IAS 1 Amendments specify the requirements for classifying liabilities as current or non-current. The amendments clarify what is meant by a right to defer settlement that a right to defer must exist at the end of the reporting period, classification is unaffected by the likelihood that an entity will exercise its deferral right, and only if an embedded derivative in a convertible liability is itself an equity instrument, would the terms of a liability not impact its classification.

The amendments to IAS 1 and IFRS Practice Statement 2 (the PS) provide guidance to help entities apply materiality judgements to accounting policy disclosures. The amendments replace the requirement for entities to disclose their “significant” accounting policies with a requirement to disclose their “material” accounting policies. The amendments add guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

IAS 8 Amendments introduce a new definition of “accounting estimates”. The amendments are designed to clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors.

IFRS 17 Insurance Contracts and IFRS 17 amendments replaced IFRS 4 Insurance Contracts. The standard provides a general model for insurance contracts and two additional approaches: the variable fee approach and the premium allocation approach. IFRS 17 and amendments cover the recognition, measurement, presentation and disclosure of insurance contracts and apply to all types of insurance contracts.

(Amount in millions of Renminbi, unless otherwise stated)

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### 1 Basis of preparation (Continued)

#### 1.2 *Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2020 (Continued)*

The amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture.

Annual Improvements to IFRSs 2018–2020 Cycle were issued in May 2020, including an amendment to IFRS 9 Financial Instruments, which clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability by conducting the “10 per cent” test for derecognition of financial liabilities. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The improvements also include an amendment to lease incentives, which removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying IFRS 16 Leases, so as to remove potential confusion regarding the treatment of lease incentives when applying IFRS 16.

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

### 2 Consolidation

#### 2.1 *Subsidiaries*

Subsidiaries are all entities (including corporates, divided parts of associates and joint ventures, and structured entities controlled by corporates) over which the Group has control. That is the Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The existence and effect of potential voting rights that are currently exercisable or convertible and rights arising from other contractual arrangements are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. If the changes of the relevant facts and circumstances resulting in the definition of control involved in the changes of relevant elements, the Group will re-evaluate whether subsidiaries are controlled.

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

## Notes to the Consolidated Financial Statements

### II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

#### 2 Consolidation (Continued)

##### 2.1 Subsidiaries (Continued)

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the identifiable net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement. Goodwill is tested for impairment annually or whenever there is an indication of possible impairment, and carried at cost less accumulated impairment losses. If there is any indication that goodwill is impaired, recoverable amount is estimated and the difference between carrying amount and recoverable amount is recognised as an impairment charge. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

In the Bank's statement of financial position, investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments, but does not include acquisition-related costs, which are expensed as incurred. The dividends or profits declared to distribute by the invested entity shall be recognised by the Bank as the current investment income of subsidiaries. The Group assesses at each financial reporting date whether there is objective evidence that an investment in subsidiaries is impaired. An impairment loss is recognised for the amount by which the investment in subsidiaries' carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the investment in subsidiaries' fair value less costs to sell and value in use.

##### 2.2 Associates and joint ventures

Associates are all entities over which the Group has significant influence but no control or joint control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Joint ventures exist where the Group has a contractual arrangement with one or more parties to undertake economic activities which are subject to joint control.

Investments in associates and joint ventures are initially recognised at cost and are accounted for using the equity method of accounting. The Group's "Investment in associates and joint ventures" includes goodwill.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interests in the associates and joint ventures; unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of associates and joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

(Amount in millions of Renminbi, unless otherwise stated)

## **II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)**

### **2 Consolidation (Continued)**

#### **2.2 Associates and joint ventures (Continued)**

The Group assesses at each financial reporting date whether there is objective evidence that investments in associates and joint ventures are impaired. Impairment losses are recognised for the amounts by which the investments in associates and joint ventures' carrying amounts exceed their recoverable amounts. The recoverable amounts are the higher of investments in associates and joint ventures' fair value less costs to sell and value in use.

#### **2.3 Transactions with non-controlling interests**

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is re-measured to its fair value, with the change in carrying amount recognised in the income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income are reclassified to the income statement.

### **3 Foreign currency translation**

#### **3.1 Functional and presentation currency**

The functional currency of the operations in the Chinese mainland is the Renminbi ("RMB"). Items included in the financial statements of each of the Group's operations in Hong Kong, Macao, Taiwan and other countries and regions are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The presentation currency of the Group is RMB.

#### **3.2 Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions, or the exchange rates that approximate the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the income statement.

Monetary assets and liabilities denominated in foreign currencies at the financial reporting date are translated at the foreign exchange rates ruling at that date. Changes in the fair value of monetary securities denominated in foreign currency classified as financial assets at fair value through other comprehensive income are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in the income statement, and other changes in the carrying amount are recognised in other comprehensive income. Translation differences on all other monetary assets and liabilities are recognised in the income statement.

## Notes to the Consolidated Financial Statements

### II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

#### 3 Foreign currency translation (Continued)

##### 3.2 Transactions and balances (Continued)

Non-monetary assets and liabilities that are measured at historical cost in foreign currencies are translated using the foreign exchange rates at the date of the transaction. Non-monetary assets and liabilities that are measured at fair value in foreign currencies are translated using the foreign exchange rates at the date the fair value is determined. Translation differences on non-monetary financial assets classified as financial assets at fair value through other comprehensive income are recognised in other comprehensive income. Translation differences on non-monetary financial assets and liabilities held at fair value through profit or loss are recognised as "Net trading gains" in the income statement.

The results and financial positions of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each income statement are translated at exchange rates at the date of the transactions, or a rate that approximates the exchange rates of the date of the transaction; and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of deposits taken and other currency instruments designated as hedges of such investments are taken to other comprehensive income. When a foreign entity is disposed, these exchange differences are recognised in the income statement. The effect of exchange rate changes on cash and cash equivalents is presented individually in the statement of cash flows.

#### 4 Financial instruments

##### 4.1 Initial recognition and measurement

The Group recognises a financial asset or financial liability in its statement of financial position when the Group becomes a party to the contractual provisions of the instrument, which is the trade date.

At initial recognition, the Group measures a financial asset or financial liability at its fair value. For a financial asset or financial liability at fair value through profit or loss, transaction costs are directly recognised in profit or loss. For other financial asset or liability, transaction costs are recognised in the initial measurement.

The fair value of a financial instrument at initial recognition is normally the transaction price. If the Group determines that the fair value at initial recognition differs from the transaction price, and if that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets, the Group recognises the difference between the fair value at initial recognition and the transaction price as a gain or loss.



(Amount in millions of Renminbi, unless otherwise stated)

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### 4 Financial instruments (Continued)

#### 4.2 Classification and Subsequent measurement

##### 4.2.1 Financial assets

The Group classifies financial assets as subsequently measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss on the basis of both the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

##### Business model

The Group's business model refers to how the Group manages its financial assets in order to generate cash flows. For example, financial assets are held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. If above two situations are not applicable, the business model of the financial assets is "other". The Group's assessment of the business model is performed on a financial asset portfolio basis, and determined on the basis of scenarios which are reasonably expected to occur, taking into account: how cash flows were realised in the past, how the performance are evaluated and reported to the entity's key management personnel; the risks that affect the performance and the way in which those risks are assessed and managed; and how managers of the business are compensated, etc.

##### The contractual cash flow characteristics

The assessment of contractual cash flow characteristics is to determine whether the asset's contractual cash flows are solely payments of principal and interest on the principal amount outstanding. Principal is the fair value of the financial asset at initial recognition. However, the principal amount may change over the life of the financial asset (for example, if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.

##### (1) Financial assets at amortised cost

The Group classifies financial assets as subsequently measured at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

## Notes to the Consolidated Financial Statements

### II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

#### 4 Financial instruments (Continued)

##### 4.2 Classification and Subsequent measurement (Continued)

###### 4.2.1 Financial assets (Continued)

###### (2) Financial assets at fair value through other comprehensive income

The Group classifies financial assets as subsequently measured at fair value through other comprehensive income if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Such financial assets that the Group holds are subsequently measured at fair value. A gain or loss on a financial asset measured at fair value through other comprehensive income shall be recognised in "Other comprehensive income", except for interests calculated using effective interest method, impairment gains or losses and foreign exchange gains and losses. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss. The impairment allowances for such financial assets are recognised in other comprehensive income, impairment gains or losses are recognised in profit or loss, and not reduce the carrying amount of such financial assets in the statement of financial position.

###### Investments in equity instruments

The Group may, at initial recognition, irrevocably designate an investment in equity instrument, which is not held for trading, as at fair value through other comprehensive income when it meets the definition of an equity instrument under IAS 32 *Financial Instruments: Presentation*. When the equity instrument is derecognised, the cumulative gain or loss previously recognised in other comprehensive income shall be reclassified from other comprehensive income to undistributed profits under equity. Dividends, which the Group is entitled to collect, on equity investments in such measurement category are recognised in profit or loss. No impairment gains or losses are recognised for such equity instruments.

###### (3) Financial assets at fair value through profit or loss

A financial asset is measured at fair value through profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income, which includes financial assets held for trading, financial assets designated as at fair value through profit or loss and other financial assets mandatorily measured at fair value through profit or loss in accordance with IFRS 9.

Such financial assets that the Group holds are subsequently measured at fair value. A gain or loss on such financial asset is recognised in profit or loss unless it is part of a hedging relationship. Dividends, which the Group is entitled to collect, on equity investments in such measurement category are recognised in profit or loss.

When, and only when, the Group changes the business model for managing financial assets, the Group shall reclassify all affected financial assets. Reclassification is applied prospectively from the first day of the first reporting period following the change in business model.

(Amount in millions of Renminbi, unless otherwise stated)

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### 4 Financial instruments (Continued)

#### 4.2 Classification and Subsequent measurement (Continued)

##### 4.2.2 Financial liabilities

The Group classifies all financial liabilities as subsequently measured at amortised cost, except for:

- financial liabilities at fair value through profit or loss. Such liabilities, include financial liabilities held for trading and financial liabilities designated as at fair value through profit or loss.
- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.
- financial guarantee contracts and commitments to provide a loan at a below-market interest rate.

Financial liabilities at fair value through profit or loss held by the Group are subsequently measured at fair value. A gain or loss on a financial liability that is measured at fair value is recognised in profit or loss unless:

- it is part of a hedging relationship; or
- it is a financial liability designated as at fair value through profit or loss and the effects of changes in the Group's credit risk are presented in other comprehensive income. When such financial liability is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from other comprehensive income to undistributed profits under equity.

The Group does not reclassify any financial liabilities.

##### 4.2.3 Financial assets and financial liabilities held for trading

A financial asset or financial liability is classified as held for trading if it:

- is acquired or incurred principally for the purpose of selling or repurchasing it in the near term; or
- on initial recognition is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

## Notes to the Consolidated Financial Statements

### II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

#### 4 Financial instruments (Continued)

##### 4.2 Classification and Subsequent measurement (Continued)

###### 4.2.4 Financial assets and financial liabilities designated as at fair value through profit or loss

The Group may, at initial recognition, irrevocably designate a financial asset or financial liability as measured at fair value through profit or loss, because either:

- it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
- a portfolio of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the portfolio is provided internally on that basis to the Group's key management personnel; or
- the financial liability contains one or more embedded derivatives, unless the embedded derivative(s) does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

##### 4.3 Financial guarantee contracts and loan commitments

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies to secure customer loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised at fair value on the date the guarantee was given. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial measurement less amortisation calculated and the impairment allowance determined by the expected credit loss ("ECL") model, and any increase in the liability relating to guarantees is taken to the income statement.

Loan commitments are commitments provided by the Group to the customers to grant loans under the established contract terms during certain period. The impairment allowance for loan commitments is measured using the ECL model.

The impairment allowances for financial guarantees and loan commitments are presented in "Other liabilities — provision".

##### 4.4 Determination of fair value

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair values of quoted financial assets and financial liabilities in active markets are based on current bid prices and ask prices, as appropriate. If there is no active market, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis and option pricing models, and other valuation techniques commonly used by market participants.

(Amount in millions of Renminbi, unless otherwise stated)

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### 4 Financial instruments (Continued)

#### 4.4 Determination of fair value (Continued)

The Group uses the valuation techniques commonly used by market participants to price financial instruments and techniques which have been demonstrated to provide reliable estimates of prices obtained in actual market transactions. The Group makes use of all factors that market participants would consider in setting a price, and incorporates these into its chosen valuation techniques and tests for validity using prices from any observable current market transactions in the same instruments.

#### 4.5 Derecognition of financial instruments

Financial assets are derecognised when the rights to receive cash flows from the investments have expired, or when a financial asset is transferred, the Group has transferred substantially all risks and rewards of ownership, or when the Group neither transfers nor retains substantially all risks or rewards of ownership of the financial asset but has not retained control of the financial asset.

Financial liabilities are derecognised when they are extinguished — that is, when the obligation is discharged, cancelled or expires.

#### 4.6 Impairment measurement for losses on assets

At the financial reporting date, the Group assesses and recognises the relevant impairment allowances for financial assets measured at amortised cost, debt instruments measured at fair value through other comprehensive income, and loan commitments and financial guarantee contracts on the basis of expected credit losses.

##### *Measurement of ECL*

The ECL is a weighted average of credit losses on financial instruments weighted at the risk of default. Credit loss is the difference between all contractual cash flows that are due to the Group in accordance with the contract and all cash flows expected to be received by the Group discounted at the original effective interest rate, i.e. the present value of all cash shortfalls.

According to the changes of credit risk of financial instruments since the initial recognition, the Group calculates the ECL by three stages:

- Stage 1: The financial instruments without significant increases in credit risk since initial recognition are included in Stage 1 to calculate their impairment allowance at an amount equivalent to the ECL of the financial instruments for the next 12 months;
- Stage 2: Financial instruments that have had a significant increase in credit risk since initial recognition but have no objective evidence of impairment are included in Stage 2, with their impairment allowance measured at an amount equivalent to the ECL over the lifetime of the financial instruments;
- Stage 3: Financial assets with objective evidence of impairment at the financial reporting date are included in Stage 3, with their impairment allowance measured at an amount equivalent to the ECL over the lifetime of the financial instruments.

## Notes to the Consolidated Financial Statements

### II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

#### 4 Financial instruments (Continued)

##### 4.6 Impairment measurement for losses on assets (Continued)

###### *Measurement of ECL (Continued)*

Where, in the previous accounting period, the impairment allowance of a financial instrument was measured based on the ECL of the instrument over the entire lifetime, and while, at the current financial reporting date, such financial instrument is no longer regarded as experiencing a significant increase in credit risk since its initial recognition, the Group measures the impairment allowance of the financial instrument on the financial reporting date using the ECL of the instrument over the next 12 months.

For purchased or originated credit-impaired financial assets, the Group only recognises the cumulative change in lifetime expected credit losses since initial recognition at the financial reporting date as impairment allowance. At each financial reporting date, the Group recognises in profit or loss the amount of the changes in lifetime expected credit losses as an impairment gain or loss.

The Group measures ECL of a financial instrument in a way that reflects:

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

When measuring ECL, an entity need not necessarily identify every possible scenario. However, the Group considers the risk or probability that a credit loss occurs by reflecting the possibility that a credit loss occurs and the possibility that no credit loss occurs, even if the possibility of a credit loss occurring is very low.

The Group conducted an assessment of ECL according to forward-looking information and used a number of models and assumptions in its measurement of expected credit losses. These models and assumptions relate to the future macroeconomic conditions and borrower's creditworthiness (e.g., the likelihood of default by customers and the corresponding losses). The Group uses judgements, assumptions and estimation techniques in order to measure ECL according to the requirements of accounting standards such as:

- Criteria for determining significant increases in credit risk
- Definition of default and credit-impaired financial assets
- Parameters for measuring ECL
- Forward-looking information
- Modification of contractual cash flows
- Grouping of financial instruments for losses measured on a collective basis

(Amount in millions of Renminbi, unless otherwise stated)

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### 4 Financial instruments (Continued)

#### 4.6 Impairment measurement for losses on assets (Continued)

##### *Criteria for determining significant increases in credit risk*

The Group assesses whether or not the credit risk of the relevant financial instruments has increased significantly since the initial recognition at each financial reporting date. While determining whether the credit risk has significantly increased since initial recognition or not, the Group takes into account the reasonable and supportable information that is available without undue cost or effort, including qualitative and quantitative analysis based on the historical data of the Group, external credit risk rating, and forward-looking information. Based on an individual financial instrument or a group of financial instruments shared credit risk characteristics, the Group compares the risk of default of financial instruments at the financial reporting date with that at the date of initial recognition in order to figure out the changes of default risk in the expected lifetime of financial instruments.

The Group considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

##### Quantitative criteria

- At the reporting date, the increase in remaining lifetime probability of default is considered significant, comparing with the one at initial recognition

##### Qualitative criteria

- Significant adverse change in debtor's operation or financial status
- Be classified into Special Mention category within five-category loan classification
- Be listed on the watch-list

##### Backstop criteria

- The debtor's contractual payments (including principal and interest) are more than 30 days past due

## Notes to the Consolidated Financial Statements

### II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

#### 4 Financial instruments (Continued)

##### 4.6 Impairment measurement for losses on assets (Continued)

###### *Definition of default and credit-impaired financial asset*

The Group considers a financial instrument as default when it is credit-impaired. The standard adopted by the Group to determine whether a financial asset is credit-impaired under IFRS 9 is consistent with the internal credit risk management objectives, taking into account quantitative and qualitative criteria. When the Group assesses whether the credit impairment occurred, the following factors are mainly considered:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- It becoming probable that the borrower will enter into bankruptcy or other financial re-organisation;
- The disappearance of an active market for that financial asset because of financial difficulties;
- The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses;
- The debtor is more than 90 days overdue for any of the principal, advances, interest or investments in corporate bonds of the Group.

A financial asset becoming credit-impaired may be caused by the combined effect of several events, but not a single discrete event. For credit-impaired financial assets, the Group mainly evaluate the future cash flow (including the recoverable value of the collateral held) in different circumstances on an individual basis. Expected credit losses are measured as the differences between the present value of estimated cash flows discounted at the original effective interest rate and the asset's gross carrying amount. Any adjustment is recognised in profit or loss as an impairment gain or loss.

###### *Parameters of ECL measurement*

According to whether the credit risk has significantly increased and whether the asset is credit-impaired, the Group measures the impairment allowance for different assets with ECL of 12 months or the entire lifetime respectively. The key parameters in ECL measurement include probability of default (PD), loss given default (LGD) and exposure at default (EAD). Based on the current New Basel Capital Accord used in risk management and the requirements of IFRS 9, the Group takes into account the quantitative analysis of historical statistics (such as ratings of counterparties, manners of guarantees and types of collaterals, repayments, etc.) and forward-looking information in order to establish the models for estimating PD, LGD and EAD.



(Amount in millions of Renminbi, unless otherwise stated)

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### 4 Financial instruments (Continued)

#### 4.6 Impairment measurement for losses on assets (Continued)

##### *Parameters of ECL measurement (Continued)*

Relative definitions are listed as follows:

- PD refers to the possibility that the debtor will not be able to fulfil its obligations of repayment over the next 12 months or throughout the entire remaining lifetime. The Group adjusts PD based on the results of the Internal Rating-Based Approach under the New Basel Capital Accord, taking into account the forward-looking information and removing the prudential adjustment to reflect the debtor's point-in-time (PIT) PD under the current macroeconomic environment;
- LGD refers to the Group's expectation of the extent of the loss resulting from the default exposure. Depending on the type of counterparty, the method and priority of the recourse, and the type of collaterals, the LGD varies;
- EAD is the amount that the Group should be reimbursed at the time of the default in the next 12 months or throughout the entire remaining lifetime.

##### *Forward-looking information*

The assessment of a significant increase in credit risk and the calculation of ECL both involve forward-looking information. Based on the analysis of historical data, the Group identifies the key macroeconomic indicators that affect the credit risk and ECL of various business types, such as GDP, Investment in fixed assets, PPI, Home price index, CPI.

The specific values of the core macroeconomic indicators used by the Group to evaluate expected credit losses on December 31, 2020 are as follows:

Indicator	Number
YoY Growth Rate of China's GDP in 2021	8.0%

The impact of these economic indicators on the PD and the LGD varies according to different types of business. The Group applied experts' judgement in this analysis, according to the result of experts' judgement, the Group predicts these economic indicators on a quarterly basis and determines the impact of these economic indicators on the PD and the LGD by conducting regression analysis.

In addition to a base economic scenario, the Group conducts statistical analysis with experts' judgement to determine other possible scenarios and their weights. The Group measures the weighted average ECL of 12 months (Stage 1) or life time (Stage 2 and Stage 3).

The Group conducts sensitivity analysis on the main economic indicators used in forward-looking information. When the predicted value of the main economic indicators changes by 10%, the difference between the hypothetical expected credit loss and the current expected credit loss measurement does not exceed 5%.

## Notes to the Consolidated Financial Statements

### II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

#### 4 Financial instruments (Continued)

##### 4.6 Impairment measurement for losses on assets (Continued)

###### *Modification of contractual cash flows*

A modification or re-negotiation of a contract between the Group and a counterparty may result in a change to the contractual cash flows without resulting in the derecognition of the financial assets. Such restructuring activities include extended payment term arrangements, repayment schedule modifications and changes to the interest settlement method. The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset. The gross carrying amount of the financial asset is recalculated and the related gain or loss is recognised in profit and loss. The gross carrying amount of the financial asset is determined based on the present value of the renegotiated or modified contractual cash flows discounted at the financial asset's original effective interest rate.

The Group monitors the ongoing performance of assets with modified contractual cash flows. Based on the Group's judgment, the Group determined that the credit risk of these assets had significantly improved after modification of contractual cash flows. Accordingly, these assets were transferred from either Stage 3 or Stage 2 to Stage 1, and the related impairment allowance was measured at an amount equal to the 12-month ECL instead of the lifetime ECL.

###### *Grouping of financial instruments for losses measured on a collective basis*

For expected credit loss provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous. In performing this grouping, there must be sufficient information for the group to be statistically credible. The Group uses credit rating, product types and client types, etc., for grouping the personal loans and advances to calculate the losses measured on a collective basis.

##### 4.7 Write off

When the Group determines that a loan has no reasonable prospect of recovery after the Group has completed all the relevant legal or other proceedings, the loan is written off against its allowance for impairment losses. If in a subsequent period the loan written off is recovered, the amount recovered will be recognised in profit or loss through impairment losses.

##### 4.8 Derivative financial instruments and hedge accounting

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, or valuation techniques, including discounted cash flow analysis and option pricing models, as appropriate. Credit risk valuation adjustments are applied to the Group's over-the-counter derivatives to reflect the credit risk of the counterparties and the Group, respectively. They are dependent on the expected future values of exposures for each counterparty and default probabilities, etc. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

(Amount in millions of Renminbi, unless otherwise stated)

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### 4 Financial instruments (Continued)

#### 4.8 Derivative financial instruments and hedge accounting (Continued)

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

The Group documents, at inception, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking hedge transactions. When designating a hedging relationship and on an ongoing basis, the Group assesses the hedge effectiveness, that is the extent to which changes in the fair value or cash flows of the hedging instrument offsets changes in fair values or cash flows of the hedged item.

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

- There is an economic relationship between the hedged item and the hedging instrument. That means the hedging instrument and hedged item have values that generally move in the opposite direction because of the same risk, which is the hedged risk.
- The effect of credit risk does not dominate the value changes that result from that economic relationship; and
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of the hedged item. However, that designation shall not reflect an imbalance between the weightings of the hedged item and the hedging instrument that would create hedge ineffectiveness that could result in an accounting outcome that would be inconsistent with the purpose of hedge accounting.

Possible sources of ineffectiveness are as follows:

- Increase or decrease in the amounts of hedged items or hedging instruments;
- Significant changes in counterparties’ credit risk.

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

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

## Notes to the Consolidated Financial Statements

### II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

#### 4 Financial instruments (Continued)

##### 4.8 Derivative financial instruments and hedge accounting (Continued)

###### (1) Fair value hedge

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

The changes in fair value of hedging instruments that are designated and qualify as fair value hedges are recorded in the income statement, together with the changes in fair value of the hedged item attributable to the hedged risk. The net result is included as ineffectiveness in the income statement.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the income statement over the period to maturity.

###### (2) Cash flow hedge

Cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with all, or a component of, a recognised asset or liability (such as all or some future interest payments on variable-rate debt) or a highly probable forecast transaction, and could affect profit or loss.

The effective portion of changes in the fair value of hedging instruments that are designated and qualify as cash flow hedges is recognised in "Other comprehensive income". The ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are reclassified to the income statement in the same periods when the hedged future cash flows affect profit or loss.

When the Group discontinues hedge accounting for a cash flow hedge, if the hedged future cash flows are still expected to occur, that amount accumulated in the cash flow hedge reserve shall remain in equity. If the hedged future cash flows are no longer expected to occur, that amount shall be immediately reclassified from the cash flow hedge reserve to profit or loss.

###### (3) Net investment hedge

Net investment hedge is a hedge of a net investment in a foreign operation.

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised directly in other comprehensive income; the gain or loss relating to the ineffective portion is recognised immediately in the income statement. Gains and losses accumulated in equity are reclassified to the income statement when the foreign operation is disposed of as part of the gain or loss on the disposal.

(Amount in millions of Renminbi, unless otherwise stated)

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### 4 Financial instruments (Continued)

#### 4.8 Derivative financial instruments and hedge accounting (Continued)

##### (3) Net investment hedge (Continued)

When the Group separates the forward element and the spot element of a forward contract and designates as the hedging instrument only the change in the value of the spot element, the changes in the value of the forward element of the forward contract shall be recognised in other comprehensive income to the extent that it relates to the hedged item. If the hedged items are transaction related, the amount accumulated in other comprehensive income shall be accounted for similarly to cash flow hedges. If the hedged items are time-period related, that amount is amortised on a systematic and rational basis over the period during which the hedged items could affect profit or loss, and the amortisation amount is reclassified from other comprehensive income to profit or loss as a reclassification adjustment.

#### 4.9 Embedded derivatives

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the hybrid (combined) instrument vary in a way similar to a stand-alone derivative.

If a hybrid contract contains a host that is a financial asset, the Group applies the requirements of classification and measurement to the entire hybrid contract. If a hybrid contract contains a host that is not a financial asset, the Group separates the embedded derivative from the host contract and accounts for it as a derivative, if, and only if:

- the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- The hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in the income statement.

These embedded derivatives separated from the host contract are measured at fair value with changes in fair value recognised in the income statement.

If it is unable to measure the embedded derivative separately either at acquisition or at the subsequent financial reporting date, the Group will designate the entire hybrid instrument as at fair value through profit or loss.

#### 4.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a current legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

## Notes to the Consolidated Financial Statements

### II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

#### 5 Precious metals and precious metals swaps

Precious metals comprise gold, silver and other precious metals. The Group retains all risks and rewards of ownership related to precious metals deposited with the Group as precious metal deposits, including the right to freely pledge or transfer, and it records the precious metals received as an asset. A liability to return the amount of precious metals deposited is also recognised. Precious metals that are not related to the Group's precious metal market making and trading activities are initially measured at acquisition cost and subsequently measured at the lower of cost and net realisable value. Precious metals that are related to the Group's market making and trading activities are initially recognised at fair value and subsequent changes in fair value included in "Net trading gains" are recognised in the income statement.

Consistent with the substance of the transaction, if the precious metals swaps are for financing purposes, they are accounted for as precious metals subject to collateral agreements. Precious metals collateralised are not derecognised and the related counterparty liability is recorded in "Placements from banks and other financial institutions". If precious metals swaps are for trading purposes, they are accounted for as derivative transactions.

#### 6 Repurchase agreements, agreements to re-sell and securities lending

Securities and bills sold subject to repurchase agreements ("Repos") continue to be recognised, and are recorded as "Financial investments". The corresponding obligation is included in "Placements from banks and other financial institutions" and "Due to central banks". Securities and bills purchased under agreements to re-sell ("Reverse repos") are not recognised. The receivables are recorded as "Placements with and loans to banks and other financial institutions" or "Balances with central banks", as appropriate.

The difference between purchase and sale price is recognised as "Interest expense" or "Interest income" in the income statement over the life of the agreements using the effective interest method.

Securities lending transactions are generally secured, with collateral taking the form of securities or cash. Securities lent to counterparties by the Group are recorded in the consolidated financial statements. Securities borrowed from counterparties by the Group are not recognised in the consolidated financial statements of the Group. Cash collateral received or advanced is recognised as a liability or an asset in the consolidated financial statements.

#### 7 Property and equipment

The Group's property and equipment mainly comprise buildings, equipment and motor vehicles, aircraft and construction in progress. When the costs attributable to the land use rights cannot be reliably measured and separated from that of the building at inception, the costs are included in the cost of buildings and recorded in "Property and equipment".

The assets purchased or constructed are initially measured at acquisition cost or deemed cost, as appropriate. Such initial cost includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent costs are included in an asset's carrying amount, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

(Amount in millions of Renminbi, unless otherwise stated)

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### 7 Property and equipment (Continued)

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

Property and equipment are reviewed for impairment at each financial reporting date. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by the difference between proceeds and carrying amount, after deduction of relevant taxes and expenses. These are included in the income statement.

#### 7.1 Buildings, equipment and motor vehicles

Buildings comprise primarily branch and office premises. The estimated useful lives, estimated residual value rate and depreciation rate of buildings, equipment and motor vehicles are as follows:

Type of assets	Estimated useful lives	Estimated residual value rate	Annual depreciation rate
Buildings	15–50 years	3%	1.9%–6.5%
Equipment	3–15 years	3%	6.4%–32.4%
Motor vehicles	4–6 years	3%	16.1%–24.3%

#### 7.2 Aircraft

Aircraft are used in the Group's aircraft operating leasing business.

Aircraft are depreciated using the straight-line method over the expected useful life of 25 years, less the years in service at the time of purchase to an estimated residual value rate varying from 0% to 15%.

#### 7.3 Construction in progress

Construction in progress consists of assets under construction or being installed and is stated at cost. Cost includes equipment cost, cost of construction, installation and other direct costs. Items classified as construction in progress are transferred to property and equipment when such assets are ready for their intended use and the depreciation charge commences after such assets are transferred to property and equipment.

### 8 Leases

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of one or more identified assets for a period of time in exchange for consideration.

## Notes to the Consolidated Financial Statements

### II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

#### 8 Leases (Continued)

##### 8.1 As Lessee

The lease term is the non-cancellable period of a lease for which the Group has the right to use an underlying asset. The Group considers a lease that, at the commencement date of the lease, has a lease term of 12 months or less, and does not contain any option to purchase the underlying asset as a short-term lease; and a lease for which the value of the individual underlying asset is relatively low when it is new as a lease of low-value asset. The Group chooses not to recognise the right-of-use assets and lease liabilities for short-term leases and leases of low-value assets, and the rental expenses are recognised as "Operating expenses" in the income statement on a straight-line basis over each period of the lease term.

The Group uses the incremental borrowing rate as the discount rate to calculate the present value of lease payment. The economic circumstance and the observable interest rate set the foundation for each institution of the Group in determining the incremental borrowing rate. On this basis, the applicable incremental borrowing rate is calculated through the adjustment of the reference interest rate, which is determined according to the situation of the institution and the underlying asset, the lease term, the amount of lease liability and other specific conditions of the lease.

##### *Right-of-use assets*

The right-of-use assets of the Group mainly include buildings, vehicles and other right-of-use assets.

At the commencement date of the lease, the Group recognises a right-of-use asset. The cost of the right-of-use asset comprises:

- (1) the amount of the initial measurement of the lease liability;
- (2) any lease payments made at or before the commencement date of the lease less any lease incentives received;
- (3) any initial direct costs incurred when the Group is a lessee; and
- (4) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

The right-of-use assets are depreciated on a straight-line basis subsequently by the Group. If the Group is reasonably certain that the ownership of the underlying asset will be transferred to the Group at the end of the lease term, the Group depreciates the asset from the commencement date to the end of the useful life of the asset. Otherwise, the Group depreciates the asset from the commencement date to the earlier of the end of the useful life of the asset or the end of the lease term.

The Group remeasures the lease liabilities at the present value of the changed lease payments and adjusts the carrying amounts of the right-of-use assets accordingly. When the carrying amount of the right-of-use asset is reduced to zero, and there is a further reduction in the measurement of the lease liability, the Group recognises the remaining amount of the remeasurement in profit or loss.



(Amount in millions of Renminbi, unless otherwise stated)

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### 8 Leases (Continued)

#### 8.1 As Lessee (Continued)

##### *Lease liabilities*

At the commencement date of the lease, the Group measures the lease liabilities at the present value of the lease payments that are not paid at that date, except for short-term leases and leases of low-value assets.

In calculating the present value of the lease payments, the Group uses the incremental borrowing rate of lessee as the discount rate. The Group calculates the interest expenses of lease liabilities in each period during the lease term using the constant periodic rate of interest, and recognises such interest expenses in profit or loss. Variable lease payments that are not included in the measurement of lease liabilities are recognised in profit or loss as incurred.

After the commencement date, the Group remeasures lease liabilities by discounting the revised lease payments if any of the following occur: (i) there is a change in the in-substance fixed payments; (ii) there is a change in the amounts expected to be payable under a residual value guarantee; (iii) there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments; or (iv) there is a change in the assessments of options to purchase the underlying asset, extend or terminate the lease, or the circumstances of the actual exercise of these options.

##### *Lease modification*

Lease modification is a change in the scope of a lease, the consideration for a lease or lease term, that was not part of the original terms and conditions of the lease. For example, adding or terminating the right to use one or more underlying assets, or extending or shortening the contractual lease term.

The Group accounts for a lease modification as a separate lease if both:

- (1) the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- (2) the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, at the effective date of the lease modification, the Group remeasures the lease term and the lease liability by discounting the revised lease payments using a revised discount rate.

## Notes to the Consolidated Financial Statements

### II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

#### 8 Leases (Continued)

##### 8.2 As Lessor

At the inception date, a lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise, a lease is classified as an operating lease.

When the Group is a lessor under finance leases, the Group recognises the lease payments receivable and derecognises the assets under finance leases at the commencement date. The finance lease receivables are recorded in the consolidated statement of financial position as loans and advances to customers. In the initial measurement of the lease payments receivable, the Group recognises the net investment in the lease as the book value. The net investment in the lease is the present value of the sum of the unguaranteed residual value and the unreceived lease payments receivable at the commencement date, which is discounted by the interest rate implicit in the lease. The Group calculates and recognises the interest income in each period during the lease term using the constant periodic rate of interest, and recognises such interest income in profit or loss. Variable lease payments that are not measured as part of the net investment in the lease are recognised in profit or loss as incurred.

When the Group is a lessor under operating leases, the Group still reflects the underlying assets as the Group's assets. The rental income is recognised as "Other operating income" in the income statement on a straight-line basis over each period of the lease term. Variable lease payments that are not measured as part of the receivable in the lease are recognised in profit or loss as incurred.

#### 9 Investment properties

Investment properties, principally consisting of office buildings, are held to generate rental income or earn capital gains or both and are not occupied by the Group. Investment properties are carried at fair value and changes in fair value are recorded in the income statement, representing the open market value and other related information determined periodically by independent appraisers.

#### 10 Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance owned and controlled by the Group, including computer software and other intangible assets.

Computer software and other intangible assets are stated at acquisition cost less accumulated amortisation and impairment. These costs are amortised on a straight-line basis over their estimated useful lives with the amortisation recognised in the income statement.

The value of intangible assets is reviewed for impairment at each financial reporting date. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

The recoverable amount of an intangible asset is the higher of the asset's fair value less costs to sell and value in use.

#### 11 Repossessed assets

Repossessed assets are initially recognised at fair value of assets not retained plus related costs when they are obtained as the compensation for the loans' principal and interest. When there are indicators that the recoverable amount is lower than carrying amount, the carrying amount is written down immediately to its recoverable amount.

(Amount in millions of Renminbi, unless otherwise stated)

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### 12 Employee benefits

#### 12.1 Defined contribution plans and Defined benefit plans

In accordance with the policies of relevant state and local governments, employees in Chinese mainland participate in various defined contribution retirement schemes administered by local Labour and Social Security Bureaus. Operations in Chinese mainland contribute to pension and insurance schemes administered by the local pension and insurance agencies using applicable contribution rates stipulated in the relevant local regulations. Upon retirement, the local Labour and Social Security Bureaus are responsible for the payment of the basic retirement benefits to the retired employees. In addition to these basic staff pension schemes, employees in Chinese mainland who retire after 1 January 2004 can also voluntarily participate in a defined contribution plan established by the Bank ("the Annuity Plan"). The Bank contributes to the Annuity Plan based on certain percentages of the employees' gross salaries.

All eligible employees in operations in Hong Kong, Macao, Taiwan and other countries and regions participate in local defined contribution schemes or defined benefit plans.

Contributions made by the Group to the retirement schemes described above are recognised as "Operating expenses" in the income statement as incurred. Forfeited contributions by those employees who leave the schemes prior to the full vesting of their contributions are used to reduce the existing level of contributions or retained in the retirement schemes in accordance with the requirements of the respective defined contribution plans.

The obligations related to the defined benefit plans are calculated by independent actuaries using the projected unit credit method at each financial reporting date. The actuarial gains or losses are recognised in "Other comprehensive income" immediately when they occur, the gains or losses arising from amendments to pension plans are charged or credited to the income statement immediately as "Operating expenses" when they occur.

#### 12.2 Retirement benefit obligations

The Group pays supplemental retirement benefits to employees in Chinese mainland who retired prior to 31 December 2003 and early retirement benefits to those employees who accepted an early retirement arrangement.

Supplemental retirement benefits include supplemental pension payments and medical expense coverage.

Early retirement benefits have been paid to those employees who accept voluntary retirement before the normal retirement date, as approved by management. The related benefit payments are made from the date of early retirement to the normal retirement date.

The liability related to the above supplemental retirement benefit obligations and early retirement obligations existing at each financial reporting date is calculated by independent actuaries using the projected unit credit method and is recorded as a liability under "Retirement benefit obligations" in the statement of financial position. The present value of the liability is determined through discounting the estimated future cash outflows using interest rates of RMB treasury bonds which have terms to maturity approximating the terms of the related liability. The actuarial gains or losses of supplemental retirement benefit are recognised in "Other comprehensive income" immediately when they occur. The actuarial gains or losses of early retirement benefit obligations and the gains or losses arising from amendments to retirement benefit obligations are charged or credited to the income statement immediately as "Operating expenses" when they occur.

## Notes to the Consolidated Financial Statements

### II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

#### 12 Employee benefits (Continued)

##### 12.3 Housing funds

Pursuant to local government regulations, all employees in Chinese mainland participate in various local housing funds administered by local governments. Operations in Chinese mainland contribute on a monthly basis to these funds based on certain percentages of the salaries of the employees. These payments are recognised as “Operating expenses” in the income statement as incurred.

##### 12.4 Share-based compensation

###### (1) *Equity-settled share-based compensation schemes*

The fair value of the employee services received in exchange for the grant of the options under these schemes is recognised as an expense over the vesting period, with a corresponding increase in equity. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. The fair value of the equity instruments is measured at the grant date and is not subsequently re-measured. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each financial reporting date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, as “Operating expenses” in the income statement over the remaining vesting period, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to “Share capital” (nominal value) and “Capital reserve” when the options are exercised.

###### (2) *Cash-settled share-based compensation schemes*

The related cost of services received from the employees and the liability to pay for such services are measured at fair value and recognised over the vesting period as the employees render services. Fair value is established at the grant date, re-measured at each financial reporting date with any changes in fair value recognised as “Operating expenses” in the income statement for the period and derecognised when the liability is settled.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the rights granted, excluding the impact of any non-market vesting conditions. Non-market conditions are included in the assumptions about the number of rights that are expected to vest. At each financial reporting date, the Group revises its estimates of the number of rights that are expected to vest. It recognises the impact of the revision to original estimates, if any, as “Operating expenses” in the income statement, with a corresponding adjustment to liability.

##### 12.5 Bonus plans

The Group recognises a liability and an expense for bonuses, taking into consideration its business performance and profit attributable to the Bank’s equity holders. The Group recognises a liability where contractually obliged or where there is a past practice that has created a constructive obligation.

(Amount in millions of Renminbi, unless otherwise stated)

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### 13 Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. The amount initially recognised as a provision should be the best estimate of the expenditure required to settle the present obligation.

### 14 Insurance contracts

#### 14.1 Insurance contracts classification

The Group's insurance subsidiaries issue insurance contracts that transfer significant insurance risk. The Group performs a significant insurance risk test at the contract initial recognition date. Insurance risk is significant if, and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance. The Group issues non-life insurance contracts, which cover casualty and property insurance risk, and life insurance contracts, which insure events associated with human life (for example death, or survival) over a long duration.

The Group does not separately measure embedded derivatives that itself meet the definition of an insurance contract or options to surrender insurance contracts for a fixed amount (or an amount based on a fixed amount and an interest rate).

#### 14.2 Insurance contracts recognition and measurement

##### (1) Non-life insurance contracts

Premiums on non-life insurance contracts are recognised as revenue (earned premiums) proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the financial reporting date is reported as the unearned premium liability in "Other liabilities". Claims and loss adjustment expenses are charged to the income statement as "Operating expenses" when incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the financial reporting date even if they have not yet been reported to the Group.

##### (2) Life insurance contracts

Premiums on life insurance contracts are recognised as revenue when they become payable by the contract holders. Benefits and claims are recorded as an expense when they are incurred. A liability for contractual benefits that are expected to be incurred in the future is recorded when premiums are recognised. For certain long-term insurance contracts (investment-linked long-term insurance contracts) with embedded derivatives linking payments on the contract to units of an investment fund set up by the Group with the consideration received from the contract holders, the liability is adjusted for all changes in the fair value of the underlying assets, and includes a liability for contractual benefits that are expected to be incurred in the future which is recorded when the premiums are recognised.

## Notes to the Consolidated Financial Statements

### II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

#### 14 Insurance contracts (Continued)

##### 14.3 Liability adequacy test

At each financial reporting date, liability adequacy tests are performed to ensure the adequacy of the insurance contract liabilities (including unearned premium in the case of non-life insurance contracts). In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to the income statement and reported as "Operating expenses", with a provision established for losses arising from the liability adequacy test.

#### 15 Treasury shares, preference shares and perpetual bonds

Where the Bank or other members of the Group purchase the Bank's ordinary shares, "Treasury shares" are recorded at the amount of consideration paid and deducted from total equity until they are cancelled, sold or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in capital and reserves attributable to equity holders of the Bank.

Preference shares issued by the Group contain no contractual obligation to deliver cash or another financial asset; or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Group; and preference shares issued are non-derivative instruments that will be settled in the Group's own equity instruments, but includes no contractual obligation for the Group to deliver a variable number of its own equity instruments. The Group classifies preference shares issued as an equity instrument. Fees, commissions and other transaction costs of preference shares issuance are deducted from equity. The dividends on preference shares are recognised as profit distribution at the time of declaration.

Perpetual bonds issued by the Group contain no contractual obligation to deliver cash or another financial asset; or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Group; and perpetual bonds issued includes no terms and arrangements that the bonds must or will alternatively be settled in the Group's own equity instruments. The Group classifies perpetual bonds issued as an equity instrument. Fees, commissions and other transaction costs of perpetual bonds issuance are deducted from equity. The interest on perpetual bonds is recognised as profit distribution at the time of declaration.

#### 16 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

#### 17 Fiduciary activities

The Group acts as a custodian, trustee or in other fiduciary capacities, that result in its holding or placing of assets on behalf of individuals, securities investment funds, social security funds, insurance companies, qualified foreign institutional investors, annuity schemes and other customers. These assets are not included in the statement of financial position of the Group, as they are not assets of the Group.

(Amount in millions of Renminbi, unless otherwise stated)

## **II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)**

### **17 Fiduciary activities (Continued)**

The Group also administers entrusted loans on behalf of third-party lenders. In this regard, the Group grants loans to borrowers, as an intermediary, at the direction of third-party lenders, who fund these loans. The Group has been contracted by these third-party lenders to manage the administration and collection of these loans on their behalf. The third-party lenders determine both the underwriting criteria for and all terms of the entrusted loans, including their purposes, amounts, interest rates, and repayment schedule. The Group charges a commission related to its activities in connection with the entrusted loans, but the risk of loss is borne by the third-party lenders. Entrusted loans are not recognised in the statement of financial position of the Group.

### **18 Interest income and expense**

The “Interest income” and “Interest expense” in the Group’s income statement are the interest income and expense calculated by using the effective interest method on financial assets at amortised cost, financial assets at fair value through other comprehensive income and financial liabilities at amortised cost, etc.

The effective interest method is used in the calculation of the amortised cost of a financial asset or a financial liability and in the allocation and recognition of the interest income or interest expense in profit or loss over the relevant period. The effective interest rate is that exactly discounts estimated future cash flows through the expected life of a financial asset or financial liability to the gross carrying amount of a financial asset or the amortised cost of a financial liability. When calculating the effective interest rate, the Group estimates the expected cash flows by considering all contractual terms of the financial instrument but does not consider expected credit losses. The calculation includes all amounts paid or received by the Group that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

For those purchased or originated credit-impaired financial assets, the Group calculates the interest income by applying the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition. The credit-adjusted effective interest rate is that exactly discounts the estimated future cash flows through the expected life of the financial asset to the amortised cost of a financial asset that is a purchased or originated credit-impaired financial asset.

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

### **19 Fee and commission income**

The Group earns fee and commission income from a diverse range of services it provides to its customers. For those services that are provided over a period of time, fee and commission income is accrued in accordance with the terms and conditions of the service agreement. For other services, fee and commission income is recognised when the transactions are completed.

### **20 Income taxes**

Income taxes comprise current income tax and deferred income tax. Tax is recognised in the income statement except to the extent that it relates to items directly recognised in Equity, in which cases, tax is also directly recognised in Equity.

#### **20.1 Current income tax**

Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the financial reporting date, and any adjustment to tax payable in respect of previous years.

## Notes to the Consolidated Financial Statements

### II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

#### 20 Income taxes (Continued)

##### 20.2 Deferred income tax

Deferred income tax is recognised using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the financial reporting date and are expected to apply when the related asset is realised, or the liability is settled.

The principal temporary differences arise from asset impairment allowances, revaluation of certain financial assets and financial liabilities including derivative contracts, revaluation of investment properties, depreciation and amortisation, provisions for pension, retirement benefits and salary payables.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which deductible temporary differences can be utilised except the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit/(tax loss).

For deductible temporary differences associated with investment in subsidiaries, associates and joint ventures, a deferred tax asset is recognised to the extent that, and only to the extent that, it is probable that the temporary difference will reverse in the foreseeable future; and taxable profit will be available against which the temporary difference can be utilised.

Deferred tax liabilities shall be recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of goodwill, or the initial recognition of an asset or liability in a transaction which is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit/(tax loss).

Deferred income tax liabilities on taxable temporary differences arising from investments in subsidiaries, associates and joint ventures are recognised, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.

The tax effects of income tax losses available for carrying forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

#### 21 Segment reporting

The Group reviews the internal reporting in order to assess performance and allocate resources. Segment information is presented on the same basis as the Group's management and internal reporting.

#### 22 Comparative figures

Certain comparative figures have been adjusted to conform with changes in disclosures in the current year, including that the bank has reclassified the financing charges from credit card repayment by instalments from net fee and commission income to interest income since 2020. The comparative figures for the same period in 2019 were restated.



(Amount in millions of Renminbi, unless otherwise stated)

### III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and judgements that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group has taken into consideration the impact of the economic environment on the industries and territories in which the Group operates when determining critical accounting estimates and judgements in applying accounting policies.

Areas susceptible to changes in critical estimates and judgements, which affect the carrying value of assets and liabilities, are set out below. It is possible that actual results may be materially different from the estimates and judgements referred below.

#### 1 Impairment losses on loans and advances to customers

The models and assumptions used by the Group in assessing the expected credit losses on loans and advances to customers are highly dependent on management's judgement.

When determining whether the credit risk of a loan has significantly increased since initial recognition, the Group needs to consider internal and external historical information, current conditions and future economic forecasts. The criteria for a significant increase in credit risk will be used to determine whether impairment allowance for a loan should be measured as equal to lifetime expected credit losses, rather than 12 months expected credit losses.

The parameters used by the Group to measure the ECL model, including PD, LGD and EAD, each involves numerous judgements and assumptions. The Group made adjustments based on the results of the internal rating model of the New Basel Capital Accord and considered macroeconomic forecasts information to determine the debtor's PIT PD. When estimating the LGD, the Group also needs to make judgements by considering the type of counterparty, recourse arrangements, compensation seniority, the type and value of the collateral and historical loss data. For off-balance credit commitments and revolving credit facilities, judgements are also needed to determine the time period applicable for the EAD.

The Group applies expert judgements to predict macroeconomic indicators, analyses the correlations with modelled parameters such as PD, and makes forward-looking adjustments on parameters. At the same time, the Group also needs to estimate the probability of occurrence of multiple different macroeconomic scenarios and calculate probability-weighted expected credit losses.

The estimation of future cash flows is critical for a credit-impaired loan for which expected credit losses are measured on an individual basis. Factors affecting this estimate include, among other things, the granularity of financial information related to specific borrowers, the availability of meaningful information related to industry competitors and the relevance of sector trends to the future performance of individual borrowers and cash flows from the sale of collateral.

## Notes to the Consolidated Financial Statements

### III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (Continued)

#### 2 Fair value of derivatives and other financial instruments

The Group establishes the fair value of financial instruments with reference to a quoted market price in an active market or, if there is no active market, using valuation techniques. These valuation techniques include the use of recent arm's length transactions, observable prices for similar instruments, discounted cash flow analysis using risk-adjusted interest rates, and commonly used market pricing models. Whenever possible these models use observable market inputs and data including, for example, interest rate yield curves, foreign currency rates and option volatilities. The results of using valuation techniques are calibrated against the industry practice and observable current market transactions in the same or similar instruments.

The Group assesses assumptions and estimates used in valuation techniques including review of valuation model assumptions and characteristics, changes to model assumptions, the quality of market data, whether markets are active or inactive, other fair value adjustments not specifically captured by models and consistency of application of techniques between reporting periods as part of its normal review and approval processes. Valuation techniques are validated and periodically reviewed and, where appropriate, have been updated to reflect market conditions at the financial reporting date.

With respect to the PRC government obligations related to large policy-directed financing transactions, fair value is determined using the stated terms of the related instrument and with reference to terms determined by the PRC government in similar transactions engaged in or directed by the PRC government. In this regard, there are no other relevant market prices or yields reflecting arm's length transactions of a comparable size and tenor.

#### 3 Provisions

The Group uses judgement to assess whether the Group has a present legal or constructive obligation as a result of past events at each financial reporting date, and judgement is used to determine if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and to determine a reliable estimate of the amount of the obligation and relevant disclosure in the consolidated financial statements.

#### 4 Employee retirement benefit obligations

As described in Note II.12.2 and Note V.33, the Bank has established liabilities in connection with benefits payable to certain retired and early retired employees. These liabilities are calculated using actuarial assumptions such as discount rates, pension benefit inflation rates, medical benefit inflation rates, and other factors. While management believes that its assumptions are appropriate, differences in actual experience or changes in assumptions may affect other comprehensive income, expenses and employee retirement benefit obligations.

#### 5 Taxes

The Group is subject to income, value-added and other taxes in numerous jurisdictions, principally in Chinese mainland and Hong Kong. There are certain transactions and activities for which the ultimate tax determination is uncertain during the ordinary course of business. The Group has made estimates for application of new tax legislation and items of uncertainty taking into account existing tax legislation and past practice, in particular, the treatment of supplementary PRC tax applied to results of overseas operations.

Where the final tax outcome of these matters is different from the amounts that were initially estimated, such differences will impact the current income tax, deferred income tax, and value-added tax in the period during which such a determination is made.

(Amount in millions of Renminbi, unless otherwise stated)

### III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (Continued)

#### 6 Impairment of non-financial assets

Non-financial assets are periodically reviewed for impairment and where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

When estimating the value in use of aircraft held by the subsidiary, the Group estimates expected future cash flows from the aircraft and uses a suitable discount rate to calculate present value. The Group obtains valuations of aircraft from independent appraisers for which the principal assumptions underlying aircraft value are based on current market transactions for similar aircraft in the same location and condition. The Group also uses the fair value of aircraft obtained from independent appraisers in its assessment of the recoverable amount of intangible assets and the goodwill arising from the purchase of the Group's aircraft leasing subsidiary.

#### 7 Judgement in assessing control over structured entities

The Group is involved with structured entities in its normal business course, and the Group determines whether or not to consolidate those structured entities depending on whether the Group has control over them. When assessing control over structured entities, the Group takes consideration of power arising from rights it directly owns or indirectly owns through subsidiaries (including controlled structured entities), variable returns, and the link between power and returns.

The variable returns the Group is exposed to from its involvement with structured entities include decision makers' remuneration (such as management fees and performance-related fees), as well as other benefits (such as investment income, remuneration and exposure to loss from providing credit or liquidity support, and variable returns from transactions with structured entities). When assessing whether it controls a structured entity, the Group not only considers applicable legal or regulatory requirements, and contractual agreements, but also other circumstances where the Group may have obligation to absorb any loss of the structured entity.

The Group reassesses whether it controls a structured entity if facts and circumstances indicate that there are changes to one or more of the relevant elements of control.

### IV TAXATION

The principal income and other taxes to which the Group is subject are listed below:

Taxes	Tax basis	Statutory rates
<b>Chinese mainland</b>		
Corporate income tax	Taxable income	25%
Value-added tax	Taxable added value	6%
City construction and maintenance tax	Turnover tax paid	1%–7%
Education surcharges	Turnover tax paid	3%
Local education surcharges	Turnover tax paid	2%
<b>Hong Kong</b>		
Hong Kong profits tax	Assessable profits	16.5%

## Notes to the Consolidated Financial Statements

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****1 Net interest income**

	Year ended 31 December	
	2020	2019
Interest income		
Loans and advances to customers	<b>550,354</b>	533,365
Financial investments <sup>(1)</sup>	<b>150,553</b>	155,126
Due from and placements with and loans to banks and other financial institutions and central banks	<b>59,163</b>	69,516
Subtotal	<b>760,070</b>	758,007
Interest expense		
Due to customers	<b>(258,439)</b>	(269,324)
Due to and placements from banks and other financial institutions	<b>(49,419)</b>	(66,103)
Bonds issued and other	<b>(36,294)</b>	(32,530)
Subtotal	<b>(344,152)</b>	(367,957)
Net interest income	<b>415,918</b>	390,050
Interest income accrued on impaired financial assets (included within interest income)	<b>1,236</b>	1,497

(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**

	Year ended 31 December	
	2020	2019
Agency commissions	<b>25,367</b>	20,320
Settlement and clearing fees	<b>14,383</b>	14,713
Bank card fees	<b>13,825</b>	16,013
Credit commitment fees	<b>11,912</b>	12,746
Spread income from foreign exchange business	<b>5,871</b>	7,154
Custodian and other fiduciary service fees	<b>4,831</b>	4,120
Consultancy and advisory fees	<b>3,535</b>	4,446
Other	<b>8,916</b>	8,587
Fee and commission income	<b>88,640</b>	88,099
Fee and commission expense	<b>(13,118)</b>	(14,287)
Net fee and commission income	<b>75,522</b>	73,812

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****3 Net trading gains**

	Year ended 31 December	
	2020	2019
Net gains from interest rate products	<b>5,551</b>	15,303
Net gains from fund investments and equity products	<b>5,057</b>	2,378
Net gains from foreign exchange and foreign exchange products	<b>4,007</b>	8,974
Net (losses)/gains from commodity products	<b>(6,560)</b>	1,908
Total <sup>(1)</sup>	<b>8,055</b>	28,563

(1) Included in "Net trading gains" above for the year ended 31 December 2020 are gains of RMB1,082 million in relation to financial assets and financial liabilities designated as at fair value through profit or loss (2019: gains of RMB3,426 million).

**4 Net gains on transfers of financial asset**

	Year ended 31 December	
	2020	2019
Net gains on derecognition of financial assets at fair value through other comprehensive income	<b>7,987</b>	2,900
Net gains on derecognition of financial assets at amortised cost <sup>(1)</sup>	<b>1,560</b>	577
Total	<b>9,547</b>	3,477

(1) All the net gains on the derecognition of financial assets at amortised cost result from disposals during the year ended 31 December 2020 and 2019.

**5 Other operating income**

	Year ended 31 December	
	2020	2019
Insurance premiums <sup>(1)</sup>	<b>29,676</b>	26,819
Aircraft leasing income	<b>12,300</b>	11,753
Revenue from sale of precious metals products	<b>6,749</b>	6,484
Dividend income <sup>(2)</sup>	<b>5,601</b>	3,370
Gains on disposal of property and equipment, intangible assets and other assets	<b>1,394</b>	1,251
Changes in fair value of investment properties (Note V.21)	<b>(1,505)</b>	496
Gains on disposal of subsidiaries, associates and joint ventures	<b>202</b>	91
Other <sup>(3)</sup>	<b>4,188</b>	3,844
Total	<b>58,605</b>	54,108

(1) Details of insurance premium income are as follows:

	Year ended 31 December	
	2020	2019
Life insurance contracts		
Gross earned premiums	<b>33,290</b>	28,073
Less: gross written premiums ceded to reinsurers	<b>(9,348)</b>	(7,591)
Net insurance premium income	<b>23,942</b>	20,482
Non-life insurance contracts		
Gross earned premiums	<b>6,953</b>	7,587
Less: gross written premiums ceded to reinsurers	<b>(1,219)</b>	(1,250)
Net insurance premium income	<b>5,734</b>	6,337
Total	<b>29,676</b>	26,819

(2) For equity instruments classified as financial assets at fair value through other comprehensive income, RMB507 million of dividend income is recognised for the year ended 31 December 2020 (2019: RMB388 million).

(3) For the year ended 31 December 2020, the government subsidy income from operating activities, as part of other operating income, is RMB365 million (2019: RMB283 million).

## Notes to the Consolidated Financial Statements

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****6 Operating expenses**

	Year ended 31 December	
	2020	2019
Staff costs (Note V.7)	<b>89,334</b>	90,762
General operating and administrative expenses <sup>(1)(2)</sup>	<b>38,944</b>	41,845
Insurance benefits and claims		
— Life insurance contracts	<b>26,340</b>	21,829
— Non-life insurance contracts	<b>4,241</b>	4,208
Depreciation and amortisation	<b>22,871</b>	21,175
Cost of sales of precious metal products	<b>6,424</b>	5,372
Taxes and surcharges	<b>5,465</b>	4,984
Other	<b>8,792</b>	8,094
Total <sup>(3)</sup>	<b>202,411</b>	198,269

(1) Included in the “General operating and administrative expenses” is principal auditors’ remuneration of RMB237 million for the year ended 31 December 2020 (2019: RMB229 million), of which RMB75 million is for Hong Kong, Macao, Taiwan and other countries and regions of the Group (2019: RMB72 million).

(2) Included in the “General operating and administrative expenses” are lease expenses related to short-term leases and leases of low-value assets of RMB1,302 million for the year ended 31 December 2020 (2019: RMB1,405 million).

(3) Included in the “Operating expenses” are premises and equipment-related expenses (mainly comprised of property management and building maintenance expenses and taxes) of RMB12,810 million (2019: RMB13,644 million).

**7 Staff costs**

	Year ended 31 December	
	2020	2019
Salary, bonus and subsidy	<b>62,377</b>	61,095
Staff welfare	<b>4,218</b>	3,896
Retirement benefits	<b>50</b>	60
Social insurance		
— Medical	<b>3,109</b>	4,085
— Pension	<b>4,607</b>	6,249
— Annuity	<b>3,440</b>	4,178
— Unemployment	<b>150</b>	207
— Injury at work	<b>59</b>	76
— Maternity insurance	<b>136</b>	256
Housing funds	<b>4,774</b>	4,595
Labour union fee and staff education fee	<b>2,082</b>	2,032
Reimbursement for cancellation of labour contract	<b>28</b>	15
Other	<b>4,304</b>	4,018
Total	<b>89,334</b>	90,762

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****8 Directors', supervisors' and senior management's emoluments**

Details of the directors' and supervisors' emoluments are as follows:

**For the year ended 31 December 2020**

	Fees	Remuneration paid	Contributions to pension schemes	Benefits in kind	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Executive directors</b>					
LIU Liange <sup>(4)</sup>	— <sup>(2)</sup>	619	79	79	777
WANG Wei <sup>(4)(5)</sup>	— <sup>(2)</sup>	557	75	79	711
LIN Jingzhen <sup>(4)</sup>	— <sup>(2)</sup>	557	75	79	711
WANG Jiang <sup>(4)(5)(6)</sup>	— <sup>(2)</sup>	619	79	79	777
WU Fulin <sup>(4)(6)</sup>	— <sup>(2)</sup>	47	5	7	59
<b>Non-executive directors</b>					
ZHAO Jie <sup>(1)</sup>	—	—	—	—	—
XIAO Lihong <sup>(1)</sup>	—	—	—	—	—
WANG Xiaoya <sup>(1)</sup>	—	—	—	—	—
ZHANG Jiangang <sup>(1)</sup>	—	—	—	—	—
CHEN Jianbo <sup>(1)(5)</sup>	—	—	—	—	—
LIAO Qiang <sup>(1)(6)</sup>	—	—	—	—	—
<b>Independent directors</b>					
WANG Changyun	635	—	—	—	635
Angela CHAO	450	—	—	—	450
JIANG Guohua	609	—	—	—	609
Martin Cheung Kong LIAO	450	—	—	—	450
CHEN Chunhua <sup>(5)</sup>	225	—	—	—	225
CHUI Sai Peng Jose <sup>(5)</sup>	138	—	—	—	138
<b>Supervisors</b>					
WANG Zhiheng	50 <sup>(3)</sup>	—	—	—	50
LI Changlin	50 <sup>(3)</sup>	—	—	—	50
LENG Jie	50 <sup>(3)</sup>	—	—	—	50
JIA Xiangsen	260	—	—	—	260
ZHENG Zhiguang	260	—	—	—	260
WANG Xiquan <sup>(4)(6)</sup>	—	619	79	79	777
	3,177	3,018	392	402	6,989

## Notes to the Consolidated Financial Statements

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****8 Directors', supervisors' and senior management's emoluments (Continued)**

For the year ended 31 December 2019

	Fees	Remuneration paid	Contributions to pension schemes	Benefits in kind	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Executive directors</b>					
LIU Liange <sup>(4)</sup>	— <sup>(2)</sup>	807	87	82	976
WANG Wei <sup>(4)(5)</sup>	— <sup>(2)</sup>	61	6	7	74
LIN Jingzhen <sup>(4)</sup>	— <sup>(2)</sup>	725	83	82	890
WANG Jiang <sup>(4)(5)(6)</sup>	— <sup>(2)</sup>	—	—	—	—
CHEN Siqing <sup>(4)</sup>	— <sup>(2)</sup>	269	31	26	326
WU Fulin <sup>(4)(6)</sup>	— <sup>(2)</sup>	726	83	82	891
<b>Non-executive directors</b>					
ZHAO Jie <sup>(1)</sup>	—	—	—	—	—
XIAO Lihong <sup>(1)</sup>	—	—	—	—	—
WANG Xiaoya <sup>(1)</sup>	—	—	—	—	—
ZHANG Jiangang <sup>(1)</sup>	—	—	—	—	—
CHEN Jianbo <sup>(1)(5)</sup>	—	—	—	—	—
LI Jucan <sup>(1)</sup>	—	—	—	—	—
LIAO Qiang <sup>(1)(6)</sup>	—	—	—	—	—
<b>Independent directors</b>					
WANG Changyun	621	—	—	—	621
Angela CHAO	450	—	—	—	450
JIANG Guohua	455	—	—	—	455
Martin Cheung Kong LIAO	146	—	—	—	146
CHEN Chunhua <sup>(5)</sup>	—	—	—	—	—
CHUI Sai Peng Jose <sup>(5)</sup>	—	—	—	—	—
LU Zhengfei	321	—	—	—	321
LEUNG Cheuk Yan	270	—	—	—	270
<b>Supervisors</b>					
WANG Xiquan <sup>(4)(6)</sup>	—	807	87	82	976
WANG Zhiheng	50 <sup>(3)</sup>	—	—	—	50
LI Changlin	50 <sup>(3)</sup>	—	—	—	50
LENG Jie	50 <sup>(3)</sup>	—	—	—	50
JIA Xiangsen	145	—	—	—	145
ZHENG Zhiguang	145	—	—	—	145
LIU Wanming <sup>(4)</sup>	—	859	35	46	940
CHEN Yuhua	98	—	—	—	98
	2,801	4,254	412	407	7,874



(Amount in millions of Renminbi, unless otherwise stated)

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 8 Directors', supervisors' and senior management's emoluments (Continued)

- (1) For the years ended 31 December 2020 and 2019, these non-executive directors of the Bank were not remunerated by the Bank.
- (2) For the years ended 31 December 2020 and 2019, these executive directors of the Bank did not receive any fees.
- (3) Employee supervisors' above compensation is paid for serving as the supervisors of the Bank.
- (4) The total compensation packages for executive directors and supervisors for the year ended 31 December 2020 including discretionary bonus have not yet been finalised in accordance with the relevant regulations of the PRC authorities. The amount of the compensation not provided for is not expected to have any significant impact on the Group's 2020 financial statements. The final compensation for the year ended 31 December 2020 will be disclosed in a separate announcement when determined.

The compensation amounts for these directors and supervisors for the year ended 31 December 2019 were restated based on the finalised amounts as disclosed in the Bank's announcement on resolutions of the board of directors dated 23 September 2020.

A portion of the discretionary bonus payments for executive directors and the chairman of the board of supervisors are deferred for a minimum of 3 years, which is contingent upon the future performance in accordance with relevant regulations of the PRC authorities.

- (5) WANG Jiang began to serve as Vice-Chairman of the Board of Directors and Executive Director of the Bank as of 14 January 2020. WANG Wei began to serve as Executive Director of the Bank as of 30 June 2020. CHEN Jianbo began to serve as Non-executive Director of the Bank as of 30 June 2020. CHEN Chunhua began to serve as Independent Director of the Bank as of 20 July 2020. CHUI Sai Peng Jose began to serve as Independent Director of the Bank as of 11 September 2020. ZHANG Keqiu began to serve as Chairwoman of the Board of Supervisors and Shareholder Supervisor of the Bank as of 18 January 2021. Since ZHANG Keqiu did not hold any position at the Board of Supervisors of the Bank in 2020, no emoluments were disclosed in 2020.
- (6) WANG Jiang ceased to serve as Vice-Chairman of the Board of Directors and Executive Director of the Bank as of 5 February 2021. WU Fulin ceased to serve as Executive Director of the Bank as of 27 January 2020. LIAO Qiang ceased to serve as Non-executive Director of the Bank as of 5 March 2020. WANG Xiquan ceased to serve as Chairman of the Board of Supervisors and Shareholder Supervisor of the Bank as of 18 January 2021.

#### **Five highest paid individuals**

Of the five individuals with the highest emoluments, none of them are directors or supervisors whose emoluments are disclosed above.

The emoluments payable to the five individuals whose emoluments were the highest in the Group for the years ended 31 December 2020 and 2019 respectively are as follows:

	Year ended 31 December	
	2020	2019
Basic salaries and allowances	23	24
Discretionary bonuses	98	124
Contributions to pension schemes and other	3	4
	124	152

## Notes to the Consolidated Financial Statements

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****8 Directors', supervisors' and senior management's emoluments (Continued)*****Five highest paid individuals (Continued)***

Emoluments of the individuals were within the following bands:

Amounts in RMB	Year ended 31 December	
	2020	2019
16,000,001–20,000,000	4	–
20,000,001–50,000,000	1	4
50,000,001–70,000,000	–	1

The above five highest paid individuals' emoluments are based on best estimates of discretionary bonuses. Discretionary bonuses include portions of payments that are deferred to future periods.

During the years ended 31 December 2020 and 2019, the Group has not paid any emoluments to the directors, supervisors, or senior management as an inducement to join or upon joining the Group or as compensation for loss of office.

**9 Impairment losses on assets**

	Year ended 31 December	
	2020	2019
Loans and advances		
— Loans and advances at amortised cost	103,743	98,483
— Loans and advances at fair value through other comprehensive income	(113)	288
Subtotal	103,630	98,771
Financial investments		
— Financial assets at amortised cost	1,872	(187)
— Financial assets at fair value through other comprehensive income	4,244	387
Subtotal	6,116	200
Credit commitments	5,454	2,117
Other	3,181	883
Subtotal of impairment losses on credit	118,381	101,971
Other impairment losses on assets	635	182
Total	119,016	102,153

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****10 Income tax expense**

	Year ended 31 December	
	2020	2019
Current income tax		
— Chinese mainland income tax	<b>45,296</b>	43,643
— Hong Kong profits tax	<b>5,242</b>	5,297
— Macao, Taiwan and other countries and regions taxation	<b>3,455</b>	4,768
Adjustments in respect of current income tax of prior years	<b>1,557</b>	3,870
Subtotal	<b>55,550</b>	57,578
Deferred income tax (Note V.35.3)	<b>(14,268)</b>	(8,824)
Total	<b>41,282</b>	48,754

The principal tax rates applicable to the Group are set out in Note IV.

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 (Note III.5).

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:

	Year ended 31 December	
	2020	2019
Profit before income tax	<b>246,378</b>	250,645
Tax calculated at the applicable statutory tax rate	<b>61,595</b>	62,661
Effect of different tax rates for Hong Kong, Macao, Taiwan and other countries and regions	<b>(4,278)</b>	(5,282)
Supplementary PRC tax on overseas income	<b>2,924</b>	2,251
Income not subject to tax <sup>(1)</sup>	<b>(29,791)</b>	(27,846)
Items not deductible for tax purposes <sup>(2)</sup>	<b>11,226</b>	13,442
Other	<b>(394)</b>	3,528
Income tax expense	<b>41,282</b>	48,754

(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 the 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.

## Notes to the Consolidated Financial Statements

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****11 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 reporting period.

Diluted earnings per share was computed by dividing the adjusted profit attributable to the ordinary shareholders of the Bank based on assuming the conversion of all potentially dilutive shares for the reporting 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 years ended 31 December 2020 and 2019.

	Year ended 31 December	
	2020	2019
Profit attributable to equity holders of the Bank	<b>192,870</b>	187,405
Less: dividends/interest on preference shares/ perpetual bonds declared	<b>(12,029)</b>	(6,826)
Profit attributable to ordinary shareholders of the Bank	<b>180,841</b>	180,579
Weighted average number of ordinary shares in issue (in million shares)	<b>294,381</b>	294,378
Basic and diluted earnings per share (in RMB)	<b>0.61</b>	0.61

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

	Year ended 31 December	
	2020	2019
Issued ordinary shares as at 1 January	<b>294,388</b>	294,388
Less: weighted average number of treasury shares	<b>(7)</b>	(10)
Weighted average number of ordinary shares in issue	<b>294,381</b>	294,378

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****12 Other comprehensive income**

Accrual amount of other comprehensive income:

	Year ended 31 December	
	2020	2019
<b>Items that will not be reclassified to profit or loss</b>		
Actuarial gains on defined benefit plans	<b>101</b>	13
Changes in fair value on investments in equity instruments designated at fair value through other comprehensive income	<b>(622)</b>	2,790
Less: related income tax impact	<b>(29)</b>	(644)
Other	<b>10</b>	(69)
Subtotal	<b>(540)</b>	2,090
<b>Items that may be reclassified subsequently to profit or loss</b>		
Changes in fair value on investments in debt instruments measured at fair value through other comprehensive income	<b>3,950</b>	17,694
Less: related income tax impact	<b>(742)</b>	(3,795)
Amount transferred to the income statement	<b>(7,711)</b>	(2,535)
Less: related income tax impact	<b>1,527</b>	555
	<b>(2,976)</b>	11,919
Allowance for credit losses on investments in debt instruments measured at fair value through other comprehensive income	<b>4,108</b>	682
Less: related income tax impact	<b>(1,024)</b>	(167)
	<b>3,084</b>	515
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	<b>(174)</b>	(587)
Less: related income tax impact	<b>44</b>	147
	<b>(130)</b>	(440)
Exchange differences from the translation of foreign operations	<b>(21,021)</b>	7,764
Less: net amount transferred to the income statement from other comprehensive income	<b>(528)</b>	(675)
	<b>(21,549)</b>	7,089
Other	<b>(751)</b>	602
Subtotal	<b>(22,322)</b>	19,685
Total	<b>(22,862)</b>	21,775

## Notes to the Consolidated Financial Statements

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****12 Other comprehensive income (Continued)**

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

	Gains/(losses) 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	<b>22,534</b>	<b>(6,172)</b>	<b>3,251</b>	<b>19,613</b>
Changes in amount for the year	<b>(344)</b>	<b>(14,285)</b>	<b>(675)</b>	<b>(15,304)</b>
As at 31 December 2020	<b>22,190</b>	<b>(20,457)</b>	<b>2,576</b>	<b>4,309</b>

**13 Cash and due from banks and other financial institutions**

	As at 31 December	
	2020	2019
Cash	<b>78,825</b>	64,907
Due from banks in Chinese mainland	<b>602,340</b>	361,232
Due from other financial institutions in Chinese mainland	<b>7,515</b>	8,043
Due from banks in Hong Kong, Macao, Taiwan and other countries and regions	<b>110,662</b>	128,312
Due from other financial institutions in Hong Kong, Macao, Taiwan and other countries and regions	<b>559</b>	461
Subtotal <sup>(1)</sup>	<b>721,076</b>	498,048
Accrued interest	<b>4,327</b>	3,060
Less: allowance for impairment losses <sup>(1)</sup>	<b>(1,083)</b>	(548)
Subtotal due from banks and other financial institutions	<b>724,320</b>	500,560
Total	<b>803,145</b>	565,467

- (1) As at 31 December 2020 and 2019, the Group included the predominant majority of 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 (12-month ECL).

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****14 Balances with central banks**

	As at 31 December	
	2020	2019
Mandatory reserves <sup>(1)</sup>	<b>1,442,384</b>	1,498,666
Surplus reserves <sup>(2)</sup>	<b>105,270</b>	132,247
Other <sup>(3)</sup>	<b>528,491</b>	447,048
Subtotal	<b>2,076,145</b>	2,077,961
Accrued interest	<b>695</b>	848
Total	<b>2,076,840</b>	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 31 December 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 funds for clearing purpose.
- (3) This primarily represented balances other than mandatory reserves and surplus reserves placed with the central banks in Hong Kong, Macao, Taiwan and other countries and regions.

**15 Placements with and loans to banks and other financial institutions**

	As at 31 December	
	2020	2019
Placements with and loans to:		
Banks in Chinese mainland	<b>91,709</b>	134,671
Other financial institutions in Chinese mainland	<b>529,152</b>	601,525
Banks in Hong Kong, Macao, Taiwan and other countries and regions	<b>294,358</b>	139,744
Other financial institutions in Hong Kong, Macao, Taiwan and other countries and regions	<b>24,157</b>	19,667
Subtotal <sup>(1)(2)</sup>	<b>939,376</b>	895,607
Accrued interest	<b>2,429</b>	4,090
Less: allowance for impairment losses <sup>(2)</sup>	<b>(2,485)</b>	(738)
Total	<b>939,320</b>	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 31 December	
	2020	2019
Debt securities		
— Governments	<b>182,724</b>	37,435
— Policy banks	<b>40,968</b>	93,364
— Financial institutions	<b>6,109</b>	23,588
— Corporates	<b>256</b>	—
Subtotal	<b>230,057</b>	154,387
Less: allowance for impairment losses	<b>—</b>	—
Total	<b>230,057</b>	154,387

- (2) As at 31 December 2020 and 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 (12-month ECL).

## Notes to the Consolidated Financial Statements

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****16 Derivative financial instruments and hedge accounting**

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 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.

**16.1 Derivative financial instruments**

	As at 31 December 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 <sup>(1)</sup>	6,304,310	118,600	(151,412)	6,469,750	65,477	(52,598)
Currency options	419,338	6,921	(3,789)	333,559	1,835	(2,019)
Currency futures	1,746	7	(20)	1,894	10	(6)
Subtotal	6,725,394	125,528	(155,221)	6,805,203	67,322	(54,623)
Interest rate derivatives						
Interest rate swaps	3,817,876	32,789	(42,520)	3,454,898	18,252	(23,188)
Interest rate options	63,772	16	(11)	17,729	31	(29)
Interest rate futures	543	–	(1)	2,400	3	(27)
Subtotal	3,882,191	32,805	(42,532)	3,475,027	18,286	(23,244)
Equity derivatives	12,927	376	(413)	9,219	137	(184)
Commodity derivatives and other	392,823	13,029	(13,886)	347,655	7,590	(12,009)
Total <sup>(2)</sup>	11,013,335	171,738	(212,052)	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.



(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****16 Derivative financial instruments and hedge accounting (Continued)****16.2 Hedge accounting***(1) Fair value hedges*

The Group uses cross-currency interest rate swaps and interest rate swaps to hedge against changes in fair value of “Financial investments”, “Due to central banks” and “Bonds issued” arising from changes in foreign currency exchange rates and interest rates. Foreign currency exchange rate risk and interest rate risk are usually the primary risks which affect the change in fair value.

- (i) The following table contains details of the derivative hedging instruments used in the Group’s fair value hedging strategies:

	Derivatives designated as hedging instruments in fair value hedges			Line item in the statement of financial position
	Contractual/ Notional amount	Fair value		
		Assets	Liabilities	
As at 31 December 2020				
Interest rate risk				
Interest rate swaps	100,936	240	(5,216)	Derivative financial assets/liabilities
Foreign exchange and interest rate risk				
Cross-currency interest rate swaps	1,852	–	(206)	Derivative liabilities
Total	102,788	240	(5,422)	
As at 31 December 2019				
Interest rate risk				
Interest rate swaps	113,883	372	(2,366)	Derivative financial assets/liabilities
Foreign exchange and interest rate risk				
Cross-currency interest rate swaps	4,351	–	(711)	Derivative financial liabilities
Total	118,234	372	(3,077)	

## Notes to the Consolidated Financial Statements

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****16 Derivative financial instruments and hedge accounting (Continued)****16.2 Hedge accounting (Continued)***(1) Fair value hedges (Continued)*

- (i) The following table contains details of the derivative hedging instruments used in the Group's fair value hedging strategies (Continued):

The following table sets out the maturity and average exchange rate/interest rate information of the hedging instruments mentioned above:

	Fair value hedges					
	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Total
As at 31 December 2020						
Interest rate risk						
Interest rate swaps						
Notional amount	1,578	1,693	7,054	59,013	31,598	100,936
Average fixed interest rate	2.87%	2.12%	2.37%	2.90%	2.99%	N/A
Foreign exchange and interest rate risk						
Cross-currency interest rate swaps						
Notional amount	–	1,212	–	640	–	1,852
Average fixed interest rate	–	5.38%	–	5.11%	–	N/A
Average exchange rate of USD/CNY	–	–	–	6.1217	–	N/A
Average exchange rate of AUD/USD	–	0.9294	–	–	–	N/A
As at 31 December 2019						
Interest rate risk						
Interest rate swaps						
Notional amount	760	2,806	11,014	63,807	35,496	113,883
Average fixed interest rate	2.89%	3.12%	2.29%	3.05%	3.17%	N/A
Foreign exchange and interest rate risk						
Cross-currency interest rate swaps						
Notional amount	1,309	–	1,062	1,980	–	4,351
Average fixed interest rate	5.38%	–	4.50%	5.28%	–	N/A
Average exchange rate of USD/CNY	–	–	6.5717	6.1217	–	N/A
Average exchange rate of AUD/USD	0.9381	–	–	0.9294	–	N/A

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****16 Derivative financial instruments and hedge accounting (Continued)****16.2 Hedge accounting (Continued)****(1) Fair value hedges (Continued)**

- (ii) The following table sets out the details of the hedged items covered by the Group's fair value hedging strategies:

	Fair value hedges				Line item in the statement of financial position
	Carrying amount of hedged items		Accumulated amount of fair value adjustments on the hedged items		
	Assets	Liabilities	Assets	Liabilities	
As at 31 December 2020					
Interest rate risk					
Financial investments	100,228	–	5,503	–	Financial investments
Due to central banks	–	(2,735)	–	3	Due to central banks
Bonds issued	–	(4,711)	–	(113)	Bonds issued
Foreign exchange and interest rate risk					
Bonds issued	–	(1,647)	–	206	Bonds issued
Total	100,228	(9,093)	5,503	96	
As at 31 December 2019					
Interest rate risk					
Financial investments	105,905	–	2,520	–	Financial investments
Bonds issued	–	(11,962)	–	(75)	Bonds issued
Foreign exchange and interest rate risk					
Bonds issued	–	(3,640)	–	711	Bonds issued
Total	105,905	(15,602)	2,520	636	

- (iii) The Group's net gains on fair value hedges are as follows:

	Year ended 31 December	
	2020	2019
Net gains on		
— hedging instruments	(2,843)	(3,097)
— hedged items	3,036	3,291
Ineffectiveness recognised in net trading gains	193	194

## Notes to the Consolidated Financial Statements

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****16 Derivative financial instruments and hedge accounting (Continued)****16.2 Hedge accounting (Continued)****(2) Net investment hedges**

The Group's consolidated statement of financial position is affected by exchange differences between the functional currencies of the Group and functional currencies of its branches and subsidiaries. The Group hedges such exchange exposures only in limited circumstances. Hedging is undertaken using due to customers, due to central banks and foreign exchange forward and swap contracts in the same or exchange-rate pegged currencies as the functional currencies of the related branches and subsidiaries which are accounted for as hedges of certain net investments in foreign operations. Under the hedging relationships of designating due to customers, due to central banks and foreign exchange forward and swap contracts as hedging instruments, the Group separates the forward element and the spot element of a forward contract and designates as the hedging instrument only the change in the value of the spot element of the forward contract. There was no ineffectiveness in the year ended 31 December 2020 (2019: Nil).

- (i) Details of due to customers and due to central banks used in the Group's net investment hedging strategies:

As at 31 December 2020, the carrying value of such due to customers amounted to RMB53,087 million (31 December 2019: RMB104,419 million) and due to central banks amounted to RMB1,060 million (31 December 2019: RMB1,407 million).

- (ii) The following table contains details of the derivative hedging instruments used in the Group's net investment hedging strategies:

	Derivatives designated as net investment hedging instruments			Line item in the statement of financial position
	Contractual/ Notional amount	Fair value		
		Assets	Liabilities	
<b>As at 31 December 2020</b>				
Foreign exchange forward and swap contracts	<b>3,966</b>	<b>12</b>	<b>(360)</b>	<b>Derivative financial assets/liabilities</b>
Total	<b>3,966</b>	<b>12</b>	<b>(360)</b>	
<b>As at 31 December 2019</b>				
Foreign exchange forward and swap contracts	41,128	29	(308)	Derivative financial assets/liabilities
Total	41,128	29	(308)	

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****16 Derivative financial instruments and hedge accounting (Continued)****16.2 Hedge accounting (Continued)****(2) Net investment hedges (Continued)**

- (ii) The following table contains details of the derivative hedging instruments used in the Group's net investment hedging strategies (Continued):

The following table sets out the maturity and average exchange rate of the hedging instruments mentioned above:

	Net investment hedges					Total
	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	
As at 31 December 2020						
Foreign exchange risk						
Foreign exchange forward and swap contracts						
Notional amount	–	1,956	2,010	–	–	3,966
Average exchange rate of USD/BRL	–	5.2086	–	–	–	N/A
Average exchange rate of USD/ZAR	–	17.5600	16.9743	–	–	N/A
Average exchange rate of USD/INR	–	–	79.2094	–	–	N/A
Average exchange rate of USD/MXN	–	–	21.9108	–	–	N/A
Average exchange rate of NZD/USD	–	0.5928	–	–	–	N/A
Average exchange rate of USD/CLP	–	–	778.3973	–	–	N/A
Average exchange rate of USD/PEN	–	3.5505	3.5110	–	–	N/A
As at 31 December 2019						
Foreign exchange risk						
Foreign exchange forward and swap contracts						
Notional amount	–	1,246	39,882	–	–	41,128
Average exchange rate of USD/HKD	–	–	7.8355	–	–	N/A
Average exchange rate of USD/ZAR	–	15.0995	15.2113	–	–	N/A
Average exchange rate of USD/INR	–	–	73.2963	–	–	N/A
Average exchange rate of USD/MXN	–	–	20.1698	–	–	N/A
Average exchange rate of NZD/USD	–	0.6909	–	–	–	N/A
Average exchange rate of USD/CLP	–	–	723.0169	–	–	N/A
Average exchange rate of USD/SGD	–	–	1.3597	–	–	N/A

## Notes to the Consolidated Financial Statements

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****16 Derivative financial instruments and hedge accounting (Continued)****16.2 Hedge accounting (Continued)***(2) Net investment hedges (Continued)*

- (iii) The Group's gains or losses from the hedging instruments recognised in "Other comprehensive income" on net investment hedges are as follows:

	Year ended 31 December	
	2020	2019
Amounts of fair value changes on hedging instruments recognised in "Other comprehensive income"	<b>3,841</b>	(849)
Amounts of forward element reclassified from "Other comprehensive income" to profit or loss	<b>154</b>	172
Net amounts of fair value changes on hedging instruments recognised in "Other comprehensive income"	<b>3,995</b>	(677)

**16.3 IBOR Reform**

The Group has hedge accounting relationships that are exposed to different interbank offered rates ("IBORs"), predominantly US dollar Libor, etc. External progress on the transition to RFRs is being monitored, with the objective of ensuring a smooth transition for the Group's hedge accounting relationships. The specific issues arising will vary with the details of each hedging relationship, but may arise due to the transition of existing products included in the designation, a change in expected volumes of products to be issued, a change in contractual terms of new products issued, or a combination of these factors. Some hedges may need to be de-designated and new relationships entered into, while others may survive IBOR reform.

The hedge items that are affected by the adoption of applicable temporary reliefs in hedge accounting relationships are presented in the statement of financial position as "Financial investments", "Due to central banks" and "Bonds issued", etc.

As at 31 December 2020, the notional amount of interest rate derivatives designated in fair value hedged accounting relationships was RMB93,964 million, which represented the extent of the risk exposure around fair value hedging relationships managed by the Group that was directly affected by IBOR reform and impacted by applicable temporary reliefs.

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****17 Loans and advances to customers****17.1 Analysis of loans and advances to customers by general condition**

	As at 31 December	
	2020	2019
Measured at amortised cost		
— Corporate loans and advances	<b>8,235,520</b>	7,644,359
— Personal loans	<b>5,583,295</b>	5,047,809
— Discounted bills	<b>1,912</b>	2,334
Measured at fair value through other comprehensive income <sup>(1)</sup>		
— Discounted bills	<b>358,997</b>	335,583
Subtotal	<b>14,179,724</b>	13,030,085
Measured at fair value through profit or loss <sup>(2)</sup>		
— Corporate loans and advances	<b>3,661</b>	4,104
Total	<b>14,183,385</b>	13,034,189
Accrued interest	<b>33,092</b>	34,596
Total loans and advances	<b>14,216,477</b>	13,068,785
Less: allowance for loans at amortised cost	<b>(368,173)</b>	(325,360)
Loans and advances to customers, net	<b>13,848,304</b>	12,743,425

(1) As at 31 December 2020, loans at fair value through other comprehensive income of the Group were discounted bills. The allowance for impairment losses amounted to RMB446 million (31 December 2019: RMB563 million) and was credited to other comprehensive income.

(2) There was no significant change during the years ended 31 December 2020 and 2019, or cumulatively, in the fair value of the loans that was attributable to changes in the credit risk of the loans.

**17.2** Analysis of loans and advances to customers (accrued interest excluded) by geographical area, customer type, industry, collateral type and analysis of impaired and overdue loans and advances to customers are presented in Note VI.3.5.

## Notes to the Consolidated Financial Statements

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****17 Loans and advances to customers (Continued)****17.3 Reconciliation of allowance for impairment losses on loans and advances to customers**

(1) Allowance for loans at amortised cost

	Year ended 31 December 2020			
	12-month ECLs	Lifetime ECLs		Total
	Stage 1	Stage 2	Stage 3	
As at 1 January	109,765	79,051	136,544	325,360
Transfers to Stage 1	3,769	(3,232)	(537)	–
Transfers to Stage 2	(1,274)	13,913	(12,639)	–
Transfers to Stage 3	(407)	(30,546)	30,953	–
Charge for the year <sup>(i)</sup>	70,933	24,190	42,114	137,237
Reversal	(43,164)	(21,257)	(10,126)	(74,547)
Impairment (reversal)/losses due to stage transformation	(3,507)	9,357	35,203	41,053
Write-off and transfer out	(66)	–	(64,255)	(64,321)
Recovery of loans and advances written off	–	–	8,405	8,405
Unwinding of discount on allowance	–	–	(1,236)	(1,236)
Exchange differences and other	(1,483)	(764)	(1,531)	(3,778)
As at 31 December	134,566	70,712	162,895	368,173

  

	Year ended 31 December 2019			
	12-month ECLs	Lifetime ECLs		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 <sup>(i)</sup>	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 year comprises the impairment losses from new loans, remaining loans without stage transformation, model/risk parameters adjustment, etc.



(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****17 Loans and advances to customers (Continued)****17.3 Reconciliation of allowance for impairment losses on loans and advances to customers (Continued)***(2) Allowance for loans at fair value through other comprehensive income*

	Year ended 31 December 2020			
	12-month ECLs	Lifetime ECLs		Total
	Stage 1	Stage 2	Stage 3	
As at 1 January	547	16	–	563
Charge for the year	563	5	–	568
Reversal	(665)	(16)	–	(681)
Exchange differences and other	(4)	–	–	(4)
As at 31 December	441	5	–	446

	Year ended 31 December 2019			
	12-month ECLs	Lifetime ECLs		Total
	Stage 1	Stage 2	Stage 3	
As at 1 January	234	39	–	273
Charge 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 conducted an assessment of ECLs according to forward-looking information and used a number of models and assumptions in its measurement of expected credit losses. These models and assumptions relate to the future macroeconomic conditions and debtors creditworthiness (e.g., the likelihood of default by debtors and the corresponding losses). The Group's assessment of ECLs on 31 December 2020 considered the impact of changes in the current economic environment on the ECL model, including: the debtor's operation or financial status, and the extent of the impact of the COVID-19 pandemic, the Group has granted deferred repayment and interest payment arrangements to some debtors affected by the pandemic, but a deferred principal and interest payment arrangement was not intended to be a judgment basis for automatically triggering a significant increase in the debtor's credit risk; specific industry risks affected by the pandemic; forward-looking forecasts on performance of key macroeconomic indicators based on the impact of the COVID-19 pandemic, among other factors, on economic development trends.

As at 31 December 2020, the expected credit losses comprehensively reflected the Group's credit risk and the expectations for macroeconomic development of the management.

## Notes to the Consolidated Financial Statements

### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 17 Loans and advances to customers (Continued)

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

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

In 2020, the changes in gross carrying amounts of loans and advances to customers that have a significant impact on the Group's impairment allowance mainly derived from the credit business in the Chinese mainland, including:

- The domestic branches performed regular reviews of the five-category loan classification grading and internal credit ratings on their loans and advances to customers. Loans with a gross carrying amount of RMB69,946 million (2019: RMB69,820 million) were transferred from Stage 1 to Stage 2 and Stage 3, and the impairment allowance increased correspondingly by RMB22,008 million (2019: RMB21,963 million). The gross carrying amount of loans transferred from Stage 2 to Stage 3 was RMB67,364 million (2019: RMB59,760 million), with a corresponding increase in impairment allowance of RMB20,900 million (2019: RMB22,340 million). The gross carrying amount of the loans transferred from Stage 2 to Stage 1 was RMB16,132 million (2019: RMB45,059 million), and the impairment allowance decreased correspondingly by RMB2,677 million (2019: RMB3,273 million). The gross carrying amount of loans transferred from Stage 3 to Stage 2 and Stage 1 was RMB16,720 million (2019: RMB5,857 million), and the impairment allowance decreased correspondingly by RMB6,656 million (2019: RMB1,677 million).
- The write-off and disposal of the non-performing loans by the domestic branches amounted to RMB60,630 million (2019: RMB78,404 million), resulting in a corresponding reduction of RMB56,567 million (2019: RMB69,468 million) in impairment allowance for Stage 3 loans.
- The domestic branches converted loans of RMB3,659 million (2019: RMB12,813 million) into equity through debt-to-equity swaps and other instruments, resulting in a decrease of RMB1,605 million in impairment allowance for Stage 3 loans (2019: RMB10,193 million).
- Through personal loan securitisation, the domestic branches transferred out loans of RMB18,323 million (2019: RMB50,871 million), resulting in a decrease of RMB66 million (2019: RMB269 million) and RMB1,702 million (2019: RMB354 million) in the impairment allowance for Stage 1 and Stage 3 loans respectively.

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****18 Financial investments**

	As at 31 December	
	2020	2019
<b>Financial assets at fair value through profit or loss</b>		
Financial assets held for trading and other		
financial assets at fair value through profit or loss		
Debt securities		
Issuers in Chinese mainland		
— Government	20,176	16,807
— Public sectors and quasi-governments	302	595
— Policy banks	31,755	40,005
— Financial institutions	188,092	169,477
— Corporate	42,122	44,629
Issuers in Hong Kong, Macao, Taiwan and other countries and regions		
— Governments	18,919	23,416
— Public sectors and quasi-governments	45	177
— Financial institutions	10,106	16,617
— Corporate	9,603	10,721
	321,120	322,444
Equity instruments	88,025	79,456
Fund investments and other	69,183	67,562
Total financial assets held for trading and other financial assets at fair value through profit or loss	478,328	469,462
Financial assets at fair value through profit or loss (designated)		
Debt securities <sup>(1)</sup>		
Issuers in Chinese mainland		
— Government	3,073	8,797
— Policy banks	509	2,418
— Financial institutions	6,640	9,592
— Corporate	1,846	1,329
Issuers in Hong Kong, Macao, Taiwan and other countries and regions		
— Governments	1,295	9,712
— Public sectors and quasi-governments	721	1,603
— Financial institutions	5,525	7,159
— Corporate	6,514	8,178
	26,123	48,788
Other	98	—
Total financial assets at fair value through profit or loss (designated)	26,221	48,788
Total financial assets at fair value through profit or loss	504,549	518,250

## Notes to the Consolidated Financial Statements

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****18 Financial investments (Continued)**

	As at 31 December	
	2020	2019
<b>Financial assets at fair value through other comprehensive income</b>		
Debt securities		
Issuers in Chinese mainland		
— Government	691,638	676,685
— Public sectors and quasi-governments	88,092	71,172
— Policy banks	328,713	299,599
— Financial institutions	174,517	315,779
— Corporate	135,590	153,617
Issuers in Hong Kong, Macao, Taiwan and other countries and regions		
— Governments	434,344	412,194
— Public sectors and quasi-governments	27,340	51,252
— Financial institutions	98,545	106,951
— Corporate	107,583	109,103
	<b>2,086,362</b>	2,196,352
Equity instruments and other	<b>21,428</b>	21,777
Total financial assets at fair value through other comprehensive income <sup>(2)</sup>	<b>2,107,790</b>	2,218,129
<b>Financial assets at amortised cost</b>		
Debt securities		
Issuers in Chinese mainland		
— Government <sup>(3)(4)</sup>	2,327,382	2,168,725
— Public sectors and quasi-governments	43,679	39,425
— Policy banks	93,376	100,638
— Financial institutions	59,250	30,637
— Corporate	39,529	15,677
— China Orient <sup>(5)</sup>	152,433	152,433
Issuers in Hong Kong, Macao, Taiwan and other countries and regions		
— Governments	103,432	80,472
— Public sectors and quasi-governments	37,950	66,356
— Financial institutions	59,762	31,937
— Corporate	19,166	47,588
	<b>2,935,959</b>	2,733,888
Investment trusts, asset management plans and other	<b>14,447</b>	13,544
Accrued interest	<b>37,295</b>	37,037
Less: allowance for impairment losses	<b>(8,923)</b>	(6,786)
Total financial assets at amortised cost	<b>2,978,778</b>	2,777,683
<b>Total financial investments<sup>(6)(7)(8)(9)</sup></b>	<b>5,591,117</b>	5,514,062

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****18 Financial investments (Continued)**

	As at 31 December	
	2020	2019
Analysed as follows:		
<b>Financial assets at fair value through profit or loss</b>		
— Listed in Hong Kong	<b>48,718</b>	46,731
— Listed outside Hong Kong <sup>(10)</sup>	<b>283,523</b>	255,171
— Unlisted	<b>172,308</b>	216,348
<b>Financial assets at fair value through other comprehensive income</b>		
Debt securities		
— Listed in Hong Kong	<b>233,244</b>	130,743
— Listed outside Hong Kong <sup>(10)</sup>	<b>1,210,734</b>	1,365,202
— Unlisted	<b>642,384</b>	700,407
Equity instruments and other		
— Listed in Hong Kong	<b>6,031</b>	7,083
— Listed outside Hong Kong <sup>(10)</sup>	<b>3,141</b>	3,215
— Unlisted	<b>12,256</b>	11,479
<b>Financial assets at amortised cost</b>		
— Listed in Hong Kong	<b>34,217</b>	31,896
— Listed outside Hong Kong <sup>(10)</sup>	<b>2,618,215</b>	2,308,222
— Unlisted	<b>326,346</b>	437,565
<b>Total</b>	<b>5,591,117</b>	5,514,062
Listed in Hong Kong	<b>322,210</b>	216,453
Listed outside Hong Kong <sup>(10)</sup>	<b>4,115,613</b>	3,931,810
Unlisted	<b>1,153,294</b>	1,365,799
<b>Total</b>	<b>5,591,117</b>	5,514,062

	As at 31 December			
	2020		2019	
	Carrying value	Market value	Carrying value	Market value
Debt securities at amortised cost				
— Listed in Hong Kong	<b>34,217</b>	<b>35,960</b>	31,896	32,847
— Listed outside Hong Kong <sup>(10)</sup>	<b>2,618,215</b>	<b>2,637,926</b>	2,308,222	2,670,795

## Notes to the Consolidated Financial Statements

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****18 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 exercised its option irrevocably on certain unlisted equity investments, which were 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 31 December 2020 amounted to RMB5,479 million (31 December 2019: RMB1,254 million).

- (3) On 18 August 1998, a Special Purpose Treasury Bond was issued by the Ministry of Finance ("MOF") with a par value of RMB42,500 million maturing on 18 August 2028. This bond was originally issued with an annual coupon rate of 7.20% and its coupon rate was restructured to 2.25% per annum from 1 December 2004.
- (4) The Bank underwrites certain Treasury bonds issued by the MOF and undertakes the role of a distributor of these Treasury bonds through its branch network earning commission income on bonds sold. The investors of these 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 balance of these bonds held by the Bank as at 31 December 2020 amounted to RMB2,337 million (31 December 2019: RMB2,477 million).
- (5) 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 reached an agreement with China Orient Asset Management Co., Ltd., on extending the Orient Bond maturity for five years with the maturity date adjusted from 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 31 December 2020, the Bank had received early repayments amounting to RMB7,567 million cumulatively.
- (6) In 2020 and 2019, the Group did not reclassify any of its debt securities subsequent to their initial recognition.
- (7) As at 31 December 2020, the Group held bonds issued by the MOF and bills issued by the PBOC included in financial investments. The carrying value (accrued interest excluded) and the related coupon rate range on such bonds and bills are as follows:

	As at 31 December	
	2020	2019
Carrying value (accrued interest excluded)	<b>979,089</b>	981,662
Coupon rate range	<b>0.00%–5.31%</b>	0.00%–5.31%

- (8) Included in the Group's financial investments were certificates of deposit held amounting to RMB130,698 million as at 31 December 2020 (31 December 2019: RMB243,816 million).
- (9) As at 31 December 2020, RMB1,467 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); RMB404 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.
- (10) Debt securities traded in the domestic interbank bond market are included in "Listed outside Hong Kong".

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****18 Financial investments (Continued)**

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

	Year ended 31 December 2020			
	12-month ECL	Lifetime ECL		Total
	Stage 1	Stage 2	Stage 3	
As at 1 January	<b>383</b>	<b>1</b>	<b>6,402</b>	<b>6,786</b>
Impairment losses during the year	<b>1,165</b>	–	<b>707</b>	<b>1,872</b>
Write-off and transfer out	–	–	<b>(24)</b>	<b>(24)</b>
Exchange differences and other	<b>359</b>	–	<b>(70)</b>	<b>289</b>
As at 31 December	<b>1,907</b>	<b>1</b>	<b>7,015</b>	<b>8,923</b>

	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) during 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:

	Year ended 31 December 2020			
	12-month ECL	Lifetime ECL		Total
	Stage 1	Stage 2	Stage 3	
As at 1 January	<b>1,250</b>	<b>4</b>	–	<b>1,254</b>
Transfers to Stage 2	<b>(1)</b>	<b>1</b>	–	–
Transfers to Stage 3	<b>(2)</b>	<b>(4)</b>	<b>6</b>	–
Impairment losses during the year	<b>3,751</b>	–	–	<b>3,751</b>
Impairment (gains)/losses due to stage transformation	–	<b>(1)</b>	<b>494</b>	<b>493</b>
Exchange differences and other	<b>(19)</b>	–	–	<b>(19)</b>
As at 31 December	<b>4,979</b>	–	<b>500</b>	<b>5,479</b>

	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

## Notes to the Consolidated Financial Statements

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****19 Investment in associates and joint ventures**

	Year ended 31 December	
	2020	2019
As at 1 January	<b>23,210</b>	23,369
Additions	<b>12,655</b>	2,011
Disposals and transfer out	<b>(1,157)</b>	(1,368)
Share of results, net of tax	<b>158</b>	1,057
Dividends received	<b>(402)</b>	(1,302)
Exchange differences and other	<b>(956)</b>	(557)
As at 31 December	<b>33,508</b>	23,210

The carrying amounts of major investments in associates and joint ventures of the Group are as follows. Further details are disclosed in Note V.43.4.

	As at 31 December	
	2020	2019
China Insurance Investment Fund Co., Ltd.	<b>11,563</b>	N/A
BOC International (China) Co., Ltd.	<b>5,022</b>	4,733
Ying Kou Port Group CORP.	<b>4,261</b>	4,479
CGN Phase I Private Equity Fund Company Limited	<b>1,622</b>	1,569
Graceful Field Worldwide Limited	<b>1,386</b>	1,438
Sichuan Lutianhua Co., Ltd.	<b>1,306</b>	1,264
Wkland Investments II Limited	<b>855</b>	923
Wuhu Yuanzhong Jiaying Investment Limited Partnership	<b>767</b>	819
Wuhu Yinsheng Special Steel Investment Management Limited Partnership	<b>755</b>	727
Guangdong Small and Medium Enterprises Equity Investment Fund Company Limited	<b>731</b>	745
Other	<b>5,240</b>	6,513
Total	<b>33,508</b>	23,210

As at 31 December 2020, the ability of associates and joint ventures to transfer funds to the Group is not restricted.



(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****20 Property and equipment**

	Year ended 31 December 2020				
	Buildings	Equipment and motor vehicles	Construction in progress	Aircraft	Total
<b>Cost</b>					
As at 1 January	119,077	77,656	32,905	131,821	361,459
Additions	708	5,998	11,658	17,778	36,142
Transfer from/(to) investment properties (Note V.21)	485	–	(242)	–	243
Construction in progress transfer in/(out)	5,375	862	(9,230)	2,993	–
Deductions	(1,728)	(10,726)	(2,373)	(2,948)	(17,775)
Exchange differences	(1,453)	(453)	(1,437)	(8,619)	(11,962)
As at 31 December	122,464	73,337	31,281	141,025	368,107
<b>Accumulated depreciation</b>					
As at 1 January	(40,401)	(60,758)	–	(14,762)	(115,921)
Additions	(3,967)	(6,623)	–	(4,635)	(15,225)
Deductions	1,143	9,178	–	883	11,204
Transfer to investment properties (Note V.21)	18	–	–	–	18
Exchange differences	393	364	–	1,212	1,969
As at 31 December	(42,814)	(57,839)	–	(17,302)	(117,955)
<b>Allowance for impairment losses</b>					
As at 1 January	(767)	–	(227)	(4)	(998)
Additions	(1)	–	–	(623)	(624)
Deductions	16	–	–	4	20
Exchange differences	6	–	–	33	39
As at 31 December	(746)	–	(227)	(590)	(1,563)
<b>Net book value</b>					
As at 1 January	77,909	16,898	32,678	117,055	244,540
As at 31 December	78,904	15,498	31,054	123,133	248,589

## Notes to the Consolidated Financial Statements

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****20 Property and equipment (Continued)**

	Year ended 31 December 2019				
	Buildings	Equipment and motor vehicles	Construction in progress	Aircraft	Total
<b>Cost</b>					
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 V.21)	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
<b>Accumulated depreciation</b>					
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 V.21)	9	–	–	–	9
Exchange differences	(125)	(177)	–	(276)	(578)
As at 31 December	(40,401)	(60,758)	–	(14,762)	(115,921)
<b>Allowance for impairment losses</b>					
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)
<b>Net book value</b>					
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

As at 31 December 2020, the net book amount of aircraft leased out by BOC Aviation Limited, a subsidiary of the Group, under operating leases was RMB123,133 million (31 December 2019: RMB114,659 million).

As at 31 December 2020, the net book amount of aircraft owned by BOC Aviation Limited, a subsidiary of the Group, that has been pledged for loan facilities was RMB14,893 million (31 December 2019: RMB20,338 million) (Note V.31).

According to the relevant PRC laws and regulations, after conversion into a joint stock limited liability company, the Bank is required to re-register its property and equipment under the name of Bank of China Limited. As at 31 December 2020, the process of re-registration has not been completed. However, this registration process does not affect the rights of Bank of China Limited to these assets.

(Amount in millions of Renminbi, unless otherwise stated)

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 20 Property and equipment (Continued)

The carrying value of buildings is analysed based on the remaining terms of the leases as follows:

	As at 31 December	
	2020	2019
Held in Hong Kong		
on long-term lease (over 50 years)	3,749	3,694
on medium-term lease (10–50 years)	7,884	8,521
on short-term lease (less than 10 years)	8	10
Subtotal	11,641	12,225
Held outside Hong Kong		
on long-term lease (over 50 years)	4,507	4,353
on medium-term lease (10–50 years)	55,846	54,641
on short-term lease (less than 10 years)	6,910	6,690
Subtotal	67,263	65,684
Total	78,904	77,909

### 21 Investment properties

	Year ended 31 December	
	2020	2019
As at 1 January	23,108	22,086
Additions	1,626	468
Transfer to property and equipment, net (Note V.20)	(261)	(354)
Deductions	(15)	(11)
Fair value changes (Note V.5)	(1,505)	496
Exchange differences	(888)	423
As at 31 December	22,065	23,108

The Group's investment properties are located in active real estate markets, and external appraisers make reasonable estimation of fair value using market prices of the same or similar properties and other related information from the real estate markets.

Investment properties are mainly held by Bank of China Hong Kong (Holdings) Limited ("BOCHK (Holdings)") and Bank of China Group Investment Limited ("BOCG Investment"), subsidiaries of the Group. The carrying values of investment properties held by BOCHK (Holdings) and BOCG Investment as at 31 December 2020 amounted to RMB12,009 million and RMB7,835 million, respectively (31 December 2019: RMB14,059 million and RMB6,666 million). The valuations of these investment properties as at 31 December 2020 were principally performed by Knight Frank Petty Limited based on the open market price and other related information.

## Notes to the Consolidated Financial Statements

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****21 Investment properties (Continued)**

The carrying value of investment properties is analysed based on the remaining terms of the leases as follows:

	As at 31 December	
	2020	2019
Held in Hong Kong		
on long-term lease (over 50 years)	<b>1,976</b>	3,273
on medium-term lease (10–50 years)	<b>9,836</b>	10,556
Subtotal	<b>11,812</b>	13,829
Held outside Hong Kong		
on long-term lease (over 50 years)	<b>4,288</b>	4,002
on medium-term lease (10–50 years)	<b>5,782</b>	5,002
on short-term lease (less than 10 years)	<b>183</b>	275
Subtotal	<b>10,253</b>	9,279
Total	<b>22,065</b>	23,108

**22 Other assets**

	As at 31 December	
	2020	2019
Accounts receivable and prepayments <sup>(1)</sup>	<b>141,286</b>	107,124
Right-of-use assets <sup>(2)</sup>	<b>22,855</b>	22,822
Intangible assets <sup>(3)</sup>	<b>15,614</b>	13,352
Land use rights <sup>(4)</sup>	<b>6,526</b>	6,903
Long-term deferred expense	<b>3,215</b>	3,222
Reposessed assets <sup>(5)</sup>	<b>2,120</b>	2,400
Goodwill <sup>(6)</sup>	<b>2,525</b>	2,686
Interest receivable	<b>1,299</b>	1,878
Other	<b>21,756</b>	18,737
Total	<b>217,196</b>	179,124

(1) Accounts receivable and prepayments

	As at 31 December	
	2020	2019
Accounts receivable and prepayments	<b>146,144</b>	111,395
Impairment allowance	<b>(4,858)</b>	(4,271)
Net value	<b>141,286</b>	107,124

Accounts receivable and prepayments mainly include items in the process of clearing and settlement. The analysis of the ageing of accounts receivable and prepayments is as follows:

	As at 31 December			
	2020		2019	
	Balance	Impairment allowance	Balance	Impairment allowance
Within 1 year	<b>135,647</b>	<b>(944)</b>	101,442	(491)
From 1 year to 3 years	<b>4,038</b>	<b>(892)</b>	5,895	(900)
Over 3 years	<b>6,459</b>	<b>(3,022)</b>	4,058	(2,880)
Total	<b>146,144</b>	<b>(4,858)</b>	111,395	(4,271)

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****22 Other assets (Continued)**

## (2) Right-of-use assets

	As at 31 December					
	2020			2019		
	Buildings	Motor vehicles and other	Total	Buildings	Motor vehicles and other	Total
<b>Cost</b>						
As at 1 January	29,500	156	29,656	22,652	120	22,772
Additions	7,413	44	7,457	7,341	38	7,379
Deductions	(1,242)	(21)	(1,263)	(624)	(3)	(627)
Exchange differences	(420)	(3)	(423)	131	1	132
As at 31 December	35,251	176	35,427	29,500	156	29,656
<b>Accumulated depreciation</b>						
As at 1 January	(6,781)	(53)	(6,834)	(209)	–	(209)
Additions	(6,841)	(63)	(6,904)	(6,632)	(53)	(6,685)
Deductions	1,030	20	1,050	81	–	81
Exchange differences	115	1	116	(21)	–	(21)
As at 31 December	(12,477)	(95)	(12,572)	(6,781)	(53)	(6,834)
<b>Net book value</b>						
As at 1 January	22,719	103	22,822	22,443	120	22,563
As at 31 December	22,774	81	22,855	22,719	103	22,822

## (3) Intangible assets

	Year ended 31 December	
	2020	2019
<b>Cost</b>		
As at 1 January	26,573	22,946
Additions	8,712	3,712
Deductions	(226)	(120)
Exchange differences	(350)	35
As at 31 December	34,709	26,573
<b>Accumulated amortisation</b>		
As at 1 January	(13,221)	(10,479)
Additions	(6,323)	(2,775)
Deductions	208	60
Exchange differences	241	(27)
As at 31 December	(19,095)	(13,221)
<b>Net book value</b>		
As at 1 January	13,352	12,467
As at 31 December	15,614	13,352

## Notes to the Consolidated Financial Statements

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****22 Other assets (Continued)**

## (4) Land use rights

The carrying value of land use rights is analysed based on the remaining terms of the leases as follows:

	As at 31 December	
	2020	2019
Held outside Hong Kong		
on long-term lease (over 50 years)	<b>60</b>	83
on medium-term lease (10–50 years)	<b>5,809</b>	6,093
on short-term lease (less than 10 years)	<b>657</b>	727
<b>Total</b>	<b>6,526</b>	6,903

## (5) 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 31 December	
	2020	2019
Commercial properties	<b>2,347</b>	2,596
Residential properties	<b>514</b>	615
Other	<b>161</b>	159
<b>Subtotal</b>	<b>3,022</b>	3,370
Less: allowance for impairment losses	<b>(902)</b>	(970)
<b>Repossessed assets, net</b>	<b>2,120</b>	2,400

The total book value of repossessed assets disposed of during the year ended 31 December 2020 amounted to RMB602 million (2019: RMB276 million). The Group plans to dispose of the repossessed assets held at 31 December 2020 by auction, bidding or transfer.

## (6) Goodwill

	Year ended 31 December	
	2020	2019
As at 1 January	<b>2,686</b>	2,620
Addition through acquisition of subsidiaries	<b>–</b>	27
Decrease resulting from disposal of subsidiaries	<b>(25)</b>	–
Exchange differences	<b>(136)</b>	39
<b>As at 31 December</b>	<b>2,525</b>	2,686

The goodwill mainly arose from the acquisition of BOC Aviation Limited in 2006 amounting to USD241 million (equivalent to RMB1,571 million).

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****23 Impairment allowance**

	As at 1 January 2020	Additions/ (reversal), net	Write-off and transfer out	Exchange differences and other	As at 31 December 2020
Impairment allowance					
Loans and advances to customers					
— at amortised cost	325,360	103,743	(57,152)	(3,778)	368,173
— at fair value through other comprehensive income	563	(113)	—	(4)	446
Financial investments					
— at amortised cost	6,786	1,872	(24)	289	8,923
— at fair value through other comprehensive income	1,254	4,244	—	(19)	5,479
Credit commitments	23,597	5,454	—	(284)	28,767
Property and equipment	998	624	(20)	(39)	1,563
Land use rights	10	—	—	—	10
Repossessed assets	970	53	(120)	(1)	902
Other	6,524	3,139	(522)	(25)	9,116
<b>Total</b>	<b>366,062</b>	<b>119,016</b>	<b>(57,838)</b>	<b>(3,861)</b>	<b>423,379</b>

	As at 1 January 2019	Additions/ (reversal), net	Write-off and transfer out	Exchange differences and other	As at 31 December 2019
Impairment allowance					
Loans and advances to customers					
— at amortised cost	303,508	98,483	(78,094)	1,463	325,360
— at fair value through other comprehensive income	273	288	—	2	563
Financial investments					
— at amortised cost	7,754	(187)	(800)	19	6,786
— at fair value through other comprehensive income	862	387	—	5	1,254
Credit commitments	21,354	2,117	—	126	23,597
Property and equipment	1,029	17	(53)	5	998
Land use rights	10	—	—	—	10
Repossessed assets	837	152	(23)	4	970
Other	5,935	896	(300)	(7)	6,524
<b>Total</b>	<b>341,562</b>	<b>102,153</b>	<b>(79,270)</b>	<b>1,617</b>	<b>366,062</b>

**24 Due to banks and other financial institutions**

	As at 31 December	
	2020	2019
Due to:		
Banks in Chinese mainland	515,162	372,692
Other financial institutions in Chinese mainland	1,077,841	1,050,961
Banks in Hong Kong, Macao, Taiwan and other countries and regions	177,717	167,352
Other financial institutions in Hong Kong, Macao, Taiwan and other countries and regions	142,379	71,913
<b>Subtotal</b>	<b>1,913,099</b>	<b>1,662,918</b>
Accrued interest	3,904	5,128
<b>Total</b>	<b>1,917,003</b>	<b>1,668,046</b>

## Notes to the Consolidated Financial Statements

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****25 Due to central banks**

	As at 31 December	
	2020	2019
Foreign exchange deposits	<b>251,533</b>	218,364
Other	<b>630,092</b>	619,298
Subtotal	<b>881,625</b>	837,662
Accrued interest	<b>6,186</b>	8,615
Total	<b>887,811</b>	846,277

**26 Government certificates of indebtedness for bank notes issued and bank notes in circulation**

Bank of China (Hong Kong) Limited ("BOCHK") and Bank of China Macao Branch are note issuing banks for Hong Kong Dollar and Macao Pataca notes in Hong Kong and Macao, respectively. Under local regulations, these two entities are required to place deposits with the Hong Kong and Macao governments, respectively, to secure the currency notes in circulation.

Bank notes in circulation represent the liabilities in respect of Hong Kong Dollar notes and Macao Pataca notes in circulation, issued respectively by BOCHK and Bank of China Macao Branch.

**27 Placements from banks and other financial institutions**

	As at 31 December	
	2020	2019
Placements from:		
Banks in Chinese mainland	<b>258,240</b>	339,802
Other financial institutions in Chinese mainland	<b>27,933</b>	52,278
Banks in Hong Kong, Macao, Taiwan and other countries and regions	<b>115,308</b>	229,337
Other financial institutions in Hong Kong, Macao, Taiwan and other countries and regions	<b>9,497</b>	16,434
Subtotal	<b>410,978</b>	637,851
Accrued interest	<b>971</b>	1,824
Total <sup>(1)(2)</sup>	<b>411,949</b>	639,675

(1) In order to eliminate or significantly reduce an accounting mismatch, certain placements from banks and other financial institutions were designated as financial liabilities at FVPL by the Group in 2020. The corresponding total carrying amount of the above-mentioned financial liabilities was RMB3,831 million as at 31 December 2020 (31 December 2019: RMB14,767 million), of which the fair value was approximately the same as the amount that the Group would be contractually required to pay to the holders.

(2) Included in "Placements from banks and other financial institutions" are amounts received from counterparties under repurchase agreements and collateral agreements as follows:

	As at 31 December	
	2020	2019
Repurchase debt securities <sup>(i)</sup>	<b>127,202</b>	177,410

(i) Debt securities used as collateral under repurchase agreements were principally government bonds and were included in the amount disclosed under Note V.41.2.



(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****28 Financial liabilities held for trading**

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

**29 Due to customers**

	As at 31 December	
	2020	2019
Demand deposits		
— Corporate deposits	<b>4,956,751</b>	4,434,051
— Personal deposits	<b>3,355,893</b>	3,147,889
Subtotal	<b>8,312,644</b>	7,581,940
Time deposits		
— Corporate deposits	<b>3,621,775</b>	3,619,512
— Personal deposits	<b>3,854,531</b>	3,416,862
Subtotal	<b>7,476,306</b>	7,036,374
Structured deposits <sup>(1)</sup>		
— Corporate deposits	<b>254,553</b>	247,906
— Personal deposits	<b>379,680</b>	424,897
Subtotal	<b>634,233</b>	672,803
Certificates of deposit	<b>206,146</b>	283,193
Other deposits <sup>(2)</sup>	<b>64,042</b>	75,063
Subtotal due to customers	<b>16,693,371</b>	15,649,373
Accrued interest	<b>185,800</b>	168,175
Total due to customers <sup>(3)</sup>	<b>16,879,171</b>	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 in the current period. As at 31 December 2020, the carrying amount of the above-mentioned financial liabilities was RMB25,742 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. In the years of 2020 and 2019, there was no significant change in the Group's own credit risk for the above structured deposits, therefore, the amount of change in fair value due to the change in the Group's own credit risk is not significant.

(2) Included in other deposits is special purpose funding, which represents long-term funding provided in multiple currencies by foreign governments and/or entities in the form of export credit, foreign government and other subsidised credit. The special purpose funding is normally used to finance projects with a special commercial purpose in the PRC as determined by the foreign governments or entities and the Group is obliged to repay the funding when it falls due.

As at 31 December 2020, the remaining maturity of special purpose funding ranges from 5 days to 33 years. The interest-bearing special purpose funding bears interest at floating and fixed rates ranging from 0.15% to 7.92% (31 December 2019: 0.15% to 7.92%). These terms are consistent with the related development loans granted to customers.

(3) Due to customers included margin deposits for security received by the Group as at 31 December 2020 of RMB304,314 million (31 December 2019: RMB290,076 million).

## Notes to the Consolidated Financial Statements

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****30 Bonds issued**

	Issue date	Maturity date	Annual interest rate	As at 31 December	
				2020	2019
<b>Bonds issued at amortised cost</b>					
Subordinated bonds issued					
2010 RMB Debt Securities <sup>(1)</sup>	9 March 2010	11 March 2025	4.68%	–	24,930
2011 RMB Debt Securities <sup>(2)</sup>	17 May 2011	19 May 2026	5.30%	32,000	32,000
2012 RMB Debt Securities Second Tranche <sup>(3)</sup>	27 November 2012	29 November 2027	4.99%	18,000	18,000
Subtotal <sup>(14)</sup>				50,000	74,930
Tier 2 capital bonds issued					
2014 US Dollar Debt Securities <sup>(4)</sup>	13 November 2014	13 November 2024	5.00%	19,518	20,852
2017 RMB Debt Securities First Tranche <sup>(5)</sup>	26 September 2017	28 September 2027	4.45%	29,970	29,965
2017 RMB Debt Securities Second Tranche <sup>(6)</sup>	31 October 2017	2 November 2027	4.45%	29,972	29,966
2018 RMB Debt Securities First Tranche <sup>(7)</sup>	3 September 2018	5 September 2028	4.86%	39,983	39,983
2018 RMB Debt Securities Second Tranche <sup>(8)</sup>	9 October 2018	11 October 2028	4.84%	39,985	39,985
2019 RMB Debt Securities First Tranche 01 <sup>(9)</sup>	20 September 2019	24 September 2029	3.98%	29,988	29,988
2019 RMB Debt Securities First Tranche 02 <sup>(10)</sup>	20 September 2019	24 September 2034	4.34%	9,996	9,996
2019 RMB Debt Securities Second Tranche <sup>(11)</sup>	20 November 2019	22 November 2029	4.01%	29,991	29,990
2020 RMB Debt Securities First Tranche 01 <sup>(12)</sup>	17 September 2020	21 September 2030	4.20%	59,976	–
2020 RMB Debt Securities First Tranche 02 <sup>(13)</sup>	17 September 2020	21 September 2035	4.47%	14,994	–
Subtotal <sup>(14)</sup>				304,373	230,725
Other bonds issued <sup>(15)</sup>					
US Dollar Debt Securities				198,317	223,192
RMB Debt Securities				73,165	52,788
Other				51,555	58,500
Subtotal				323,037	334,480
Negotiable certificates of deposit <sup>(16)</sup>				554,801	423,658
Subtotal bonds issued at amortised cost				1,232,211	1,063,793
<b>Bonds issued at fair value<sup>(17)</sup></b>				6,162	26,113
Subtotal bonds issued				1,238,373	1,089,906
<b>Accrued interest</b>				6,030	6,181
Total bonds issued <sup>(18)</sup>				1,244,403	1,096,087

(Amount in millions of Renminbi, unless otherwise stated)

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 30 Bonds issued (Continued)

- (1) The subordinated bonds issued on 9 March 2010, have a maturity of 15 years, with a fixed coupon rate of 4.68%, paid annually. The Bank is entitled to early redeem all of the bonds at face value at the end of the tenth year. If the Bank does not exercise this option, the coupon rate of the bonds for the third 5-year period shall be the original coupon rate plus 3.00%, and shall remain fixed until the maturity date. The bank has redeemed all the bonds in advance at face value on 11 March 2020.
- (2) The subordinated bonds issued on 17 May 2011, have a maturity of 15 years, with a fixed coupon rate of 5.30%, paid annually. The Bank is entitled to early redeem all the subordinated bonds at the end of the tenth year. If the Bank does not exercise this option, the coupon rate of the bonds for the remaining 5-year period shall remain fixed at 5.30%.
- (3) The second subordinated bonds issued on 27 November 2012 have a maturity of 15 years, with a fixed coupon rate of 4.99%, paid annually. The Bank is entitled to early redeem all these bonds at the end of the tenth year. If the Bank does not exercise this option, the coupon rate of the bonds for the remaining 5-year period shall remain fixed at 4.99%.
- (4) The Bank issued tier 2 capital bonds in an amount of USD3 billion on 13 November 2014. The bonds have a maturity of 10 years, with a fixed coupon rate of 5.00%.
- (5) The Bank issued tier 2 capital bonds in an amount of RMB30 billion on 26 September 2017. The bonds have a maturity of 10 years, with a fixed coupon rate of 4.45%. The Bank is entitled to redeem the bonds at the end of the fifth year.
- (6) The Bank issued tier 2 capital bonds in an amount of RMB30 billion on 31 October 2017. The bonds have a maturity of 10 years, with a fixed coupon rate of 4.45%. The Bank is entitled to redeem the bonds at the end of the fifth year.
- (7) The Bank issued tier 2 capital bonds in an amount of RMB40 billion on 3 September 2018. The bonds have a maturity of 10 years, with a fixed coupon rate of 4.86%. The Bank is entitled to redeem the bonds at the end of the fifth year.
- (8) The Bank issued tier 2 capital bonds in an amount of RMB40 billion on 9 October 2018. The bonds have a maturity of 10 years, with a fixed coupon rate of 4.84%. The Bank is entitled to redeem the bonds at the end of the fifth year.
- (9) The Bank issued tier 2 capital bonds in an amount of RMB30 billion on 20 September 2019. The bonds have a maturity of 10 years, with a fixed coupon rate of 3.98%. The Bank is entitled to redeem the bonds at the end of the fifth year.
- (10) The Bank issued tier 2 capital bonds in an amount of RMB10 billion on 20 September 2019. The bonds have a maturity of 15 years, with a fixed coupon rate of 4.34%. The Bank is entitled to redeem the bonds at the end of the tenth year.
- (11) The Bank issued tier 2 capital bonds in an amount of RMB30 billion on 20 November 2019. The bonds have a maturity of 10 years, with a fixed coupon rate of 4.01%. The Bank is entitled to redeem the bonds at the end of the fifth year.
- (12) The Bank issued tier 2 capital bonds in an amount of RMB60 billion on 17 September 2020. The bonds have a maturity of 10 years, with a fixed coupon rate of 4.20%. The Bank is entitled to redeem the bonds at the end of the fifth year.
- (13) The Bank issued tier 2 capital bonds in an amount of RMB15 billion on 17 September 2020. The bonds have a maturity of 15 years, with a fixed coupon rate of 4.47%. The Bank is entitled to redeem the bonds at the end of the tenth year.
- (14) The claims of the holders of subordinated bonds and tier 2 capital bonds will be subordinated to the claims of depositors and general creditors.
- (15) US Dollar Debt Securities, RMB Debt Securities and other Debt Securities were issued in Chinese mainland, Hong Kong, Macao, Taiwan and other countries and regions between 2013 and 2020 by the Group, with dates of maturity ranging from 2021 to 2030.

## Notes to the Consolidated Financial Statements

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****30 Bonds issued (Continued)**

- (16) The RMB negotiable certificates of deposit issued by the Bank in 2019 matured in 2020. The outstanding balance will mature in 2021.
- (17) According to risk management policy, in order to match derivatives and reduce market risk, the Group designates some bonds issued as financial liabilities at fair value through profit or loss in the current period. As at 31 December 2020, the carrying amount of the above-mentioned bonds issued by the Group is RMB6,162 million (31 December 2019: RMB26,113 million), and the difference between the fair value and the amount that the Group would be contractually required to pay to the holders is not significant (31 December 2019: not significant). In the years of 2020 and 2019, there is no significant change in the Group's credit risk as well as the fair value caused by credit risk of the above financial liabilities.
- (18) During the years ended 31 December 2020 and 2019, the Group did not default on any principal, interest or redemption amounts with respect to its bonds issued.

**31 Other borrowings**

These other borrowings relate to the financing of the aircraft leasing business of BOC Aviation Limited, a subsidiary of the Group. These other borrowings are secured by its aircraft (Note V.20).

As at 31 December 2020, these other borrowings had a maturity ranging from 75 days to 5 years and bore floating and fixed interest rates ranging from 0.45% to 1.55% (31 December 2019: 2.14% to 3.26%).

During the years ended 31 December 2020 and 2019, the Group did not default on any principal, interest or redemption amounts with respect to its other borrowings.

**32 Current tax liabilities**

	As at 31 December	
	2020	2019
Corporate income tax	47,337	51,787
Value-added tax	6,742	6,039
City construction and maintenance tax	492	427
Education surcharges	326	297
Other	768	552
Total	55,665	59,102

**33 Retirement benefit obligations**

As at 31 December 2020, the actuarial liabilities existing in relation to the retirement benefit obligations for employees who retired prior to 31 December 2003 and the early retirement obligations for employees who early-retired were RMB1,896 million (31 December 2019: RMB2,095 million) and RMB303 million (31 December 2019: RMB438 million), respectively, using the projected unit credit method.

The movements of the net liabilities recognised are as follows:

	Year ended 31 December	
	2020	2019
As at 1 January	2,533	2,825
Interest cost	74	85
Net actuarial gains recognised	(125)	(38)
Benefits paid	(283)	(339)
As at 31 December	2,199	2,533

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****33 Retirement benefit obligations (Continued)**

Primary assumptions used:

	As at 31 December	
	2020	2019
Discount rate		
— Normal retiree	<b>3.25%</b>	3.25%
— Early retiree	<b>2.75%</b>	2.50%
Pension benefit inflation rate		
— Normal retiree	<b>3.0%</b>	3.0%
— Early retiree	<b>3.0%</b>	4.0%–3.0%
Medical benefit inflation rate	<b>8.0%</b>	8.0%
Retiring age		
— Male	<b>60</b>	60
— Female	<b>50/55</b>	50/55

Assumptions regarding future mortality experience are based on the China Life Insurance Mortality Table (published historical statistics in China).

As at 31 December 2020 and 2019, there was no significant change in employee retirement benefit obligations that was attributable to changes in actuarial assumptions.

**34 Share appreciation rights plan**

In November 2005, the Bank's Board of Directors and equity holders approved and adopted a Share Appreciation Rights Plan under which eligible participants, including directors, supervisors, management and other personnel designated by the Board, will be granted share appreciation rights, up to 25% of which will be exercisable each year beginning on the third anniversary date from the date of grant. The share appreciation rights will be valid for seven years from the date of grant. Eligible participants will be entitled to receive an amount equal to the difference, if any, between the average closing market price of the Bank's H shares in the ten days prior to the date of grant and the average closing market price of the Bank's H shares in the 12 months prior to the date of exercise as adjusted for any change in the Bank's equity. The plan provides cash-settled share-based payment only and accordingly, no shares will be issued under the share appreciation rights plan.

No share appreciation rights were granted since the inception of the plan.

**35 Deferred income taxes**

**35.1** 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 31 December			
	2020		2019	
	Temporary differences	Deferred tax assets/(liabilities)	Temporary differences	Deferred tax assets/(liabilities)
Deferred income tax assets	<b>234,905</b>	<b>58,916</b>	166,707	44,029
Deferred income tax liabilities	<b>(45,934)</b>	<b>(6,499)</b>	(30,773)	(5,452)
Net	<b>188,971</b>	<b>52,417</b>	135,934	38,577

## Notes to the Consolidated Financial Statements

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****35 Deferred income taxes (Continued)**

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

	As at 31 December			
	2020		2019	
	Temporary differences	Deferred tax assets/(liabilities)	Temporary differences	Deferred tax assets/(liabilities)
<b>Deferred income tax assets</b>				
Asset impairment allowances	<b>253,785</b>	<b>63,242</b>	205,264	51,052
Pension, retirement benefits and salary payables	<b>17,952</b>	<b>4,470</b>	18,137	4,510
Financial instruments at fair value through profit or loss and derivative financial instruments	<b>174,011</b>	<b>43,224</b>	90,507	22,511
Financial assets at fair value through other comprehensive income	<b>809</b>	<b>202</b>	835	209
Other temporary differences	<b>41,355</b>	<b>9,599</b>	34,320	7,931
Subtotal	<b>487,912</b>	<b>120,737</b>	349,063	86,213
<b>Deferred income tax liabilities</b>				
Financial instruments at fair value through profit or loss and derivative financial instruments	<b>(174,976)</b>	<b>(42,853)</b>	(93,862)	(23,336)
Financial assets at fair value through other comprehensive income	<b>(30,836)</b>	<b>(7,445)</b>	(29,403)	(7,228)
Depreciation and amortisation	<b>(24,104)</b>	<b>(4,193)</b>	(20,629)	(3,521)
Revaluation of property and investment properties	<b>(8,845)</b>	<b>(1,722)</b>	(8,986)	(1,712)
Other temporary differences	<b>(60,180)</b>	<b>(12,107)</b>	(60,249)	(11,839)
Subtotal	<b>(298,941)</b>	<b>(68,320)</b>	(213,129)	(47,636)
Net	<b>188,971</b>	<b>52,417</b>	135,934	38,577

As at 31 December 2020, deferred tax liabilities relating to temporary differences of RMB164,299 million associated with the Group's investments in subsidiaries had not been recognised (31 December 2019: RMB156,105 million). Refer to Note II.20.2.

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****35 Deferred income taxes (Continued)****35.3** The movements of the deferred income tax account are as follows:

	Year ended 31 December	
	2020	2019
As at 1 January	<b>38,577</b>	33,656
Credited to the income statement (Note V.10)	<b>14,268</b>	8,824
Charged to other comprehensive income	<b>(62)</b>	(4,180)
Other	<b>(366)</b>	277
As at 31 December	<b>52,417</b>	38,577

**35.4** The deferred income tax credit/charge in the income statement comprises the following temporary differences:

	Year ended 31 December	
	2020	2019
Asset impairment allowances	<b>12,190</b>	5,059
Financial instruments at fair value through profit or loss and derivative financial instruments	<b>1,196</b>	4,962
Pension, retirement benefits and salary payables	<b>(40)</b>	(72)
Other temporary differences	<b>922</b>	(1,125)
Total	<b>14,268</b>	8,824

**36 Other liabilities**

	As at 31 December	
	2020	2019
Insurance liabilities		
— Life insurance contracts	<b>132,431</b>	113,742
— Non-life insurance contracts	<b>9,670</b>	10,169
Items in the process of clearance and settlement	<b>78,940</b>	66,628
Salary and welfare payables <sup>(1)</sup>	<b>34,179</b>	33,373
Lease liabilities <sup>(2)</sup>	<b>21,893</b>	21,590
Provision <sup>(3)</sup>	<b>29,492</b>	24,469
Deferred income	<b>11,532</b>	10,476
Other	<b>92,236</b>	84,726
Total	<b>410,373</b>	365,173

## Notes to the Consolidated Financial Statements

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****36 Other liabilities (Continued)**

## (1) Salary and welfare payables

	As at 1 January 2020	Accrual	Payment	As at 31 December 2020
Salary, bonus and subsidy	23,665	62,377	(62,133)	23,909
Staff welfare	–	4,218	(4,218)	–
Social insurance				
— Medical	1,595	3,109	(3,228)	1,476
— Pension	159	4,607	(4,562)	204
— Annuity	2,141	3,440	(3,495)	2,086
— Unemployment	6	150	(151)	5
— Injury at work	2	59	(60)	1
— Maternity insurance	3	136	(136)	3
Housing funds	39	4,774	(4,777)	36
Labour union fee and staff education fee	5,136	2,082	(1,436)	5,782
Reimbursement for cancellation of labour contract	19	28	(23)	24
Other	608	4,304	(4,259)	653
<b>Total<sup>(i)</sup></b>	<b>33,373</b>	<b>89,284</b>	<b>(88,478)</b>	<b>34,179</b>

	As at 1 January 2019	Accrual	Payment	As at 31 December 2019
Salary, bonus and subsidy	23,929	61,095	(61,359)	23,665
Staff welfare	–	3,896	(3,896)	–
Social insurance				
— Medical	1,136	4,085	(3,626)	1,595
— Pension	181	6,249	(6,271)	159
— Annuity	310	4,178	(2,347)	2,141
— Unemployment	7	207	(208)	6
— Injury at work	2	76	(76)	2
— Maternity insurance	3	256	(256)	3
Housing funds	56	4,595	(4,612)	39
Labour union fee and staff education fee	4,792	2,032	(1,688)	5,136
Reimbursement for cancellation of labour contract	17	15	(13)	19
Other	564	4,018	(3,974)	608
<b>Total<sup>(i)</sup></b>	<b>30,997</b>	<b>90,702</b>	<b>(88,326)</b>	<b>33,373</b>

(i) There was no overdue payment for staff salary and welfare payables as at 31 December 2020 and 2019.

## (2) Lease liabilities

The Group's lease liabilities are analysed by the maturity date — undiscounted analysis

	As at 31 December	
	2020	2019
Less than 1 year	6,369	6,307
Between 1 to 5 years	12,487	12,965
Over 5 years	9,161	8,860
<b>Undiscounted lease liabilities</b>	<b>28,017</b>	<b>28,132</b>
<b>Lease liabilities</b>	<b>21,893</b>	<b>21,590</b>



(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****36 Other liabilities (Continued)****(3) Provision**

	As at 31 December	
	2020	2019
Allowance for credit commitments	<b>28,767</b>	23,597
Allowance for litigation losses (Note V. 41.1)	<b>725</b>	872
<b>Total</b>	<b>29,492</b>	24,469

The movement of the provision was as follows:

	Year ended 31 December	
	2020	2019
As at 1 January	<b>24,469</b>	22,010
Losses for the year	<b>5,589</b>	2,423
Utilised during the year	<b>(281)</b>	(90)
Exchange differences and other	<b>(285)</b>	126
<b>As at 31 December</b>	<b>29,492</b>	24,469

**37 Share capital, capital reserve, treasury shares and other equity instruments****37.1 Share capital**

The Bank's share capital is as follows:

Unit: Share

	As at 31 December	
	2020	2019
Domestic listed A shares, par value of RMB1.00 per share	<b>210,765,514,846</b>	210,765,514,846
Overseas listed H shares, par value of RMB1.00 per share	<b>83,622,276,395</b>	83,622,276,395
<b>Total</b>	<b>294,387,791,241</b>	294,387,791,241

All A and H shares rank pari passu with the same rights and benefits.

**37.2 Capital reserve**

	As at 31 December	
	2020	2019
Share premium	<b>133,679</b>	133,716
Other capital reserve	<b>2,294</b>	2,296
<b>Total</b>	<b>135,973</b>	136,012

## Notes to the Consolidated Financial Statements

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****37 Share capital, capital reserve, treasury shares and other equity instruments (Continued)****37.3 Treasury shares**

A wholly-owned subsidiary of the Group holds certain listed shares of the Bank in relation to its derivative business. These shares are treated as treasury shares, a deduction from equity. Gains and losses on sale or redemption of the treasury shares are credited or charged to equity. The total number of treasury shares as at 31 December 2020 was approximately 3.53 million (31 December 2019: approximately 2.34 million).

**37.4 Other equity instruments**

For the year ended 31 December 2020, the movements in the Bank's other equity instruments were as follows:

	As at 1 January 2020		Increase/(Decrease)		As at 31 December 2020	
	Quantity (million shares)	Carrying amount	Quantity (million shares)	Carrying amount	Quantity (million shares)	Carrying amount
<b>Preference Shares</b>						
Domestic Preference Shares (First Tranche) <sup>(1)</sup>	320.0	31,963	(320.0)	(31,963)	–	–
Domestic Preference Shares (Second Tranche) <sup>(2)</sup>	280.0	27,969	–	–	280.0	27,969
Domestic Preference Shares (Third Tranche) <sup>(3)</sup>	730.0	72,979	–	–	730.0	72,979
Domestic Preference Shares (Fourth Tranche) <sup>(4)</sup>	270.0	26,990	–	–	270.0	26,990
Offshore Preference Shares (Second Tranche) <sup>(5)</sup>	–	–	197.9	19,581	197.9	19,581
Subtotal	1,600.0	159,901	(122.1)	(12,382)	1,477.9	147,519
<b>Perpetual Bonds</b>						
2019 Undated Capital Bonds (Series 1) <sup>(6)</sup>	–	39,992	–	–	–	39,992
2020 Undated Capital Bonds (Series 1) <sup>(7)</sup>	–	–	–	39,990	–	39,990
2020 Undated Capital Bonds (Series 2) <sup>(8)</sup>	–	–	–	29,994	–	29,994
2020 Undated Capital Bonds (Series 3) <sup>(9)</sup>	–	–	–	19,995	–	19,995
Subtotal	–	39,992	–	89,979	–	129,971
Total		199,893		77,597		277,490

- (1) With the approvals of the relevant regulatory authorities in China, the Bank redeemed all 320 million Domestic Preference Shares (First Tranche) on 23 November 2020. The Bank fully paid the nominal value of the Domestic Preference Shares and the dividends declared but not yet distributed, totalling RMB33.92 billion.

(Amount in millions of Renminbi, unless otherwise stated)

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 37 Share capital, capital reserve, treasury shares and other equity instruments (Continued)

#### 37.4 Other equity instruments (Continued)

- (2) With the approvals of the relevant regulatory authorities in China, the Bank issued 5.5% non-cumulative Domestic Preference Shares on 13 March 2015, in the aggregate par value of RMB28 billion. Each Domestic Preference Share has a par value of RMB100 and a total number of 280 million Domestic Preference Shares were issued.

The Domestic Preference Shares have no maturity date. However, subject to the satisfaction of the redemption conditions and having obtained the prior approval of the CBIRC, the Bank may at its discretion redeem all or part of the Domestic Preference Shares on 13 March 2020 or any dividend payment date thereafter at the redemption price which is the sum of the par value of the Domestic Preference Share and the dividends declared but not yet distributed.

- (3) With the approvals of the relevant regulatory authorities in China, the Bank issued non-cumulative Domestic Preference Shares on 24 June 2019, in the aggregate par value of RMB73 billion. Each Domestic Preference Share has a par value of RMB100 and a total number of 730 million Domestic Preference Shares were issued. The dividend rate of the Preference Shares for the first five years is 4.50%, which is reset every 5 years.

The Domestic Preference Shares have no maturity date. However, subject to the satisfaction of the redemption conditions and having obtained the prior approval of the CBIRC, the Bank may at its discretion redeem all or part of the Domestic Preference Shares after 27 June 2024 at the redemption price which is the sum of the par value of the Domestic Preference Share and the dividends declared but not yet distributed.

- (4) With the approvals of the relevant regulatory authorities in China, the Bank issued non-cumulative Domestic Preference Shares on 26 August 2019, in the aggregate par value of RMB27 billion. Each Domestic Preference Share has a par value of RMB100 and a total number of 270 million Domestic Preference Shares were issued. The dividend rate of the Preference Shares for the first five years is 4.35%, which is reset every 5 years.

The Domestic Preference Shares have no maturity date. However, subject to the satisfaction of the redemption conditions and having obtained the prior approval of the CBIRC, the Bank may at its discretion redeem all or part of the Domestic Preference Shares after 29 August 2024 at the redemption price which is the sum of the par value of the Domestic Preference Share and the dividends declared but not yet distributed.

- (5) With the approvals of 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%. The dividends are calculated and paid 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 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 in US Dollars.

## Notes to the Consolidated Financial Statements

### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 37 Share capital, capital reserve, treasury shares and other equity instruments (Continued)

##### 37.4 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 with non-cumulative dividends. 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 the 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 the 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.

- (6) With the approvals of 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 25 January 2019 and completed the issuance on 29 January 2019. The denomination of the Bonds is RMB100 each, and the annual coupon rate of the Bonds for the first five years is 4.50%, which is reset every 5 years.
- (7) With the approvals of 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.
- (8) With the approvals of the relevant regulatory authorities in China, the Bank issued RMB30 billion write-down undated capital bonds (the "Bonds") in the domestic interbank bond market on 13 November 2020 and completed the issuance on 17 November 2020. The denomination of the Bonds is RMB100 each, and the annual coupon rate of the Bonds for the first five years is 4.55%, which is reset every 5 years.
- (9) With the approvals of the relevant regulatory authorities in China, the Bank issued RMB20 billion write-down undated capital bonds (the "Bonds") in the domestic interbank bond market on 10 December 2020 and completed the issuance on 14 December 2020. The denomination of the Bonds is RMB100 each, and the annual coupon rate of the Bonds for the first five years is 4.70%, which is reset every 5 years.

The duration of the above bonds is the same as the period of 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 above bonds in whole or in part on each distribution payment date 5 years after the issuance date of the above bonds. Upon the occurrence of a trigger event for the 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 above 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 above bonds.

(Amount in millions of Renminbi, unless otherwise stated)

## **V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

### **37 Share capital, capital reserve, treasury shares and other equity instruments (Continued)**

#### **37.4 Other equity instruments (Continued)**

The above bonds are paid with non-cumulative interest. The Bank shall have the right to cancel distributions on the above 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 above 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.

### **38 Statutory reserves, general and regulatory reserves and undistributed profits**

#### **38.1 Statutory reserves**

Under relevant PRC laws, the Bank is required to appropriate 10% of its net profit to non-distributable statutory surplus reserves. The appropriation to the statutory surplus reserves may cease when such reserves has reached 50% of the share capital. Subject to the approval of the equity holders, the statutory surplus reserves can be used for replenishing the accumulated losses or increasing the Bank's share capital. The statutory surplus reserves amount used to increase the share capital is limited to a level where the statutory surplus reserves after such capitalisation is not less than 25% of the share capital.

In accordance with a resolution of the Board of Directors dated 30 March 2021, the Bank appropriated 10% of the net profit for the year ended 31 December 2020 to the statutory surplus reserves, amounting to RMB17,720 million (2019: RMB16,576 million).

In addition, some operations in Hong Kong, Macao, Taiwan and other countries and regions are required to appropriate certain percentages of their net profits to the statutory surplus reserves as stipulated by local banking authorities.

#### **38.2 General and regulatory reserves**

According to Caijin [2012] No. 20 *Requirements on Impairment Allowance for Financial Institutions* (the "Requirement"), issued by the MOF, in addition to the impairment allowance, the Bank establishes a general reserve to address unidentified potential impairment losses. The general reserve as a distribution of profits, being part of the equity, should not be less than 1.5% of the aggregate amount of risk assets as defined by the Requirement, and the minimum threshold can be accumulated over a period of no more than five years.

In accordance with a resolution dated 30 March 2021, the Board of Directors of the Bank approved the appropriation of RMB20,822 million to the general reserve for the year ended 31 December 2020 (2019: RMB17,863 million).

The regulatory reserve mainly refers to the reserve amount set aside by BOC Hong Kong (Group) Limited ("BOCHK Group"), a subsidiary of the Group, for general banking risks, including future losses or other unforeseeable risks. As at 31 December 2020 and 2019, the reserve amounts set aside by BOCHK Group were RMB3,105 million and RMB6,773 million, respectively.

## Notes to the Consolidated Financial Statements

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****38 Statutory reserves, general and regulatory reserves and undistributed profits (Continued)****38.3 Dividends***Dividends for Ordinary Shares*

An ordinary share dividend of RMB56,228 million (before tax) in respect of the profit for the year ended 31 December 2019 was approved by the shareholders of the Bank at the Annual General Meeting held on 30 June 2020 and was distributed during the year.

An ordinary share dividend of RMB1.97 per ten shares (before tax) in respect of the profit for the year ended 31 December 2020 (2019: RMB1.91 per ten shares), amounting to a total dividend of RMB57,994 million (before tax), based on the number of shares issued as at 31 December 2020 will be proposed for approval at the Annual General Meeting to be held on 20 May 2021. The dividend payable is not reflected in the liabilities of the financial statements.

*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 of Domestic Preference Shares (Second Tranche) was distributed on 13 March 2020.

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. The dividend of Domestic Preference Shares (Fourth Tranche) amounting to RMB1,174.5 million (before tax) was distributed on 31 August 2020.

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 dividend of Domestic Preference Shares (First Tranche) amounting to RMB1,920 million (before tax) was distributed on 23 November 2020. The dividend of Domestic Preference Shares (Second Tranche) amounting to RMB1,540 million (before tax) was distributed on 15 March 2021.

The dividend distribution of Offshore Preference Shares (Second Tranche) was approved by the Board of Directors of the Bank at the Board Meeting held on 30 October 2020. The dividend of Offshore Preference Shares (Second Tranche) amounting to USD102 million (after tax) was distributed on 4 March 2021.

*Others*

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

(Amount in millions of Renminbi, unless otherwise stated)

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 39 Non-controlling interests

Non-controlling interests of the subsidiaries of the Group are as follows:

	As at 31 December	
	2020	2019
BOC Hong Kong (Group) Limited	<b>94,489</b>	96,257
Bank of China Group Investment Limited	<b>11,069</b>	10,531
Tai Fung Bank Limited	<b>9,878</b>	10,180
Other	<b>8,982</b>	8,027
Total	<b>124,418</b>	124,995

### 40 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 31 December 2020, the Bank held 92.59% of the total capital of BOCL.

### 41 Contingent liabilities and commitments

#### 41.1 Legal proceedings and arbitrations

As at 31 December 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 31 December 2020, provisions of RMB725 million (31 December 2019: RMB872 million) were made based on court judgements or the advice of counsel (Note V.36). 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.

#### 41.2 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 31 December	
	2020	2019
Debt securities	<b>666,236</b>	787,929
Bills	<b>2,127</b>	387
Total	<b>668,363</b>	788,316

## Notes to the Consolidated Financial Statements

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****41 Contingent liabilities and commitments (Continued)****41.3 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 31 December 2020, the fair value of collateral received from banks and other financial institutions accepted by the Group amounted to RMB151,204 million (31 December 2019: RMB22,067 million). As at 31 December 2020, the fair value of the collateral that the Group had sold or re-pledged, but was obligated to return, was RMB797 million (31 December 2019: RMB2,271 million). These transactions are conducted under standard terms in the normal course of business.

**41.4 Capital commitments**

	As at 31 December	
	2020	2019
Property and equipment		
— Contracted but not provided for	<b>46,723</b>	53,752
— Authorised but not contracted for	<b>3,468</b>	1,215
Intangible assets		
— Contracted but not provided for	<b>1,242</b>	1,048
— Authorised but not contracted for	<b>199</b>	66
Investment properties		
— Contracted but not provided for	<b>1,252</b>	1,231
Total	<b>52,884</b>	57,312

**41.5 Operating leases**

The Group acts as lessor in operating leases principally through aircraft leasing undertaken by its subsidiary BOC Aviation Limited. Under irrevocable operating lease contracts, as at 31 December 2020, the minimum lease payments which will be received by the Group under the operating leases for existing aircraft and aircraft yet to be delivered amounted to RMB13,132 million not later than one year (31 December 2019: RMB12,763 million), RMB54,622 million later than one year and not later than five years (31 December 2019: RMB51,384 million) and RMB55,771 million later than five years (31 December 2019: RMB50,746 million).

**41.6 Treasury bonds redemption commitments**

The Bank is entrusted by 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 31 December 2020, the outstanding principal value of the Treasury bonds sold by the Bank under obligation to redeem prior to maturity amounted to RMB55,597 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.



(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****41 Contingent liabilities and commitments (Continued)****41.7 Credit commitments**

	As at 31 December	
	2020	2019
Loan commitments <sup>(1)</sup>		
— with an original maturity of less than 1 year	262,001	244,733
— with an original maturity of 1 year or above	1,417,031	1,360,065
Undrawn credit card limits	1,060,580	1,010,283
Letters of guarantee issued <sup>(2)</sup>	1,035,517	1,049,629
Bank bill acceptance	301,602	259,373
Letters of credit issued	154,181	133,571
Accepted bills of exchange under letters of credit	81,817	92,440
Other	178,944	192,476
Total <sup>(3)</sup>	4,491,673	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 31 December 2020, the unconditionally revocable loan commitments of the Group amounted to RMB334,384 million (31 December 2019: RMB299,556 million).

(2) Letters of guarantee issued mainly include financial guarantees and performance guarantees. The 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 by the creditworthiness of the counterparties, the maturity characteristics of each type of contract and other factors.

	As at 31 December	
	2020	2019
Credit commitments	1,186,895	1,206,469

**41.8 Underwriting obligations**

As at 31 December 2020, there was no firm commitment in underwriting securities of the Group (31 December 2019: Nil).

## Notes to the Consolidated Financial Statements

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****42 Note to the consolidated statement of cash flows**

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

	As at 31 December	
	2020	2019
Cash and due from banks and other financial institutions	<b>453,505</b>	347,724
Balances with central banks	<b>587,113</b>	541,837
Placements with and loans to banks and other financial institutions	<b>361,872</b>	393,674
Financial investments	<b>92,378</b>	62,657
Total	<b>1,494,868</b>	1,345,892

**43 Related party transactions**

**43.1** 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, Huijin.

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

**43.2 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

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****43 Related party transactions (Continued)****43.2 Transactions with Huijin and companies under Huijin (Continued)***(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 31 December	
	2020	2019
Debt securities	<b>43,659</b>	24,963
Due to Huijin	<b>(18,047)</b>	(2,913)

## Transaction amounts

	Year ended 31 December	
	2020	2019
Interest income	<b>1,028</b>	987
Interest expense	<b>(229)</b>	(320)

*(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 the purchase and sale of debt securities, money market transactions and derivative transactions.

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

## Transaction balances

	As at 31 December	
	2020	2019
Due from banks and other financial institutions	<b>126,104</b>	59,332
Placements with and loans to banks and other financial institutions	<b>144,640</b>	115,781
Financial investments	<b>390,508</b>	395,205
Derivative financial assets	<b>18,863</b>	7,655
Loans and advances to customers	<b>85,650</b>	45,646
Due to customers, banks and other financial institutions	<b>(256,582)</b>	(185,610)
Placements from banks and other financial institutions	<b>(137,131)</b>	(244,059)
Derivative financial liabilities	<b>(21,294)</b>	(5,459)
Credit commitments	<b>32,177</b>	14,502

## Transaction amounts

	Year ended 31 December	
	2020	2019
Interest income	<b>12,561</b>	17,021
Interest expense	<b>(4,313)</b>	(9,679)

## Notes to the Consolidated Financial Statements

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****43 Related party transactions (Continued)****43.2 Transactions with Huijin and companies under Huijin (Continued)***(3) Transactions with companies under Huijin (Continued)*

Interest rate ranges

	Year ended 31 December	
	2020	2019
Due from banks and other financial institutions	0.00%–5.20%	0.00%–5.00%
Placements with and loans to banks and other financial institutions	-0.21%–27.00%	-0.20%–4.50%
Financial investments	-0.05%–5.98%	0.00%–5.98%
Loans and advances to customers	0.18%–9.91%	1.44%–6.05%
Due to customers, banks and other financial institutions	-0.50%–6.00%	0.00%–3.58%
Placements from banks and other financial institutions	-0.50%–4.80%	-0.55%–9.50%

**43.3 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 the purchase and redemption of investment securities issued by government agencies, underwriting and distribution of treasury bonds issued by government agencies through the Group's branch network, foreign exchange transactions and derivative transactions, lending, provision of credit and guarantees and deposit placing and taking.

**43.4 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 business, the main transactions that the Group entered into with associates and joint ventures are as follows:

Transaction balances

	As at 31 December	
	2020	2019
Loans and advances to customers	18,502	1,373
Due to customers, banks and other financial institutions	(10,641)	(6,046)
Credit commitments	23,144	76

Transaction amounts

	Year ended 31 December	
	2020	2019
Interest income	772	41
Interest expense	(316)	(220)

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****43 Related party transactions (Continued)****43.4 Transactions with associates and joint ventures (Continued)**

The general information of principal associates and joint ventures is as follows:

Name	Place of incorporation/ establishment	Unified Social Credit Code	Effective equity held (%)	Voting right (%)	Paid-in capital (in millions)	Principal business
China Insurance Investment Fund CO., Ltd.	PRC	91110102MA01W7X36U	25.70	25.70	RMB45,000	Investment in non-securities business; equity investment; investment management and consulting
BOC International (China) Co., Ltd.	PRC	91310000736650364G	33.42	33.42	RMB2,778	Securities brokerage; securities investment consulting; financial advisory services related to securities trading and securities investment activities; securities underwriting and sponsorship; securities proprietary business; securities asset management; securities investment fund sales agency; margin financing and securities lending; distribution of financial products; management of publicly raised securities investment funds
Ying Kou Port Group CORP.	PRC	91210800121119657C	8.86	Note (1)	RMB20,000	Terminals and other port facilities services, cargo handling, warehousing services, ship and port services, leasing and maintenance services of port facilities and equipment and port machinery, etc.
CGN Phase I Private Equity Fund Company Limited	PRC	91110000717827478Q	20.00	20.00	RMB100	Investment in nuclear power projects and related industries; asset management; investment consulting
Graceful Field Worldwide Limited	BVI	N/A	80.00	Note (1)	USD0.0025	Investment
Sichuan Lutianhua Co., Ltd.	PRC	91510500711880825C	16.44	Note (1)	RMB1,568	Chemical industry, mainly produces and sells all kinds of fertilizers and chemical products
Wkland Investments II Limited	BVI	N/A	50.00	50.00	USD0.00002	Investment holding
Wuhu Yuanzhong Jiaying Investment Limited Partnership	PRC	91340202MA2TBMDD6Q	70.00	Note (1)	N/A	Investment consulting; equity investment
Wuhu Yinsheng Special Steel Investment Management Limited Partnership	PRC	91340202MA2RENJEX9	21.20	28.57	N/A	Equity investment; industrial investment
Guangdong Small and Medium Enterprises Equity Investment Fund Company Limited	PRC	91440000564568961E	40.00	40.00	RMB1,578	Investment

(1) In accordance with the respective articles of association, the Group has significant influence or joint control over these companies.

**43.5 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 years ended 31 December 2020 and 2019.

## Notes to the Consolidated Financial Statements

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****43 Related party transactions (Continued)****43.6 Transactions with key management personnel**

Key management personnel are those persons having the 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 years ended 31 December 2020 and 2019, there were no material transactions and balances with key management personnel on an individual basis.

The key management compensation for the years ended 31 December 2020 and 2019 comprises:

	Year ended 31 December	
	2020	2019
Compensation for short-term employment benefits <sup>(1)</sup>	11	14
Compensation for post-employment benefits	1	1
Total	12	15

- (1) The total compensation package for the key management personnel for the year ended 31 December 2020 has not yet been finalised in accordance with the regulations of the PRC relevant authorities. The amount of the compensation not provided for is not expected to have a significant impact on the Group's 2020 financial statements. The final compensation will be disclosed in a separate announcement when determined.

**43.7 Transactions with Connected Natural Persons**

As at 31 December 2020, the Bank's balances 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 approximately RMB365 million (31 December 2019: RMB410 million) and RMB20 million (31 December 2019: RMB23 million) respectively.

**43.8 Transactions with subsidiaries**

The main transactions with subsidiaries are as follows:

## Transaction balances

	As at 31 December	
	2020	2019
Due from banks and other financial institutions	31,487	21,908
Placements with and loans to banks and other financial institutions	184,792	152,839
Due to banks and other financial institutions	(190,167)	(88,195)
Placements from banks and other financial institutions	(28,057)	(52,285)

## Transaction amounts

	Year ended 31 December	
	2020	2019
Interest income	2,304	1,569
Interest expense	(1,209)	(2,165)

(Amount in millions of Renminbi, unless otherwise stated)

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 43 Related party transactions (Continued)

#### 43.8 Transactions with subsidiaries (Continued)

The general information of the principal subsidiaries is as follows:

Name	Place of incorporation and operation	Date of incorporation/ establishment	Paid-in capital (in millions)	Effective equity held (%)	Voting right (%)	Principal business
<b>Directly held<sup>(1)</sup></b>						
BOC Hong Kong (Group) Limited	Hong Kong	12 September 2001	HKD34,806	100.00	100.00	Holding company
BOC International Holdings Limited <sup>(3)</sup>	Hong Kong	10 July 1998	HKD3,539	100.00	100.00	Investment banking
Bank of China Group Insurance Company Limited	Hong Kong	23 July 1992	HKD3,749	100.00	100.00	Insurance services
Bank of China Group Investment Limited	Hong Kong	18 May 1993	HKD34,052	100.00	100.00	Investment holding
Tai Fung Bank Limited	Macao	1942	MOP1,000	50.31	50.31	Commercial banking
Bank of China (UK) Limited	United Kingdom	24 September 2007	GBP250	100.00	100.00	Commercial banking
BOC Insurance Company Limited	Beijing	5 January 2005	RMB4,535	100.00	100.00	Insurance services
BOC Financial Asset Investment Company Limited	Beijing	16 November 2017	RMB10,000	100.00	100.00	Debt-to-equity swaps and other supporting businesses, etc.
BOC Wealth Management Co., Ltd.	Beijing	1 July 2019	RMB10,000	100.00	100.00	Issuance of wealth management products, investment and management of entrusted assets for investors
BOC Financial Leasing Co., Ltd.	Chongqing	18 June 2020	RMB10,800	92.59	92.59	Financial leasing
<b>Indirectly held</b>						
BOC Hong Kong (Holdings) Limited <sup>(2)</sup>	Hong Kong	12 September 2001	HKD52,864	66.06	66.06	Holding company
Bank of China (Hong Kong) Limited <sup>(3)</sup>	Hong Kong	16 October 1964	HKD43,043	66.06	100.00	Commercial banking
BOC Credit Card (International) Limited	Hong Kong	9 September 1980	HKD565	66.06	100.00	Credit card services
BOC Group Trustee Company Limited <sup>(3)</sup>	Hong Kong	1 December 1997	HKD200	77.60	100.00	Provision of trustee services
BOC Aviation Limited <sup>(2)</sup>	Singapore	25 November 1993	USD1,158	70.00	70.00	Aircraft leasing

(1) These directly held principal subsidiaries are unlisted companies. All holdings are in the ordinary share capital of the undertaking concerned, and the ability of the subsidiaries to transfer funds to the Group and the Bank is not restricted.

(2) BOCHK (Holdings) and BOC Aviation Limited are listed on the Stock Exchange of Hong Kong Limited.

(3) BOCHK and BOC International Holdings Limited ("BOCI"), in which the Group holds 66.06% and 100% of their equity interests, respectively, hold 66% and 34% equity interests of BOC Group Trustee Company Limited, respectively.

For certain subsidiaries listed above, the discrepancy between the percentage of voting rights and the percentage of effective equity holding is mainly due to the impact of indirect holdings.

## Notes to the Consolidated Financial Statements

### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 44 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.

The 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 the current situation.

##### ***Geographical segments***

Chinese mainland — Corporate banking, personal banking, treasury operations, insurance services, etc. are performed in the 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 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 exchange, derivative products and wealth management products.

Personal banking — Services to retail customers including savings 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.



(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****44 Segment reporting (Continued)****As at and for the year ended 31 December 2020**

	Chinese mainland	Hong Kong, Macao and Taiwan			Other countries and regions	Elimination	Total
		BOCHK Group	Other	Subtotal			
Interest income	673,082	44,499	29,847	74,346	32,125	(19,483)	760,070
Interest expense	(310,089)	(13,312)	(23,474)	(36,786)	(16,760)	19,483	(344,152)
<b>Net interest income</b>	<b>362,993</b>	<b>31,187</b>	<b>6,373</b>	<b>37,560</b>	<b>15,365</b>	<b>–</b>	<b>415,918</b>
Fee and commission income	67,187	11,355	7,846	19,201	6,085	(3,833)	88,640
Fee and commission expense	(9,030)	(2,413)	(2,126)	(4,539)	(1,950)	2,401	(13,118)
<b>Net fee and commission income</b>	<b>58,157</b>	<b>8,942</b>	<b>5,720</b>	<b>14,662</b>	<b>4,135</b>	<b>(1,432)</b>	<b>75,522</b>
Net trading (losses)/gains	(4,208)	5,793	5,293	11,086	1,177	–	8,055
Net gains on transfers of financial asset	4,965	4,063	142	4,205	377	–	9,547
Other operating income <sup>(1)</sup>	14,727	16,999	26,855	43,854	948	(924)	58,605
<b>Operating income</b>	<b>436,634</b>	<b>66,984</b>	<b>44,383</b>	<b>111,367</b>	<b>22,002</b>	<b>(2,356)</b>	<b>567,647</b>
Operating expenses <sup>(1)</sup>	(140,087)	(33,468)	(23,011)	(56,479)	(8,201)	2,356	(202,411)
Impairment losses on assets	(107,622)	(2,407)	(2,574)	(4,981)	(6,413)	–	(119,016)
<b>Operating profit</b>	<b>188,925</b>	<b>31,109</b>	<b>18,798</b>	<b>49,907</b>	<b>7,388</b>	<b>–</b>	<b>246,220</b>
Share of results of associates and joint ventures	(185)	(164)	507	343	–	–	158
<b>Profit before income tax</b>	<b>188,740</b>	<b>30,945</b>	<b>19,305</b>	<b>50,250</b>	<b>7,388</b>	<b>–</b>	<b>246,378</b>
Income tax expense							(41,282)
<b>Profit for the year</b>							<b>205,096</b>
Segment assets	19,434,557	2,762,985	1,529,898	4,292,883	2,090,165	(1,448,454)	24,369,151
Investments in associates and joint ventures	19,712	858	12,938	13,796	–	–	33,508
<b>Total assets</b>	<b>19,454,269</b>	<b>2,763,843</b>	<b>1,542,836</b>	<b>4,306,679</b>	<b>2,090,165</b>	<b>(1,448,454)</b>	<b>24,402,659</b>
Including: non-current assets <sup>(2)</sup>	119,001	27,626	170,894	198,520	9,939	(2,980)	324,480
Segment liabilities	17,753,122	2,520,219	1,396,881	3,917,100	2,017,915	(1,448,315)	22,239,822
Other segment items:							
Intersegment net interest (expense)/income	(4,886)	775	6,771	7,546	(2,660)	–	–
Intersegment net fee and commission income/(expense)	487	395	692	1,087	(142)	(1,432)	–
Capital expenditure	12,133	1,593	26,472	28,065	309	–	40,507
Depreciation and amortisation	19,056	1,972	6,097	8,069	838	(457)	27,506
Credit commitments	3,753,654	310,620	145,806	456,426	507,083	(225,490)	4,491,673

## Notes to the Consolidated Financial Statements

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****44 Segment reporting (Continued)****As at and for the year ended 31 December 2019**

	Chinese mainland	Hong Kong, Macao and Taiwan BOCHK Group	Other	Subtotal	Other countries and regions	Elimination	Total
Interest income	645,251	57,763	38,874	96,637	50,527	(34,408)	758,007
Interest expense	(310,586)	(23,679)	(33,123)	(56,802)	(35,042)	34,473	(367,957)
<b>Net interest income</b>	<b>334,665</b>	<b>34,084</b>	<b>5,751</b>	<b>39,835</b>	<b>15,485</b>	<b>65</b>	<b>390,050</b>
Fee and commission income	65,244	12,745	7,401	20,146	6,599	(3,890)	88,099
Fee and commission expense	(8,860)	(3,703)	(2,135)	(5,838)	(2,125)	2,536	(14,287)
<b>Net fee and commission income</b>	<b>56,384</b>	<b>9,042</b>	<b>5,266</b>	<b>14,308</b>	<b>4,474</b>	<b>(1,354)</b>	<b>73,812</b>
Net trading gains	13,405	7,564	4,720	12,284	2,874	–	28,563
Net gains on transfers of financial asset	2,541	725	83	808	128	–	3,477
Other operating income <sup>(1)</sup>	13,274	18,870	22,497	41,367	204	(737)	54,108
<b>Operating income</b>	<b>420,269</b>	<b>70,285</b>	<b>38,317</b>	<b>108,602</b>	<b>23,165</b>	<b>(2,026)</b>	<b>550,010</b>
Operating expenses <sup>(1)</sup>	(140,920)	(32,586)	(18,802)	(51,388)	(7,686)	1,725	(198,269)
Impairment losses on assets	(101,010)	(1,780)	351	(1,429)	286	–	(102,153)
<b>Operating profit</b>	<b>178,339</b>	<b>35,919</b>	<b>19,866</b>	<b>55,785</b>	<b>15,765</b>	<b>(301)</b>	<b>249,588</b>
Share of results of associates and joint ventures	(1)	(78)	1,136	1,058	–	–	1,057
<b>Profit before income tax</b>	<b>178,338</b>	<b>35,841</b>	<b>21,002</b>	<b>56,843</b>	<b>15,765</b>	<b>(301)</b>	<b>250,645</b>
Income tax expense							(48,754)
<b>Profit for the year</b>							<b>201,891</b>
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
<b>Total assets</b>	<b>17,923,536</b>	<b>2,674,147</b>	<b>1,542,866</b>	<b>4,217,013</b>	<b>2,062,659</b>	<b>(1,433,464)</b>	<b>22,769,744</b>
Including: non-current assets <sup>(2)</sup>	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	(6,817)	1,401	11,164	12,565	(5,813)	65	–
Intersegment net fee and commission income/(expense)	592	180	1,106	1,286	(523)	(1,355)	–
Capital expenditure	13,231	2,123	27,977	30,100	613	–	43,944
Depreciation and amortisation	17,295	1,768	5,688	7,456	785	(181)	25,355
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.

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****44 Segment reporting (Continued)****As at and for the year ended 31 December 2020**

	Corporate banking	Personal banking	Treasury operations	Investment banking	Insurance	Other	Elimination	Total
Interest income	340,794	294,134	190,422	1,888	3,525	4,053	(74,746)	760,070
Interest expense	(156,596)	(111,965)	(142,905)	(403)	(105)	(7,116)	74,938	(344,152)
<b>Net interest income/(expense)</b>	<b>184,198</b>	<b>182,169</b>	<b>47,517</b>	<b>1,485</b>	<b>3,420</b>	<b>(3,063)</b>	<b>192</b>	<b>415,918</b>
Fee and commission income	30,304	37,241	15,935	5,871	1	2,340	(3,052)	88,640
Fee and commission expense	(1,284)	(6,259)	(2,631)	(1,800)	(3,514)	(131)	2,501	(13,118)
<b>Net fee and commission income/(expense)</b>	<b>29,020</b>	<b>30,982</b>	<b>13,304</b>	<b>4,071</b>	<b>(3,513)</b>	<b>2,209</b>	<b>(551)</b>	<b>75,522</b>
Net trading gains/(losses)	2,326	1,097	(1,954)	268	2,793	3,571	(46)	8,055
Net gains on transfers of financial asset	1,215	102	7,980	1	243	6	–	9,547
Other operating income	831	7,284	1,039	287	31,962	20,402	(3,200)	58,605
<b>Operating income</b>	<b>217,590</b>	<b>221,634</b>	<b>67,886</b>	<b>6,112</b>	<b>34,905</b>	<b>23,125</b>	<b>(3,605)</b>	<b>567,647</b>
Operating expenses	(63,314)	(78,897)	(17,445)	(2,996)	(33,270)	(10,157)	3,668	(202,411)
Impairment losses on assets	(79,872)	(29,136)	(8,223)	(12)	(49)	(1,789)	65	(119,016)
<b>Operating profit</b>	<b>74,404</b>	<b>113,601</b>	<b>42,218</b>	<b>3,104</b>	<b>1,586</b>	<b>11,179</b>	<b>128</b>	<b>246,220</b>
Share of results of associates and joint ventures	–	–	–	342	–	(119)	(65)	158
<b>Profit before income tax</b>	<b>74,404</b>	<b>113,601</b>	<b>42,218</b>	<b>3,446</b>	<b>1,586</b>	<b>11,060</b>	<b>63</b>	<b>246,378</b>
Income tax expense								(41,282)
<b>Profit for the year</b>								<b>205,096</b>
Segment assets	9,251,427	5,641,051	8,684,296	99,425	204,290	593,454	(104,792)	24,369,151
Investments in associates and joint ventures	–	–	–	5,585	–	27,989	(66)	33,508
<b>Total assets</b>	<b>9,251,427</b>	<b>5,641,051</b>	<b>8,684,296</b>	<b>105,010</b>	<b>204,290</b>	<b>621,443</b>	<b>(104,858)</b>	<b>24,402,659</b>
Segment liabilities	10,376,544	7,461,553	3,915,554	72,597	185,310	332,963	(104,699)	22,239,822
Other segment items:								
Intersegment net interest income/(expense)	20,712	52,337	(72,651)	310	14	(914)	192	–
Intersegment net fee and commission income/(expense)	627	1,759	114	(598)	(1,769)	417	(550)	–
Capital expenditure	3,620	4,137	192	179	116	32,263	–	40,507
Depreciation and amortisation	8,665	10,630	2,532	404	277	5,712	(714)	27,506
Credit commitments	3,242,275	1,249,398	–	–	–	–	–	4,491,673

## Notes to the Consolidated Financial Statements

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****44 Segment reporting (Continued)****As at and for the year ended 31 December 2019**

	Corporate banking	Personal banking	Treasury operations	Investment banking	Insurance	Other	Elimination	Total
Interest income	357,678	265,845	204,435	2,096	3,009	4,036	(79,092)	758,007
Interest expense	(173,036)	(116,514)	(149,510)	(599)	(65)	(7,427)	79,194	(367,957)
<b>Net interest income/(expense)</b>	<b>184,642</b>	<b>149,331</b>	<b>54,925</b>	<b>1,497</b>	<b>2,944</b>	<b>(3,391)</b>	<b>102</b>	<b>390,050</b>
Fee and commission income	32,753	37,654	14,190	3,997	2	2,085	(2,582)	88,099
Fee and commission expense	(1,307)	(7,747)	(2,068)	(1,086)	(3,988)	(317)	2,226	(14,287)
<b>Net fee and commission income/(expense)</b>	<b>31,446</b>	<b>29,907</b>	<b>12,122</b>	<b>2,911</b>	<b>(3,986)</b>	<b>1,768</b>	<b>(356)</b>	<b>73,812</b>
Net trading gains	3,177	1,048	19,360	231	2,492	2,219	36	28,563
Net gains on transfers of financial asset	1,346	237	1,791	–	101	2	–	3,477
Other operating income	512	6,221	1,359	198	28,838	19,792	(2,812)	54,108
<b>Operating income</b>	<b>221,123</b>	<b>186,744</b>	<b>89,557</b>	<b>4,837</b>	<b>30,389</b>	<b>20,390</b>	<b>(3,030)</b>	<b>550,010</b>
Operating expenses	(64,142)	(76,833)	(19,210)	(2,487)	(29,209)	(9,429)	3,041	(198,269)
Impairment losses on assets	(84,109)	(16,824)	(736)	–	(10)	(474)	–	(102,153)
<b>Operating profit</b>	<b>72,872</b>	<b>93,087</b>	<b>69,611</b>	<b>2,350</b>	<b>1,170</b>	<b>10,487</b>	<b>11</b>	<b>249,588</b>
Share of results of associates and joint ventures	–	–	–	280	(12)	822	(33)	1,057
<b>Profit before income tax</b>	<b>72,872</b>	<b>93,087</b>	<b>69,611</b>	<b>2,630</b>	<b>1,158</b>	<b>11,309</b>	<b>(22)</b>	<b>250,645</b>
Income tax expense								(48,754)
<b>Profit for the year</b>								<b>201,891</b>
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
<b>Total assets</b>	<b>8,415,724</b>	<b>5,064,429</b>	<b>8,587,356</b>	<b>88,857</b>	<b>180,054</b>	<b>545,802</b>	<b>(112,478)</b>	<b>22,769,744</b>
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)	27,877	48,737	(75,339)	419	30	(1,826)	102	–
Intersegment net fee and commission income/(expense)	698	1,521	48	(320)	(1,871)	278	(354)	–
Capital expenditure	4,120	4,631	219	193	122	34,659	–	43,944
Depreciation and amortisation	7,800	9,622	2,394	284	237	5,304	(286)	25,355
Credit commitments	3,157,694	1,184,876	–	–	–	–	–	4,342,570

(Amount in millions of Renminbi, unless otherwise stated)

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 45 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 31 December 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	13,248	13,550	528	503

#### **Credit assets 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 RMB760 million as at 31 December 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. 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 RMB15,365 million for this year (2019: RMB49,985 million) and the carrying amount of assets that the Group continues to recognise in the statement of financial position was RMB15,244 million as at 31 December 2020 (31 December 2019: RMB15,250 million).

## Notes to the Consolidated Financial Statements

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****46 Interests in structured entities**

The Group is principally involved with structured entities through financial investments, asset management and credit assets 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.

**46.1 Interests in unconsolidated structured entities**

The interests held by the Group in unconsolidated structured entities are set out as 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 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 fees in return.

As at 31 December 2020, the balance of unconsolidated wealth management products sponsored by the Group amounted to RMB1,388,904 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 RMB486,880 million (31 December 2019: RMB638,865 million).

For the year ended 31 December 2020, the above-mentioned management fee, commission and custodian fee amounted to RMB8,499 million (2019: RMB6,904 million).

As at 31 December 2020, the balance of interest and commission receivable held by the Group in the above-mentioned structured entities is 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 year ended 31 December 2020, the maximum balance of such financing provided by the Group to the unconsolidated wealth management products was RMB132,205 million (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 31 December 2020, the balance of the above transactions was RMB18,580 million (31 December 2019: RMB170,797 million). The maximum exposure to loss of those placements approximated to their carrying amount.

In July 2020, the regulatory authorities made a decision on extending the transition period for *the Guiding Opinions on Regulating Asset Management Business of Financial Institutions* to the end of 2021 and encouraged orderly disposal of legacy investments in a variety of ways. According to the regulatory requirements, the Group has promoted the disposal of the legacy investments in a pragmatic, efficient, actively and orderly way in order to achieve a smooth transition and stable development of the wealth management business.

In addition, the total carrying amount as at the transfer date of credit assets transferred by the Group into the unconsolidated structured entities was RMB1,230 million for the year ended 31 December 2020 (2019: RMB570 million). For the description of the portion of asset-backed securities issued by the above structured entities and held by the Group, refer to Note V.45.

(Amount in millions of Renminbi, unless otherwise stated)

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 46 Interests in structured entities (Continued)

#### 46.1 Interests in unconsolidated structured entities (Continued)

*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 as 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
<b>As at 31 December 2020</b>					
Fund investments	57,099	–	–	57,099	57,099
Investment trusts and asset management plans	2,914	–	8,407	11,321	11,321
Asset-backed securitisations	5,538	40,633	58,195	104,366	104,366
<b>As at 31 December 2019</b>					
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

#### 46.2 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.

## Notes to the Consolidated Financial Statements

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****47 Offsetting financial assets and financial liabilities**

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements are analysed as below:

	Gross amounts of recognised financial assets	Gross amounts offset in the statement of financial position	Amounts presented in the statement of financial position	Amounts not set off in the statement of financial position		
				Financial instruments*	Cash collateral received	Net amount
<b>As at 31 December 2020</b>						
Derivatives	52,457	–	52,457	(37,206)	(2,843)	12,408
Reverse repo agreements	3,858	–	3,858	(3,858)	–	–
Other assets	16,611	(12,035)	4,576	–	–	4,576
<b>Total</b>	<b>72,926</b>	<b>(12,035)</b>	<b>60,891</b>	<b>(41,064)</b>	<b>(2,843)</b>	<b>16,984</b>
<b>As at 31 December 2019</b>						
Derivatives	37,020	–	37,020	(27,391)	(2,034)	7,595
Reverse repo agreements	5,408	–	5,408	(5,408)	–	–
Other assets	11,307	(10,344)	963	–	–	963
<b>Total</b>	<b>53,735</b>	<b>(10,344)</b>	<b>43,391</b>	<b>(32,799)</b>	<b>(2,034)</b>	<b>8,558</b>

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements are analysed as below:

	Gross amounts of recognised financial liabilities	Gross amounts offset in the statement of financial position	Amounts presented in the statement of financial position	Amounts not set off in the statement of financial position		
				Financial instruments*	Cash collateral pledged	Net amount
<b>As at 31 December 2020</b>						
Derivatives	62,412	–	62,412	(37,220)	(14,196)	10,996
Repurchase agreements	176	–	176	(176)	–	–
Other liabilities	13,006	(12,035)	971	–	–	971
<b>Total</b>	<b>75,594</b>	<b>(12,035)</b>	<b>63,559</b>	<b>(37,396)</b>	<b>(14,196)</b>	<b>11,967</b>
<b>As at 31 December 2019</b>						
Derivatives	43,204	–	43,204	(27,904)	(6,433)	8,867
Repurchase agreements	503	–	503	(503)	–	–
Other liabilities	12,028	(10,344)	1,684	–	–	1,684
<b>Total</b>	<b>55,735</b>	<b>(10,344)</b>	<b>45,391</b>	<b>(28,407)</b>	<b>(6,433)</b>	<b>10,551</b>

\* Including non-cash collateral.



(Amount in millions of Renminbi, unless otherwise stated)

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 47 Offsetting financial assets and financial liabilities (Continued)

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously ("the offset criteria").

Derivatives and reverse repo/repurchase agreements included in the amounts are not set off in the statement of financial position where:

- the counterparty has an offsetting exposure with the Group and a master netting or similar arrangement (including ISDA master agreement and Global Master Netting Agreement) is in place with a right of setting off only in the event of default, insolvency or bankruptcy, or the offset criteria are otherwise not satisfied; and
- cash and non-cash collateral have been received/pledged in respect of the transactions described above.

### 48 The Bank's statement of financial position and changes in equity

#### 48.1 The Bank's statement of financial position

	As at 31 December	
	2020	2019
<b>ASSETS</b>		
Cash and due from banks and other financial institutions	<b>735,856</b>	520,638
Balances with central banks	<b>1,895,772</b>	1,913,236
Placements with and loans to banks and other financial institutions	<b>1,065,541</b>	961,732
Government certificates of indebtedness for bank notes issued	<b>9,083</b>	8,698
Precious metals	<b>214,310</b>	197,914
Derivative financial assets	<b>132,878</b>	68,731
Loans and advances to customers, net	<b>12,286,706</b>	11,204,197
Financial investments	<b>4,422,013</b>	4,343,595
— financial assets at fair value through profit or loss	<b>264,746</b>	281,703
— financial assets at fair value through other comprehensive income	<b>1,315,891</b>	1,422,035
— financial assets at amortised cost	<b>2,841,376</b>	2,639,857
Investments in subsidiaries	<b>135,553</b>	123,658
Investments in associates and joint ventures	<b>7,731</b>	7,998
Consolidated structured entities	<b>202,275</b>	209,092
Property and equipment	<b>81,661</b>	83,403
Investment properties	<b>2,185</b>	2,338
Deferred income tax assets	<b>59,767</b>	45,284
Other assets	<b>112,152</b>	83,331
<b>Total assets</b>	<b>21,363,483</b>	19,773,845

## Notes to the Consolidated Financial Statements

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****48 The Bank's statement of financial position and changes in equity (Continued)****48.1 The Bank's statement of financial position (Continued)**

	As at 31 December	
	2020	2019
<b>LIABILITIES</b>		
Due to banks and other financial institutions	<b>1,960,349</b>	1,672,571
Due to central banks	<b>838,054</b>	791,046
Bank notes in circulation	<b>9,226</b>	8,842
Placements from banks and other financial institutions	<b>393,521</b>	587,735
Financial liabilities held for trading	<b>571</b>	2,158
Derivative financial liabilities	<b>164,604</b>	61,919
Due to customers	<b>14,787,841</b>	13,788,093
Bonds issued	<b>1,140,777</b>	1,004,095
Current tax liabilities	<b>50,980</b>	50,851
Retirement benefit obligations	<b>2,199</b>	2,537
Deferred income tax liabilities	<b>567</b>	308
Other liabilities	<b>176,000</b>	149,809
<b>Total liabilities</b>	<b>19,524,689</b>	18,119,964
<b>EQUITY</b>		
Share capital	<b>294,388</b>	294,388
Other equity instruments	<b>277,490</b>	199,893
Capital reserve	<b>132,590</b>	132,627
Other comprehensive income	<b>17,712</b>	19,292
Statutory reserves	<b>188,832</b>	171,003
General and regulatory reserves	<b>261,170</b>	240,279
Undistributed profits	<b>666,612</b>	596,399
<b>Total equity</b>	<b>1,838,794</b>	1,653,881
<b>Total equity and liabilities</b>	<b>21,363,483</b>	19,773,845

Approved and authorised for issue by the Board of Directors on 30 March 2021.

**LIU Liange**  
Director

**WANG Wei**  
Director

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****48 The Bank's statement of financial position and changes in equity (Continued)****48.2 The Bank's statement of changes in equity**

	Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Statutory reserves	General and regulatory reserves	Undistributed profits	Total
As at 1 January 2020	294,388	199,893	132,627	19,292	171,003	240,279	596,399	1,653,881
Total comprehensive income	-	-	-	(1,590)	-	-	177,200	175,610
Appropriation to statutory reserves	-	-	-	-	17,829	-	(17,829)	-
Appropriation to general and regulatory reserves	-	-	-	-	-	20,891	(20,891)	-
Dividends	-	-	-	-	-	-	(68,257)	(68,257)
Capital contribution and reduction by other equity instruments holders	-	77,597	(37)	-	-	-	-	77,560
Other comprehensive income transferred to retained earnings	-	-	-	10	-	-	(10)	-
As at 31 December 2020	294,388	277,490	132,590	17,712	188,832	261,170	666,612	1,838,794

	Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Statutory reserves	General and regulatory reserves	Undistributed profits	Total
As at 1 January 2019	294,388	99,714	138,832	8,596	154,313	222,462	526,127	1,444,432
Total comprehensive income	-	-	-	10,704	-	-	165,764	176,468
Appropriation to statutory reserves	-	-	-	-	16,690	-	(16,690)	-
Appropriation to general and regulatory reserves	-	-	-	-	-	17,817	(17,817)	-
Dividends	-	-	-	-	-	-	(60,993)	(60,993)
Capital contribution and reduction by other equity instruments holders	-	100,179	(6,205)	-	-	-	-	93,974
Other comprehensive income transferred to retained earnings	-	-	-	(8)	-	-	8	-
As at 31 December 2019	294,388	199,893	132,627	19,292	171,003	240,279	596,399	1,653,881

**49 Events after the financial reporting date****Redemption of Domestic Preference Shares (Second Tranche)**

With the approvals of the relevant regulatory authorities in China, the Bank redeemed all 280 million Domestic Preference Shares (Second Tranche) on 15 March 2021. The Bank fully paid the nominal value of the Domestic Preference Shares and the dividends declared but not yet distributed, totalling RMB29.54 billion.

**Issuance of Tier 2 Capital Bonds**

On 17 March 2021, the Bank issued fixed-rate Tier 2 capital bonds with a maturity of 10 years amounting 15 billion and fixed-rate Tier 2 capital bonds with a maturity of 15 years amounting 10 billion and completed the issuance on 19 March 2021. The issuance details have been set out in the Bank's announcement dated 19 March 2021.

## Notes to the Consolidated Financial Statements

### VI FINANCIAL RISK MANAGEMENT

#### 1 Overview

The Group's primary risk management objectives are to maximise value for equity holders while maintaining risk within acceptable parameters, optimising capital allocation and satisfying the requirements of the regulatory authorities, the Group's depositors and other stakeholders for the Group's prudent and stable development.

The Group has designed a series of risk management policies and has set up appropriate risk limits and controls to analyse, identify, monitor and report risks by means of relevant and up-to-date information systems. The Group regularly reviews and revises its risk management policies and systems to reflect changes in markets, products and emerging best practice.

The most significant types of risks to the Group are credit risk, market risk and liquidity risk. Market risk includes interest rate risk, currency risk and other price risk.

#### 2 Financial risk management framework

The Board of Directors is responsible for establishing the overall risk appetite of the Group and reviewing and approving the risk management objectives and strategies.

Within this framework, the Group's senior management has the overall responsibility for managing all aspects of risks, including implementing risk management strategies, initiatives and credit policies and approving internal policies, measures and procedures related to risk management. The Risk Management Department, the Credit Management Department, the Financial Management Department and other relevant functional departments are responsible for monitoring financial risks.

The Group manages the risks at the branch level through direct reporting from the branches to the relevant departments responsible for risk management at the Head Office. Business line related risks are monitored through establishing specific risk management teams within the business departments. The Group monitors and controls risk management at subsidiaries by appointing members of their boards of directors and risk management committees as appropriate.

#### 3 Credit risk

The Group takes on exposure to credit risk, which is the risk that a customer or counterparty will cause a financial loss for the Group by failing to discharge an obligation. Credit risk is one of the most significant risks for the Group's business.

Credit risk exposures arise principally in lending activities and debt securities investment activities. There is also credit risk in off-balance sheet financial instruments, such as derivatives, loan commitments, bill acceptance, letters of guarantee and letters of credit.

##### 3.1 Credit risk measurement

###### (1) Loans and advances to customers and off-balance sheet commitments

The Credit Management Department is responsible for centrally monitoring and evaluating the credit risk of granting loans and advances to customers and off-balance sheet credit commitments, and reporting to senior management and the Board of Directors on a regular basis.

The Group mainly measures the credit risk of corporate loans and advances based on the PD and financial status of customers' agreed obligations, and considering the current credit exposure and possible future development trends. For individual customers, the Group uses a standard credit approval process to assess the credit risk of individual loans, and uses a scorecard model based on historical LGD to measure the credit risk of credit cards.

(Amount in millions of Renminbi, unless otherwise stated)

## VI FINANCIAL RISK MANAGEMENT (Continued)

### 3 Credit risk (Continued)

#### 3.1 Credit risk measurement (Continued)

##### (1) Loans and advances to customers and off-balance sheet commitments (Continued)

For credit risk arising from off-balance sheet commitments, the Group manages the risks according to the characteristics of the products. These mainly include loan commitments, guarantees, bill acceptances and letters of credit. Loan commitments, guarantees, bill acceptances and letters of credit carry similar credit risk to loans. Documentary and commercial letters of credit are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions and are collateralised by the underlying shipment documents of goods to which they relate or deposits and are therefore assessed to have less credit risk than a direct loan. Besides, the Group monitors the term to maturity of off-balance sheet commitments and those with longer-terms are assessed to have greater credit risk than shorter-term commitments.

The Group measures and manages the credit quality of loans and advances to corporate and personal customers based on the *Guideline for Loan Credit Risk Classification* (the "Guideline"), which requires commercial banks to classify their corporate and personal loans into five categories: pass, special-mention, substandard, doubtful and loss, among which loans classified in the substandard, doubtful and loss categories are regarded as non-performing loans. Off-balance sheet commitments with credit exposures are also assessed and categorised with reference to the Guideline. For operations in Hong Kong, Macao, Taiwan and other countries and regions, where local regulations and requirements are more prudent than the Guideline, the credit assets are classified according to local regulations and requirements.

The five categories are defined as follows:

Pass: loans for which borrowers can honour the terms of the contracts, and there is no reason to doubt their ability to repay the principal and interest of loans in full and on a timely basis.

Special-mention: loans for which borrowers are still able to service the loans currently, although the repayment of loans might be adversely affected by some factors.

Substandard: loans for which borrowers' ability to service loans is apparently in question and borrowers cannot depend on their normal business revenues to pay back the principal and interest of loans. Certain losses might be incurred by the Group even when guarantees are executed.

Doubtful: loans for which borrowers cannot pay back the principal and interest of loans in full and significant losses will be incurred by the Group even when guarantees are executed.

Loss: principal and interest of loans cannot be recovered or only a small portion can be recovered after taking all possible measures and resorting to necessary legal procedures.

The Bank implemented a customer credit rating system based on the PD model. The PD model uses the principle of logistic regression to predict the PD for customers in the coming year. According to the calculated PD value, the risk rating of the customer is obtained through the relevant mapping relationship table. The Group conducts back-testing of the model according to the customer's actual default each year, so that the model calculation results are closer to the objective facts.

## Notes to the Consolidated Financial Statements

### VI FINANCIAL RISK MANAGEMENT (Continued)

#### 3 Credit risk (Continued)

##### 3.1 Credit risk measurement (Continued)

###### (1) Loans and advances to customers and off-balance sheet commitments (Continued)

The customer credit ratings in the internal model are based on four categories of A, B, C and D which are further classified into fifteen grades as AAA, AA, A, BBB+, BBB, BBB-, BB+, BB, BB-, B+, B-, CCC, CC, C, and D. Credit grading D equates to defaulted customers while the others are assigned to performing customers.

Five-category loan classifications and customer credit ratings are determined by the Head Office and tier 1 branch management under approved delegated authorities. The Bank performs centralised review on customer credit ratings and five-category loan classifications on an annual basis. Further, five-category loan classifications are re-examined on a quarterly basis. Adjustments are made to these classifications and ratings as necessary according to customers' operational and financial position.

The Group identifies credit risk collectively based on industry, geography and customer type. This information is monitored regularly by management.

Management periodically reviews various elements of the Group's credit risk management process, in the context of loan portfolio growth, the changing mix and concentration of assets, and the evolving risk profile of the credit portfolio. From time to time, in this regard, refinements are made to the Group's credit risk management processes to most effectively manage the effects of these changes on the Group's credit risk. These refinements include, among other things, adjustments to portfolio level controls, such as revisions to lists of approved borrowers, industry quotas and underwriting criteria. Where circumstances related to specific loans or a group of loans increase the Bank's credit risk, actions are taken, to the extent possible, to strengthen the Group's security position. The actions may include obtaining additional guarantors or collateral.

###### (2) Due from, placements with and loans to banks and other financial institutions

The Group manages the credit quality of due from, placements with and loans to banks and other financial institutions considering the size, financial position and the internal and external credit rating of banks and financial institutions. In response to adverse credit market conditions, various initiatives were implemented since 2008 to better manage and report credit risk, including establishing a special committee which meets periodically and on an ad hoc basis to discuss actions in response to market changes impacting the Group's exposure to credit risk, and formulating a watch list process over counterparty names at risk.

###### (3) Debt securities and derivatives

Credit risk within debt securities arises from exposure to movements in credit spreads, default rates and loss given default, as well as changes in the credit of underlying assets.

The Group manages the credit risk within debt securities by monitoring the external credit rating, such as Standard & Poor's ratings or their equivalents, of the security, the internal credit rating of the issuers of debt securities, and the credit quality of underlying assets of securitisation products (including review of default rates, prepayment rates), industry and sector performance, loss coverage ratios and counterparty risk, to identify exposure to credit risk.

The Group has established policies in managing the net open derivative positions by amounts and by maturity dates. At any time, the current credit exposure equals to the fair value of those derivatives where the fair value changes are favorable to the Group (i.e. positive Mark-to-Market amounts). Credit risk exposures for derivatives are included as part of the aggregated credit risk limit management for financial institutions and customers. Collaterals or other pledges of assets are not typically sought for these exposures.

(Amount in millions of Renminbi, unless otherwise stated)

## VI FINANCIAL RISK MANAGEMENT (Continued)

### 3 Credit risk (Continued)

#### 3.2 Credit risk limit control and mitigation policies

The Group manages limits and controls concentrations of credit risk in particular, to individual customers and to industries.

##### (1) Credit risk limits and controls

###### (i) Loans and advances and off-balance sheet commitments

In order to manage the exposure to credit risk, the Group has adopted credit policies and procedures that are reviewed and updated by the Credit Management Department and the Credit Approval Department at the Head Office. The credit approval process for both corporate loans and personal loans can be broadly divided into three stages: (1) credit origination and assessment; (2) credit review and approval; and (3) fund disbursement and post-disbursement management.

Credit to corporate customers in the Chinese mainland is originated by the Corporate Banking Department at the Head Office and the Corporate Banking Department at branch level and submitted to the Credit Approval Department for due diligence and approval. All credit applications for corporate customers must be approved by the authorised credit application approvers at the Head Office and tier 1 branch level in the Chinese mainland, except for the low risk credit applications which are in accordance with the rules. The exposure to any one borrower, including banks, is restricted by credit limits covering on and off-balance sheet exposures.

Personal loans in the Chinese mainland are originated by the Personal Banking Departments at branch level and must be approved by authorised approvers at tier 1 branch level in the Chinese mainland, except for individual pledged loans and government-sponsored student loans, which may be approved by authorised approvers at sub-branches below tier 1 level. High risk personal loans such as personal loans for business purposes in excess of certain limits must also be reviewed by the Risk Management Department.

The Head Office also oversees the risk management of the branches in Hong Kong, Macao, Taiwan and other countries and regions. In particular, any credit application at these branches exceeding the authorisation limits is required to be submitted to the Head Office for approval.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

###### (ii) Debt securities and derivatives

The Group is also exposed to credit risk through investment activities and trading activities. Credit limits are established based on type of instruments and the credit quality of counterparties, securities issuers and the securities, and set limits are actively monitored.

## Notes to the Consolidated Financial Statements

**VI FINANCIAL RISK MANAGEMENT (Continued)****3 Credit risk (Continued)****3.2 Credit risk limit control and mitigation policies (Continued)***(2) Credit risk mitigation policies**(i) Collateral and guarantees*

The Group has a range of policies and practices intended to mitigate credit risk. The most prevalent of these is the taking of security for funds advances, collaterals and guarantees. The Group implements guidelines on the acceptability of specific classes of collateral and mortgage rate upper limit. The amount of acceptable collateral at the time of loan origination is determined by the Credit Management Department and is subject to mortgage rate upper limit based on type and the value of collateral is monitored on an ongoing. The mortgage rate upper limit based on principal collateral types for corporate loans and advances are:

Main collateral	Mortgage rate upper limit*
Deposit receipt	Full coverage of principal and interest
PRC Treasury bonds	90%
Financial institution bonds	50%–90%
Publicly traded stocks	60%
Land use rights	50%–70%
Real estate	50%–70%
Automobiles	70%

\* The upper limit of the collateral rate is applied for the collateral under the business with non-risk exposure, the collateral of the business with risk exposure and non-credit business is not limited by the upper limit of the collateral rate, and the upper limit of the collateral rate shall not be the basis for the verification and approval of the total credit amount.

Mortgages to retail customers are generally collateralised by mortgages over residential properties. Other loans are collateralised depending on the nature of the loan.

For loans guaranteed by a third party guarantor, the Group will assess the guarantor's credit rating, financial condition, credit history and ability to meet obligations.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of certain asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

Collateral is also held as part of reverse repurchase agreements. Under such agreements, the Group is permitted to sell or repledge collateral in the absence of default by the owner of the collateral. Details of collateral accepted and which the Group is obligated to return are disclosed in Note V.41.3.

*(ii) Master netting arrangements*

The Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in the offsetting of assets and liabilities in the statement of financial position, as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the customer are terminated and settled on a net basis. The Group's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as it is affected by each transaction subject to the arrangement.



(Amount in millions of Renminbi, unless otherwise stated)

**VI FINANCIAL RISK MANAGEMENT (Continued)****3 Credit risk (Continued)****3.3 Impairment measurement for losses on assets**

Refer to Note II.4.6 for relevant policies.

**3.4 Maximum exposure to credit risk before collateral held or other credit enhancements**

	As at 31 December	
	2020	2019
Credit risk exposures relating to on-balance sheet financial assets are as follows:		
Due from banks and other financial institutions	724,320	500,560
Balances with central banks	2,076,840	2,078,809
Placements with and loans to banks and other financial institutions	939,320	898,959
Government certificates of indebtedness for bank notes issued	168,608	155,466
Derivative financial assets	171,738	93,335
Loans and advances to customers, net	13,848,304	12,743,425
Financial investments		
— financial assets at fair value through profit or loss	353,064	378,131
— financial assets at fair value through other comprehensive income	2,086,362	2,196,352
— financial assets at amortised cost	2,978,778	2,777,683
Other assets	134,116	115,941
Subtotal	23,481,450	21,938,661
Credit risk exposures relating to off-balance sheet items are as follows:		
Letters of guarantee issued	1,035,517	1,049,629
Loan commitments and other credit commitments	3,456,156	3,292,941
Subtotal	4,491,673	4,342,570
Total	27,973,123	26,281,231

The table above represents a worst case scenario of credit risk exposure of the Group as at 31 December 2020 and 2019, without taking into account any collateral held, master netting agreements or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on net carrying amounts as reported in the statement of financial position.

As at 31 December 2020, 49.51% of the Group's total maximum credit exposure is derived from loans and advances to customers (31 December 2019: 48.49%) and 19.32% represents investments in debt securities (31 December 2019: 20.31%).

## Notes to the Consolidated Financial Statements

**VI FINANCIAL RISK MANAGEMENT (Continued)****3 Credit risk (Continued)****3.5 Loans and advances**

Analysis of loans and advances to customers (accrued interest excluded) by geographical area, customer type, industry, collateral type and analysis of impaired and overdue loans and advances to customers are presented below:

*(1) Concentrations of risk for loans and advances to customers**(i) Analysis of loans and advances to customers by geographical area***Group**

	As at 31 December			
	2020		2019	
	Amount	% of total	Amount	% of total
Chinese mainland	11,501,791	81.09%	10,302,408	79.04%
Hong Kong, Macao and Taiwan	1,697,934	11.97%	1,697,434	13.02%
Other countries and regions	983,660	6.94%	1,034,347	7.94%
<b>Total</b>	<b>14,183,385</b>	<b>100.00%</b>	<b>13,034,189</b>	<b>100.00%</b>

**Chinese mainland**

	As at 31 December			
	2020		2019	
	Amount	% of total	Amount	% of total
Northern China	1,695,932	14.74%	1,573,127	15.27%
Northeastern China	502,186	4.37%	494,186	4.80%
Eastern China	4,505,204	39.17%	4,016,742	38.99%
Central and Southern China	3,266,619	28.40%	2,875,436	27.91%
Western China	1,531,850	13.32%	1,342,917	13.03%
<b>Total</b>	<b>11,501,791</b>	<b>100.00%</b>	<b>10,302,408</b>	<b>100.00%</b>

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

	Chinese mainland	Hong Kong, Macao and Taiwan	Other countries and regions	Total
<b>As at 31 December 2020</b>				
Corporate loans and advances				
— Trade bills	970,413	83,276	101,869	1,155,558
— Other	5,551,519	1,071,321	821,692	7,444,532
Personal loans	4,979,859	543,337	60,099	5,583,295
<b>Total</b>	<b>11,501,791</b>	<b>1,697,934</b>	<b>983,660</b>	<b>14,183,385</b>
<b>As at 31 December 2019</b>				
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
<b>Total</b>	<b>10,302,408</b>	<b>1,697,434</b>	<b>1,034,347</b>	<b>13,034,189</b>

(Amount in millions of Renminbi, unless otherwise stated)

**VI FINANCIAL RISK MANAGEMENT (Continued)****3 Credit risk (Continued)****3.5 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 31 December			
	2020		2019	
	Amount	% of total	Amount	% of total
Corporate loans and advances				
Commerce and services	1,764,213	12.44%	1,706,650	13.09%
Manufacturing	1,692,261	11.93%	1,679,202	12.88%
Transportation, storage and postal services	1,493,828	10.53%	1,294,922	9.93%
Real estate	1,137,469	8.02%	1,042,664	8.00%
Production and supply of electricity, heating, gas and water	726,824	5.13%	649,289	4.98%
Financial services	646,979	4.56%	565,333	4.34%
Mining	282,394	1.99%	293,375	2.25%
Construction	268,676	1.89%	255,160	1.96%
Water, environment and public utility management	250,551	1.77%	199,376	1.53%
Public utilities	161,402	1.14%	149,855	1.15%
Other	175,493	1.24%	150,554	1.16%
Subtotal	8,600,090	60.64%	7,986,380	61.27%
Personal loans				
Mortgages	4,418,761	31.15%	3,993,271	30.64%
Credit cards	498,435	3.51%	476,743	3.66%
Other	666,099	4.70%	577,795	4.43%
Subtotal	5,583,295	39.36%	5,047,809	38.73%
Total	14,183,385	100.00%	13,034,189	100.00%

## Notes to the Consolidated Financial Statements

**VI FINANCIAL RISK MANAGEMENT (Continued)****3 Credit risk (Continued)****3.5 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 31 December			
	2020		2019	
	Amount	% of total	Amount	% of total
Corporate loans and advances				
Commerce and services	1,395,690	12.13%	1,269,121	12.32%
Manufacturing	1,329,778	11.56%	1,285,438	12.48%
Transportation, storage and postal services	1,313,457	11.42%	1,129,091	10.96%
Real estate	639,777	5.56%	553,951	5.38%
Production and supply of electricity, heating, gas and water	554,626	4.82%	489,086	4.75%
Financial services	487,488	4.24%	398,095	3.86%
Mining	163,193	1.42%	165,218	1.60%
Construction	218,541	1.90%	214,351	2.08%
Water, environment and public utility management	243,268	2.12%	188,387	1.83%
Public utilities	136,444	1.19%	120,595	1.17%
Other	39,670	0.34%	37,358	0.36%
Subtotal	6,521,932	56.70%	5,850,691	56.79%
Personal loans				
Mortgages	3,991,540	34.71%	3,582,138	34.77%
Credit cards	488,086	4.24%	462,150	4.49%
Other	500,233	4.35%	407,429	3.95%
Subtotal	4,979,859	43.30%	4,451,717	43.21%
Total	11,501,791	100.00%	10,302,408	100.00%

(Amount in millions of Renminbi, unless otherwise stated)

**VI FINANCIAL RISK MANAGEMENT (Continued)****3 Credit risk (Continued)****3.5 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 31 December			
	2020		2019	
	Amount	% of total	Amount	% of total
Unsecured loans	4,533,495	31.96%	4,151,941	31.86%
Guaranteed loans	1,737,379	12.25%	1,572,146	12.06%
Collateralised and other secured loans	7,912,511	55.79%	7,310,102	56.08%
Total	14,183,385	100.00%	13,034,189	100.00%

**Chinese mainland**

	As at 31 December			
	2020		2019	
	Amount	% of total	Amount	% of total
Unsecured loans	3,311,387	28.79%	2,923,150	28.37%
Guaranteed loans	1,379,925	12.00%	1,211,994	11.77%
Collateralised and other secured loans	6,810,479	59.21%	6,167,264	59.86%
Total	11,501,791	100.00%	10,302,408	100.00%

## Notes to the Consolidated Financial Statements

**VI FINANCIAL RISK MANAGEMENT (Continued)****3 Credit risk (Continued)****3.5 Loans and advances (Continued)***(2) Analysis of loans and advances to customers by impairment status**(i) Impaired loans and advances by geographical area***Group**

	As at 31 December					
	2020			2019		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Chinese mainland	189,985	91.66%	1.65%	169,951	95.35%	1.65%
Hong Kong, Macao and Taiwan	4,674	2.25%	0.28%	3,842	2.16%	0.23%
Other countries and regions	12,614	6.09%	1.28%	4,442	2.49%	0.43%
Total	207,273	100.00%	1.46%	178,235	100.00%	1.37%

**Chinese mainland**

	As at 31 December					
	2020			2019		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Northern China	27,699	14.58%	1.63%	31,762	18.69%	2.02%
Northeastern China	15,229	8.02%	3.03%	22,123	13.02%	4.48%
Eastern China	52,199	27.47%	1.16%	59,764	35.17%	1.49%
Central and Southern China	81,201	42.74%	2.49%	39,060	22.98%	1.36%
Western China	13,657	7.19%	0.89%	17,242	10.14%	1.28%
Total	189,985	100.00%	1.65%	169,951	100.00%	1.65%

*(ii) Impaired loans and advances by customer type***Group**

	As at 31 December					
	2020			2019		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Corporate loans and advances	174,012	83.95%	2.02%	149,427	83.84%	1.87%
Personal loans	33,261	16.05%	0.60%	28,808	16.16%	0.57%
Total	207,273	100.00%	1.46%	178,235	100.00%	1.37%

**Chinese mainland**

	As at 31 December					
	2020			2019		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Corporate loans and advances	157,767	83.04%	2.42%	141,978	83.54%	2.43%
Personal loans	32,218	16.96%	0.65%	27,973	16.46%	0.63%
Total	189,985	100.00%	1.65%	169,951	100.00%	1.65%

(Amount in millions of Renminbi, unless otherwise stated)

**VI FINANCIAL RISK MANAGEMENT (Continued)****3 Credit risk (Continued)****3.5 Loans and advances (Continued)**(2) *Analysis of loans and advances to customers by impairment status (Continued)*

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

	As at 31 December					
	2020			2019		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
<b>Chinese mainland</b>						
Corporate loans and advances						
Commerce and services	42,010	20.27%	3.01%	45,104	25.31%	3.55%
Manufacturing	56,696	27.35%	4.26%	59,646	33.46%	4.64%
Transportation, storage and postal services	14,276	6.89%	1.09%	8,276	4.64%	0.73%
Real estate	29,952	14.45%	4.68%	2,936	1.65%	0.53%
Production and supply of electricity, heating, gas and water	2,374	1.14%	0.43%	10,954	6.15%	2.24%
Financial services	42	0.02%	0.01%	225	0.13%	0.06%
Mining	4,537	2.19%	2.78%	4,946	2.77%	2.99%
Construction	3,806	1.84%	1.74%	3,561	2.00%	1.66%
Water, environment and public utility management	2,319	1.12%	0.95%	1,594	0.89%	0.85%
Public utilities	894	0.43%	0.66%	877	0.49%	0.73%
Other	861	0.42%	2.17%	3,859	2.17%	10.33%
Subtotal	157,767	76.12%	2.42%	141,978	79.66%	2.43%
Personal loans						
Mortgages	12,680	6.12%	0.32%	10,463	5.87%	0.29%
Credit cards	12,199	5.88%	2.50%	10,269	5.76%	2.22%
Other	7,339	3.54%	1.47%	7,241	4.06%	1.78%
Subtotal	32,218	15.54%	0.65%	27,973	15.69%	0.63%
Total for Chinese mainland	189,985	91.66%	1.65%	169,951	95.35%	1.65%
<b>Hong Kong, Macao, Taiwan and other countries and regions</b>	17,288	8.34%	0.64%	8,284	4.65%	0.30%
Total	207,273	100.00%	1.46%	178,235	100.00%	1.37%

## Notes to the Consolidated Financial Statements

**VI FINANCIAL RISK MANAGEMENT (Continued)****3 Credit risk (Continued)****3.5 Loans and advances (Continued)**(2) *Analysis of loans and advances to customers by impairment status (Continued)*

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

	Impaired loans	Allowance for impairment losses	Net
<b>As at 31 December 2020</b>			
Chinese mainland	<b>189,985</b>	<b>(151,489)</b>	<b>38,496</b>
Hong Kong, Macao and Taiwan	<b>4,674</b>	<b>(2,463)</b>	<b>2,211</b>
Other countries and regions	<b>12,614</b>	<b>(8,943)</b>	<b>3,671</b>
<b>Total</b>	<b>207,273</b>	<b>(162,895)</b>	<b>44,378</b>
<b>As at 31 December 2019</b>			
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
<b>Total</b>	<b>178,235</b>	<b>(136,544)</b>	<b>41,691</b>

(v) Within the impaired corporate loans and advances, the portions covered and not covered by collateral held are as follows:

	Group		Chinese mainland	
	As at 31 December 2020	As at 31 December 2019	As at 31 December 2020	As at 31 December 2019
Portion covered	<b>95,896</b>	94,007	<b>89,692</b>	92,737
Portion not covered	<b>78,116</b>	55,420	<b>68,075</b>	49,241
<b>Total</b>	<b>174,012</b>	149,427	<b>157,767</b>	141,978
Fair value of collateral held	<b>33,859</b>	49,054	<b>31,483</b>	46,939

Collateral of impaired corporate loans and advances includes land, buildings, equipment and others. The fair value of collateral was estimated by the Group with reference to the latest available external valuations adjusted for recent experience in disposal of collateral as well as the market conditions.



(Amount in millions of Renminbi, unless otherwise stated)

## VI FINANCIAL RISK MANAGEMENT (Continued)

### 3 Credit risk (Continued)

#### 3.5 Loans and advances (Continued)

##### (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 due 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 31 December 2020 and 2019.

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

##### (4) Overdue loans and advances to customers

###### (i) Analysis of overdue loans and advances to customers by collateral type and overdue days

###### Group

	Past due up to 90 days	Past due 91 to 360 days	Past due 361 Days to 3 years	Past due over 3 years	Total
<b>As at 31 December 2020</b>					
Unsecured loans	8,040	15,841	7,122	2,314	33,317
Guaranteed loans	5,160	11,622	9,952	1,507	28,241
Collateralised and other secured loans	41,142	43,635	27,192	5,857	117,826
<b>Total</b>	<b>54,342</b>	<b>71,098</b>	<b>44,266</b>	<b>9,678</b>	<b>179,384</b>
<b>As at 31 December 2019</b>					
Unsecured loans	8,937	12,236	7,591	2,086	30,850
Guaranteed loans	8,956	11,150	12,747	1,949	34,802
Collateralised and other secured loans	44,945	22,056	23,917	6,059	96,977
<b>Total</b>	<b>62,838</b>	<b>45,442</b>	<b>44,255</b>	<b>10,094</b>	<b>162,629</b>

## Notes to the Consolidated Financial Statements

**VI FINANCIAL RISK MANAGEMENT (Continued)****3 Credit risk (Continued)****3.5 Loans and advances (Continued)***(4) Overdue loans and advances to customers (Continued)*

- (i) Analysis of overdue loans and advances to customers by collateral type and overdue days (Continued)

**Chinese mainland**

	Past due up to 90 days	Past due 91 to 360 days	Past due 361 Days to 3 years	Past due over 3 years	Total
<b>As at 31 December 2020</b>					
Unsecured loans	6,626	11,785	5,262	2,284	25,957
Guaranteed loans	4,740	9,299	9,670	1,239	24,948
Collateralised and other secured loans	37,284	39,780	26,692	5,604	109,360
<b>Total</b>	<b>48,650</b>	<b>60,864</b>	<b>41,624</b>	<b>9,127</b>	<b>160,265</b>
<b>As at 31 December 2019</b>					
Unsecured loans	7,141	10,611	6,835	2,071	26,658
Guaranteed loans	8,650	10,927	12,673	1,661	33,911
Collateralised and other secured loans	40,651	19,291	23,650	5,817	89,409
<b>Total</b>	<b>56,442</b>	<b>40,829</b>	<b>43,158</b>	<b>9,549</b>	<b>149,978</b>

- (ii) Analysis of overdue loans and advances by geographical area

	<b>As at 31 December</b>	
	<b>2020</b>	<b>2019</b>
Chinese mainland	160,265	149,978
Hong Kong, Macao and Taiwan	6,850	7,171
Other countries and regions	12,269	5,480
<b>Subtotal</b>	<b>179,384</b>	<b>162,629</b>
Percentage	1.26%	1.25%
Less: total loans and advances to customers which have been overdue for less than 3 months	(54,342)	(62,838)
<b>Total loans and advances to customers which have been overdue for more than 3 months</b>	<b>125,042</b>	<b>99,791</b>

(Amount in millions of Renminbi, unless otherwise stated)

## VI FINANCIAL RISK MANAGEMENT (Continued)

### 3 Credit risk (Continued)

#### 3.5 Loans and advances (Continued)

##### (5) Loans and advances three-staging classification

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

	As at 31 December 2020			
	12-month ECLs	Lifetime ECLs		Total
	Stage 1	Stage 2	Stage 3	
Pass	13,642,318	66,181	–	13,708,499
Special-mention	–	263,952	–	263,952
Substandard	–	–	125,118	125,118
Doubtful	–	–	33,823	33,823
Loss	–	–	48,332	48,332
<b>Total</b>	<b>13,642,318</b>	<b>330,133</b>	<b>207,273</b>	<b>14,179,724</b>

	As at 31 December 2019			
	12-month ECLs	Lifetime ECLs		Total
	Stage 1	Stage 2	Stage 3	
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
<b>Total</b>	<b>12,514,948</b>	<b>336,902</b>	<b>178,235</b>	<b>13,030,085</b>

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

#### 3.6 Due from and placements with and loans to banks and other financial institutions

Banks and other financial institutions comprise those institutions in the Chinese mainland, Hong Kong, Macao, Taiwan and other countries and regions.

The Group monitors the credit risk of counterparties by collecting and analysing counterparty information and establishing credit limits taking into account the nature, size and credit rating of counterparties.

As at 31 December 2020, the majority of the balances of due from and placements with and loans to banks and other financial institutions were banks and other financial institutions in the Chinese mainland (Note V.13 and Note V.15), the majority of the internal credit ratings of these banks and other financial institutions were above A.

## Notes to the Consolidated Financial Statements

**VI FINANCIAL RISK MANAGEMENT (Continued)****3 Credit risk (Continued)****3.7 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 dates are as follows:

	Unrated	A to AAA	Lower than A	Total
<b>As at 31 December 2020</b>				
Issuers in Chinese mainland				
— Government	6,461	3,026,650	—	3,033,111
— Public sectors and quasi-governments	130,695	—	—	130,695
— Policy banks	149	446,888	—	447,037
— Financial institutions	31,229	269,487	123,956	424,672
— Corporate	67,834	109,443	39,474	216,751
— China Orient	152,433	—	—	152,433
Subtotal	388,801	3,852,468	163,430	4,404,699
Issuers in Hong Kong, Macao, Taiwan and other countries and regions				
— Governments	36,393	503,881	16,338	556,612
— Public sectors and quasi-governments	34,077	31,748	—	65,825
— Financial institutions	10,015	127,643	34,449	172,107
— Corporate	13,453	89,307	38,716	141,476
Subtotal	93,938	752,579	89,503	936,020
Total	482,739	4,605,047	252,933	5,340,719
<b>As at 31 December 2019</b>				
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	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

(Amount in millions of Renminbi, unless otherwise stated)

## VI FINANCIAL RISK MANAGEMENT (Continued)

### 3 Credit risk (Continued)

#### 3.7 Debt securities (Continued)

The carrying amounts (accrued interest excluded) of debt investments analysed by external credit ratings and expected credit losses are as follows:

	As at 31 December 2020			
	12-month ECL	Lifetime ECL		Total
	Stage 1	Stage 2	Stage 3	
Unrated	452,851	281	392	453,524
A to AAA	4,360,353	–	–	4,360,353
Lower than A	182,704	123	–	182,827
<b>Total</b>	<b>4,995,908</b>	<b>404</b>	<b>392</b>	<b>4,996,704</b>

	As at 31 December 2019			
	12-month ECL	Lifetime ECL		Total
	Stage 1	Stage 2	Stage 3	
Unrated	467,979	239	–	468,218
A to AAA	4,199,036	59	–	4,199,095
Lower than A	236,749	180	–	236,929
<b>Total</b>	<b>4,903,764</b>	<b>478</b>	<b>–</b>	<b>4,904,242</b>

#### 3.8 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 default risk 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 the CCR of derivatives are as follows:

	As at 31 December	
	2020	2019
Risk-weighted assets for default risk		
Currency derivatives	76,313	62,076
Interest rate derivatives	16,082	10,442
Equity derivatives	844	338
Commodity derivatives and other	18,487	12,135
	<b>111,726</b>	84,991
Risk-weighted assets for CVA	110,319	79,954
Risk-weighted assets for CCPs	6,330	6,095
<b>Total</b>	<b>228,375</b>	171,040

## Notes to the Consolidated Financial Statements

### VI FINANCIAL RISK MANAGEMENT (Continued)

#### 3 Credit risk (Continued)

##### 3.9 Repossessed assets

The Group obtained assets by taking possession of collateral held as security. Detailed information of such repossessed assets of the Group is disclosed in Note V.22.

#### 4 Market risk

##### 4.1 Overview

The Group is exposed to market risks from on-balance and off-balance businesses, that may cause losses to the Group as a result of adverse changes in market prices of interest rate, exchange rate, equities and commodities. Market risk arises from open positions in the trading and banking books. The trading book consists of positions in financial instruments and commodities that are held with trading intent or in order to hedge other elements of the trading book. The banking book consists of financial instruments not included in the trading book.

The Board of Directors of the Group takes the ultimate responsibility for the oversight of market risk management, including the approval of market risk management policies and procedures and the determination of market risk tolerance. Senior management is responsible for the execution of such policies and ensuring that the level of market risk is within the risk appetite determined by the Board, while meeting the Group's business objectives.

Market risk management departments are responsible for the identification, measurement, monitoring, control and reporting of market risks on a Group basis. Business units are responsible for the monitoring and reporting of market risk within their respective business lines.

##### 4.2 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.

VaR is performed separately by the Bank and its major subsidiaries that are exposed to market risk, BOCHK (Holdings) and 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.

(Amount in millions of Renminbi, unless otherwise stated)

**VI FINANCIAL RISK MANAGEMENT (Continued)****4 Market risk (Continued)****4.2 Market risk measurement techniques and limits (Continued)****(1) Trading book (Continued)**

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 during the years ended 31 December 2020 and 2019:

Unit: USD million

	Year ended 31 December					
	2020			2019		
	Average	High	Low	Average	High	Low
<b>The Bank's trading VaR</b>						
Interest rate risk	13.45	17.87	9.17	18.70	23.50	13.24
Foreign exchange risk	26.61	39.35	11.83	18.00	26.69	9.80
Volatility risk	2.18	6.45	0.18	0.44	2.27	0.17
Commodity risk	6.35	13.76	3.04	1.77	6.26	0.75
Total of the Bank's trading VaR	29.56	38.72	16.18	23.03	29.56	17.11

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

Unit: USD million

	Year ended 31 December					
	2020			2019		
	Average	High	Low	Average	High	Low
<b>BOCHK (Holdings)'s trading VaR</b>						
Interest rate risk	2.38	4.58	0.75	2.72	5.30	1.26
Foreign exchange risk	2.72	3.98	0.84	1.63	2.69	0.93
Equity risk	0.13	0.38	0.03	0.10	0.32	0.03
Commodity risk	0.23	1.44	0.00	2.06	5.59	0.03
Total BOCHK (Holdings)'s trading VaR	4.01	6.47	2.25	3.95	6.70	2.24
<b>BOCI's trading VaR<sup>(i)</sup></b>						
Equity derivatives unit	0.94	2.28	0.23	0.76	1.96	0.34
Fixed income unit	1.10	2.15	0.41	0.66	0.97	0.51
Global commodity unit	0.20	0.30	0.15	0.20	0.36	0.10
Total BOCI's trading VaR	2.24	4.30	1.37	1.61	2.95	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.

## Notes to the Consolidated Financial Statements

**VI FINANCIAL RISK MANAGEMENT (Continued)****4 Market risk (Continued)****4.2 Market risk measurement techniques and limits (Continued)***(1) Trading book (Continued)*

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 was not added up to the total VaR as there was a diversification effect due to correlation amongst the risk factors.

*(2) Banking book*

Interest rate risk in the banking book ("IRRBB") refers to the risk of losses to a bank's economic value and to its overall earnings of banking book, arising from adverse movements in interest rates level or term structure. IRRBB mainly comes from repricing gaps between assets and liabilities in the banking book, and differences in changes in benchmarking interest rates for assets and liabilities. The Group is exposed to interest rate risk and fluctuations in market interest rates that will impact the Group's financial position.

The Group assesses IRRBB primarily through an interest rate repricing gap analysis. Interest rate repricing gap analysis measures the difference between the amount of interest-earning assets and interest-bearing liabilities that must be repriced within certain periods. The Group employs the interest rate repricing gap analysis and takes the impact of the off-balance sheet business into consideration when calculating the indications of sensitivity of earnings to changing interest rates. The interest rate gap analysis is set out in Note VI.4.3 and also covers the trading book.

## Sensitivity analysis on net interest income

Sensitivity analysis on net interest income assumes that yield curves change in parallel while the structure of assets and liabilities remains unchanged, and does not take into consideration changes in customer behaviour, basis risk, etc. The Group made timely adjustments to the structure of its assets and liabilities, optimised the internal and external pricing strategy or implemented risk hedging based on changes in the market situation, and controlled the fluctuation of net interest income within an acceptable level.

The table below illustrates the potential impact of a 25 basis points interest rate move on the net interest income of the Group. The actual situation may be different from the assumptions used and it is possible that actual outcomes could differ from the estimated impact on net interest income of the Group.

	(Decrease)/increase in net interest income	
	As at 31 December	
	2020	2019
+ 25 basis points	<b>(4,107)</b>	(4,534)
- 25 basis points	<b>4,107</b>	4,534

Given the nature of demand deposits, their interest rate fluctuations are less volatile than those of other products. Had the impact of yield curves movement on interest expenses related to demand deposits been excluded, the net interest income for the next twelve months from the reporting date would have increased or decreased by RMB16,716 million (2019: RMB14,591 million) for 25 basis points upward or downward parallel movements, respectively.



(Amount in millions of Renminbi, unless otherwise stated)

**VI FINANCIAL RISK MANAGEMENT (Continued)****4 Market risk (Continued)****4.3 GAP analysis**

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

	As at 31 December 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	
<b>Assets</b>							
Cash and due from banks and other financial institutions	470,557	92,375	152,489	3,117	–	84,607	803,145
Balances with central banks	1,883,236	2,990	489	651	–	189,474	2,076,840
Placements with and loans to banks and other financial institutions	405,802	167,138	278,759	82,515	–	5,106	939,320
Derivative financial assets	–	–	–	–	–	171,738	171,738
Loans and advances to customers, net	3,696,907	2,476,327	6,603,223	297,793	268,035	506,019	13,848,304
Financial investments							
— financial assets at fair value through profit or loss	10,968	48,105	76,626	42,983	169,896	155,971	504,549
— financial assets at fair value through other comprehensive income	176,317	249,957	253,926	925,422	461,527	40,641	2,107,790
— financial assets at amortised cost	229,352	71,072	336,105	1,283,662	1,019,905	38,682	2,978,778
Other	2,698	–	–	–	14,328	955,169	972,195
<b>Total assets</b>	<b>6,875,837</b>	<b>3,107,964</b>	<b>7,701,617</b>	<b>2,636,143</b>	<b>1,933,691</b>	<b>2,147,407</b>	<b>24,402,659</b>
<b>Liabilities</b>							
Due to banks and other financial institutions	1,150,797	250,707	192,966	5,518	–	317,015	1,917,003
Due to central banks	309,560	114,713	428,370	28,230	–	6,938	887,811
Placements from banks and other financial institutions	247,076	102,269	61,627	6	–	971	411,949
Derivative financial liabilities	–	–	–	–	–	212,052	212,052
Due to customers	9,697,626	1,333,837	2,582,012	2,817,528	1,698	446,470	16,879,171
Bonds issued	75,317	201,662	450,653	461,129	49,612	6,030	1,244,403
Other	28,026	17,655	5,385	8,566	22,808	604,993	687,433
<b>Total liabilities</b>	<b>11,508,402</b>	<b>2,020,843</b>	<b>3,721,013</b>	<b>3,320,977</b>	<b>74,118</b>	<b>1,594,469</b>	<b>22,239,822</b>
<b>Total interest repricing gap</b>	<b>(4,632,565)</b>	<b>1,087,121</b>	<b>3,980,604</b>	<b>(684,834)</b>	<b>1,859,573</b>	<b>552,938</b>	<b>2,162,837</b>

## Notes to the Consolidated Financial Statements

**VI FINANCIAL RISK MANAGEMENT (Continued)****4 Market risk (Continued)****4.3 GAP analysis (Continued)**

	As at 31 December 2019						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	
<b>Assets</b>							
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
<b>Total assets</b>	6,164,032	3,006,893	7,590,959	2,474,084	1,577,163	1,956,613	22,769,744
<b>Liabilities</b>							
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
<b>Total liabilities</b>	10,934,234	2,266,725	3,612,620	2,719,124	53,636	1,206,709	20,793,048
<b>Total interest repricing gap</b>	(4,770,202)	740,168	3,978,339	(245,040)	1,523,527	749,904	1,976,696

(Amount in millions of Renminbi, unless otherwise stated)

## VI FINANCIAL RISK MANAGEMENT (Continued)

### 4 Market risk (Continued)

#### 4.4 Foreign currency risk

The Group conducts a substantial portion of its business in RMB, with certain transactions denominated in USD, HKD and, to a much lesser extent, other currencies. The major subsidiary, BOCHK Group, conducts the majority of its business in HKD, RMB and USD. The Group endeavours to manage its sources and uses of foreign currencies to minimise potential mismatches in accordance with management directives.

The Group manages its exposure to currency exchange risk through the management of its net foreign currency position and monitors its foreign currency risk on trading books using VaR (Note VI.4.2). Meanwhile, the Group performs currency risk sensitivity analysis to estimate the effect of potential exchange rate changes of foreign currencies against RMB on profit before tax and equity.

The tables below indicate a sensitivity analysis of exchange rate changes of the currencies to which the Group had significant exposure. The analysis calculates the effect of a reasonably possible movement in the currency rates against RMB, with all other variables held constant, on profit before tax and equity. A negative amount in the table reflects a potential net reduction in profit before tax or equity, while a positive amount reflects a potential net increase. Such analysis does not take into account the correlation effect of changes in different foreign currencies, any further actions that may have been or could be taken by management after the financial reporting date to mitigate the effect of exchange differences, nor any consequential changes in the foreign currency positions.

Currency	Change in currency rate	Effect on profit before tax		Effect on equity*	
		As at 31 December 2020	As at 31 December 2019	As at 31 December 2020	As at 31 December 2019
USD	+1%	<b>450</b>	354	<b>620</b>	522
HKD	+1%	<b>(181)</b>	(262)	<b>2,340</b>	2,079

\* Effect on other comprehensive income (irrespective of income tax effect).

While the table above indicates the effect on profit before tax and equity of the 1% appreciation of USD and HKD, there will be an opposite effect with the same amounts if the currencies depreciate by the same percentage.

## Notes to the Consolidated Financial Statements

**VI FINANCIAL RISK MANAGEMENT (Continued)****4 Market risk (Continued)****4.4 Foreign currency risk (Continued)**

The tables below summarise the Group's exposure to foreign currency exchange rate risk as at 31 December 2020 and 2019. The Group's exposure to RMB is provided in the tables below for comparison purposes. Included in the table 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 the net off-balance sheet position using notional amounts.

	As at 31 December 2020							Total
	RMB	USD	HKD	EURO	JPY	GBP	Other	
<b>Assets</b>								
Cash and due from banks and other financial institutions	548,932	132,751	20,782	61,642	7,101	4,215	27,722	803,145
Balances with central banks	1,500,346	316,938	61,418	81,789	30,084	44,252	42,013	2,076,840
Placements with and loans to banks and other financial institutions	555,349	298,944	22,861	18,663	478	940	42,085	939,320
Derivative financial assets	97,475	44,134	3,479	738	987	9,344	15,581	171,738
Loans and advances to customers, net	11,024,110	1,106,377	1,010,120	258,468	11,076	62,829	375,324	13,848,304
Financial investments								
— financial assets at fair value through profit or loss	363,018	51,870	82,795	6,476	316	23	51	504,549
— financial assets at fair value through other comprehensive income	1,280,223	449,963	127,357	31,950	130,392	2,851	85,054	2,107,790
— financial assets at amortised cost	2,723,069	199,575	2,370	9,628	6,065	3,993	34,078	2,978,778
Other	317,767	183,732	219,734	2,466	1,417	2,346	244,733	972,195
<b>Total assets</b>	<b>18,410,289</b>	<b>2,784,284</b>	<b>1,550,916</b>	<b>471,820</b>	<b>187,916</b>	<b>130,793</b>	<b>866,641</b>	<b>24,402,659</b>
<b>Liabilities</b>								
Due to banks and other financial institutions	1,035,286	539,174	43,097	43,770	14,301	10,988	230,387	1,917,003
Due to central banks	576,601	277,062	12,918	13,487	—	341	7,402	887,811
Placements from banks and other financial institutions	137,784	215,247	13,729	28,757	12,204	2,247	1,981	411,949
Derivative financial liabilities	139,398	46,493	4,474	947	874	9,720	10,146	212,052
Due to customers	13,003,027	1,651,454	1,318,279	306,229	50,656	72,230	477,296	16,879,171
Bonds issued	968,665	218,950	8,617	31,980	1,896	311	13,984	1,244,403
Other	293,844	105,317	267,904	3,207	300	1,109	15,752	687,433
<b>Total liabilities</b>	<b>16,154,605</b>	<b>3,053,697</b>	<b>1,669,018</b>	<b>428,377</b>	<b>80,231</b>	<b>96,946</b>	<b>756,948</b>	<b>22,239,822</b>
Net on-balance sheet position	2,255,684	(269,413)	(118,102)	43,443	107,685	33,847	109,693	2,162,837
Net off-balance sheet position	(541,681)	392,537	347,658	(31,366)	(107,293)	(32,709)	(50,662)	(23,516)
Credit commitments	3,160,861	761,848	255,166	142,505	10,679	52,715	107,899	4,491,673

(Amount in millions of Renminbi, unless otherwise stated)

**VI FINANCIAL RISK MANAGEMENT (Continued)****4 Market risk (Continued)****4.4 Foreign currency risk (Continued)**

	As at 31 December 2019							
	RMB	USD	HKD	EURO	JPY	GBP	Other	Total
<b>Assets</b>								
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
<b>Total assets</b>	<b>17,014,477</b>	<b>2,689,960</b>	<b>1,598,500</b>	<b>368,650</b>	<b>181,567</b>	<b>120,301</b>	<b>796,289</b>	<b>22,769,744</b>
<b>Liabilities</b>								
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
<b>Total liabilities</b>	<b>14,862,081</b>	<b>3,060,153</b>	<b>1,681,391</b>	<b>364,024</b>	<b>105,529</b>	<b>77,768</b>	<b>642,102</b>	<b>20,793,048</b>
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

## Notes to the Consolidated Financial Statements

### VI FINANCIAL RISK MANAGEMENT (Continued)

#### 5 Liquidity risk

The liquidity risk refers to the risk that a commercial bank fails to acquire adequate funds in a timely manner and at a reasonable cost to deal with repayment of debts at maturity, perform other payment obligations and meet other fund needs for normal business operation.

##### **5.1 Liquidity risk management policy and process**

The Bank continued to develop and improve its liquidity risk management system with the aim of effectively identifying, measuring, monitoring and controlling liquidity risk at the institution and group level, including that of branches, subsidiaries and business lines, thus ensuring that liquidity demand is met in a timely manner and at a reasonable cost.

The Group considers liquidity risk management a significant component of asset-liability management, and determines the size, structure and duration of assets and liabilities consistent with the principle of overall balance between assets and liabilities. The Group establishes its liquidity portfolio to mitigate liquidity risk, and to minimise the gaps in the amount and duration between the funding sources and the uses of funds. The Group refines its financing strategy, taking into consideration various factors including customer risk sensitivity, financing cost and concentration of funding sources. In addition, the Group prioritises the development of customer deposits, dynamically adjusts the structure of fund sources by market-oriented financing modes, including due to banks and other financial institutions, inter-bank borrowings and improves the diversity and stability of financing sources.

Assets available to meet all of the liabilities and to cover outstanding loan commitments include "Cash and due from banks and other financial institutions", "Balances with central banks", "Placements with and loans to banks and other financial institutions", "Loans and advances to customers, net", etc. In the normal course of business, a proportion of short-term loans contractually repayable will be extended and a portion of short-term customer deposits will not be withdrawn upon maturity. The Group would also be able to meet unexpected net cash outflows by entering into repurchase transactions, and by selling securities and accessing additional funding sources.

(Amount in millions of Renminbi, unless otherwise stated)

**VI FINANCIAL RISK MANAGEMENT (Continued)****5 Liquidity risk (Continued)****5.2 Maturity analysis**

The tables below analyse the Group's assets and liabilities into relevant maturity groupings based on the remaining period at the financial reporting date to the contractual maturity date. For purposes of the tables set forth, "Loans and advances to customers, net" are considered overdue only if principal payments are overdue. In addition, for loans and advances to customers that are repayable by instalments, only the portion of the loan that is actually overdue is reported as overdue. Any part of the loan that is not due is reported according to residual maturity.

	As at 31 December 2020							Total
	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	
<b>Assets</b>								
Cash and due from banks and other financial institutions	21	286,447	265,996	93,556	154,008	3,117	–	803,145
Balances with central banks	1,452,254	549,551	39,355	5,709	28,669	1,302	–	2,076,840
Placements with and loans to banks and other financial institutions	377	–	397,698	154,029	286,481	100,735	–	939,320
Derivative financial assets	–	13,312	22,621	31,423	62,752	31,551	10,079	171,738
Loans and advances to customers, net	46,580	191,481	435,364	1,288,350	2,778,252	3,744,008	5,364,269	13,848,304
Financial investments								
— financial assets at fair value through profit or loss	154,836	–	10,521	47,105	77,423	44,679	169,985	504,549
— financial assets at fair value through other comprehensive income	23,481	–	137,987	217,198	284,963	973,389	470,772	2,107,790
— financial assets at amortised cost	2,805	–	50,431	80,052	358,189	1,443,948	1,043,353	2,978,778
Other	356,200	454,701	19,792	17,044	19,930	75,503	29,025	972,195
<b>Total assets</b>	<b>2,036,554</b>	<b>1,495,492</b>	<b>1,379,765</b>	<b>1,934,466</b>	<b>4,050,667</b>	<b>6,418,232</b>	<b>7,087,483</b>	<b>24,402,659</b>
<b>Liabilities</b>								
Due to banks and other financial institutions	–	1,351,541	70,855	271,019	217,441	6,056	91	1,917,003
Due to central banks	–	216,844	79,518	117,114	434,833	39,502	–	887,811
Placements from banks and other financial institutions	–	–	244,199	100,330	62,324	4,940	156	411,949
Derivative financial liabilities	–	9,479	24,395	34,122	95,255	35,127	13,674	212,052
Due to customers	–	8,521,036	1,528,697	1,354,270	2,596,276	2,871,178	7,714	16,879,171
Bonds issued	–	–	67,004	186,305	461,388	470,415	59,291	1,244,403
Other	–	329,254	58,677	15,215	112,493	95,681	76,113	687,433
<b>Total liabilities</b>	<b>–</b>	<b>10,428,154</b>	<b>2,073,345</b>	<b>2,078,375</b>	<b>3,980,010</b>	<b>3,522,899</b>	<b>157,039</b>	<b>22,239,822</b>
<b>Net liquidity gap</b>	<b>2,036,554</b>	<b>(8,932,662)</b>	<b>(693,580)</b>	<b>(143,909)</b>	<b>70,657</b>	<b>2,895,333</b>	<b>6,930,444</b>	<b>2,162,837</b>

## Notes to the Consolidated Financial Statements

**VI FINANCIAL RISK MANAGEMENT (Continued)****5 Liquidity risk (Continued)****5.2 Maturity analysis (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
<b>Assets</b>								
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
<b>Total assets</b>	<b>2,077,009</b>	<b>1,313,369</b>	<b>1,307,938</b>	<b>1,838,126</b>	<b>4,139,384</b>	<b>5,665,865</b>	<b>6,428,053</b>	<b>22,769,744</b>
<b>Liabilities</b>								
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
<b>Total liabilities</b>	<b>–</b>	<b>9,349,313</b>	<b>2,318,654</b>	<b>2,186,947</b>	<b>3,869,924</b>	<b>2,944,593</b>	<b>123,617</b>	<b>20,793,048</b>
<b>Net liquidity gap</b>	<b>2,077,009</b>	<b>(8,035,944)</b>	<b>(1,010,716)</b>	<b>(348,821)</b>	<b>269,460</b>	<b>2,721,272</b>	<b>6,304,436</b>	<b>1,976,696</b>



(Amount in millions of Renminbi, unless otherwise stated)

**VI FINANCIAL RISK MANAGEMENT (Continued)****5 Liquidity risk (Continued)****5.3 Undiscounted cash flows by contractual maturities**

The tables below present the cash flows of the Group of non-derivative financial assets and financial liabilities and derivative financial instruments that will be settled on a net basis and on a gross basis by the remaining contractual maturities at the financial reporting date. The amounts disclosed in the tables are the contractual undiscounted cash flows, except for certain derivatives which are disclosed at fair value (i.e. discounted cash flows basis). The Group also manages its inherent short-term liquidity risk based on expected undiscounted cash flows.

	As at 31 December 2020							Total
	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	
<b>Non-derivative cash flow</b>								
Cash and due from banks and other financial institutions	21	286,457	266,397	93,837	154,977	3,288	–	804,977
Balances with central banks	1,452,254	549,550	39,359	5,717	28,717	1,501	–	2,077,098
Placements with and loans to banks and other financial institutions	377	–	397,904	157,799	292,606	103,768	–	952,454
Loans and advances to customers, net	48,824	191,668	460,253	1,366,761	3,268,668	4,948,258	7,546,587	17,831,019
Financial investments								
— financial assets at fair value through profit or loss	154,788	–	11,227	48,200	82,092	72,271	186,921	555,499
— financial assets at fair value through other comprehensive income	23,454	–	140,321	221,633	310,952	1,055,733	496,895	2,248,988
— financial assets at amortised cost	2,848	–	54,838	95,601	431,641	1,686,591	1,254,753	3,526,272
Other financial assets	478	209,038	16,621	3,870	7,694	1,304	15,546	254,551
<b>Total financial assets</b>	<b>1,683,044</b>	<b>1,236,713</b>	<b>1,386,920</b>	<b>1,993,418</b>	<b>4,577,347</b>	<b>7,872,714</b>	<b>9,500,702</b>	<b>28,250,858</b>
Due to banks and other financial institutions	–	1,351,587	70,933	271,618	218,500	6,297	92	1,919,027
Due to central banks	–	216,855	79,668	117,556	439,242	42,181	–	895,502
Placements from banks and other financial institutions	–	–	244,338	100,902	62,781	5,020	217	413,258
Due to customers	–	8,521,187	1,531,786	1,363,503	2,622,000	3,055,634	8,337	17,102,447
Bonds issued	–	–	67,194	187,282	466,814	515,009	61,165	1,297,464
Other financial liabilities	–	258,397	43,428	11,667	13,519	45,160	26,416	398,587
<b>Total financial liabilities</b>	<b>–</b>	<b>10,348,026</b>	<b>2,037,347</b>	<b>2,052,528</b>	<b>3,822,856</b>	<b>3,669,301</b>	<b>96,227</b>	<b>22,026,285</b>
<b>Derivative cash flow</b>								
Derivative financial instruments settled on a net basis	–	3,588	(468)	93	(2,122)	(7,056)	(992)	(6,957)
Derivative financial instruments settled on a gross basis								
Total inflow	–	67,900	1,980,710	1,476,508	3,001,639	399,425	16,953	6,943,135
Total outflow	–	(67,840)	(1,980,277)	(1,478,891)	(3,032,559)	(395,345)	(16,949)	(6,971,861)

## Notes to the Consolidated Financial Statements

**VI FINANCIAL RISK MANAGEMENT (Continued)****5 Liquidity risk (Continued)****5.3 Undiscounted cash flows by contractual maturities (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
<b>Non-derivative cash flow</b>								
Cash and due from banks and other financial institutions	21	204,130	183,615	56,074	120,765	3,096	133	567,834
Balances with central banks	1,513,473	527,657	16,249	8,302	12,450	722	–	2,078,853
Placements with and loans to banks and other financial institutions	44	–	417,635	189,233	244,950	56,154	–	908,016
Loans and advances to customers, net	52,895	195,546	484,426	1,298,683	3,086,083	4,534,837	7,151,130	16,803,600
Financial investments								
— financial assets at fair value through profit or loss	143,237	–	16,420	50,340	103,259	84,649	186,039	583,944
— financial assets at fair value through other comprehensive income	22,067	–	142,329	235,681	427,288	1,030,193	561,203	2,418,761
— financial assets at amortised cost	1,798	–	35,530	56,946	554,364	1,543,565	974,147	3,166,350
Other financial assets	1,026	167,792	20,967	1,935	4,506	1,424	14,091	211,741
Total financial assets	1,734,561	1,095,125	1,317,171	1,897,194	4,553,665	7,254,640	8,886,743	26,739,099
Due to banks and other financial institutions	–	1,036,859	125,501	325,279	176,849	7,047	84	1,671,619
Due to central banks	–	180,123	71,548	74,724	526,257	3,787	–	856,439
Placements from banks and other financial institutions	–	–	492,804	71,641	70,322	6,616	14	641,397
Due to customers	–	7,843,233	1,544,280	1,547,409	2,570,184	2,527,791	8,124	16,041,021
Bonds issued	–	–	24,056	150,929	423,073	521,722	36,162	1,155,942
Other financial liabilities	–	220,323	38,040	9,993	20,569	48,656	24,912	362,493
Total financial liabilities	–	9,280,538	2,296,229	2,179,975	3,787,254	3,115,619	69,296	20,728,911
<b>Derivative cash flow</b>								
Derivative financial instruments settled on a net basis	–	1,873	2,324	5,086	(993)	(3,966)	(791)	3,533
Derivative financial instruments settled on a gross basis								
Total inflow	–	104,485	1,790,517	1,514,328	2,672,728	409,405	18,919	6,510,382
Total outflow	–	(103,878)	(1,787,934)	(1,510,528)	(2,673,807)	(409,542)	(18,915)	(6,504,604)

(Amount in millions of Renminbi, unless otherwise stated)

**VI FINANCIAL RISK MANAGEMENT (Continued)****5 Liquidity risk (Continued)****5.4 Off-balance sheet items**

The Group's off-balance sheet items are summarised in the table below at the remaining period to the contractual maturity date. Financial guarantees are also included below at notional amounts and based on the earliest contractual maturity date.

	Less than 1 year	Between 1 and 5 years	Over 5 years	Total
<b>As at 31 December 2020</b>				
Loan commitments <sup>(1)</sup>	1,874,449	623,766	241,397	2,739,612
Guarantees, acceptances and other financial facilities	1,183,873	307,349	260,839	1,752,061
Subtotal	3,058,322	931,115	502,236	4,491,673
Capital commitments	25,717	27,162	5	52,884
Total	3,084,039	958,277	502,241	4,544,557
<b>As at 31 December 2019</b>				
Loan commitments <sup>(1)</sup>	1,859,147	587,973	167,961	2,615,081
Guarantees, acceptances and other financial facilities	1,146,111	297,015	284,363	1,727,489
Subtotal	3,005,258	884,988	452,324	4,342,570
Capital commitments	38,814	18,498	–	57,312
Total	3,044,072	903,486	452,324	4,399,882

(1) Included within "Loan commitments" are amounts relating to loan commitments and undrawn credit card limits. Refer to Note V.41.7.

## Notes to the Consolidated Financial Statements

### VI FINANCIAL RISK MANAGEMENT (Continued)

#### 6 Fair value

##### 6.1 Assets and liabilities measured at fair value

Assets and liabilities 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 financial reporting date.

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.

(Amount in millions of Renminbi, unless otherwise stated)

**VI FINANCIAL RISK MANAGEMENT (Continued)****6 Fair value (Continued)****6.1 Assets and liabilities measured at fair value (Continued)**

	As at 31 December 2020			
	Level 1	Level 2	Level 3	Total
<b>Assets measured at fair value</b>				
Derivative financial assets	3,083	168,655	–	171,738
Loans and advances to customers at fair value	–	362,658	–	362,658
Financial assets at fair value through profit or loss				
— Debt securities	2,960	323,402	20,881	347,243
— Equity instruments	7,570	12,901	67,554	88,025
— Fund investments and other	20,961	5,362	42,958	69,281
Financial assets at fair value through other comprehensive income				
— Debt securities	296,234	1,788,755	1,373	2,086,362
— Equity instruments and other	7,005	9,692	4,731	21,428
Investment properties	–	1,441	20,624	22,065
<b>Liabilities measured at fair value</b>				
Due to and placements from banks and other financial institutions at fair value	–	(3,831)	–	(3,831)
Due to customers at fair value	–	(25,742)	–	(25,742)
Bonds issued at fair value	–	(6,162)	–	(6,162)
Short position in debt securities	(576)	(17,336)	–	(17,912)
Derivative financial liabilities	(3,539)	(208,513)	–	(212,052)

	As at 31 December 2019			
	Level 1	Level 2	Level 3	Total
<b>Assets measured at fair value</b>				
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
Investment properties	–	2,330	20,778	23,108
<b>Liabilities measured at fair value</b>				
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)

## Notes to the Consolidated Financial Statements

## VI FINANCIAL RISK MANAGEMENT (Continued)

## 6 Fair value (Continued)

## 6.1 Assets and liabilities 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	Investment properties
As at 1 January 2020	10	15,948	71,716	38,936	1,676	5,275	20,778
Total gains and losses							
— profit/(loss)	122	(698)	754	(1,598)	—	—	(1,426)
— other comprehensive income	—	—	—	—	161	289	—
Sales	—	(1,534)	(6,515)	(3,301)	(359)	—	(15)
Purchases	—	6,074	14,292	9,043	—	750	1,398
Settlements	—	(1)	—	—	—	—	—
Transfers (out)/in of Level 3, net	(132)	—	(12,693)	—	—	(1,467)	674
Other changes	—	1,092	—	(122)	(105)	(116)	(785)
As at 31 December 2020	—	20,881	67,554	42,958	1,373	4,731	20,624
Total (losses)/gains for the period included in the income statement for assets/liabilities held as at 31 December 2020	—	(844)	756	(1,676)	—	—	(1,427)

	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	Investment properties
As at 1 January 2019	6	8,417	43,089	34,512	1,422	5,364	19,838
Total gains and losses							
— profit/(loss)	10	1,510	(689)	3,245	—	—	355
— other comprehensive income	—	—	—	—	223	(849)	—
Sales	—	(175)	(1,002)	(3,649)	(2)	(2)	(14)
Purchases	—	6,159	30,318	4,708	—	762	2
Settlements	—	—	—	—	—	—	—
Transfers (out)/in of Level 3, net	(6)	—	—	60	—	—	(120)
Other changes	—	37	—	60	33	—	717
As at 31 December 2019	10	15,948	71,716	38,936	1,676	5,275	20,778
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	—	—	345

(Amount in millions of Renminbi, unless otherwise stated)

## VI FINANCIAL RISK MANAGEMENT (Continued)

### 6 Fair value (Continued)

#### 6.1 Assets and liabilities measured at fair value (Continued)

Total gains or losses for the years ended 31 December 2020 and 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 31 December 2020 and 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 assets and liabilities included in the income statement for the year comprise:

	Year ended 31 December					
	2020			2019		
	Realised	Unrealised	Total	Realised	Unrealised	Total
Total gains for the year	223	(3,069)	(2,846)	(39)	4,470	4,431

There were no significant transfers for the financial instruments measured at fair value between Level 1 and Level 2 during the year ended 31 December 2020.

#### 6.2 Financial assets and liabilities 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 liability".

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 31 December			
	2020		2019	
	Carrying value	Fair value	Carrying value	Fair value
<b>Financial assets</b>				
Debt securities at amortised cost <sup>(1)</sup>	2,970,277	2,989,266	2,769,400	2,774,641
<b>Financial liabilities</b>				
Bonds issued <sup>(2)</sup>	1,238,241	1,144,440	1,069,974	1,069,309

## Notes to the Consolidated Financial Statements

**VI FINANCIAL RISK MANAGEMENT (Continued)****6 Fair value (Continued)****6.2 Financial assets and liabilities not measured at fair value (Continued)****(1) Debt securities at amortised cost**

The China Orient 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.

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 on the statement of financial reporting date.

	As at 31 December 2020			
	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
Debt securities at amortised cost	96,766	2,694,018	3,055	2,793,839
<b>Financial liabilities</b>				
Bonds issued	–	1,144,440	–	1,144,440

	As at 31 December 2019			
	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
Debt securities at amortised cost	71,966	2,505,680	2,062	2,579,708
<b>Financial liabilities</b>				
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.



(Amount in millions of Renminbi, unless otherwise stated)

## VI FINANCIAL RISK MANAGEMENT (Continued)

### 7 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's development; and maintain the high quality and adequacy of capital so as to meet regulatory 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 9.00%, 10.00% and 12.00%, 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.

## Notes to the Consolidated Financial Statements

**VI FINANCIAL RISK MANAGEMENT (Continued)****7 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<sup>(1)</sup> calculated in accordance with the *Capital Rules for Commercial Banks (Provisional)* and other relevant regulations:

	As at 31 December	
	2020	2019
<b>Common equity tier 1 capital adequacy ratio</b>	<b>11.28%</b>	11.30%
<b>Tier 1 capital adequacy ratio</b>	<b>13.19%</b>	12.79%
<b>Capital adequacy ratio</b>	<b>16.22%</b>	15.59%
<b>Composition of the Group's capital base</b>		
<b>Common equity tier 1 capital</b>	<b>1,730,401</b>	1,620,563
Common shares	<b>294,388</b>	294,388
Capital reserve	<b>134,221</b>	134,269
Surplus reserve	<b>192,251</b>	173,832
General reserve	<b>267,856</b>	249,983
Undistributed profits	<b>803,823</b>	721,731
Eligible portion of minority interests	<b>32,567</b>	30,528
Other <sup>(2)</sup>	<b>5,295</b>	15,832
<b>Regulatory deductions</b>	<b>(25,623)</b>	(24,185)
Of which:		
Goodwill	<b>(182)</b>	(182)
Other intangible assets (except land use rights)	<b>(15,140)</b>	(12,936)
Direct or indirect investments in own shares	<b>(8)</b>	(7)
Investments in common equity tier 1 capital of financial institutions with controlling interests but outside the scope of regulatory consolidation	<b>(9,838)</b>	(9,955)
<b>Net common equity tier 1 capital</b>	<b>1,704,778</b>	1,596,378
<b>Additional tier 1 capital</b>	<b>287,843</b>	210,057
Preference shares and related premium	<b>147,519</b>	159,901
Other instruments and related premium	<b>129,971</b>	39,992
Eligible portion of minority interests	<b>10,353</b>	10,164
<b>Net tier 1 capital</b>	<b>1,992,621</b>	1,806,435
<b>Tier 2 capital</b>	<b>458,434</b>	394,843
Tier 2 capital instruments issued and related premium	<b>333,381</b>	280,092
Excess loan loss provisions	<b>115,627</b>	105,127
Eligible portion of minority interests	<b>9,426</b>	9,624
<b>Regulatory deductions</b>	<b>—</b>	—
Significant minority capital investment in tier 2 capital of financial institutions that are outside of the scope of regulatory consolidation	<b>—</b>	—
<b>Net capital</b>	<b>2,451,055</b>	2,201,278
<b>Risk-weighted assets</b>	<b>15,109,085</b>	14,123,915

(Amount in millions of Renminbi, unless otherwise stated)

## **VI FINANCIAL RISK MANAGEMENT (Continued)**

### **7 Capital management (Continued)**

- (1) When calculating the capital adequacy ratios, 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 the 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.

### **8 Insurance risk**

Insurance contracts are mainly sold in the Chinese mainland and Hong Kong denominated in RMB and HKD. The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. This risk is inherently random and, therefore, unpredictable. The Group manages its portfolio of insurance risks through its underwriting strategy and policies, portfolio management techniques, adequate reinsurance arrangements and proactive claims handling and processing. The underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of risk and industry.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of the claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

Uncertainty in the estimation of future benefit payments and premium receipts for long-term life insurance contracts arises from the unpredictability of long-term changes in overall levels of mortality. In order to assess the uncertainty due to the mortality assumption and lapse assumption, the Group conducted mortality rate studies and policy lapse studies in order to determine the appropriate assumptions.